

New Issue: MOODY'S ASSIGNS Aaa RATING TO TOWN OF MADISON'S (CT) \$5.9MM G.O. BONDS, ISSUE OF 2010 SERIES B & \$6.49MM REFUNDING BONDS SERIES C

Global Credit Research - 05 Nov 2010

TOTAL OF \$45MM IN PARITY DEBT OUTSTANDING, INCLUDING CURRENT OFFERING

Municipality
CT

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Issue of 2010, Series B	Aaa
Sale Amount	\$5,910,000
Expected Sale Date	11/10/10
Rating Description	General Obligation

General Obligation Bonds, Issue of 2010, Series C	Aaa
Sale Amount	\$6,490,000
Expected Sale Date	11/10/10
Rating Description	General Obligation

Opinion

NEW YORK, Nov 5, 2010 -- Moody's Investors Service has assigned Aaa ratings to the Town of Madison's (CT) \$5.9 million General Obligation Bonds, Issue of 2010 Series B and \$6.49 million General Obligation Refunding Bonds, Issue of 2010 Series C. Concurrently, Moody's has affirmed the Aaa rating on \$45 million in general obligation long-term debt. The bonds are secured by the town's general obligation unlimited tax pledge. The Series B bonds will provide new money and permanently finance maturing notes for the town's senior center (\$5.5 million) and also includes \$395,000 for the town's Griswold Airport property purchase. The refunding bonds are expected to provide net present value savings in excess of 7% of refunding principal, with no extension of final maturity.

RATINGS RATIONALE

Assignment of the Aaa ratings incorporates the town's sound financial operations supported by healthy reserve levels, sound fiscal practices, a sizable tax base with a strong socioeconomic profile and a low debt position.

SOUND FINANCIAL OPERATIONS SUPPORTED BY SOLID RESERVES

Moody's expects Madison's well managed financial position will remain healthy. The town has produced operating surpluses in six of the last seven years (2003-2009) increasing General Fund balance by 27% between 2006 and 2009 to \$8.8 million or a solid 12.5% of revenues. Fiscal 2009 (ended June 30) operating results marked the town's fourth consecutive year of positive operations as the town replenished its \$295,000 fund balance appropriation and produced a \$572,000 surplus. The town experienced positive revenue and expenditure variances including greater than budgeted property tax receipts (\$580,155) and interest income (\$311,151). Notably, the town's undesignated General Fund balance ended strong at \$8.3 million (11.7% of revenues) which is above the town's policy of maintaining undesignated fund balance at a minimum of 10% of General Fund expenditures. Positively, the town has consistently remained above its policy minimum.

The adopted fiscal 2010 budget included a \$2.1 million or 3.2% increase in expenditures over the prior year primarily due to increased benefit and general government costs. Similar to the prior year, the budget was balanced with increased property taxes and \$250,000 of appropriated General Fund balance. Unaudited results indicate balanced operations with the town fully replenishing its budgeted reserve appropriation and producing a modest surplus. Positive results were supported by conservative revenue estimates and approximately \$860,000 of lower than budgeted expenditures.

The adopted fiscal 2011 budget increased by 2.67% over the fiscal 2010 budget. The budget is balanced with a 3.7% levy increase, a \$250,000 fund balance appropriation and incorporates growth in debt service costs, health insurance and pension costs. Notably, it took three referenda votes to pass the town's budget and two votes to pass the school budget, representing the first time in recent memory that the budget did not pass on its initial attempt. As a result the town started the fiscal year without a budget, which was eventually passed in late July.

The town continues to finance a large portion of its capital program on a pay-as-you-go basis. The town tends to budget between \$2.5 million and \$3 million for capital spending annually and plans to continue this practice moving forward. The fiscal 2010 budget included approximately \$2 million for capital and the fiscal 2011 budget also includes over \$2 million for pay-as-you-go capital. Moody's looks favorably upon this practice, which helps to keep the town's debt burden manageable while providing the financial flexibility to divert these funds, if needed, for operating purposes.

Madison has three pension plans, Town Employee's Retirement Plan, Police Department Retirement Plan, and Volunteer Fire Department Supplemental Retirement Program, and as of July 1, 2009 all three plan are funded at healthy levels of 91.4%, 90% and 60%, respectively. While still strong, the ratios are down from 98%, 94% and 71% the year prior as a result of poor market returns. The town's Other Post Employment Benefits (OPEB) liability is estimated at \$16.1 million, which would necessitate a manageable \$1.08 million ARC to achieve full funding over a 30-year period. The town has established a reserve fund and included \$30,000 in both fiscal 2009 and fiscal 2010 budget to begin pre-funding the liability. Notably, the town has closed other post employment benefits to new hires mitigating growth of the liability.

WEALTHY COASTAL TAX BASE REMAINS STABLE

Moody's anticipates growth in the town's sizable \$4.4 billion equalized net grand list (ENGL) to remain slow over the near term given the continuing weakness of the regional housing market and recessionary economic conditions. The town's ENGL has expanded at an average annual rate of 1.6% from fiscal 2005 to fiscal 2010, inclusive of a 9% decline in fiscal 2010. The effect of the town's most recent revaluation (10/1/2007) is currently captured in the town's grand list (assessed value), which has shown solid growth averaging 7.4% annually over the last five years. This includes a 40% increase in fiscal 2009 as a result of the five-year revaluation. Recent growth has been driven primarily by residential development and market appreciation. Of note, reflecting economic condition, the grand list grew by just 0.2% in fiscal 2010 and 2011, representing the town's slowest rate of growth since at least 2001. Madison has a newly constructed railroad station near the central business district provided by Shore Line East (a CT commuter railroad), that provides seven-day service to New York City (G.O. rated Aa2/stable outlook). Given its location, 15 miles from New Haven and 35 miles from Hartford (G.O. rated Aa3/negative outlook), and within easy commuting distance to the employment sectors in Fairfield County, Madison continues to demonstrate strong socioeconomic indices. Housing values are two times the national median accounting for the town's healthy ENGL per capita (\$235,920). Income indices are consistent with similarly-rated credits as reflected in median family (MFI) and per capita incomes (PCI), which are 154.6% and 140.9%, respectively, of the state.

LOW DEBT BURDEN

Moody's anticipates that the town's debt burden of 1% of the ENGL, will remain low when considering the town's aggressive 10-year principal amortization of 69% and continued dedication of operating resources for capital purchases and improvements. Debt service remains modest, representing 6% of fiscal 2009 expenditures, and is expected to remain manageable given the absence of significant future debt plans. All of the town's existing debt is fixed rate and the town is not party to any derivative agreements.

WHAT COULD CHANGE THE RATING - DOWN

- Departure from the town's track record of conservative fiscal and debt management
- Financial or economic weakening that cause the town to draw down reserves to inadequate levels or incur deficits
- Substantial deterioration in the town tax base or demographic profile

KEY STATISTICS

2008 Population: 18,803 (+5.3% since 2000)

2010 ENGL value: \$4.4 billion

2009 ENGL value per capita: \$235,920

1999 Per Capita Income: \$40,537 (140.9% of the state, 187.8% of the U.S.)

1999 Median Family Income: \$101,297 (154% of the state, 202.4% of the U.S.)

Overall debt burden: 1.0%

Payout of principal (10 years): 69%

FY09 General Fund balance: \$8.3 million (12.5% of General Fund revenues)

FY09 Undesignated, Unreserved General Fund balance: \$8.3 million (11.7% of General Fund revenues)

Post-sale G.O. Long-term Debt: \$45 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

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