Cherie Trahan

From: Bill Lindsay [bill.lindsay@ibiclcc.com]
Sent: Wednesday, March 02, 2011 2:19 PM
To: Cherie A. Trahan; Matthew W. Hart
Subject: RE: CONFIDENTIAL: Moody's Press Release - Mansfield, CT - DRAFT

For both of your benefit, the feedback I received from the analyst was very positive. She said that the committee was impressed by the trend of positive operating results and the steps management was taking to manage the budget. She said that if you are able to progress towards the 10% fund balance goal and as the Town’s grand list grows it would but positive/upward pressure on the rating.

As expected, she said that the committee did discuss the prospects of the school improvement project, but they were not concerned due to current low levels of debt. She went on to say that the committee felt that the school renovations could put some pressure on the operating budget by increasing debt service, but it would still be manageable and would not adversely affect the rating as debt only accounts for a 10% weighting in their rating methodology. Finally, she said that the committee was less concerned with 1) your reliance on state aid as you have been managing around the reductions and 2) the effect of the university on your wealth numbers as the grand list has been stable and is expected to grow.

Please let me know if you have any questions.

Regards,
Bill

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Moody's Investors Service

New Issue: Moody's Assigns Aa2 to Mansfield's (CT) $2.6 Million GO Bonds

Global Credit Research - 04 Mar 2011

Aa2 Affects $1.4 Million of Outstanding G.O. Debt

Municipality
CT

Moody's Rating

RATING
Aa2

ISSUE
General Obligation Bonds, Series 2011
Sale Amount
$2,840,000
Expected Sale Date
03/15/11
Rating Description
General Obligation Bonds

Opinion

NEW YORK, Mar 4, 2011 — Moody's Investors Service has assigned a Aa2 rating to the Town of Mansfield's (CT) $2.6 million General Obligation Bonds, issue of 2011. Concurrently, Moody's has affirmed the Aa2 rating on $1.5 million of outstanding general obligation debt. The bonds are secured by a general obligation unlimited tax pledge.

SUMMARY RATING RATIONALE

The Aa2 rating incorporates the town's recently-improved financial position supported by reserves held inside and outside of the General Fund and management's prudent fiscal practices. The rating also factors the town's favorable debt levels and moderately sized equalized net grand list (ENG) that benefits from a large university presence.

Proceeds from this issue will be used to fund various capital projects for both the town and the Mansfield Board of Education.

STRENGTHS

- Demonstrated commitment to the continued improvement of the town's financial position as evidenced by codified financial practices and history favorable operating results
- Stable local economy, anchored by the University of Connecticut, and moderately sized tax base with continued development
- Low debt burden

CHALLENGES

- Continued financial improvement amidst volatility in state aid revenues and ongoing spending pressures

CREDIT OPINION

CONTINUED IMPROVEMENT OF SOUND FINANCIAL POSITION SUPPORTED BY SATISFACTORY AVAILABLE RESERVES

Moody's anticipates Mansfield's sound financial position to continue to improve over the near term supported by careful fiscal management aimed at management's recent initiative to increase General Fund reserves from 5% of General Fund revenues to 10% or over the next several years. The town segments operations and capital into several funds with current expenditures funded through the General Fund, capital spending through a Capital Non-Recurring (CNR) Fund and debt service through a Debt Service Fund. This management strategy is favorable in that it enables the town to better match current and long-term expenditures with similarly timed revenue sources, thus ensuring stable General Fund budgetary growth. Fiscal 2010 experienced the town's sixth consecutive operating surplus. Unreserved General Fund reserves increased to $1.9 million or 4.3% of General Fund revenues from a low of $955,000 (3.2% of General Fund reserves) at the end of fiscal year 2003. Taking into account other available funds outside the General Fund which include its capital projects funds and other internal service funds, fiscal 2010 available reserves equaled $3.2 million or 7.3% of General Fund revenues.

Fiscal 2011 experienced a 0.5% increase in spending (budget-to-budget) driven primarily by increased pension costs and contributions to its CNR Fund. As a part of the budget plan, the town was able to mitigate some of its spending pressures without drastic reductions in services by implementing a one-year wage freeze and gaining operational efficiencies. Ongoing year-to-date results, the town expects its seventh year of favorable operating results due to diligent budget monitoring and adjustments to spending when necessary. The town projects total ending available reserves to be about $4.3 million or about 9.6% of General Fund revenues. Looking forward to fiscal 2012, management anticipates available reserves to be about $4.5 million or $9.8% of General Fund revenues. The town's share has decreased for three consecutive years from a high of $19.3 million in fiscal 2009 to a projected $17.6 million in fiscal 2012. While diligent monitoring and conservative budgeting of these volatile revenues have enabled the town to weather previous cuts, management's ability to continue to offset declines will be integral to management's continuing progress towards its internal General Fund balance target of 10% of revenues with increased contributions to its CNR Fund to offset decreasing state grants.

Somewhat atypical of Connecticut localities, the town is heavily dependent on intergovernmental revenues which represent 43% of fiscal 2010 General Fund revenues versus 55% for property taxes. These revenues are comprised of Education Cost Sharing (ECS) grants, the Mashantucket Pequot, and Mohegan Fund Grant and the payment-in-lieu-of-taxes (PILOTs) associated with University of Connecticut (rated Aa2, stable outlook). Reflective of state-level budgetary pressures, the town's share has decreased for three consecutive years from a high of $19.3 million in fiscal 2009 to a projected $17.6 million in fiscal 2012. While diligent monitoring and conservative budgeting of these volatile revenues have enabled the town to weather previous cuts, management's ability to continue to offset declines will be integral to management's continuing progress towards its internal General Fund balance target of 10% of revenues with increased contributions to its CNR Fund to offset decreasing state grants.
ability to maintain financial flexibility.

MODERATELY SIZED TAX BASE BENEFITS FROM THE PRESENCE OF THE UNIVERSITY OF CONNECTICUT

Anchored by the University of Connecticut, the local economy is stable and continues to benefit from its large university presence as a source of employment (5,017 employees in 2011). However, income levels which are at 63% and 64% of state and national medians respectively, remains distorted by the town’s large student and inmate population which represent about 48% of the town’s estimated 25,268 residents. More reflective of the permanent town residents, median family income is above-average at 106% of the state and 130% of the nation. The town currently receives approximately $7.2 million in payment-in-lieu-of-taxes from the university as a part of its state grants.

Net taxable grand list, which does not incorporate university-owned property, increased by 4.8% in fiscal 2011 reflecting the town’s recent revaluation. Five-year average annual growth was held to almost 2.2%. Equalized net grand list (ENGL) growth was a healthier 4.1% in the past five years. Moody’s believes assessed values will remain stable over the near term with future grand list growth driven by completion of a new $220 million mixed-use development in the town’s downtown area. Most of the building permits have been approved and construction is expected to be completed in the next seven to eight years and is expected to generate additional $1.1 million in annual property tax revenue.

FAVORABLE DEBT POSITION

Mansfield’s debt burden has historically been low as the town continues to favor the use of internal resources to fund capital projects. After this issue, Mansfield’s debt burden will equal a low 0.3% of ENGL. The overall debt burden, which incorporates debt related to Regional School District Number 19 (rated A3/Aa3/5) increases slightly to 0.6% of ENGL. Future debt needs include an approximately $24 million bond issue for consolidation of three elementary schools what will be up for voter referendum in May of this year. If passed, the additional debt would substantially increase the town’s debt burden but is expected to remain average to slightly above average. Other future capital and borrowing needs for the town remain minimal and consist mostly of water and wastewater system improvements. The town is not party to any derivative agreements and all outstanding debt is in a fixed-rate mode.

WHAT WOULD MAKE THE RATING GO - UP

-Continued improvement to the town’s financial reserves consistent with management’s internal targets

WHAT WOULD MAKE THE RATING GO - DOWN

-Inability to address mounting downward state aid pressures with corresponding increases in recurring revenues and/or reductions in spending

KEY STATISTICS

2009 population: 25,268
2000 Equalized Net Grand List (ENGL): $1.46 billion
Full valuation per capita: $89,480
1990 Median Family Income: $48,084 (82.9% of state, 83.8% of nation)
1990 Per Capita Income: $39,691 (108.3% of state, 139.2% of nation)
FY 2010 General Fund balance: $3.9 million (3.5% of General Fund revenues)
FY 2010 Available Reserves: $3.18 million (7% of General Fund revenues)
Overall debt burden: 0.6% of ENGL, $310 per capita
Payout of principal (10 years): 74%

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

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody’s Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody’s adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody’s considers to be reliable including, when appropriate, independent third-party sources. However, Moody’s is not an auditor and cannot in every instance independently verify or validate the information received in the rating process.

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Analysts
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This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should consult your financial or other professional adviser.
ISSUE PAPER

FUND BALANCE

This year's ending Fund Balance is estimated at $2,354,157 and represents 5.22 percent of the proposed FY 2012/13 General Fund Operating Budget. This is an increase of 0.6% over last year but we are short of the ten to fifteen percent recommended by the rating agencies.

The proposed FY 2012/13 Budget recommends increasing Fund Balance by $214,000 to $2,568,157. While maintaining Fund Balance is difficult in troubled financial times, the case for preserving a healthy Fund Balance as recommended by the rating agencies is clearly in the Town's best interest.

A number of years ago, the Town Council adopted a plan whereby the General Fund Operating Budget would no longer rely on an appropriation from Fund Balance to balance the budget. This recommendation was made because the practice of using Fund Balance on a one-time basis has an inherently destabilizing impact upon the operating budget and could result in a negative outlook from Moody's Investor Service.

We further recommend that the Council continue to increase fund balance gradually each fiscal year until we reach the recommended level of fund balance by the rating agencies. We are in the process of updating the Town's Financial Management Goals to reflect this desired level of fund balance.

Recap:

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Fund Balance Ending June 30th FY '06-'17:

Actual and Projected

![Fund Balance Graph]

Dollar Amount

$5,000,000

$4,000,000

$3,000,000

$2,000,000

$1,000,000

$0

Year