FUND BALANCE

- Fund balance is the accumulation of each year's actual surpluses and deficits.

  - Fund balance is divided into two categories:
    - Reserved
    - Unreserved

  - Reserved amounts are resources that cannot be appropriated and/or spent. Reserved for encumbrances represents year end open purchase orders. They are past commitments to spend.

  - Unreserved amounts can sometimes be designated for a specific purpose. Unreserved, designated for subsequent year's budget is the amount of fund balance to be used to balance next year's budget. Unreserved, undesignated is the amount that is available.

- Fund balance, unreserved, undesignated is to governments; as retained earnings is to companies.

  - Retained earnings are the accumulation of each year's net income or net loss.

- Why keep a fund balance. Best practices state that a municipality should keep an unreserved fund balance equaling one to two months of operating expenditures. This equals between 8% and 16% of budget. This amount is recommended to keep the government working (for at least one to two months) in the event of an emergency. Keep in mind that interest income is also earned on this amount which is a significant portion of the budgets revenue estimates.

- The Town has an approved fund balance policy. See tab 3 of the working budget.

- Attachments:
  - Page 2 – fund balance at June 30, 2008 (from financials)
  - Page 3 – fund balance analysis
  - Page 4 – budgeted deficits vs. estimated actual experience, 2008 – 2009 & 2009 – 2010.
  - Pages 5 – fund balance policy

TOWN OF NEWTOWN, CONNECTICUT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	GENERAL	BONDED PROJECTS	CAPITAL & NONRECURRING	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash	$ 533,472	$	$	$ 711,577	$ 1,245,049
Investments	24,784,519		2,608,914	1,678,231	29,071,664
Receivables, net:					
Property taxes	1,307,275				1,307,275
Intergovernmental	157,556	112	301,961	185,076	644,705
Loans receivable				246,871	246,871
Other	1,208			28,980	30,188
Due from other funds	97,466	7,937,516	510,165	702,151	9,247,298
Prepaids		1,284,883			1,284,883
Other				27,893	27,893
TOTAL ASSETS	$ 26,881,496	$ 9,222,511	$ 3,421,040	$ 3,580,779	$ 43,105,826
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 1,268,927	$ 420,739	$ 42,550	$ 295,599	$ 2,027,815
Accrued liabilities	2,213,719		364,000		2,577,719
Due to other funds	9,363,901	9,350	260,449		9,633,700
Deferred and unearned revenue	1,252,863		53,853	694,230	2,000,946
Total Liabilities	14,099,410	430,089	720,852	989,829	16,240,180
Fund balances:					
Reserved:					
Encumbrances	2,341,582				2,341,582
Commitments		9,495,004			9,495,004
Debt service fund				83,915	83,915
Endowments				1,502,317	1,502,317
Unreserved, reported in:					
Designated for subsequent year's budget	2,619,306				2,619,306
General fund	7,821,198				7,821,198
Special revenue funds				914,966	914,966
Capital projects funds		(702,582)	2,700,188		1,997,606
Permanent funds				89,752	89,752
Total Fund Balances	12,782,086	8,792,422	2,700,188	2,590,950	26,865,646
TOTAL LIABILITIES AND FUND BALANCES	$ 26,881,496	$ 9,222,511	$ 3,421,040	$ 3,580,779	$ 43,105,826

(Continued)

The notes to the financial statements are an integral part of this statement.

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FUND BALANCE ANALYSIS

	BEFORE CHARTER CHANGE AT JUNE 30, 2007	AFTER CHARTER CHANGE AT JUNE 30, 2008	AT JUNE 30, 2009	AT JUNE 30, 2010
GENERAL FUND - FUND BALANCE:				
RESERVED:				
ENCUMBRANCES	2,125,554	2,341,582	2,400,000	2,400,000
UNRESERVED:				
DESIGNATED FOR NEXT YEARS BUDGET	3,363,961	2,619,306	2,000,000	2,000,000
UNDESIGNATED	2,619,306	7,821,198 **B**	7,778,917 **C**	5,778,917 **D**
General Fund Total	8,108,821	12,782,086	12,178,917	10,178,917
CAPITAL NON RECURRING - FUND BALANCE:	7,420,298	**A**		
GRAND TOTAL	15,529,119	12,782,086	12,178,917	10,178,917

A After charter change amount still in capital non recurring account represents an amount appropriated for the FFH campus (approx. $1,5 MM - from house sales); an amount committed in the CIP plan for the purchase of a fire truck ($550,000) and $450,000 to be used for non recurring capital expenditures.

B Represents 7.8 % of the budget.
C Represents 7.4 % of the budget.
D Represents 5.6 % of the budget.

BUDGETED DEFICITS VS. ACTUAL EXPERIENCE

Fiscal Year	budgeted deficit (i.e. use of fund balance)	accumulated budgeted deficit	actual performance surplus (deficit)	accumulated actual performance	difference between budget and actual surplus/deficit
1999	(2,365,854)	(2,365,854)	137,197	137,197	2,503,051
2000	(3,352,773)	(5,718,627)	(577,911)	(440,714)	2,774,862
2001	(2,503,051)	(8,221,678)	(144,096)	(584,810)	2,358,955
2002	(2,774,862)	(10,996,540)	(55,843)	(640,653)	2,719,019
2003	(2,358,955)	(13,355,495)	(47,347)	(688,000)	2,311,608
2004	(2,703,634)	(16,059,129)	(236,399)	(924,399)	2,467,235
2005	(2,326,992)	(18,386,121)	(14,457)	(938,856)	2,312,535
2006	(2,467,236)	(20,853,357)	896,725	(42,131)	3,363,961
2007	(2,312,535)	(23,165,892)	306,771	264,640	2,619,306
2008	(3,363,961)	(26,529,853)	(542,763) *	(278,123)	2,821,198

NOTE: **THIS WORK SHEET WAS CREATED TO ILLUSTRATE THE USE OF FUND BALANCE IN PRIOR YEARS WITHOUT ANY NEGATIVE CONSEQUENCES.**
IN OTHER WORDS FUND BALANCE WAS BUDGETED TO BE USED TO BALANCE BUDGETS HOWEVER IN ACTUALITY THEY WERE NEVER USED DUE TO EXCESS REVENUES AND FAVORABLE SPENDING.
NOW, IN AN ERA OF TIGHTER BUDGETS, IT IS EXPECTED THAT WHAT EVER IS BUDGETED FOR USE OF FUND BALANCE WILL ACTUALLY BE USED.
THIS WILL RESULT IN A DECLINING FUND BALANCE EACH YEAR FUND BALANCE IS USED.

* Does not include transfer in of $5,000,000 from capital non recurring.

TOWN OF NEWTOWN
GENERAL FUND, UNRESERVED FUND BALANCE POLICY

PURPOSE

The purpose of this policy is to establish guidelines for the general fund, unreserved fund balance to improve and maintain the town's financial stability in order to protect the town from unforeseen or unbudgeted situations such as declining tax collection rates; the loss of a major tax payer; sudden changes in revenues or spending requirements; natural disasters; major infrastructure failures and unexpected litigation.

BACKGROUND

Fund balance is a measure of the financial resources available in a governmental fund.

Unreserved fund balance is that portion of fund balance that reflects expendable available financial resources.

It is essential that governments maintain adequate levels of unreserved fund balance to mitigate current and futures risks and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long term financial planning.

The Government Finance Officers Association recommends that governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures.

Credit rating agencies carefully monitor the unreserved fund balance. A town's ability to accurately plan and develop significant reserves is a common characteristic of highly rated municipalities.

POLICY STATEMENT

These policy guidelines will provide direction during the budget process and demonstrate a commitment to maintain adequate reserves for financial stability and for long term financial planning:

- The town will maintain an unreserved fund balance, in the general fund, of not less than 5% of budgeted operating expenditures and not more than 16%. Eight percent approximates one month of operating expenditures.
- The use of unreserved fund balance will be permitted under certain circumstances:
  - Emergency – An emergency is what the legislative council determines it to be. It will always reflect a careful balancing of the body's desire to maintain adequate reserves with its desire to maintain essential services.
  - If the unreserved fund balance goes over the 16% cap the use of such excess funds should be for capital projects and other one time uses.
- The finance director will estimate the fiscal year end unreserved fund balance for the current year and prepare a projection of the fiscal year end unreserved fund balance for the next budget year as part of the annual budget process.
- If the unreserved fund balance goes below the minimum 5% the finance director shall recommend and submit to the appropriate Town boards for approval a plan to replenish reserves to minimum levels within a specific time frame

Approved by the Board of Finance on September 25, 2008 and the Legislative Council on December 17, 2008

MOODY'S ASSIGNS Aa2 RATING TO NEWTOWN'S (CT) $5.3M G.O. BONDS; POSITIVE OUTLOOK REMOVED

Aa2 RATING APPLIES TO $70.8M OF RATED G.O. BONDS, INCLUDING THE CURRENT ISSUE

Newtown (Town of) CT
Municipality
Connecticut

Moody's Rating

Issue		Rating
General Obligation Bonds, Issue of 2009		Aa2
Sale Amount	$5,385,000	
Expected Sale Date	01/27/09	
Rating Description	General Obligation Bonds	

Moody's Outlook - No Outlook

NEW YORK, January 22, 2009 -- Moody's has assigned a Aa2 rating to the Town of Newtown's (CT) $5.3 million General Obligation Bonds, Issue of 2009. At this time, Moody's has also affirmed the Aa2 rating on the town's $65.5 million in outstanding general obligation bonds and removed the positive outlook. The bonds are secured by the town's general obligation, unlimited tax pledge.

Proceeds from the sale will finance various school and general purpose projects. The Aa2 rating reflects the town's sizeable equalized net grand list with above average wealth characteristics, well-managed financial operations, and currently moderate debt position. Removal of the positive outlook incorporates a modest reduction in the town's overall level of financial flexibility and Moody's expectation that growth in the local economy and the town's fiscal operations will be challenged over the near-term given recessionary economic conditions and declining revenues.

HEALTHY FINANCIAL POSITION; REVENUE DECLINES EXPECTED TO PRESSURE RESERVE LEVELS

Moody's anticipates the town's financial position will remain satisfactory over the near term given its conservative budgeting practices, ongoing fiscal monitoring, and **careful use of reserves**. However, the town may be challenged to maintain current reserve levels over the near term given declining local receipts and likely state aid reductions. Fiscal 2008 operations ended with a sizable $4.6 million addition to General Fund balance following a $5.0 million transfer from the town's Capital Non-Recurring Fund (CNRF). Notably, a fiscal
2008 charter revision eliminated a mandate to appropriate the balance of the town's undesignated General Fund balance to the subsequent year's budget. The town had previously maintained its CNRF as additional discretionary reserves outside of the General Fund and going forward the CNRF's remaining $2.6 million balance will be applied to capital related expenses. Factoring out the transfer from the CNRF, General Fund operations ended structurally balanced, with the town replenishing its $3.3 million fund balance appropriation and producing a $138,000 operating surplus. At year-end the town's available reserve balance (unreserved General Fund Balance and available CNRF) totaled
$12.09 million (10.2% of revenues) down from a high of $12.8 million (14.0% of revenues) in 2006. Also, with an Unreserved General Fund balance at 10.6% of expenditures in 2008, the town is in compliance with its recently adopted policy of maintaining a balance of at least 5%. Importantly, fiscal 2008 revenues include a one-time, on behalf, teachers' pension payment related to the issuance of pension obligation bonds at the state level. When adjusting

revenues for this $16.5 million payment the town's level of available reserves increases to 11.8% of revenues.

The fiscal 2009 budget, a 5.8% increase over the prior year (budget to budget) is balanced primarily with additional property tax revenue and includes a $2.6 million appropriation of fund balance. Notably, in contrast with previous years, the budget passed on the first attempt. Additionally, the **town's fund balance appropriation is down from prior years with the goal of balancing the 2011 budget without the use of fund balance to support the operating budget.**
Several months into the fiscal year the town reports relatively stable operations and is projecting a modest year-end fund balance reduction, on a budgetary basis. The town has started its fiscal 2010 budget process and is formulating a fiscal plan which conservatively reflects a 12% state aid reduction, a reduction of its pay-as-you-go capital allocation, minimal expenditure growth and a $2.0 million appropriation of fund balance. **Future rating reviews will incorporate the town's ability to maintain financial flexibility with reserves growing consistently with budgetary expansion through structurally balanced operations.**

As of July 1, 2008, the town's police pension system was 98% funded and the combined selectman and board of education pension plan was over-funded at 107%. The town recently completed its other post retirement benefits (OPEB) actuarial valuation which identified an accrued liability of $5.0 million and a relatively modest $497,000 annually required contribution (ARC). The town anticipates establishing a trust to fund the liability in fiscal 2010. The satisfactory available reserve position, fully funded pension system, and limited municipal OPEB unfunded liability are all credit positives.

SIZABLE TAX BASE EXPECTED TO REMAIN STABLE AS GROWTH SLOWS; HEALTHY WEALTH INDICATORS

Moody's believes growth in Newtown's sizeable $5.8 billion equalized net grand list (ENGL) will slow over the near term reflecting ongoing weakness in the regional real estate market. The town, located in Fairfield County along Interstate 84, is in close proximity to major employment centers including New York City, NY (rated Aa3/stable outlook), Stamford, CT (rated Aaa), and Norwalk, CT (rated Aaa). The primarily residential tax base (82% of assessed value) expanded at a five-year average annual rate of 6.9%. Driving ENGL expansion has been the significant growth in housing construction over the last several years. However, single family residential construction activity has slowed markedly causing the value of residential building permits to decline to a 10-year low of $5.7 million in fiscal 2008, from a peak of $49 million in fiscal 2003. Looking ahead, the town anticipates assessed value growth to remain positive over the near term as residential home value declines are offset by the value of new age-restricted housing units and ongoing development at Fairfield Hills, including a recently completed $4.5 million Newtown Youth Academy project and a 16,000 square foot medical facility. Additionally, the town anticipates the loss of several hundred jobs over the near term as Pitney Bowes, historically the town's largest private employer, consolidates operations outside of Connecticut.

Notably, the town has a 600 inmate correctional facility within its boundaries, a nontaxable property valued at $55 million. Even when including the inmate population, the town's per capita (PCI) income is a strong of $37,786 (175% of the U.S.). Further, though slightly skewed downward by the presence of the tax-exempt correctional facility, the ENGL per capita of $208,999 still exceeds the median for similarly-rated communities.

MANAGEABLE DEBT BURDEN

Moody's believes the town's moderate debt position will increase, but remain manageable despite sizeable school borrowing plans, given expected tax base expansion, above-average amortization of principal and state school construction assistance. Including this issue, the town's overall debt position is moderate at 1.3% of equalized net grand list, and principal amortization (80.4% retired in 10 years) is slightly above the state median of 73.9%, in ten years.

The town maintains a comprehensive multi-year capital improvement plan and projects various projects totaling $98.0 million over the next five years, of which $65.24 million is expected to be funded through borrowing. While this amount is subject to annual review the financing of the largest project, a $38 million high school addition, is expected to move ahead in fiscal year 2010.
Approximately 38% of approved costs are expected to be reimbursed by the State of Connecticut. Looking ahead, debt service is expected to peak at 10% of expenditures by fiscal year 2012, net of self-supporting sewers and school grants, placing the town at the limit of its adopted debt service guidelines.

KEY STATISTICS:

2000 Census Population: 25,031

2007 Estimated Population: 26,790

2009 Equalized net grand list: $5.8 billion

2009 Equalized net grand list per capita: $208,999

1999 Per Capita Income: $37,786 (131% of the state, 175% of the U.S.)

1999 Median Family Income: $99,192 (151% of the state, 198% of the U.S.)

2008 General Fund Balance: $12.7 million (10.8% of general fund revenues)

2008 Unreserved General Fund Balance: $7.8 million (6.6% of general fund revenues)

2008 Available Reserve: $12.09 million (10.2% of revenues)

Direct Debt Ratio: 1.3% of equalized net grand list

Adjusted Debt Ratio: 1.2% of equalized net grand list

Payout of Principal in 10 Years: 80.4%

Post-Sale Parity Debt Outstanding: $70.8 million

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the current issue was "Local Government General Obligation and Related Ratings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to the Town of Newtown (CT) was on November 21, 2007 when its Aa2 rating was affirmed.

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Moody's Investors Service

Global Credit Research
New Issue
1 AUG 2008

New Issue: Trumbull (Town of) CT

MOODY'S DOWNGRADES TRUMBULL'S (CT) G.O. RATING TO Aa3 FROM Aa2

Aa3 RATING APPLIES TO $127.2 MILLION IN OUTSTANDING G.O. DEBT, INCLUDING CURRENT ISSUE

Municipality
CT

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, Issue of 2008	Aa3

Sale Amount	$10,735,000
Expected Sale Date	08/05/08
Rating Description	General Obligation

Opinion

NEW YORK, Aug 1, 2008 -- Moody's Investors Service has assigned a Aa3 rating to the Town of Trumbull's $10.73 million General Obligation Refunding Bonds, Issue of 2008. At this time, Moody's has downgraded the town's long term rating to Aa3 from Aa2 affecting $127.2 million in outstanding bonded debt. The bonds are secured by the town's general obligation unlimited property tax pledge. The downgrade is based on the town's financial position that, despite satisfactory General Fund balance levels, reflects below-average flexibility due to the long-term practice of not fully funding the annually required contribution (ARC) for pensions, which Moody's considers equivalent to deficit financing and the expectation that this liability will increase as the town continues to underfund its annual obligations and market returns likely fall below actuarial assumptions in the near term. The Aa3 rating is reflective of the town's town's sizeable tax base which, exclusive of a recent revaluation, has experienced minimal expansion due to several consecutive years of tax appeals, strong wealth indicators, and a somewhat above-average, but affordable debt position.

GROWING NET PENSION OBLIGATION CONTINUES TO WEAKEN OVERALL FINANCIAL POSITION

Moody's believes that despite an increase in the town's fiscal 2007 General Fund balance, the town's overall financial flexibility remains below the median for similarly-rated entities. Outside of General Fund balance, the town's financial position is strained by a growing unfunded pension liability, minimal pay-go capital investment, and a lack of available reserves in other funds. Over a period of several years Trumbull's unfunded pension liability has continued to increase as a result of the town's reluctance to fully fund its annually required contribution (ARC). The town's unfunded pension liability has increased to a substantial combined $40.8 million (as of July 1, 2006) from $22 million in 2000, an 85% increase. As of the 2006 actuarial valuation, the town's police and employee pension systems had declined to funding ratios of 72% (from 76% in 2002) and 38% (from 51% in 2002), respectively. Over the past seven years, Trumbull's contribution as a percent of the ARC has ranged from 43% to 52%, with no pattern of improvement despite annual contribution increases. Moody's believes that the choice not to fully fund the ARC is tantamount to a deficit financing and demonstrates leadership's unwillingness to increase revenues to support operations or to reduce operating expenditures to address the pension liability. The continuation of this practice or the further deterioration of pension funding levels will be a critical component of future rating reviews.

Due to ongoing cost control and steady increases in property tax revenues, the town's unreserved General Fund balance has increased over the past six years to $13.8 million (10.3% of General Fund revenues) in fiscal 2007 from the narrower $4.6 million (5.3% of revenues) balance in fiscal 2001. While in line with the town's goal of maintaining an Undesignated General Fund balance at a minimum of 5% of revenues, the fiscal 2007 undesignated position trails both the state and national medians for Aa2 rated cities of 12% and 25.3%, respectively. Favorably, fiscal 2007 results indicate a substantial $6.1 million increase to General

Fund balance due to a one-time reimbursement from the Board of Education ($2.0 million), proceeds of a land sale ($585,600), and positive variances in utility and salary expenditures. Total General Fund balance increased to a satisfactory $16.3 million (12.7% of revenues) with an unreserved, undesignated component of approximately $13.8 million (10.8% of revenues). Preliminary fiscal 2008 budget results point toward operations ending slightly positive overall with the town replenishing its $2.5 million fund balance appropriation and potentially adding $200,000 to fund balance from lower than budgeted expenditures at the school department, however revenues may soften as a percent of revenues given budgetary expansion.

The fiscal 2009 budget is balanced primarily with additional property tax revenue and includes a $700,000 fund balance appropriation. The budget adjusts for slower conveyance tax, building permit and interest income revenue growth and assumes a 98.5% property tax collection rate, in line with actual collection rates over the last several years. Favorably, the town gains flexibility through its budget approval process which does not require a public referendum as the budget is adopted after a public hearing and town council approval is gained. Additionally, the town's other post-employment benefits (OPEB) liabilities are expected to be below-average, approximately $3 million to $5 million, and management plans to contribute a modest $125,000 to the existing trust in fiscal 2009.

SIZEABLE TAX BASE WITH HEALTHY WEALTH PROFILE

The Town of Trumbull, favorably located in proximity to major economic centers in Fairfield County and New York State (G.O. bonds rated Aa3, stable outlook), will likely recover modest tax base expansion following a period of effectively flat growth. Partially due to several years of above-average tax appeals amongst commercial taxpayers, the town's net taxable grant list (assessed values) increased at an average annual rate of just 0.4% during the past five years. The 48.7% boost in assessed value in fiscal 2007 is reflective of a revaluation which captured significant property value appreciation. Tax appeals following the revaluation were minimal, and fiscal 2008 real growth increased to 1.2%. The town's Equalized Net Grant List (full value) has increased an average of 5.3% annually to $7.2 billion in fiscal 2008. Recent additions to the tax base have included a major addition to Unilever's facility (Senior Unsecured rating A1, negative outlook) and reoccupation of the former NASDAQ, Inc structure by the Royal Bank Scotland and various hedge funds. Notable upcoming expansion is expected to include a $150 million renovation of the Trumbull Shopping Park (currently the town's largest taxpayer, equal to 3.5% of assessed valuations). Additionally, the construction of a 60-unit condo development with a retail component is currently underway. Throughout the longer-term, the town expects to experience further economic development through activity generated by the newly filled Economic Development Director position. Trumbull's median family (MFI) and per capita incomes (PCI) are 176% and 162% of national medians, respectively, above the median MFI and PCI for similarly-sized Aa2 cities nationwide of 151% and 137%. The equalized net grand list per capita is a strong $206,322.

SLIGHTLY ABOVE-AVERAGE DEBT POSITION

Moody's anticipates that the town's debt burden will remain affordable when considering the town's limited near term borrowing plans, rate of principal amortization (69% in 10 years), and expected tax base expansion. The town's direct debt is slightly above average at 1.8% and direct debt per capita is somewhat elevated at $3,638 (compared to a median $1,540 for CT towns). The town's adjusted debt declines to 1.7% when accounting for state school building construction grants. Notably, the town's debt position is further mitigated by assessments paid by sewer users, with rates supporting 75% of the systems debt costs. The town is currently in the process of prioritizing its Capital Improvement Plan however management reports that potential near term borrowing plans will be limited to relatively modest maintenance projects. However, over the longer term the town's debt burden may increase as plans move forward for improvements to the town's high school.

KEY STATISTICS

2000 population: 34,243

2005 estimated population: 35,299 (+3% since 2000)

Fiscal 2008 Equalized Net Grand List: $7.2 billion

Fiscal 2008 Equalized Net Grand List per capita: $206,322

1999 median family income: $88,290 (135% of the state, 176% of the U.S.)

1999 per capita income: $34,931 (121% of the state, 162% of the U.S.)

General Fund balance,

Fiscal 2007 total: $16.3 million (12.7% of revenues)

Fiscal 2007 undesignated: $13.8 million (10.3% of revenues)

Adjusted debt burden: 1.7%

Payout of principal (10 years): 68.6%

Pension Funding Level (as of July 1, 2004): 38.4% (General Employees); 71.9% (Police)

Long term debt outstanding (including BANs): $127.2 million

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Moody's Investors Service

Global Credit Research
New Issue
21 MAR 2006

New Issue: **Monroe (Town of) CT**

MOODY'S DOWNGRADES THE TOWN OF MONROE'S (CT) GENERAL OBLIGATION DEBT TO Aa3 FROM Aa2 AFFECTING $52.1 MILLION ;OUTLOOK REMAINS NEGATIVE

ASSIGNS Aa3 RATING AND NEGATIVE OUTLOOK TO THE TOWN'S CURRENT SALE OF $8.4 MILLION UNLIMITED TAX GENERAL OBLIGATION BONDS

Municipality
CT

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Issue of 2006	Aa3

Sale Amount	$8,385,000
Expected Sale Date	03/22/06
Rating Description	General Obligation Unlimited Tax

Opinion

NEW YORK, Mar 21, 2006 -- Moody's Investors Service has assigned a Aa3 rating and negative outlook to the Town of Monroe's (CT) $8,385,000 General Obligation Bonds, Issue of 2006. Concurrently, Moody's downgrades to Aa3 from Aa2 and assigns a negative outlook to the town's outstanding general obligation bonds affecting $43.7 million in long-term parity debt. The bonds are secured by the town's general obligation, unlimited tax pledge. Proceeds from the sale will fund school renovations, new library construction, and open space acquisition. The rating considers Monroe's affluent moderate-sized tax base in Fairfield County and moderate debt position. The downgrade reflects several years of declining reserves--a 39% reduction since 2000-bringing fund balance to levels below those of similarly rated credits. The negative outlook reflects Moody's expectation that Monroe's financial position will continue to weaken in the short term given the town's continued reliance on reserves to supplement increasing expenditures, several years of multiple budget referenda defeats, the elimination of budgeted contingencies, and lack of a solid recovery plan to restore financial operations.

DIMINISHED FINANCIAL POSITION, FURTHER NARROWING EXPECTED

Moody's believes the town's once healthy financial position has deteriorated to levels inconsistent with the Aa2 rating category as a result of a long-standing trend of appropriating general fund balance to support operations and fund capital projects. In fiscal 2005, the general fund balance declined for a sixth consecutive year to $3.7 million (6.3% of revenues) from a peak of $6.0 million (13.4% of revenues) in fiscal 1999; this represents a 39% reduction in fund balance over this timeframe. The decline in reserves results from the planned use of reserves for capital projects, and the annual appropriation of reserves to supplement subsequent years' budgets. Voters determined not to match reductions in state aid, and increases in salaries, health benefits and fuel costs with increased property taxes-the town's major revenue source.

At year-end the fiscal 2006, fund balance is expected to deteriorate further. The adopted budget increased by $4.8 million over the previous year's actual figures. Increasing fuel, health insurance, and education costs are primary drivers behind the increase in expenditures. The additional expenses were covered through additional property tax revenue, a modest increase in state aid (state aid comprised 13.7% of revenues in fiscal 2005), and a large $1.7 million appropriation of fund balance. Due to a partial freeze of expenditures and not filling some vacant positions, at year-end management expects to only utilize $1.4 million of fund balance. Despite the minimal positive variance in expenditures, the fund balance is expected to be drawn down to a very narrow $1.8 million (2.9% of revenues).

Preliminary fiscal 2007 figures indicate the town will continue to appropriate fund balance to supplement revenues, but to a lesser extent than in previous years. Positively, the proposed budget incorporates a mill increase to 26.55 from 24.05 to off-set rising fixed costs. However, Monroe expects to supplement revenues with $370,000 of fund balance. The budget is still subject to voter approval, and the town does not have a strong history of passing budgets on the first several attempts necessitating the use of an increased amount of fund balance to balance growing expenditures, and leaving little room to effectively manage unforeseen contingencies. Moody's believes that it will be a challenge for the town to reverse its financial deterioration without significantly reducing expenditures, continuing tax base expansion and/or introducing new revenues given taxpayer resistance to increasing property taxes. Positively, the town has a strong tax collection history and fiscal 2005 collections were 99.4%. Also, as of the 2004 actuarial valuation the town's two pension systems are funded at a healthy 108% (town employees) and 93% (board of education). The town historically exceeds the minimum required contribution.

Management's stated goal is to first stabilize and then to restore reserves by gradually reducing the amount of fund balance needed to balance the budget by assuming a more conservative tax collection rate, and achieving greater operating efficiencies. At this time, a clear recovery plan and timeframe for implementing change is uncertain. Further, there is no indication that the town residents will support this approach. Moody's believes the town's reduced, but continued reliance on fund balance, coupled with the lack of a clearly established recovery plan, and very low expected reserve level by the end of fiscal 2006 with demonstrated voter resistance to property tax increases places the town in a position for further negative rating action.

SIZEABLE TAX BASE WITH ABOVE-AVERAGE WEALTH INDICIES

Moody's believes the town's sizeable $3.0 billion tax base will continue to see steady growth given some large-scale commercial projects and continued high-end residential development. Swiss Army is relocating its North American headquarters to Monroe, and is expected to invest $23 million in land, buildings and equipment within the town. Considering a town approved seven-year tax abatement, taxes, and payments-in-lieu-of -taxes, the town expects a net $275,000 in annual revenues from this establishment. Other large scale projects include the Pepper Street Industrial Park, Miller Insurance building, and BML Tool & Manufacturing Corporation. On the residential side, permit values continue to be strong, with new home values beginning at $800,000 which more than exceed the $470,000 median home value of existing homes. These additions will bolster an already steadily expanding tax base, which expanded at a five-year average annual growth rate of 10.6%-- a rate which slightly exceeds the 9.7% median growth rate of Connecticut municipalities. Wealth levels in Monroe remain healthy as demonstrated in the Per Capita and Median Family Incomes of 158.2% and 184.9%, respectively, as a percent of the U.S.

MODERATE DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE DESPITE BELOW AVERAGE AMORTIZATION

Moody's anticipates the town's moderate debt burden will remain manageable despite the current below average rate of principal amortization due to minimal future debt plans and property tax growth. Including this issue, the town's debt burden is 1.8% of equalized value. The 10-year rate of retirement is 57.5% compared to the 76.9% median amortization rate of other rated Connecticut municipalities. Future borrowings include a possible $2.1 million for the replacement of a community pool, and $5.5 million for town hall and police renovations. These projects are still subject to voter approval.

Outlook

Outlook

The negative outlook reflects Moody's expectation that Monroe's financial position will continue to weaken given the town's continued reliance on reserves to supplement increasing expenditure pressures, albeit to a lesser degree than previous years, coupled with historic challenges in passing budget referenda and the lack of a solid recovery plan to restore financial operations.

What could change the rating- DOWN?

*Further diminishment of reserve levels

*Lack of fund balance recovery to levels more typical of Aa3 rated credits

What could change the rating- UP (remove the negative outlook)?

*End the town's reliance on use of reserves in the operating budget coupled with augmentation of reserves

*Implementation of a solid recovery plan outlining conservative revenue and expenditure assumptions that would enable the town to reestablish near-term financial stability

KEY STATISTICS:

2005 Fund Balance: $3.7 million (6.3% of revenues)

2005 Undesignated Fund Balance: $3.2 million (5.5% of revenues)

2000 Census Population: 19,247

2004 Estimated Population: 19,709

2004 Equalized Value: $3.0 billion

Equalized Value Per Capita: $154,150

2000 Median Family Income (as % of U.S.): 158.2%

2000 Per Capita Income (as % of U.S.): 184.9%

Debt Burden: 1.8%

Payout of Principal in 10 Years: 57.5%

Post-Sale Parity Debt Outstanding: $52.1 million

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