

Summary:

Naugatuck, Connecticut; General Obligation

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Credit Profile		
US\$5.38 mil GO rfdg bnds ser 2010 due 06/01/2030		
<i>Long Term Rating</i>	AA-/Stable	New
Naugatuck Boro GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services raised its rating on the borough of Naugatuck, Conn.'s general obligation (GO) bonds to 'AA-' from 'A+'. The upgrade reflects our opinion of the borough's stable general fund reserves and good management policies and practices.

At the same time, Standard & Poor's assigned its 'AA-' long-term rating to the borough's \$5.38 million series 2010 GO bonds. The outlook is stable.

The rating reflects our view of the borough's:

- Primarily residential community with access to the New Haven-Waterbury-Meriden metropolitan statistical area (MSA),
- Good-to-strong income and very strong wealth indicators; and
- Moderate and manageable debt burden.

The borough's full faith and credit pledge secures the bonds. We understand that bond proceeds will refund certain maturities of the borough's outstanding GO bonds and bond anticipation notes (BANs).

Naugatuck, with an estimated 32,000 residents, is in north-central New Haven County in south-central Connecticut. The borough is a residential community with a diverse commercial and industrial base. Industries represented include chemicals, plastics, dairy products, surgical supplies, data processing equipment, and health care products. Supplementing local jobs, residents have good access to the Waterbury, Conn. (A-/Stable); New Haven, Conn. (A-/Stable); and Hartford, Conn. (A/Stable) employment centers. Within Naugatuck, leading employers include the borough itself (914 employees), Wal-Mart (210), and Coca Cola (170). The borough's preliminary unemployment rate for May 2010, according to the Bureau of Labor Statistics, is an elevated 11.0%. Its median household effective buying income (EBI) is 119% of the national average, which we consider strong. On a per capita basis, the borough's EBI is a good 107% of the nation.

Currently, the borough's grand list totals \$2.0 billion, up 0.4% year-over-year. Management reports that there has not been significant weakness in the real estate market; we understand that foreclosures totaled 107 over the past two years and three foreclosure sales are currently pending. We believe the borough's estimated market value of \$2.9 billion is very strong at roughly \$90,000 per capita. Management reports that future tax base growth will likely be driven by redevelopment activity as most of the borough is built out. The largest project under

consideration is the Renaissance Place; a mixed-use redevelopment of downtown Naugatuck that could add \$700 million to the tax base on completion. Management reports that phase 1 is scheduled to begin in 2011 and it will include a multi-use medical facility, parking garage and pedestrian bridge.

We believe the borough's finances are stable; despite the recession unreserved general fund balances have been approximately 9% of expenditures in each of the past four audited fiscal years. The borough closed fiscal 2009 with a \$487,000 general fund surplus and a \$9.8 million unreserved general fund balance (9.4% of expenditures, which we consider strong). Property taxes are the borough's leading source of operating income, accounting for 58% of general fund revenues. Management reports that the borough budgeted to use \$950,000 of general fund reserves in fiscal 2010 but projects a \$300,000-to-\$500,000 surplus. We understand that the fiscal 2011 general fund budget includes a \$970,000 appropriation of reserves and a \$350,000 contingency line item. The budget also includes salary increases for both borough and board of education employees, and expenditure savings from an early retirement initiative and layoffs.

We consider Naugatuck's financial management practices "good" under Standard & Poor's Financial Management Assessment, indicating that practices exist in most areas although not all may be formalized or regularly monitored by governance officials. We understand that elected officials receive monthly budget updates and investment reports. While the borough does not have a multiyear financial plan or debt policy currently, it does have a five-year capital improvement plan and general fund reserve target of 5%-8%.

Debt calculations include the borough's \$44 million of pension obligation bonds as well as \$22 million of certificates of participation that were issued to fund capital improvements to the borough's wastewater treatment facility and sludge incinerator. We consider the borough's debt burden moderate at about \$3,200 per capita and 3.6% of expenditures. The borough's debt service carrying charge is moderate, in our view, at 8.7% in fiscal 2009. Management does not expect the borough to issue additional debt in the next three-to-five years.

Outlook

The stable outlook reflects our expectation that the borough will continue to maintain healthy reserves despite the budgeted appropriation of fund balance in fiscal 2011. Management's record of keeping reserves at around 9% of expenditures in each of the last four years demonstrates financial stability. The outlook also reflects our expectation that the borough's property tax base will continue to grow, and that the maintenance of sound property tax collections, which account for approximately 58% of budgeted operating revenues, will continue.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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