

MOODY'S ASSIGNS A3 RATING TO TOWN OF SPRAGUE'S (CT) G.O. BONDS, ISSUE OF 2006, CUSIP 849322CK6

A3 RATING APPLIES TO \$2.6 MILLION IN LONG-TERM G.O. DEBT

Moody's Investors Service has assigned an A3 rating to the Town of Sprague's (CT) General Obligation Bonds, Issue of 2006, CUSIP 849322CK6. Concurrently Moody's has affirmed the town's A3 rating on outstanding General Obligation debt, affecting \$2.6 million. The bonds are secured by the town's unlimited tax pledge. The A3 rating incorporates the town's satisfactory financial position, limited tax base and low debt burden.

The remainder of this report is largely reproduced from Moody's New Issue Report published November 24, 2009.

SATISFACTORY FINANCIAL POSITION EXPECTED TO CONTINUE DESPITE RECENT DRAW ON RESERVES

Sprague will maintain a satisfactory financial position despite a trend of drawing down reserves given management's tight fiscal controls and commitment to maintaining fund balance at the current level. The town reported operating deficits in fiscal 2005 through 2007, largely due to sizeable transfers to the Capital Projects Fund. In fiscal 2008, the town reported a modest operating surplus of \$59,000, primarily due to local taxes and building permit fees coming in above budget. Total General Fund balance slightly improved over the prior year at \$1.32 million (a solid 14.8% of General Fund revenues), of which \$1.26 million (14.2% of General Fund revenues) was undesignated.

Based on unaudited fiscal 2009 figures, officials expect to record a \$500,000 surplus increasing total General Fund balance to \$1.8 million or a healthy 21% of General Fund revenues. Positive operations were due to the town receiving an unbudgeted grant related to a purchase of land for open space that the town had financed through the General Fund in prior years. The fiscal 2010 budget decreased \$64,000 or 0.8% from the prior year, due to reduced capital outlay costs. Officials report operations are tracking year-to-date projections and expect to end fiscal 2010 structurally balanced. The town's long-term liabilities are limited, given the town does not provide a pension plan for its employees or other post-employment benefits (OPEB). Property taxes comprise the primary source of revenue, making up 53.8% of total revenues in fiscal 2008, while intergovernmental revenues made up the second largest source at 41.7% during the same time period. Property tax collections have averaged a solid 97.2% over the past five years.

MODESTLY SIZED TAX BASE

Located in eastern Connecticut (G.O. rated Aa3/negative outlook), Sprague is a residential community with a modestly-sized tax base of \$310 million. Sprague's tax base will continue to expand, albeit at modest levels, due to continued residential and commercial development. Over the

last five-years, the town's net grand list (assessed value) increased at an average annual rate of 9.5%, inclusive of an October 1, 2004 revaluation, which captured a healthy growth rate of 64.6%, reflecting strong market value appreciation. Real growth approximated negative 0.9% over the same time period, due to a 6.1% decline in fiscal 2008. This decrease resulted from legislation that changed manufacturing equipment to tax exempt status. Importantly, the loss in property tax revenue was offset with state aid. Future development includes the expansion of a local manufacturer and a new golf course (\$15 million project) that is expected to be completed in 2011. Wealth levels measured by per capita income (PCI) and median family income (MFI) are below-average when compared to the state medians, but in-line with national trends. Full value per capita is solid at \$104,063.

DEBT LEVELS EXPECTED TO REMAIN MANAGEABLE

Moody's anticipates the town's 1.4% of equalized net grand list debt burden will remain manageable, given above-average amortization of outstanding debt and limited borrowing plans. The town expects to continue its practice of issuing Bond Anticipation Notes to finance its capital improvement projects with the intent of permanently financing the notes with either grants or bonds when the par amount reaches approximately \$2 million. The town's principal amortization rate is above-average, with 76.8% of debt repaid in 10 years (state median of 73.9% in 10 years). Debt service comprised a manageable 4.2% of fiscal 2008 operating expenditures. All of the town's debt is fixed rate and the town is not party to any derivative agreements.

KEY STATISTICS

2008 Population: 2,980 (0.3% increase from 2000)

FY 2009 Equalized Net Grand List (ENGL): \$310 million

FY 2009 ENGL Per Capita: \$104,063

1999 Median Family Income (as % of state and US): \$59,500 (87.8% and 114.9%)

1999 Per Capita Income (as % of state and US): \$20,796 (72.3% and 96.3%)

FY 2008 General Fund balance: \$1.32 million (14.8% of General Fund revenues)

FY 2008 Undesignated General Fund balance: \$1.27 million (14.2% of General Fund revenues)

Net Direct Debt Burden: 1.4%

Payout of Principal (10 years): 76.8%

G.O. Parity Debt: \$4.3 million (\$2.93 million rated debt)

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the Town of Sprague, CT was Moody's "General Obligation Bonds Issued by U.S. Local Governments," published in October 2009 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on November 24, 2009 when the A3 rating of the Town of Sprague (CT) was affirmed.

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