

Rating Update: Windham (Town Of), NH

MOODY'S DOWNGRADES THE TOWN OF WINDHAM'S (NH) G.O. RATING TO A3 FROM Aa3

DOWNGRADE TO A3 AFFECTS \$226,000 OF OUTSTANDING DEBT

Municipality
NH

Opinion

NEW YORK, Sep 11, 2008 -- Moody's Investors Service has downgraded the Town of Windham's (NH) general obligation rating to A3 from Aa3, affecting approximately \$226,000 of outstanding debt. The downgrade reflects the deterioration of the town's financial position to negative levels and reliance requiring the use of cash flow borrowing to meet town obligations to the local school district. The A3 rating further incorporates the town's moderately-sized and wealthy base, stability of property taxes which comprise the majority of town revenues and minimal debt burden.

CONTINUED RESERVE APPROPRIATIONS ERODE FINANCIAL POSITION

Despite reported plans to reduce reliance on reserves for budgetary purposes, Moody's believes that financial recovery to a level consistent with higher rating categories is not imminent. Ongoing reliance on General Fund reserves to reduce the tax rate and support aggressive pay-as-you-go capital have contributed to three consecutive operating deficits and resulted in a negative fund balance position. In developing its annual budget, the town targets a residual fund balance of \$250,000 (on a budgetary basis) with the remainder of uncommitted funds applied to reduce the tax rate. In recent years, budgetary variances have been insufficient to replenish these appropriations, thereby reducing undesignated General Fund balance to a negative \$454,000 or -4.0% of revenues in fiscal 2007 from a more satisfactory but still narrow \$624,000 or 6.2% of revenues in fiscal 2004. Although the town recorded an ending balance of \$743,000 on a budgetary basis, deferred property tax revenues of \$1.2 million eclipsed this reserve resulting in the negative position. Furthermore, the town's reduced financial flexibility has necessitated cash flow borrowing the past two years of \$2.5 million and \$1.75 million, respectively, in fiscal 2007 and 2008 in order to meet obligations to the local school district, for which the town collects property taxes.

Windham has pursued an aggressive pay-as-you-go capital program which has also contributed to the town's declining reserves. In 2007, Windham expended a combined \$663,000 in capital outlay and transfers to its capital reserve fund; in 2006 this figure was \$931,000. While the town would have recorded operating surpluses net of these expenditures, Moody's believes the erosion of reserves outweighs the flexibility afforded by pay-as-you-go capital. In an effort to improve its financial position, the Board of Selectman has increased its budgetary target to retain \$300,000 in fiscal 2008, applying \$83,000 to reduce the tax rate. The Board has also communicated a plan to develop a fund balance policy, although the parameters and timing implementation have yet to be determined.

On a positive note, the town does maintain \$1.4 million of special revenue funds outside the General Fund, including a \$370,000 capital reserve and \$232,000 fund for land conservation. While these funds are restricted for specific purposes and may not be re-appropriated without a two-thirds vote of town meeting their presence does indicate a degree of financial flexibility.

MODERATELY-SIZED TAX BASE IN WEALTHY ROCKINGHAM COUNTY

Moody's expects a softening housing market to temper growth rates in the \$2.2 billion community located in the southeast corner of the state. From 2002 to 2007, equalized value increases averaged a moderate 7.6% annually, reflecting new home construction and strong market appreciation. However, development has begun to slowed, with management reporting an approximate 40% decline in new home permits. Additionally, officials anticipate assessed values may decline approximately 5% in 2008 which is consistent with the region. Long term, Moody's believes Windham will derive stability from its favorable location, near various employment centers in southern New Hampshire (G.O. rated Aa2/stable outlook) and within commuting distance of Boston (rated Aa1/stable outlook) approximately 40 miles to the south. Resident income levels far exceed both state and national medians and equalized value per capita is a strong \$171,971 indicative of high-quality residential properties.

MINIMAL DEBT BURDEN

Windham's direct debt burden of less than 0.001% should remain manageable with the majority of debt retired by 2009 and all obligations retired by 2013. When overlapping obligations of the local school district and the town's pro-rata share of Rockingham County's (G.O. rated Aa2/stable outlook) are included, the town's overall debt burden rises to a still manageable 1.9% of equalized value, which adjusts downward to 1.4% after adjusting for state school building aid. The town is an infrequent issuer of debt, and has maintained substantial pay-as-you-go appropriations as discussed above. Potential future borrowing is limited to \$2 million to construct a new town hall, though this project remains under discussion. The town's existing debt consists entirely of fixed-rate obligations and Windham has no exposure to derivative products.

KEY STATISTICS

2006 Estimated population: 12,939 (20.8% increase since 2000)

2007 Equalized valuation: \$2.2 billion

2007 Equalized value per capita: \$171,971

1999 Per capita income (as a % of NH and U.S.): 161.7% and 178.6%

1999 Median family income (as a % of NH and U.S.): 172.9% and 199.0%

FY07 General Fund balance: -\$454,000 (-4.0% of General Fund revenues)

Direct debt burden: <.001%

Overall debt burden: 1.9%

Adjusted overall debt burden: 1.4%

Amortization of principal (6 years): 100%

G.O. debt outstanding: \$280,000

Rated debt outstanding: \$226,000

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