Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATING TO THE TOWN OF DERRY'S (NH) $4 MILLION GENERAL OBLIGATION BONDS

Global Credit Research - 22 Aug 2011

AFFIRMS Aa2 RATING ON $8.6 MILLION OF PARITY DEBT OUTSTANDING

Municipality
NH

Moody's Rating

ISSUE	RATING
General Obligation Bonds	Aa2

Sale Amount	$4,000,000
Expected Sale Date	09/08/11
Rating Description	General Obligation Unlimited Tax

Opinion

NEW YORK, Aug 22, 2011 -- Moody's Investors Service has assigned a Aa2 rating to the Town of Derry's (NH) $4 million General Obligation Bonds. Concurrently, Moody's has affirmed the Aa2 rating on the town's approximately $8.6 million in long-term parity debt outstanding. Proceeds of the current bonds will be used to finance capital improvements including road construction and repairs within the town's Route 28 Corridor Tax Increment Financing (TIF) District.

SUMMARY RATINGS RATIONALE

The bonds are secured by the town's general obligation, unlimited tax pledge. The Aa2 rating reflects the town's stable financial position with healthy reserve levels, moderately-sized urban tax base with average socioeconomic indicators, and a low debt burden.

STRENGTHS:

-History of stable finances with healthy reserve levels

-Moderately-sized tax base with high proportion of developable land

-Favorable location in easy commuting distance of major employment centers

-Low debt burden

WEAKNESSES:

-Taxable value declines highlight near-term economic challenges

-Revenue pressure stemming from state aid reductions may continue to impact budgets

DETAILED CREDIT DISCUSSION

TRACK RECORD OF STABLE FINANCES LIKELY TO PERSIST DESPITE REVENUE PRESSURES

Moody's believes that the town's financial position will remain healthy over the medium-term given its history of conservative budgeting and strong financial management of expenditure and revenue pressures, including those related to declining state aid for police and firefighters' pension costs in the last two fiscal years. General Fund balance declined by $1.9 million to $10.9 million in fiscal 2010, a still-healthy 31.2% of General Fund revenues, from $12.8 million in fiscal 2009, driven by higher-than-expected capital costs related to federal stimulus efforts. These efforts prompted the town to transfer an additional $1.8 million in General Fund reserves to the Capital Projects Fund to finance various capital projects in anticipation of reimbursement by the state from Federal stimulus funding. Town officials report that $1.5 million of these costs were reimbursed by the state early in fiscal 2011, substantially replenishing the appropriated reserves. The town was also able to replenish all but $100,000 of its fiscal 2010 General Fund reserve appropriation of $1.1 million as the result of positive expenditure variances in police and animal control ($473,463), finance ($451,961) and public works ($233,561). The undesignated, unreserved portion of General Fund balance remains a relatively high portion of total funds in line with historic trends, finishing at $10.3 million at year-end fiscal 2010, a still-healthy 29% of 2010 General Fund revenues despite declining $2.2 million from $12.5 million (35.3% of revenues) in fiscal 2009.

In fiscal 2011, town officials project total General Fund balance to increase by approximately $1.1 million to $12 million, driven by $327,000 in new tax revenues that more than offset a $270,000 decline in state revenues to support police and firefighter pensions, $550,000 in excess property tax revenues, and expenses coming in roughly $750,000 below budget. The fiscal 2011 budget included a $252,000 reserve appropriation, which the town reports it fully replenished before the close of the fiscal year on June 30, 2011. The town's fiscal 2012 budget grew by $548,331, or 2.5% over fiscal 2011, due to a further $272,000 reduction in the state pension subsidy for police and firefighter pensions and contractual salary arrangements. The budget is balanced with a $556,000 reserve appropriation (more than double the fiscal 2011 amount) and an 11-cent property tax increase that falls below the town's statutory tax levy cap. Approximately 60% of town revenue was generated from property taxes, collections of which improved on a current basis from a below-average 92% in 2005 to 97.5% in 2010. Total tax collections have performed well, averaging nearly 99% since 2000. The ability of the town to contain expenditures while sustaining or improving current reserve levels on a percentage basis over the medium-term will be a key consideration for the town's credit rating in the future.

MODERATELY-SIZED TAX BASE EXPECTING INCREASE IN NEW RATABLES IN MEDIUM-TERM DUE TO DEVELOPMENT OF TIF DISTRICT

Moody's believes growth the town's $2.5 billion tax base will remain modest in the near-term as the local economy continues to struggle with the after-effects of the housing market downturn, which had a strong impact on taxable values in the town. The town's assessed valuation rose to $2,979,468 in 2008 from $1,786,779 in 2002, reflecting a 34% increase in property values during those years that positively impacted assessed values. Since 2008, however, assessed valuation has fallen 17% to just under $2.5 billion, as housing values declined. Located in Rockingham County (rated Aa1/stable outlook), the town benefits from its location within commuting distance to the Boston metro area given its position approximately 50 miles northwest of Boston (rated Aaa/stable outlook). The town's favorable location was a driver of property value growth over the last decade and is likely to lead to additional new taxable growth in the medium term related to new residential development in conjunction with increased commercial activity centered around the expanding TIF district. The town's unemployment rate approximates that of the state (5.3% vs. 5.2% as of June 2011) and the poverty rate remains low at 6.5%, although it has nearly doubled from 3.3% in 2000. Socioeconomic indicators are average, with per capita and median family incomes at 94% and 107% of the state, respectively. Full value per capita is below average at $79,156 compared to $106,612 for Moody's rated New Hampshire local governments as a whole.

DEBT BURDEN EXPECTED TO REMAIN LOW

Moody's expects the town's overall debt burden will continue to be low given the likelihood of positive medium-term growth in the tax base and limited future borrowing needs. The direct debt burden is a modest 0.4% of equalized valuation, exclusive of self-supporting water and sewer debt, which, at $3.65 million, comprises just over one-quarter (29%) of total post-sale debt outstanding. The rate of principal repayment is slightly below average for municipalities in the state, with 69% of principal retired in 10 years. Debt service was a modest 5.7% of 2010 General Fund expenditures and is expected to remain at similar levels for the foreseeable future, given that the town has no additional borrowing plans for the near-term. The town's rolling, five-year capital improvement plan is more than 50% cash funded using internal resources, with the remainder financed by a mix of three- to five-year capital leases and bond anticipation notes (BANs). The town does not currently have any BANs outstanding.

WHAT COULD CHANGE THE RATING - UP

-Substantial growth in the town's full valuation

-Strong growth in the General Fund reserves

WHAT COULD CHANGE THE RATING - DOWN

-Significant further deterioration in taxable values or the demographic profile

-Multi-year General Fund deficits that limit financial flexibility

KEY STATISTICS:

2010 Population: 33,109

2010 Equalized valuation: $2.6 billion

Equalized value per capita: $79,156

Poverty Rate (2009): 6.5%

Unemployment Rate (June 2011): 5.3%

Overall debt burden: 1.2%

Direct debt burden: 0.4%

Payout of principal (10 years): 69%

1999 Per capita income (as % of state and US): $22,315 (94% and 103%)

1999 Median family income (as % of state and US): $61,625 (107% and 123%)

FY10 General Fund balance: $10.9 million (31.2% of General Fund revenues)

FY10 Undesignated, Unreserved General Fund balance: $10.3 million (29.5% of General Fund revenues)

FY11 General Fund balance (unaudited): $12 million (34% of General Fund revenues)

Rated post-sale parity debt outstanding: $12.6 million

Total post-sale parity debt outstanding (including capital leases): $14.65 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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