

New London, Connecticut

Primary Credit Analysts:

Victor Medeiros
Boston
(1) 617-530-8305
victor_medeiros@
standardandpoors.com

Secondary Credit Analysts:

Henry W Henderson
Boston
(1) 617-530-8314
henry_henderson@
standardandpoors.com

| Credit Profile | | |
|--|-----------------|----------|
| US\$12.63 mil rfdg bnds ser 2010 due 11/01/2028 | | |
| Long Term Rating | A+/Stable | New |
| New London GO | | |
| Long Term Rating | A+/Stable | Affirmed |
| New London GO (ASSURED GTY) | | |
| Unenhanced Rating | A+(SPUR)/Stable | Affirmed |
| New London GO | | |
| Unenhanced Rating | A+(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' long-term rating, and stable outlook, to New London, Conn.' series 2010 refunding bonds and affirmed its 'A+' ratings on the city's previously rated general obligation (GO) debt, reflecting our view of:

- A local economy that over time has diversified away from military and defense-related employment,
- Adequate income levels and slightly above average unemployment;
- Very strong per capita market values;
- A good level of general fund reserves, providing operating flexibility in what is still a very challenging budgetary environment; and
- A low debt burden and manageable future capital needs.

New London is located in southeastern Connecticut, approximately 50 miles southeast of Hartford and 120 miles northeast of New York City. The city's population is currently

estimated at 25,900. Since the mid-1990s, the local economy has shifted away from a heavy focus on defense-related activities toward more of a service-area-oriented economy. Core city employers include Lawrence and Memorial Hospital (2,300 employees) and Connecticut College (845). The U.S. Coast Guard (1,300 military and civilian employees) also maintains a solid presence within the city. Nevertheless, unemployment in the city has historically been above the state and national averages. Moreover, through the recession, the unemployment rate rose substantially, averaging 9.4% in 2009, up from an average of 6.9% in 2008. Through August, the 2010 unemployment rate is slightly above the state average at 11.6% compared with 9.1% for the state. Moreover, household income levels for the city are adequate, in our view; 2008 median household effective buying income was 81% of the national level.

The city's tax base has seen modest growth over the past few years. For 2011, the city's tax base (net grand list) totaled \$1.5 billion; this is an increase of 22% from 2009 levels due to a citywide revaluation of the grand list. Based on the most recent taxable grand list, residential properties make up 54% of the tax base, which is a down from 59% before the revaluation. Conversely, commercial and industrial properties now account for 45% of the grand list, which is up from 38% in 2009. On a full market value basis, the equalized net grand list totals \$2.3 billion, or what we consider a very strong \$91,521 per capita. The tax base remains very diverse, with the 10 largest taxpayers accounting for 11% of the grand list.

We consider the city's financial profile to be good. At the close of fiscal 2009, the city reported \$6.1 million (roughly 7.4 % of general fund operating expenditures) within the unreserved general fund balance. In fiscal 2010, the city did realize decreases in some revenues, but management is projecting closing the fiscal year with a budgetary surplus of \$305,263.

The 2011 budget totals \$80.6 million, which is an increase of 4.4% from the previous year. The city revised revenues estimates downward by 2% for property tax receipts and other local revenues, but did budget higher by roughly 10% for investment income and state aid. Property taxes are budgeted to account for 49% of the city's general fund revenues while state aid will account for 44%. Property tax collections remained stable and strong in 2009, with a 97% collection rate, and current estimates indicate no deviation from that level despite the higher unemployment. For long-term stability of reserves, the city's legislative body adopted a fund balance policy requiring a minimum undesignated fund balance of between 5% and 10% of expenditures, which are levels we consider to be good to strong.

Based on a review of several key financial practices, Standard & Poor's considers New London's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating that practices and policies exist in most key areas, although not all may be formalized. In addition to the city's formal fund balance policy, additional highlights include quarterly reporting of budget performance and timely budget adjustments to address intrayear revenues and expenditure changes. In addition, the city has had a better focus on financial and capital planning, evidenced by its five-year capital plan, with funding sources attached to each project, and a five-year budget forecast, used to identify future needs.

The debt burden remains favorable, in our opinion, with overall debt per capita at \$1,979, or a low 2.2% debt to market value. Amortization of principal is above average, with 68% retired in 10 years, 86% in 15 years, and 100% by 2030. In our view, debt service carrying charges are low, ranging from 4%-6% since fiscal 2002 and budgeted to be 6.3% in 2011.

Outlook

The stable outlook reflects our expectation that management will be able to maintain stability within recurring revenues and recurring expenditures for the future as has been demonstrated recently. Further stability reflects the diverse property tax base, coupled with the town's strong tax collection history, which we believe helps ensure continued stable property tax collections, which are the city's primary revenue source. In addition, based on the capital needs identified in the town's capital plan, Standard & Poor's expects debt levels to remain manageable, given the current low debt burden.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Published by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. Executive and Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright © 2010 by Standard & Poor's Financial Services LLC (S&P). All rights reserved.

No part of this information may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P. S&P, its affiliates, and/or their third-party providers have exclusive proprietary rights in the information, including ratings, credit-related analyses and data, provided herein. This information shall not be used for any unlawful or unauthorized purposes. Neither S&P, nor its affiliates, nor their third-party providers guarantee the accuracy, completeness, timeliness or availability of any information. S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such information. S&P, ITS AFFILIATES AND THEIR THIRD-PARTY PROVIDERS DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained herein even if advised of the possibility of such damages.

The ratings and credit-related analyses of S&P and its affiliates and the observations contained herein are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. S&P assumes no obligation to update any information following publication. Users of the information contained herein should not rely on any of it in making any investment decision. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of each of these activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P's Ratings Services business may receive compensation for its ratings and credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge) and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

S&P uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from S&P, its affiliates, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write to us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Customer Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-9823; or by email to: research_request@standardandpoors.com.