

Nine county communities' debt outlooks boosted

Rob Varnon, Staff Writer

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Moody's Investors Service raised its outlook on 12 Connecticut communities this week, including nine in Fairfield County, underscoring more confidence in their ability to pay their debts than the U.S.

In a special report issued Thursday, the credit rating agency lifted the outlook on nine Fairfield communities, including Greenwich, Darien, New Canaan, Norwalk and Westport, from negative to stable, and leaving their Aaa ratings intact.

It's an important move for the top-rated communities as highly rated bonds are in demand as investors and funds look for safe plays at a time when the European bond market is in crisis and nagging doubts remain about the U.S. budget deficit.

Moody's lowered the outlook on U.S. debt, which it rates Aaa, in August, following a move by Standard & Poor's to cut its rating on the U.S. to AA+. At nearly the same time, Moody's undertook a review of Aaa rated local governments, downgraded the outlook for five states and 161 local governments, including 12 in Connecticut to negative. The move had the potential to affect \$69 billion in debt, according to Moody's.

David Jacobson, a Moody's spokesman, said the agency was looking primarily at indirect exposure to the U.S. debt as well as whether the Aaa status of smaller communities could hold up if the national, or sovereign debt, rating was lower than Aaa.

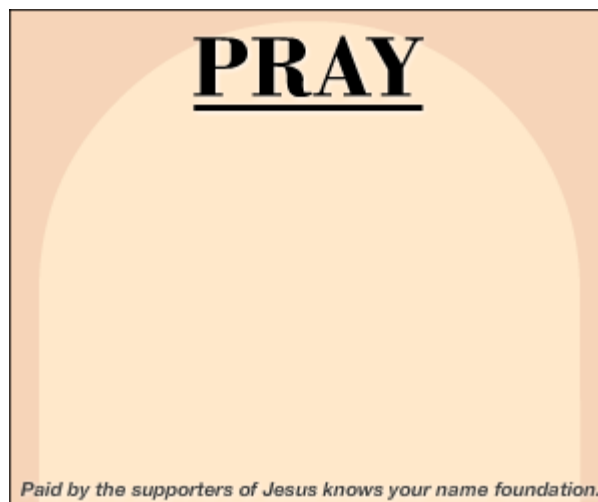
"These communities show enough independence that if Moody's were to change the rating on the sovereign, they would not be downgraded," he said.

The independence also applies to the state of Connecticut, which carries Moody's third-highest bond rating of Aa2 with a negative outlook. Aaa is Moody's the highest rating.

All 12 Connecticut communities earned back their stable Aaa rating, but the Town of Fairfield remained at Aaa negative.

Paul Hiller, Fairfield's chief fiscal officer, said Moody's set the negative outlook on Fairfield in 2010 because the community's workman's compensation fund.

"We have a negative balance in our internal services fund, our insurance fund, because of a large workers' compensation accrual," he said.



The town faces an estimated \$7.5 million in liabilities from claims, which is more than the fund has in it. Some of the claims date back to 1987, he said, explaining there are continuing claims related to injuries that might pop up later.

Fairfield has already taken measures to increase the size of the fund, he said, noting the other two major ratings agencies, Standard & Poor's and Fitch have Fairfield at Aaa without a negative outlook.

And the negative outlook has not hurt Fairfield's issuances, he said.

"We sold a \$41 million note for 19 basis points," he said. "The lowest in U.S. history." One basis point is equivalent to 0.01 percentage point.

And Fairfield plans to make another offering next Thursday offering \$28.32 million to cover long-term debt. The town expects to reduce its interest rate from 4 percent to 2.5 percent. The U.S. 30-year Treasury bond yields about 3 percent.

"There's such a clamor for high quality paper," Hiller said.

Alan Schankel, Janney Montgomery Scott's director of fixed income research, said while it was worth reviewing the municipalities' exposure to U.S. government spending, Moody's was probably a little too cautious when it initially made the across-the-board negative rating.

When S&P dropped its U.S. rating to AA+, people still bought Treasuries and municipal debt, he noted.

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