

MOODY'S

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO CITY OF RYE'S (NY) \$3.5 MILLION PUBLIC IMPROVEMENT SERIAL BONDS OF 2010

Global Credit Research - 04 May 2010

Aaa RATING APPLIES TO APPROXIMATELY \$20 MILLION OUTSTANDING G.O. DEBT, INCLUDING CURRENT ISSUE

Municipality
NY

Moody's Rating

ISSUE	RATING
Public Improvement Serial Bonds - 2010	Aaa
Sale Amount	\$3,500,000
Expected Sale Date	05/11/10
Rating Description	General Obligation

Opinion

NEW YORK, May 4, 2010 -- Moody's Investors Service has assigned a Aaa rating to the City of Rye's (NY) \$3.5 million Public Improvement Serial Bonds of 2010. Concurrently, Moody's has affirmed the Aaa rating on approximately \$16.4 million of previously issued parity debt. The bonds are secured by the city's unlimited property tax pledge. The application of Moody's highest-quality rating reflects the city's affluent residential tax base, low debt burden, and healthy financial position with sound reserve levels despite utilization of General Fund balance to fund capital expenditures in fiscal 2008 and 2009 (unaudited). Proceeds of the bonds will finance city improvements and renovations as well as equipment purchases.

MATURE AND AFFLUENT RESIDENTIAL COMMUNITY PROJECTED TO REMAIN STABLE

Moody's believes the city's \$7.2 billion tax base will remain stable over the medium-term, given strong socio-economic indicators as well as close proximity to employment opportunities throughout the New York City (G.O. rated Aa2/stable outlook) metropolitan area, although valuations are expected to remain flat over the near term as a result of the economic recession. In line with regional trends, previously robust full value appreciation, which drove double digit growth in 2006 through 2008, reversed to a modest 0.3% decline in 2009, reflecting weakening in the real estate market that has been surpassed by the 2% growth generated for 2010. Over a five year period (2005-2010), the city's assessed valuation increased by a modest 0.5% annually, with essentially flat growth posted for 2010, reflecting the mature nature of the tax base with growth driven largely by redevelopment projects. Wealth levels are well above average, with per capita income equal to 327% and 358% of state and national medians, respectively. Full value per capita remains a strong \$476,761, reflecting the concentration of high end properties.

HEALTHY FINANCIAL POSITION BUTTRESSED BY SOUND RESERVE LEVELS, DESPITE DRAWS ON FUND BALANCE

Despite a fiscal 2008 fund balance decline of \$2.3 million, Moody's expects the city will continue to maintain ample financial flexibility given management's adherence to conservative fiscal policies and a historically healthy property tax collection rate. The city's formal fund balance policy requires a minimum undesignated General Fund balance equal to 5% of expenditures, although balances have been well in excess of this benchmark for the past fifteen years. While the city budgets fund balance as a revenue source annually, by policy these funds may be used only for non-recurring purposes. Starting with fiscal 2004, the city generated favorable operating surpluses ranging from \$1 million to \$1.7 million, due to management's judicious budgeting of expenditures as well as strong revenue performance driven by interest earnings, real estate, mortgage and sales taxes. As a result, the city's General Fund balance grew to \$13.3 million (44.2% of General Fund revenues) in fiscal 2007 from \$9.6 million (39% of General Fund revenues) in fiscal 2004. Ample financial flexibility was maintained in fiscal 2008, despite a General Fund balance decline of \$2.3 million corresponding to an appropriation for infrastructure projects, building improvements, and vehicle purchases. Fiscal 2009 also reflects an additional \$1.2 million deficit for similar purposes. Consequently, the General Fund balance is projected to end at \$9.8 million (34.6% of General Fund revenues) at fiscal 2009 year-end (unaudited). Fund balance includes various reserves, including Reserve for Compensated Absences (\$1.2 million) and a Reserve for Workers' Compensation (\$834,000) among the largest. The unreserved, undesignated portion of General Fund balance is projected to represent a healthy 23.6% of fiscal 2009 General Fund revenues. The city's operating revenues

were primarily composed of property taxes (68%), the collection of which remains a strong 99% on a current year basis.

The fiscal 2010 budget includes a \$1.3 million appropriation of General Fund balance to fund a transfer of the same amount to the Capital Projects Fund. On a pro forma basis, the city's projected General Fund balance would still represent a strong 29.7% of budgeted 2010 revenues. Officials report that revenues and expenditures are performing to budget, based upon year to date results. The fiscal 2010 budget contains a 1.2% (or \$500,000) decrease in recurring expenditures, and incorporates discretionary spending limits and a partial staff hiring freeze. Future rating reviews will factor in the city's ability to maintain structural balance while retaining, at minimum, reserves in step with budgetary growth.

LOW DEBT BURDEN WITH MODEST FUTURE BORROWING PLANS

Moody's believes that the city's debt burden will remain favorable given modest future borrowing plans and average rate of principal amortization (70.5% retired in ten years). Rye's direct burden is low at 0.3% of full valuation, increasing to a still-manageable 1.1% when overlapping debt obligations of Westchester County (Moody's rated *Aaa/stable outlook*) and underlying school districts are incorporated. City officials may issue notes in anticipation of state and federal revenues for various capital improvements in the range of \$5 to \$6 million. A new police/judicial court facility is in the early planning stages and officials are evaluating its feasibility. All of Rye's debt is comprised of fixed-rate obligations and the city is not party to derivative agreements.

KEY STATISTICS:

2000 Population: 14,955

2010 Full valuation: \$7.18 billion

2010 Full value per capita: \$476,761

Median family income (as % of state and % of U.S.): \$133,231 (258% and 266%)

Per capita income (as % of state and % of U.S.): \$76,566 (327% and 358%)

Direct debt burden: 0.3%

Overall debt burden: 1.1%

Payout of principal (10 years): 70.5%

Fiscal 2008 General Fund balance: \$11 million (38.2% of General Fund revenues)

Fiscal 2009 General Fund balance (unaudited draft): \$9.8 million (34.6% of budgeted General Fund revenues)

Post-sale parity debt outstanding: \$20 million

RECALIBRATION OF RATING TO THE GLOBAL RATING SCALE; PRINCIPAL METHODOLOGY

The rating assigned to the City of Rye, NY was issued on Moody's global rating scale. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration of Moody's U.S. municipal ratings to its global scale please visit www.moody.com/gsr.

The principal methodology used in assigning the rating was "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 with respect to the city was published February 9, 2010 when the city's long-term *Aaa general obligation* rating was affirmed.

Analysts

Cesar Avila
Analyst
Public Finance Group
Moody's Investors Service

Lisa Cole
Backup Analyst
Public Finance Group
Moody's Investors Service

Patrick Mispagel
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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