

City of Norwich, Connecticut

Information on Bond Rating & Current Market

November 24, 2008

William Blair & Company®

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Norwich Bond & Note Ratings – S&P / Fitch

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Standard & Poor's SP-1+ Rating Criteria

Short-Term Notes

Bond anticipation notes (BANs) are generally used as an interim financing vehicle for capital projects. BAN debt service is typically repaid with bond proceeds, which requires the issuer to access the capital markets. Standard & Poor's assumes that most investment-grade issuers have access to the public credit markets to sell bonds to retire BANs and the BAN ratings reflect that assumption.

When assigning a rating to BANs, Standard & Poor's will consider these factors:

- The issuer's fundamental credit strengths, as reflected in its bond rating; and
- The issuer's demonstrated experience in the public credit markets, including frequency of its debt issuance and the historical demand for its paper.

SP-1

Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.

SP-2

Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

SP-3

Speculative capacity to pay principal and interest.

Standard & Poor's Rates Norwich SP-1+

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Norwich, Conn.'s bond anticipation notes (BANs) and affirmed its 'AA-' underlying rating (SPUR), with a stable outlook, on the town's existing general obligation (GO) debt. The short-term rating reflects what we consider the city's sound credit fundamentals and demonstrated debt market access. City officials will use BAN proceeds to roll over current BANs outstanding issued for various capital projects. In our opinion, the ratings reflect the city's:

- Good geographic position near employment centers throughout southeastern Connecticut;
- Good income levels with median household effective buying income at 91% of the national level;
- Strong estimated market value at \$70,742 per capita;
- Consistent operating performance with strong reserves; and
- Low overall debt burden.

Norwich, with a population estimate of 36,744, is along the Thames River in eastern Connecticut, about 40 miles southeast of Hartford, Conn. ('A' GO debt rating). City economic activity centers on the downtown harbor area and the industrial park and along Interstate 395, which runs through Norwich. I-395 also provides local residents access to employment centers throughout southeastern Connecticut, including New London, Conn. and Groton, Conn.

Unemployment, which has historically been near state and national rates, has recently risen to 6.8% as of September 2008 from an average of 5.1% in 2007. Foxwoods and Mohegan Sun Indian casinos, the state's first and second leading employers, respectively, are a leading employment source for the city. Mohegan Sun and Foxwoods straddle Norwich -- both are within five miles of the city and employ more than 10,000 each. Despite the near-term increase to unemployment, there are proposed job gains for the region stemming from the U.S. Navy submarine base: General Dynamics Inc.'s (A/Stable/A-1) electric boat division in nearby Groton. The city's current effective buying income levels are, in our opinion, good: Median household and per capita effective buying income indicators are 91% and 94%, respectively, of national levels.

Standard & Poor's Rates Norwich SP-1+

We understand that the availability of jobs at the two casinos was a contributing factor in the city's development of condominium and apartment rental units, which led to what we consider strong grand list growth over the past several years. Total assessed valuation (AV) reached \$1.8 billion in fiscal 2008, up by, in our view, a strong 63% since fiscal 2001 AV. Fiscal 2009 estimated market value is \$2.6 billion, or, in our opinion, a strong \$72,055 per capita. The primarily residential property tax base accounts for 67% of AV while commercial and industrial properties account for 18%. Due to the city's residential nature, the 10 leading taxpayers account for just 6.5% of total AV.

In our view, Norwich's financial position remains strong due, in part, to good fiscal policies and experienced management. The 2007 audit closed with a \$787,000 general fund operating surplus that increased total fund equity to \$12 million, or 12.2% of expenditures; this marks the ninth consecutive year the city produced a surplus. Overall, total fund equity has increased by \$5.6 million since fiscal 1999. Unreserved fund balance improved to \$11.6 million, or, in our opinion, a good 12.3% of expenditures, in fiscal 2007 from \$6.1 million in fiscal 1999. The city reserve policy targets an undesignated fund balance at 8% of annual budgeted expenditures, a level it has consistently remained above.

According to finance officials, over the next several years, the city will manage down reserves closer to the 8% policy target to stay ahead in contingent liabilities without large mill rate increases. Unaudited fiscal 2008 figures indicate a better-than-expected decrease of \$950,000 in unreserved fund balance; despite the decrease, however, the unreserved general fund balance will remain, in our opinion, a strong \$11.1 million, or 11% of expenditures. The city has a record of adjusting expenditures to keep them in-line with revenues. The fiscal 2009 general fund budget, totaling \$107.8 million, or a 3.4% increase over the previous year, is balanced.

Property taxes account for about 52% of general fund revenues while state aid accounts for roughly 41%. Strong collections support tax revenues. Collections have been stable and have remained above 96% of the tax levy over the past five fiscal years; according to management, 2009 collections are showing no deviation from that level.

Norwich Department of Public Utilities -- which provides water, sewer, gas, and electricity services -- is another important revenue source for the city's budget. The city charter mandates the utility support municipal services by contributing 10% of gross revenues into the general fund. Revenue collections for the system are currently holding stable to budgeted amounts.

Standard & Poor's Rates Norwich SP-1+

Standard & Poor's considers Norwich's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. In addition to the city's reserve policy, Norwich also maintains several other policies, in particular financial and capital planning. A five-year, annually reviewed capital improvement plan and a five-year financial plan that management uses to measure revenue and expenditure growth is evidence of this.

The charter requires the finance department to submit variance reports to the city council monthly. In addition, the charter sets amortization targets depending on project type and stipulates that debt cannot exceed 5% of taxable AV. In addition, debt service carrying charges will only increase by the same percent as the total general fund. The city also maintains an investment policy in accordance with state statutes with reporting guidelines included by the treasurer to the city council.

Overall debt levels are, in our opinion, a low \$732 per capita, or 1% of market value. Debt service carrying charges were also, in our opinion, a low 5% of 2007 expenditures, which we believe to be favorable. GO debt amortization is rapid with officials retiring 90% of principal by 2018 and 100% by 2022. Additional capital needs are limited. The city has recently passed an electorate-approved referendum to issue roughly \$40 million of GO debt for school construction purposes; officials expect to receive 75% reimbursement grants from the state for approved construction costs. Plans, however, remain preliminary.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's expectation that city officials will maintain structural stability between recurring revenues and expenditures as the city has historically demonstrated and that reserves will remain above the city's policy target. The stable outlook also reflects our view of the local economy's ongoing development, which benefits from its location and access to large employment centers throughout southeastern Connecticut. In our opinion, additional capital needs should be manageable as indicated by currently low debt ratios and identified needs within the city's capital plan.



Fitch F1+ Rating Criteria

Short-Term Notes

The credit analysis process for all short-term borrowings looks at the four factors considered in long-term debt rating — debt, economy, finances, and management — as its base. However, rating notes involves a greater emphasis on current conditions and near-term expectations.

F1

Highest Credit Quality: Indicates the strongest capacity for timely payment of financial commitments; may have an added '+' to denote any exceptionally strong credit feature.

F2

Good Credit Quality: A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3

Fair Credit Quality: The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non-investment-grade.

B

Speculative: Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

C

High Default Risk: Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

D

Indicates an entity or sovereign that has defaulted on all of its financial obligations.

Fitch Rates Norwich, Connecticut's 2008 GO BANs 'F1+'

Fitch Ratings-New York-19 November 2008: Fitch Ratings has assigned an 'F1+' rating to the city of Norwich, CT's (the city) approximately \$8,045,000 of 2008 general obligation (GO) bond anticipation notes (BANs). The BANs, expected to sell competitively on Dec. 4, 2008, will fund various capital projects in the city. Fitch has also affirmed the rating on Norwich's approximately \$27.5 million of outstanding GO bonds at 'AA-'. The Rating Outlook on the GO bonds is Stable.

The 'AA-' GO rating reflects the city's sound financial performance resulting from conservative budgeting practices and steady financial support provided by its full-service utility system. The city's stable economy exhibits good prospects for growth, but wealth indicators remain below-average. A favorable debt profile and manageable capital needs are also rating factors. A key rating driver is the city's continued efforts to expand its tax base, which should enhance its revenue raising flexibility. The 'F1+' rating reflects the city's general credit characteristics.

Located at the head of the Thames River in southeastern Connecticut, Norwich's local employment base is diverse for a community of its size. A sizable share of economic activity is centered at the 400-acre Norwich Industrial Park (the park), which is home to nearly 50 companies and 2,200 employees. Electric Boat, a division of General Dynamics (senior unsecured notes rated 'A' by Fitch; Stable Outlook), recently leased space in the park to support its Virginia-class submarine program. Officials expect a roughly 20%-30% increase in the tax base stemming from the Oct. 1, 2008 revaluation (effective fiscal 2010), and several sizeable development projects in the planning stages could add to the city's tax base in the coming years. However, current economic conditions could complicate these plans. Per capita money income levels were a low 72.1% of the state's high average in 2000 (the latest year available) but only slightly under the national level. The September 2008 unemployment rate (6.8%) remains above the state (5.9%) and nation (6%), as it has historically. Tax base growth between revaluation years has been quite modest.

Fitch Rating Release Continued

The city's financial performance benefits from conservative budgeting practices including forecasting current property tax collections on a three-year rolling average and the maintenance of an unreserved general fund balance equal to 8% of expenditures; the city typically budgets fund balances over 10% of expenditures for tax relief purposes. Fiscal 2008 is expected to end with an approximately \$950,000 deficit; however, the unreserved general fund balance should still equal a healthy 10.3% of spending. The adopted fiscal 2009 general fund budget grew by a manageable 3.1% over the prior year's budget, despite the city's rising fixed cost burden. Officials believe that its ongoing hiring freeze should offset weak revenues from interest income, conveyance taxes, and building permits in the current fiscal year. Per city charter, the Norwich Public Utilities Department (a full service utility system) makes an annual payment to the general fund equal to 10% of prior year gross revenues, which equates to about 6% of the budget.

The city's limited bonding plans and a 1.0-mill annual allowance for pay-go capital per the city charter should keep debt ratios in low ranges; debt ratios currently equal \$960 per capita, or 1.3% of taxable market value. Carrying costs equal a modest 4.3% of fiscal 2009 budgeted spending despite a rapid debt amortization rate of 89.2% within 10 years. The City of Norwich Retirement System is a sound 86.9% funded and the city's other post-employment benefits (OPEB) liability totals a manageable \$47 million, including board of education employees. Officials intend to ramp up to full funding of the OPEB annual required contribution by fiscal 2013, which demonstrates sound long-term planning.

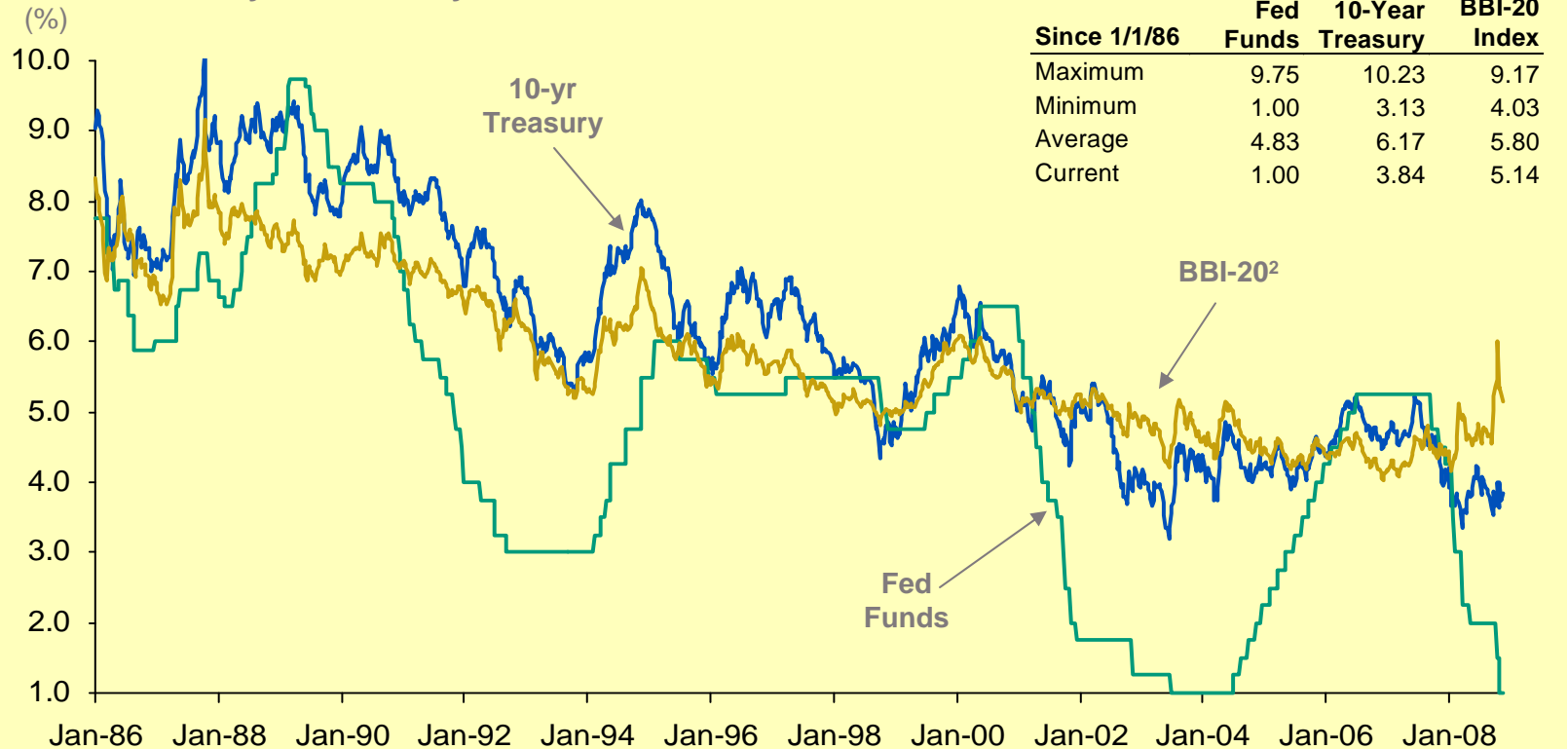


Current Market Conditions

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Historic Rate Comparison

Fed Funds, 10-year Treasury, and BBI-20 since 1986¹

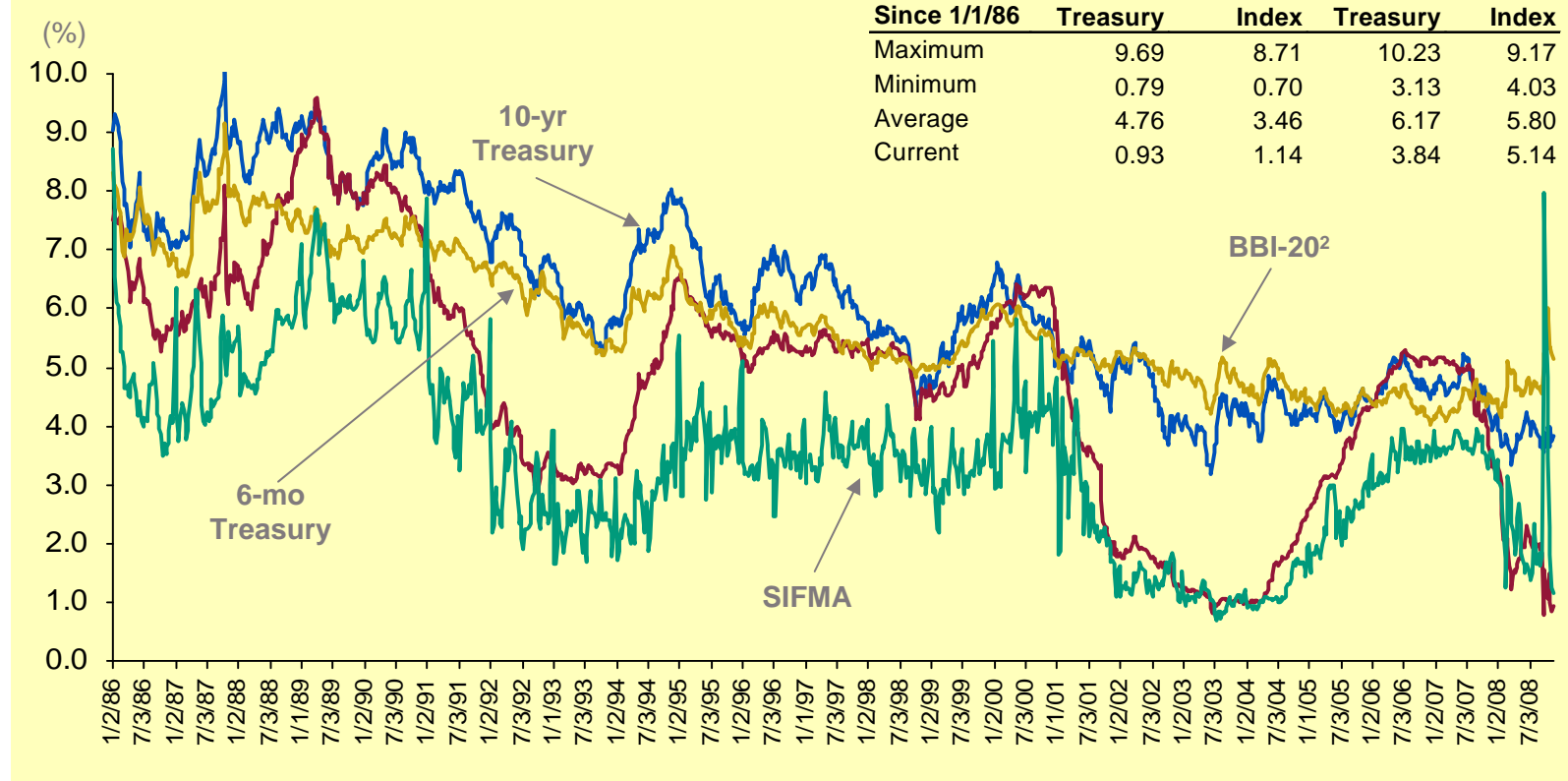


¹ Reflects market conditions as of November 13, 2008

² The 20-year Bond-Buyer Index (BBI-20) is based on the average yields of 20-year bonds issued by 20 different general obligation bond issuers. These issuers are all rated A1 by Moody's
Source: Bloomberg Information Systems

Historic Rate Comparison

Municipal vs Taxable Market Yields since 1986¹



¹ Reflects market conditions as of November 13, 2008

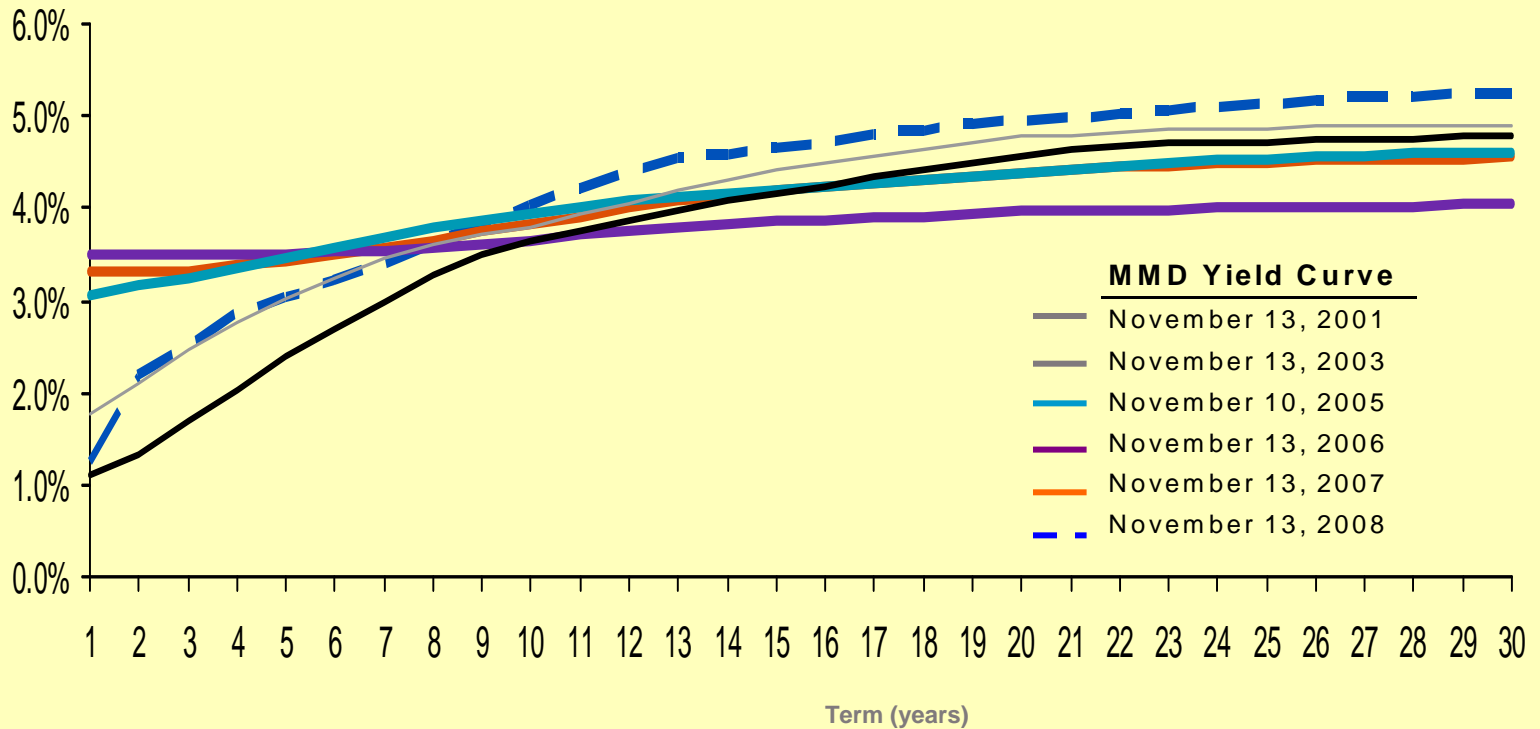
² The 20-year Bond-Buyer Index (BBI-20) is based on the average yields of 20-year bonds issued by 20 different general obligation bond issuers. These issuers are all rated A1 by Moody's

³ The Securities Industry and Financial Markets Association (SIFMA) Index (formerly Bond Market Association or "BMA") is calculated by taking the weighted-average of the clearing rates for a pool of high-grade tax-exempt short-term issues with weekly resets. The SIFMA Index is a widely used proxy for high-grade weekly bonds

Source: Bloomberg Information Systems

Municipal Yield Curve Comparison

AAA MMD curves during the past 7 years



Note: Reflects market conditions as of November 13, 2008
 Source: Thomson Financial

“AA” to “A” Trading Spreads

| Summary | Aa-Rated | A-Rated | Spread |
|-----------------|----------|---------|---------------|
| Current Market | 3.260 | 3.780 | 11/19/08 = 52 |
| 20-Year High | 3.260 | 3.780 | 11/19/08 = 52 |
| 20-Year Low | 3.740 | 3.900 | 10/12/06 = 16 |
| 20-Year Average | 4.341 | 4.584 | 24 |

| Aa-Rated | A-Rated | Spread |
|----------|---------|---------------|
| 5.330 | 5.850 | 11/19/08 = 52 |
| 5.350 | 5.870 | 11/18/08 = 52 |
| 7.150 | 7.300 | 05/16/89 = 15 |
| 5.565 | 5.815 | 25 |

5-Year Maturity

20-Year Maturity

| Close Date | | Aa-Rated | A-Rated | Spread |
|------------|-----|----------|---------|--------|
| 11/19/08 | Wed | 3.260 | 3.780 | 52 |
| 10/31/08 | Fri | 3.650 | 4.150 | 50 |
| 09/30/08 | Tue | 3.440 | 3.940 | 50 |
| 08/29/08 | Fri | 3.180 | 3.630 | 45 |
| 07/31/08 | Thu | 3.310 | 3.750 | 44 |
| 06/30/08 | Mon | 3.510 | 3.870 | 36 |
| 05/30/08 | Fri | 3.180 | 3.530 | 35 |
| 04/30/08 | Wed | 3.200 | 3.630 | 43 |
| 03/31/08 | Mon | 3.190 | 3.580 | 39 |
| 02/29/08 | Fri | 3.460 | 3.830 | 37 |
| 01/31/08 | Thu | 3.020 | 3.340 | 32 |
| 12/31/07 | Mon | 3.390 | 3.700 | 31 |
| 11/30/07 | Fri | 3.590 | 3.860 | 27 |
| 10/31/07 | Wed | 3.700 | 3.960 | 26 |
| 09/28/07 | Fri | 3.750 | 3.980 | 23 |
| 08/31/07 | Fri | 3.910 | 4.160 | 25 |
| 07/31/07 | Tue | 3.970 | 4.200 | 23 |
| 06/29/07 | Fri | 4.020 | 4.230 | 21 |
| 05/31/07 | Thu | 3.880 | 4.110 | 23 |
| 04/30/07 | Mon | 3.740 | 3.960 | 22 |
| 03/30/07 | Fri | 3.740 | 3.960 | 22 |
| 02/28/07 | Wed | 3.700 | 3.890 | 19 |
| 01/31/07 | Wed | 3.790 | 3.970 | 18 |
| 12/29/06 | Fri | 3.690 | 3.860 | 17 |
| 11/30/06 | Thu | 3.600 | 3.770 | 17 |

| Aa-Rated | A-Rated | Spread |
|----------|---------|--------|
| 5.330 | 5.850 | 52 |
| 5.600 | 6.100 | 50 |
| 5.370 | 5.880 | 51 |
| 4.880 | 5.340 | 46 |
| 4.940 | 5.380 | 44 |
| 5.030 | 5.390 | 36 |
| 4.800 | 5.170 | 37 |
| 4.880 | 5.330 | 45 |
| 4.890 | 5.300 | 41 |
| 4.950 | 5.340 | 39 |
| 4.330 | 4.670 | 34 |
| 4.430 | 4.760 | 33 |
| 4.470 | 4.760 | 29 |
| 4.480 | 4.760 | 28 |
| 4.520 | 4.760 | 24 |
| 4.660 | 4.950 | 29 |
| 4.560 | 4.790 | 23 |
| 4.620 | 4.820 | 20 |
| 4.480 | 4.690 | 21 |
| 4.320 | 4.520 | 20 |
| 4.340 | 4.550 | 21 |
| 4.250 | 4.440 | 19 |
| 4.370 | 4.550 | 18 |
| 4.290 | 4.460 | 17 |
| 4.200 | 4.380 | 18 |

Savings on Hypothetical Bond Issuance

City of Norwich, Connecticut

Savings Created by Rating Upgrade on a Hypothetical \$8,000,000 Bond Issue

| Year Ending (12/1) | GO BONDS - UPGRADED "AA-" RATING | | | | GO BONDS - OLD "A+" RATING | | | | Differential |
|-----------------------|----------------------------------|--------------------|--------------------------|---------------------|----------------------------|--------------------|-----------------------------|---------------------|--------------------|
| | Principal | Interest | 11/19/2008 "AA" Scale | Debt Service | Principal | Interest | 11/19/2008 Insured Scale | Debt Service | |
| 2009 | \$400,000 | \$303,560 | 1.16% | \$703,560 | \$400,000 | \$327,000 | 1.42% | \$727,000 | (\$23,440) |
| 2010 | 400,000 | 298,920 | 2.15% | 698,920 | 400,000 | 321,320 | 2.39% | 721,320 | (\$22,400) |
| 2011 | 400,000 | 290,320 | 2.40% | 690,320 | 400,000 | 311,760 | 2.66% | 711,760 | (\$21,440) |
| 2012 | 400,000 | 280,720 | 2.73% | 680,720 | 400,000 | 301,120 | 3.00% | 701,120 | (\$20,400) |
| 2013 | 400,000 | 269,800 | 2.94% | 669,800 | 400,000 | 289,120 | 3.22% | 689,120 | (\$19,320) |
| 2014 | 400,000 | 258,040 | 3.12% | 658,040 | 400,000 | 276,240 | 3.41% | 676,240 | (\$18,200) |
| 2015 | 400,000 | 245,560 | 3.30% | 645,560 | 400,000 | 262,600 | 3.59% | 662,600 | (\$17,040) |
| 2016 | 400,000 | 232,360 | 3.51% | 632,360 | 400,000 | 248,240 | 3.80% | 648,240 | (\$15,880) |
| 2017 | 400,000 | 218,320 | 3.73% | 618,320 | 400,000 | 233,040 | 4.02% | 633,040 | (\$14,720) |
| 2018 | 400,000 | 203,400 | 3.93% | 603,400 | 400,000 | 216,960 | 4.22% | 616,960 | (\$13,560) |
| 2019 | 400,000 | 187,680 | 4.17% | 587,680 | 400,000 | 200,080 | 4.46% | 600,080 | (\$12,400) |
| 2020 | 400,000 | 171,000 | 4.39% | 571,000 | 400,000 | 182,240 | 4.68% | 582,240 | (\$11,240) |
| 2021 | 400,000 | 153,440 | 4.52% | 553,440 | 400,000 | 163,520 | 4.82% | 563,520 | (\$10,080) |
| 2022 | 400,000 | 135,360 | 4.61% | 535,360 | 400,000 | 144,240 | 4.92% | 544,240 | (\$8,880) |
| 2023 | 400,000 | 116,920 | 4.69% | 516,920 | 400,000 | 124,560 | 5.01% | 524,560 | (\$7,640) |
| 2024 | 400,000 | 98,160 | 4.77% | 498,160 | 400,000 | 104,520 | 5.10% | 504,520 | (\$6,360) |
| 2025 | 400,000 | 79,080 | 4.85% | 479,080 | 400,000 | 84,120 | 5.17% | 484,120 | (\$5,040) |
| 2026 | 400,000 | 59,680 | 4.92% | 459,680 | 400,000 | 63,440 | 5.24% | 463,440 | (\$3,760) |
| 2027 | 400,000 | 40,000 | 4.98% | 440,000 | 400,000 | 42,480 | 5.29% | 442,480 | (\$2,480) |
| 2028 | 400,000 | 20,080 | 5.02% | 420,080 | 400,000 | 21,320 | 5.33% | 421,320 | (\$1,240) |
| | <u>\$8,000,000</u> | <u>\$3,662,400</u> | | <u>\$11,662,400</u> | <u>\$8,000,000</u> | <u>\$3,917,920</u> | | <u>\$11,917,920</u> | <u>(\$255,520)</u> |

Bond Assumption:

In addition to higher interest expense, the City would have to pay an estimated 40 basis points for credit enhancement, or \$47,672.