

## **FITCH AFFIRMS NORWICH, CT'S GO BONDS AT 'AA'; OUTLOOK STABLE**

Fitch Ratings-New York-05 September 2013: Fitch Ratings has affirmed the following underlying rating for Norwich, Connecticut (the city):

--\$37.0 million outstanding unlimited tax general obligation (ULTGO) bonds at 'AA'.

The Rating Outlook is Stable.

### **SECURITY**

The bonds are a general obligation of the city backed by its full faith and credit and ability to levy ad valorem taxes without limitation as to rate or amount for repayment of the bonds.

### **KEY RATING DRIVERS**

**SOUND FINANCIAL PROFILE:** Prudent financial management drives consistently positive financial operations and sound reserve levels. The city-owned utility system remains healthy and continues to lend operational support and revenue diversity to the general fund.

**LOW DEBT AND MANAGEABLE LONG-TERM OBLIGATIONS:** The city has a very low debt burden with rapid amortization, manageable pension costs, and proactive other post-employment benefit (OPEB) funding. Fitch expects carrying costs to remain affordable.

**MIXED ECONOMY:** The city's economy is diverse but somewhat limited. Wealth levels are below average, and the unemployment rate is above state and national levels.

### **RATING SENSITIVITIES**

**SOUND FINANCES DRIVE THE STABLE OUTLOOK:** The rating is sensitive to shifts in fundamental credit characteristics such as erosion of fund balance reserves. The Stable Outlook reflects Fitch's expectation that these shifts are unlikely given the city's consistent maintenance of stable financial operations.

### **CREDIT PROFILE**

The city is located adjacent to interstate 395 at the head of the Thames River in southeastern Connecticut, 40 miles southeast of the city of Hartford.

### **SOUND FINANCIAL PROFILE**

Strong financial performance has been driven by the city's accurate budgeting practices, prudent financial policies, and diverse revenue sources relative to in-state peers.

The city has incurred only three operating deficits (after transfers) since fiscal 1997 and is reporting positive financial performance for unaudited fiscal 2013. The city consistently keeps its fund balance above its official policy of 8% of general fund spending, with fiscal 2012 unrestricted general fund balance equal to a sound 9.4% of spending.

The city also keeps its per capita tax burden among the lowest in the state in part due to a charter-mandated annual transfer from the Norwich Public Utilities Department to the general fund. This transfer is set at 10% of gross utility revenue, which translated to \$7.2 million or 6.8% of fiscal 2012 general fund revenues. The transfer diversifies the city's revenue stream, which is primarily

comprised of property tax revenue and intergovernmental support. The utility generates healthy cash surpluses, and rates are independently established by the city's Public Utilities Commissioners without regulatory approval.

Fitch expects prudent fiscal management to continue in the near future. The city's fiscal 2014 budget is conservatively appropriating \$400 thousand of fund balance (0.3% of fiscal 2014 budgeted spending) to offset peaking debt service payments and an increase in its funding for OPEB to the full actuarial required contribution (ARC). The city forecasts near balanced operations and will make millage adjustments and or cost reductions as needed over each of the next several years.

#### LOW OVERALL DEBT LEVELS AND MANAGEABLE LONG-TERM OBLIGATIONS

Overall debt levels are a very low 1.0% of market value and \$833 per capita. The city will issue debt in the near future for infrastructure maintenance, but Fitch does not expect the new debt to materially increase debt levels. Amortization is rapid with 74% of principal retired within the next 10 years.

Most of the city's non-certified employees are members of the city's single-employer defined benefit plan, which the city has generally overfunded in recent years. In 2012, the plan was funded at 76%; using Fitch's more conservative 7% discount rate, the plan was funded at 67%. Board of Education employees participate in the state's multiple employer cost-sharing pension plan, for which the state is responsible. Total carrying costs for debt service, pension, and OPEB are manageable at 11.4% of operational spending.

#### MIXED ECONOMIC PROFILE

The city's employment base, while diverse, is somewhat limited, with the largest employers being William Backus Hospital, the city of Norwich, the state of Connecticut, and Bob's Discount Furniture.

The city's unemployment rate in June 2013 was 9.4%, higher than both state and national averages. The city's employment and labor force levels have been decreasing faster than state and national averages. Wealth levels are below average, with median household income equaling 74% and 97% of state and national levels, respectively.

The city's tax base has remained fairly flat after the 2008 revaluation, which added 27% to the fiscal 2010 values. Fitch expects a downward adjustment in the 2013 revaluation (effective fiscal 2015) given anecdotal comparatives; the city will adjust its millage rate as needed to maintain necessary revenue levels. Home prices and housing starts have remained flat over the last several years and have not recovered to pre-recession levels.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Zillow.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

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