

# RatingsDirect®

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## Summary:

# Norwich, Connecticut; General Obligation

### **Primary Credit Analyst:**

Timothy J Daley, Boston (1) 617-530-8121; timothy.daley@standardandpoors.com

### **Secondary Contact:**

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

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## Summary:

# Norwich, Connecticut; General Obligation

### Credit Profile

US\$5.6 mil GO cap proj bnds ser 2015 A

*Long Term Rating*

AA/Stable

New

US\$1.14 mil GO taxable bnds ser 2015 B

*Long Term Rating*

AA/Stable

New

### **Norwich GO**

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating and stable outlook to the city of Norwich, Conn.'s series 2015A and 2015B general obligation (GO) bonds.

At the same time, Standard & Poor's has affirmed its 'AA' long-term and underlying (SPUR) ratings, with a stable outlook, on the city's existing GO debt.

The bonds are general obligations of the city, for which it has pledged its full faith and credit. We understand series A bond proceeds will be used to finance various school facilities, road and water system improvements, and other municipal improvements. The city intends to use series B proceeds to finance economic development and other taxable projects.

The long-term rating reflects our assessment of the following factors for Norwich:

- Weak economy, with projected per capita effective buying income at 97.9% and market value per capita at \$63,579 of 2015 market value;
- Strong budgetary performance, despite a \$831,000 general fund operating deficit in fiscal 2014;
- Strong budgetary flexibility, with 2014 audited available reserves at 8.9% of general fund expenditures;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Strong management, with good financial policies;
- Very strong debt and contingent liabilities position, driven mostly by the city's low overall net debt burden as a percent of market value and rapid amortization; and
- Very strong Institutional Framework.

### **Weak economy**

We consider Norwich's economy to be weak after the city experienced a revaluation for fiscal 2015, which resulted in a 26% decline in its total market value. Norwich serves an estimated population of 40,000 in New London County and is about 40 miles southeast of Hartford, Conn. Management indicates the city continues to see commercial construction activity and reinvestment within the city, which should contribute to the tax base in the next two years. Economic development includes a number of redevelopment projects focused on mixed-use commercial space. Other large

employers within the city include William Backus Hospital (1,437 employees), Norwich itself (948), the State of Connecticut (890), and Bob's Discount Furniture (530). Unemployment in New London County was 7.9% in 2013 and currently stands at 6% as of September 2014, lower than the state's 6.4% and slightly above the national rate of 5.9%. Norwich's projected (2018) per capita income has improved to 97.9% of that of the nation.

As previously noted, the city experienced a revaluation in 2015 that led to a 26% decline in the city's tax base. We understand management raised the tax rate to remain revenue neutral and there are no significant tax appeals outstanding that could affect Norwich's budgetary performance. The city's market value totals \$2.57 billion for 2015, equivalent to a per capita market value of \$63,579. Norwich's 10 leading taxpayers account for a diverse 6.6% of 2015 assessed value.

### **Strong budgetary performance**

The city's budgetary performance has been strong overall, in our view, despite slight operating deficits of \$831,000 (0.7% of budget) and \$1.2 million (0.8% of budget) for the general fund and total governmental funds. The income statement includes adjustments for recurring capital expenditures related to the city's capital improvement program (CIP), netting out one-time capital outlay of \$6.3 million funded by bond proceeds from total governmental funds expenditures, and accounting for transfers in from the city's utility fund as recurring revenue in both the general fund and governmental funds revenues. Management indicates the general fund deficit was driven by an education grant from the state, which came in lower than budgeted. Management indicates it has adjusted for this grant in the 2015 budget and does not expect to experience a shortfall in this line item. The fiscal 2015 (ending June 30) budget totals \$116.7 million, a less than 1% increase over the 2014 budget and does not include a fund balance appropriation. The majority of Norwich's revenue comes from property taxes (62% of budget) followed by state aid (34% of budget) and a transfer in from the city's utility fund (6% of budget), which is equivalent to 10% of the system's gross revenue. Tax collections remain strong, with the city averaging above 98% on a current basis over the past five years.

In our opinion, the city will maintain at least an adequate budgetary performance in the next two years as its primary revenue source, property taxes, is stable and predictable and collections are strong. Management maintains a long-term financial plan through fiscal 2020, which allows city officials to foresee any future budgetary pressures. In addition, we believe management's demonstrated willingness to adjust revenues and expenditures will allow the city to continue to yield balanced operations.

### **Strong budget flexibility**

Norwich's budgetary flexibility is strong, in our view, with reserves totaling \$10.98 million, equivalent to 8.9% of 2014 general fund expenditures. Norwich closed fiscal 2013 with \$11.2 million in available reserves equivalent to 9.8% of expenditures. Management projects available reserves will remain in line with fiscal 2014 levels at the close of fiscal 2015. The city revised its formal general fund balance policy to maintain an unassigned fund balance between 12%-17%, which is a higher threshold than its previous target of 8%. Management indicates it will continue to add to available reserves in the next five-to-seven years to be in compliance with its new target level.

### **Very strong liquidity**

Supporting the city's finances is liquidity we consider very strong, with total government available cash, net of bond proceeds, at 22.6% of total governmental fund expenditures and 613% of debt service. We believe Norwich has strong

access to external liquidity as it has issued bonds in the past 15 years.

### **Strong management conditions**

We view the city's management conditions as strong, with "good" financial practices. We understand management provides elected officials with monthly budget updates and investment reports. We also understand that management completes a five-year financial plan, and maintains a five-year CIP that it reviews along with the annual operating budget formation process. Norwich maintains a formal debt policy indicating that net debt not exceed 5% of the city's taxable assessed value. The city is currently compliant with its debt management policy. Norwich revised its formal reserve policy from 8% of expenditures upward to between 12% and 17% based on the Government Finance Officers Association risk analysis and benchmarking with Connecticut for communities with population of 30,000-50,000.

### **Very strong debt and contingent liability profile**

In our opinion, the city's debt and contingent liability profile is very strong, with total governmental fund debt service at 3.7% of total governmental fund expenditures, and net direct debt at 23% of total governmental fund revenue. Overall net debt is very low at 1.3% of market value, and about 67% of debt is amortized within the next 10 years. Norwich has no exposure to contingent liquidity debt or variable-rate debt. Management indicates the city plans to issue about \$5 million in additional debt in 2016 for a gas line extension, which we believe will not have a material impact on the city's debt burden.

Norwich administers a consolidated pension plan that comprises a single-employer contributory, defined benefit public employee retirement system, and a Volunteer Firefighters Relief Plan; the former was 63.5% funded as of July 1, 2013, with an \$83 million liability, while the latter was 42% funded as of Jan. 1, 2014 (a \$2.9 million liability). Norwich has made 100% of the annual required contributions (ARC) to its plans in the past three years. For fiscal 2014, the contributions totaled \$6.1 million or about 4% of expenditures. All city teachers participate in a state-run retirement system for which the city has no liability. Norwich also provides a retiree health care plan and has an unfunded actuarial accrued other postemployment benefits (OPEB) liability of \$55 million (July 1, 2013). The city's OPEB plan has a funded ratio of 17.5% and the city contributed \$6 million in fiscal 2013 equivalent to 4% of expenditures and 100% of the ARC. The combined pension and OPEB contributions amounted to 8% of governmental expenditures, and management does not expect these costs will increase substantially in the near term. We believe the city has been proactive in addressing its long-term liabilities, and believe costs will remain manageable in the next three-to-four years.

### **Very strong Institutional Framework**

We consider the Institutional Framework score for Connecticut cities as very strong.

## **Outlook**

The stable outlook reflects our view of the city's strong budgetary performance and strong budgetary flexibility. The outlook also reflects our view of the local economy's ongoing development, and access to large employment centers throughout southeastern Connecticut. We do not expect to change the rating in our two-year outlook horizon as we expect that Norwich will continue to maintain at least adequate budgetary performance and flexibility in the near term.

Although upward movement in the rating is unlikely, if Norwich's economic indicators improve significantly over time and budgetary performance and flexibility remain strong, we could consider a positive rating action. At the same time, if management is unable to maintain structural balance resulting in weak budgetary performance and flexibility, we could revise the rating downward. In addition, deterioration in the city's local economy resulting in weak income and wealth levels could put downward pressure on the rating.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Connecticut Local Governments

### Ratings Detail (As Of February 4, 2015)

Norwich GO bnds ser 2008 QZAB

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Norwich GO bnds ser 2014A due 01/29/2034

<i>Long Term Rating</i>	AA/Stable	Affirmed
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#### **Norwich GO**

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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