

RatingsDirect®

Summary:

Norwich, Connecticut; General Obligation

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Table Of Contents

Credit Highlights

Outlook

Related Research

Summary:

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Credit Profile

US\$9.5 mil GO bnds ser 2022A due 12/15/2042

Long Term Rating

AA/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to the City of Norwich, Conn.'s approximately \$9.5 million series 2022 general obligation (GO) bonds.
- The outlook is stable.

Security

The city's full faith and credit pledge to levy ad valorem taxes on taxable property, without limit on the rate or amount, secures the series 2022 bonds. Bond proceeds will finance initial expenses for the school construction projects approved by voters in the November 2022 referendum.

Credit overview

Norwich's general creditworthiness is characterized by a strong management environment, which historically has helped yield stable financial operations and strong reserve levels. According to the unaudited draft results for fiscal 2022, Norwich's revenues came in over budget, particularly in building permits and conveyance taxes, while expenses came in below estimates. It is also the second year in a row that the school department generated savings from staff vacancies and received approval from city council to move unspent funds to a non-lapsing savings account. The city is about mid-way through fiscal 2023 and indicated that financial trends from previous years have continued, with revenues so far trending ahead of estimates and expenditures on track with budget. We expect the city will maintain its strong financial performance over the outlook horizon based on its history of positive performance and expectations for at least balanced operations in the current fiscal year. However, partially offsetting these credit strengths is the city's relatively weaker economy with wealth and income levels below both state and national peers. City officials indicate that economic activity remains ongoing, with recent economic developments including completion of a glass manufacturing facility and the Electric Boat contract to build submarines. Other developments in the pipeline for the next two years include licenses for two cannabis cultivators to construct facilities in the city and the potential addition of a second industrial park. While these developments are expected to contribute to the city's economic profile over the long term, at this time the below-average metrics likely constrain the rating.

Norwich received approval from voters to pursue \$385 million in major school construction projects, including demolition of existing buildings and consolidating the city's seven existing elementary schools into four newly-constructed elementary schools. The city expects the projects will take up to 10 years to complete, and the project is currently eligible for a 67% state reimbursement, which would bring the city's share of the project to about \$149 million. The city is currently expecting it will issue between \$10 million to \$30 million each year for the next five

years to fund the school construction project. While this is a large-scale project with significant planned issuances, we do not expect the city's debt profile will materially weaken over the next two years as the projects will be completed in phases and the city intends to seek a higher state reimbursement rate.

The rating further reflects our view of the city's:

- Residential economy that benefits from a currently strong real estate market albeit with below-average wealth and income indicators;
- Financial operations that are supported by a strong management environment and a strong institutional framework score;
- Overall stable financial performance, with a majority property-tax funded budget (63% in fiscal 2021); and
- Manageable total fixed costs despite a large increase to the city's debt profile following the 2022 pension obligation bonds, offset by a corresponding decrease to the city's unfunded retirement liability.

For more information, see our summary analysis on Norwich, published Feb. 3, 2022, on RatingsDirect.

Environmental, social, and governance

We consider Norwich's environmental, social and governance risks to be neutral in our credit rating analysis. The city's environmental risks consist mostly of inland flooding given that a portion of the city is located along the Thames River.

Outlook

The stable outlook reflects our expectation that the city will maintain stable operations and strong reserve levels over our two-year outlook horizon.

Downside scenario

We could consider a negative rating action if Norwich experiences sustained deterioration in budgetary performance, resulting in a decline of reserves to levels we no longer view as commensurate with currently-rated peers. The rating could also come under pressure from material weakening of the city's income and wealth levels or budgetary pressures from additional debt issuance, including the planned issuances for the school construction projects.

Upside scenario

We currently view the city as having limited upside potential due to wealth and income levels that are well below those of higher-rated peers. Nevertheless, we could raise the rating if Norwich's wealth and income levels improve substantially, and if the city's flexibility and liquidity were to significantly improve due to consistently strong budgetary performance.

Norwich, CT: Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Weak economy				
Projected per capita EBI % of U.S.	89.6	83.0	89.0	90.0
Market value per capita (\$)	74,032	72,654	67,742	

Norwich, CT: Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2021	2020	2019
Population (no.)		39,482	39,858	40,143
County unemployment rate(%)			9.6	
Market value (\$000)		2,922,923	2,895,840	2,719,377
Ten largest taxpayers % of taxable value	7.7			
Strong budgetary performance				
Operating fund result % of expenditures		1.8	0.5	(1.4)
Total governmental fund result % of expenditures		5.0	(0.6)	0.6
Strong budgetary flexibility				
Available reserves % of operating expenditures		12.1	10.5	10.4
Total available reserves (\$000)		17,016	14,393	13,722
Very strong liquidity				
Total government cash % of governmental fund expenditures		49.5	39.2	29.7
Total government cash % of governmental fund debt service		1,522.9	1,144.1	832.2
Strong management				
Financial Management Assessment	Good			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.2	3.4	3.6
Net direct debt % of governmental fund revenue	108.9			
Overall net debt % of market value	6.3			
Direct debt 10-year amortization (%)	45.1			
Required pension contribution % of governmental fund expenditures		7.4		
OPEB actual contribution % of governmental fund expenditures		2.5		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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