

## ISSUER COMMENT

26 March 2020

### RATING

#### General Obligation (or GO Related) <sup>1</sup>

Aa3 No Outlook

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## City of Norwich, CT

### Annual Comment on Norwich

#### Issuer Profile

The City of Norwich is located in New London County in southeastern Connecticut, approximately 35 miles southeast of Hartford and 15 miles from the Rhode Island state line. The county has a population of 268,881 and a moderate population density of 404 people per square mile. The county's median family income is \$89,209 (1st quartile) and the January 2020 unemployment rate was 4.4% (2nd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are local government, health services, and retail trade.

Norwich is not susceptible to immediate material credit risks related to coronavirus. The longer term impact will depend on both the severity and duration of the crisis. The situation surrounding coronavirus is rapidly evolving. If our view of the credit quality of Norwich changes, we will publish our updated opinion at that time.

#### Credit Overview

Norwich's credit position is very healthy. Its Aa3 rating matches the median rating of Aa3 for US cities. Notable credit factors include a solid financial position, a sizable tax base, a below average wealth and income profile and mid-ranged debt and pension liabilities.

**Finances:** Norwich has a solid financial position overall, which is consistent with the assigned rating of Aa3. However, the cash balance as a percent of operating revenues (29.7%) falls just short of the US median, after increasing from 2015 to 2019. Additionally, the fund balance as a percent of operating revenues (10.6%) is well below other Moody's-rated cities nationwide. That said, Connecticut local governments tend to have financial ratios lower than US medians because they generally derive a majority of revenues from stable property taxes and their financials typically incorporate school operations, which are predictable.

**Economy and Tax Base:** The economy and tax base of Norwich are quite healthy and are consistent with its Aa3 rating. The total full value (\$2.8 billion) is slightly above the US median, and grew between 2015 and 2019, while the full value per capita (\$70,987) is slightly weaker than the US median. Lastly, the median family income is slightly below average at 89.7% of the US level.

**Debt and Pensions:** Overall, the debt and pension liabilities of the city are moderate and relatively in line with the Aa3 rating assigned. Norwich's net direct debt to full value (1.8%) is higher than the US median, and remained level between 2015 and 2019. Furthermore, the Moody's-adjusted net pension liability to operating revenues (1.5x) is on par with the US median.

**Management and Governance:** Connecticut cities have an institutional framework score <sup>3</sup> of "Aa," or strong. Revenues are highly predictable and stable, due to a large reliance on property taxes. Cities additionally benefit from high revenue-raising ability due to the absence of a state-wide property tax cap. Expenditures primarily consist of personnel costs as well as education costs for those cities that manage school operations, and are highly predictable due to state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate as it is somewhat constrained by union presence.

### Sector Trends - Connecticut Cities

While Connecticut cities and towns have generally benefited from stable tax bases, populations are aging and new development is challenged by the high cost of living and doing business. Positively, resident wealth and income levels are high. Median financial reserves are lower than the national median, which represents a pressure for cities and towns in light of state funding uncertainty. Ongoing budgetary pressures at the state level threaten the stability of state revenues. Property tax revenues, the primary revenue source, will continue to rise slowly due to stabilizing real estate markets and absence of a cap on local government levies.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

## EXHIBIT 1

## Key Indicators 4.5 Norwich

	2015	2016	2017	2018	2019	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$2,574M	\$2,670M	\$2,707M	\$2,711M	\$2,801M	\$1,904M	Improved
Full Value Per Capita	\$63,961	\$66,659	\$67,887	\$68,530	\$70,987	\$94,106	Improved
Median Family Income (% of US Median)	88%	85%	88%	90%	90%	111%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	8.6%	11.4%	13.2%	11.7%	10.6%	34.6%	Stable
Net Cash Balance as % of Operating Revenues	23.2%	27.0%	29.9%	28.3%	29.7%	39.6%	Improved
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	1.7%	1.8%	1.9%	1.7%	1.8%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.37x	0.38x	0.38x	0.34x	0.38x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	5.6%	5.9%	5.7%	6.2%	7.1%	1.9%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.18x	1.21x	1.15x	1.26x	1.54x	1.56x	Stable

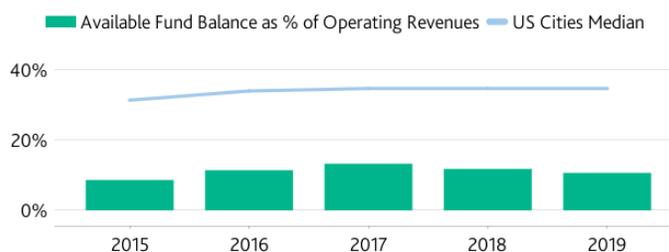
  

	2015	2016	2017	2018	2019	US Median
<b>Debt and Financial Data</b>						
Population	40,254	40,057	39,875	39,567	39,470	N/A
Available Fund Balance (\$000s)	\$10,399	\$14,879	\$17,681	\$15,564	\$13,722	\$8,028
Net Cash Balance (\$000s)	\$28,093	\$35,236	\$39,999	\$37,523	\$38,324	\$9,530
Operating Revenues (\$000s)	\$120,838	\$130,666	\$133,625	\$132,505	\$129,031	\$23,172
Net Direct Debt (\$000s)	\$44,794	\$49,380	\$50,220	\$45,604	\$49,075	\$19,139
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$142,901	\$158,088	\$153,268	\$167,009	\$199,061	\$35,448

Source: Moody's Investors Service

## EXHIBIT 2

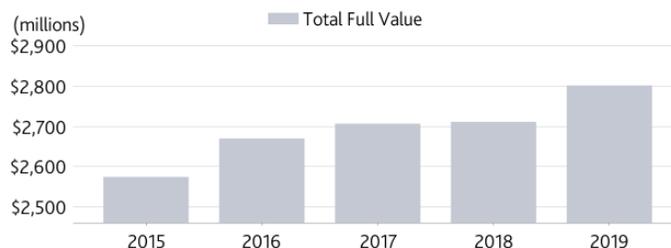
## Available fund balance as a percent of operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

## Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
  - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
  - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
  - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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