

# RatingsDirect®

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## Summary:

# Norwich, Connecticut; General Obligation

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## Summary:

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### Credit Profile

US\$5.0 mil GO bnds ser 2023 due 08/01/2043

<i>Long Term Rating</i>	AA/Stable	New
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Norwich GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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### Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Norwich, Conn.'s anticipated \$5 million series 2023 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's outstanding GO debt.
- 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 2023 bonds. Bond proceeds will finance infrastructure improvements and initial expenses for school construction projects.

### Credit overview

Norwich's general creditworthiness is characterized by a strong management environment, which historically helped yield stable financial operations and strong reserve levels. According to unaudited draft results for fiscal 2023, Norwich's revenue came in over budget due to strong property tax, conveyance tax, and building permit collections, while expenses were lower due to vacancies. Management expects that its fund balance will grow \$3.6 million to \$21.0 million in 2023. We expect the city will maintain its strong financial performance during 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, although management expects its ongoing re-valuation will increase residential assessed value (AV) approximately 60%, while commercial and industrial AV remains largely unchanged. There is also significant commercial and industrial development underway; while these developments are expected to contribute to the city's economic profile in the long term, the below-average metrics currently constrain the rating.

Voters have approved \$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 conservatively estimates state aid will support at least \$232 million, with the city's share \$153 million. However, management is optimistic that Norwich will receive additional state aid that reduces its share closer to \$100 million. The city expects to issue \$10 million-\$25 million annually for the next five years to fund the school construction project. Additionally, the city's public utilities

department expects to borrow as much as \$130 million next year through a low interest loan with the state as part of a \$200 million wastewater treatment plant renovation. The loan will be secured by pledged wastewater revenue only--not a GO pledge--and management expects to fund debt service with rate increases.

The rating further reflects our view of the following:

- Predominantly residential tax base (56% of AV) with expected residential AV growth and notable developments, including a 146 residential unit expansion of the Ponemah Mills development, infrastructure for a new 384-acre business park under construction, with parcels ready to sell by late 2024, two new cannabis cultivators, and various smaller residential and commercial developments. Submarine contractor General Dynamics Electric Boat employs 17,000 in the region and plans to add an additional 3,000 employees.
- Strong budgetary results due to the city's cautious budgeting practices, stable operating revenue from property taxes (59%) and intergovernmental sources (34%), and predictable expenditures, which we expect will continue, allowing Norwich to maintain strong reserves.
- Cautious budgeting practices that include the use of three-to-five years of historical data to build revenue and expenditure assumptions, budget-to-actual reports provided to the city council monthly, a five-year capital improvement plan that identifies project costs and funding sources, long-term financial planning included in the budget, a reserve policy that requires the city to maintain a target fund balance of 12%-17% of annual general fund expenditures, and a debt policy that was recently revised to limit net debt to 15% of AV (an increase from 5%), steps to mitigate cyber risk, and a strong institutional framework score.
- About \$217.6 million in direct debt, including \$23.6 million in revenue-secured debt, with sizeable future debt plans for school construction and wastewater renovation. We view fixed costs as currently manageable, despite a large increase to the city's debt profile following the issuance of its 2022 pension obligation bonds that was offset by a corresponding decrease to the city's unfunded retirement liability.

### **Environmental, social, and governance**

We consider the city's physical risks slightly elevated due to risk of inland flooding in portions of the city along the Yantic, Shetucket, and Thames rivers. To mitigate this risk, management has adopted a hazard and climate mitigation plan, a conservation and development plan, frequently consults with third-party experts, and has adopted policies to prioritize water-related development along the water and limit housing in flood plain areas. We view the city's social and governance factors as neutral in our analysis.

## **Outlook**

The stable outlook reflects our expectation that the city will maintain stable operations and strong reserves during the next two years.

### **Downside scenario**

We could lower the rating if Norwich's reserves decline, either due to budgetary imbalance or a one-time drawdown. 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 school construction and wastewater facilities.

## Upside scenario

While unlikely due to the city's wealth and income levels that are well below those of its higher-rated peers, we could raise the rating if Norwich's economic metrics improve substantially, coupled with increased reserves through consistently strong budgetary performance.

Norwich, Connecticut--Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Weak economy</b>				
Projected per capita EBI % of U.S.	89			
Market value per capita (\$)	77,231			
Population		40,110	39,482	39,858
County unemployment rate(%)		4.2		
Market value (\$000)	3,097,740	2,972,114		
Ten largest taxpayers % of taxable value	6.3			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		0.3	1.8	0.5
Total governmental fund result % of expenditures		9.3	5.0	(0.6)
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		12.0	12.1	10.5
Total available reserves (\$000)		17,392	17,016	14,393
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		51	49	39
Total government cash % of governmental fund debt service		1803	1523	1144
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Adequate debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		2.8	3.2	3.4
Net direct debt % of governmental fund revenue	76			
Overall net debt % of market value	6.3			
Direct debt 10-year amortization (%)	47			
Required pension contribution % of governmental fund expenditures		7.3		
OPEB actual contribution % of governmental fund expenditures		2.4		
<b>Strong institutional framework</b>				

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

Ratings Detail (As Of November 21, 2023)		
Norwich GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Norwich GO bnds iss (Cap Proj Bnds)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Norwich GO bnds iss (Taxable Bnds)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Norwich GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Norwich GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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