

RatingsDirect®

Summary:

Norwich, Connecticut; General Obligation

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Credit Profile

US\$10.6 mil GO bnds ser 2024 due 08/01/2049

<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 \$10.6 million series 2024 general obligation (GO) bonds, based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- 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 2024 bonds. Bond proceeds will finance infrastructure improvements and expenses for school construction projects.

Credit overview

Norwich's general creditworthiness is characterized by our view of the city's stable financial operating environment leading to sustained solid general fund reserve levels, supported by a range of formalized financial policies and practices and a residential-based economy.

According to unaudited year-end expectations for fiscal 2024, Norwich's revenue came in slightly above budget due to strong property tax revenue and conservative budgeting, while most expense line items came in at or below budget. As a result, management expects that its fund balance will remain relatively stable, at \$20.2 million at the end of fiscal 2024, equal to an estimated 13.1% of revenue. The fiscal 2025 budget is balanced at \$157.9 million with no material changes expected to reserves at year-end.

Ultimately, 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 through fiscal 2025. However, partially offsetting these financial credit strengths is the city's relatively weaker economy, despite some growth in residential values, which management expects to continue, while commercial and industrial assessed value (AV) remains largely unchanged over the last few years. Nonetheless, there is 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 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 ones. 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 help fund the school construction project. Furthermore, we understand the city could bring another referendum to voters for a new police headquarters, which could cost approximately \$50 million. Additionally, its public utilities department expects to borrow as much as \$130 million this 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:

- Stable predominantly residential tax base (56% of AV) with household incomes that are below county levels but in line with national averages but with good growth expected over the next few years, highlighted by a 146-residential unit expansion of the Ponemah Mills development, infrastructure for a new 384-acre business park under construction with parcels starting to sell in 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.
- Generally balanced operations including an expected slight surplus in fiscal 2024, backed by a reliance on property tax revenue, stable reserves consistent with its policy and a balanced fiscal 2025 budget. The city's balanced operations are also supported by stable operating revenue from property taxes (59%) and intergovernmental sources (37%).
- 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.
- Currently affordable debt and liabilities, despite increases to the city's debt profile in recent years following the issuance of pension obligation bonds in 2022 that was offset by a corresponding decrease to the city's unfunded retirement liability as well as more recent issuances primarily for school projects.
- For more information on our institutional framework assessment for Connecticut municipalities, see "Institutional Framework Assessment: Connecticut Local Governments," published Sept. 9, 2024

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 and 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.

Table 1

Norwich, Connecticut--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	2.40
Economy	2.5
Financial performance	2
Reserves and liquidity	2
Management	2.00
Debt and liabilities	3.50

Table 2

Norwich, Connecticut--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.		108	108	106
County PCPI % of U.S.		102	102	101
Market value (\$000s)		3,038,855	2,972,114	2,922,923
Market value per capita (\$)		76,321	74,099	74,032
Top 10 taxpayers % of taxable value		6.5	6.6	7.7
County unemployment rate (%)		3.6	4.2	6.8
Local median household EBI % of U.S.		86	85	82
Local per capita EBI % of U.S.		90	88	83
Local population		39,817	40,110	39,482
Financial performance				
Operating fund revenues (\$000s)		147,283	145,122	143,018
Operating fund expenditures (\$000s)		140,119	144,630	140,535
Net transfers and other adjustments (\$000s)		(3,588)	(116)	140

Table 2

Norwich, Connecticut--Key credit metrics (cont.)				
	Most recent	2023	2022	2021
Operating result (\$000s)		3,576	376	2,623
Operating result % of revenues		2.4	0.3	1.8
Operating result three-year average %		1.5	0.9	0.3
Reserves and liquidity				
Available reserves % of operating revenues		14.2	12.0	11.9
Available reserves (\$000s)		20,968	17,392	17,016
Debt and liabilities				
Debt service cost % of revenues		6.3	2.6	3.1
Net direct debt per capita (\$)	4,917	4,727	4,670	1,178
Net direct debt (\$000s)	195,780	188,205	187,333	46,520
Direct debt 10-year amortization (%)	41			
Pension and OPEB cost % of revenues		4.0	71.0	9.0
NPLs per capita (\$)		1,232	1,284	2,620
Combined NPLs (\$000s)		49,046	51,487	103,431

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 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 26, 2024)

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

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