STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Norwich, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$12.365 mil GO bnds ser 2014A due 01/29/2034		
Long Term Rating	AA/Stable	New
US$6.5 mil GO rfdg bnds ser 2014B due 01/29/2034		
Long Term Rating	AA/Stable	New
Norwich GO bnds ser 2008 QZAB		
Long Term Rating	AA/Stable	Upgraded
Norwich GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on Norwich, Conn.'s general obligation (GO) bonds to 'AA' from 'AA-' based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

In addition, Standard & Poor's assigned its 'AA' rating and stable outlook to the city's series 2014 series A capital projects bonds and series B capital project refunding bonds.

The bonds and 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 refund certain maturities of its series 2004A, 2005A, and 2005B GO bonds outstanding. Management anticipates about $276,000 in net present value savings. Savings will be taken over the life of the bonds with no extension of maturities.

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

- Adequate economy, with projected per capita effective buying income at 87.9% and market value per capita at $81,139 of 2013 market value;
- Strong budgetary flexibility, with 2013 audited available reserves at 9.8% of general fund expenditures;
- Strong budgetary performance, with a $560,000 general fund operating surplus in fiscal 2013;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Strong management, with good financial policies; and
- Very strong debt and contingent liabilities position, driven mostly by the city's low overall net debt burden as a percent of market value.

Adequate economy

We consider Norwich's economy to be adequate. 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, which should contribute to the tax base in the medium term. 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 8.5% in 2012, compared with 8.3% for the state and 8.1% for the nation. Norwich's projected per capita income is 87.9% of that of the nation. Per capita market value was $81,139 for fiscal 2013. The city's 10 leading taxpayers account for a diverse 6.2% of 2013 assessed value.

Strong budget flexibility

Budgetary flexibility is strong, in our view, with reserves above 9% of expenditures for the past three years and no plans to significantly spend them down. 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 2013 levels at the close of fiscal 2014. The city remains in compliance with its general fund policy that requires a minimum undesignated balance of 8% of annual operating expenditures.

Strong budgetary performance

The city's budgetary performance has been strong overall, in our view, with an operating deficit following adjustments for recurring capital expenditures related to the city's capital improvement program (CIP), a one-time capital outlay, and accounting for recurring revenue from the city's utility fund of 0.7% for total governmental funds in fiscal 2013 and a surplus of 0.5% for general fund operating results. Norwich's fiscal 2013 financial performance was primarily driven by strong tax collections, as well as the realization of expenditure savings across departments. The fiscal 2014 (ending June 30) budget totals $116 million, a 1.37% increase from the previous year and a $565,000 fund balance appropriation. The majority of Norwich 's revenue comes from property taxes (61%) followed by state aid (36%) and charges for services (2%). Tax collections remain strong, with the city averaging above 98% on a current basis over five years.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash, net of bond proceeds, at 20.2% of total governmental fund expenditures and 572.5% 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 maintains a formal reserve policy stating that the unassigned fund balance remain at least 8% of expenditures. As of June 30, 2013, the city's unassigned fund balance was 9.8% of expenditures.

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 3.5% of total governmental fund expenditures, and net direct debt at 34.4% of total governmental fund revenue. Overall net debt is very low at 1.5% of market value, and about 56% 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 $6 million in additional debt in the next three-to-four years for a various capital projects.

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 76% funded as of July 1, 2011, with a $47 million liability, while the latter was 34% funded as of Jan. 1, 2012 (a $3 million liability). Norwich has made 100% of the annual required contributions to its plans in the past three years. For fiscal 2013, the contributions totaled $6.1 million or about 4.1% 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 $58 million (July 1, 2011). The city's OPEB plan has a funded ratio of 7.6% and the city contributed $5.6 million in fiscal 2013 equivalent to 3.8% of expenditures. The combined pension and OPEB contributions amounted to 7.9% of governmental expenditures, and management does not expect these costs will increase substantially in the near term.

Very strong Institutional Framework

We consider the Institutional Framework for Connecticut cities as very strong. See Institutional Framework score for Connecticut, published Sept. 12, 2013.

Outlook

The stable outlook reflects our view of the city's adequate budgetary performance and strong budgetary flexibility. The stable 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 the city will continue to maintain at least adequate budgetary performance and flexibility in the near term.

While upward movement in the rating is unlikely, over time if Norwich's budgetary flexibility improves significantly to levels we consider very 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
- Institutional Framework Overview: Connecticut Local Governments, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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