MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Norwich, CT's $6.74M GO Bonds

Global Credit Research - 20 Jan 2015

Affirmation affects $38.3M in debt

NORWICH (CITY OF) CT
Cities (including Towns, Villages and Townships)
CT

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Issue of 2015 Series A, Capital Project Bonds		Aa2
Sale Amount	$5,600,000	
Expected Sale Date	02/02/15	
Rating Description	General Obligation	
General Obligation Bonds, Issue of 2015 Series B, Taxable Bonds		Aa2
Sale Amount	$1,140,000	
Expected Sale Date	02/02/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, January 20, 2015 --Moody's Investors Service has assigned a Aa2 rating to the City of Norwich's (CT) $5.6 million Series A of 2015 Capital Project Bonds and $1.14 million Series B of 2015 Taxable Bonds. At this time, Moody's has also affirmed the Aa2 rating on $38.3 million in outstanding parity debt.

SUMMARY RATING RATIONALE

The Aa2 incorporates the city's stable financial position, manageable debt burden and profitable utilities system.

OUTLOOK

There is no outlook assigned to the city of Norwich.

WHAT COULD MAKE THE RATING GO UP

- Significant tax base expansion

- Material improvement in wealth levels

- Increased reserve levels

WHAT COULD MAKE THE RATING GO DOWN

- Decreased reserves and overall financial flexibility

- Increased debt burden

- Declines in the tax base

STRENGTHS

- Stable financial position
- Manageable debt burden
- Profitable utilities system

CHALLENGES

- Modest reserves
- Average wealth levels

RECENT DEVELOPMENTS

Please see the detailed rating rationale below for recent developments.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE:SIZEABLE TAX BASE WITH AVERAGE WEALTH LEVELS

Located in New London County approximately 40 miles southeast of Hartford (A2 negative) and approximately three hours from New York City (Aa2 stable) by train, the city has experienced grand list declines in recent years. Despite its grand list declines, the city benefits from several economic development projects, including the construction of an $8-10 million Emergency Operations Facility by Dominion Resources, Inc (Baa2 stable), the first phase of which is expected to open this month and the Ponemah Mill Redevelopment, a $51 million residential apartment project expected to be completed in the next two to three years. The city has low taxpayer concentration with the top ten taxpayers representing 4.9% of the tax base, and the largest taxpayer, Computer Sciences Corporation (Baa2 stable), representing 1% of the tax base. Wealth indicators are average and full value per capita is $72,787. The city's current unemployment level of 7.8% is higher than Connecticut (6.3%) and the United States (5.5%) levels.

FINANCIAL OPERATIONS AND RESERVES:FINANCIAL STABILITY PROJECTED TO CONTINUE INTO THE NEAR-TERM

The city's stable financial position is expected to continue due to conservative budgeting of revenues and expenses. The city has maintained General Fund balance as a percent of revenues at levels above its 8% goal for the past six consecutive years. In December, 2014 the city adopted a fund balance policy to maintain a minimum unrestricted fund balance of 12-17% of revenues going forward. The policy also prohibits fund balance appropriations, which management expects will contribute to reaching the minimum fund balance requirement in the near term.

The fiscal 2014 budget was balanced with $400,000 in fund balance appropriations and included a levy increase of 2.6%. The city budgeted conservatively and did not use the full amount appropriated, finishing the year with a $214,000 deficit and reducing General Fund balance to $11 million (8.9% of revenues). The fiscal 2015 budget was balanced without fund balance appropriations and included a levy increase of 4.67%. The city's main budget drivers are employee benefit expenses. At this point, management is anticipating a positive variance with its budget, specifically with respect to tax collections and health insurance claims. The city's operations are supported by the Norwich Public Utilities System, a fully self-supporting system with 4.8x debt service coverage, which remits 10% of its annual billings to the General Fund. In July 2014, the Sewer Authority's largest customer, Fusion Paperboard (representing approximately 10% of the Sewer Authority's annual revenues), announced plans to cease operations in September 2014. Management plans to raise sewer rates to account for the reduction in revenues. If the Sewer Authority is unable to compensate for reduced revenues, this could result in negative pressure on the city's rating. We will continue to monitor financial stability of the Sewer Authority.

Liquidity

The city's net cash position at the close of fiscal 2014 was $27.6 million.

DEBT AND PENSIONS:MANAGEABLE DEBT PROFILE

The city's debt burden is expected to remain manageable despite a possible $5 million long-term debt issuance in 2016 for additional gas line extensions. The direct debt burden is average at 1% of equalized net grand list, not including $17.9 million of self-supporting utilities system debt which has been backed out of the city's debt profile. Amortization of principal is average, with 65.1% being repaid within ten years. The city's total fixed costs, which include debt service, pension, and OPEB expenses were 14% of fiscal 2014 expenditures.

Debt Structure

All of Norwich's debt is fixed rate and amortizes over the long-term. The city has a direct loan with Bank of America that has an outstanding balance of $752,231 as of February 2015. The obligation matures on December 19, 2017. The outstanding balance is not subject to acceleration, however, following certain events of default, the bank may declare all payments due during the fiscal year due and payable.

Debt-Related Derivatives

Norwich has no derivatives.

Pensions and OPEB

The city contributes to the Consolidated Pension Plan, a single-employer defined benefit pension plan administered by the city. The 2014 Annually Required Contribution (ARC) was $5.8 million, representing 5% of expenditures. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is approximately $124.3 million or an average 0.98 times operating revenues. The liability attributed to the city is derived from a pro rata allocation of the plan's total liability based on the proportion of the city's annual required contribution to total employer contributions into the plan. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

MANAGEMENT AND GOVERNANCE

As reflected in the Aa Institutional Framework score, Connecticut cities and towns benefit from the flexibility afforded by an absence of tax levy limits, which greatly increases revenue raising ability. City management employs conservative budgeting and financial management as evidenced in several formal fiscal policies and a proven track record of maintaining structurally balanced operations.

KEY STATISTICS

- 2014 Full valuation: $2.9 million

- 2014 Full valuation per capita: $72,787

- Median family income as a % of US: 99.4%

- Fiscal 2014 Available General Fund balance as a percent of revenues: 8.9%

- Five-year Dollar Change in General Fund balance as a percent of revenues: 1.13%

- Fiscal 2014 Cash Balance as a percent of revenues: 22.85%

- Five-year Change in Cash Balance as a percent of revenues: 9%

- Institutional Framework: Aa

- Operating History (Five-year average of operating revenues/operating expenditures): 1x

- Net Direct Debt/Full Value: 1%

- Net Direct Debt/Operating Revenues: 0.23x

- Three-year Average of Moody's ANPL/Full Value: 4.73%

- Three-year Average of Moody's ANPL/Operating Revenues: 0.98x

OBLIGOR PROFILE

Norwich is the largest city in southeastern Connecticut with a population of 40,000.

LEGAL SECURITY

The bonds are secured by the city's unlimited property tax pledge.

USE OF PROCEEDS

Proceeds of the Series 2015A bonds are being used to finance various school facilities and road improvements, and gas line extensions. Proceeds of the Series 2015B bonds are being used for downtown revitalization projects.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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