FITCH AFFIRMS NORWICH, CT'S GO BONDS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-31 July 2015: Fitch Ratings has affirmed the following underlying rating for Norwich, Connecticut (the city):

--$8.8 million outstanding unlimited tax general obligation (ULTGO) bonds series 2009A at 'AA'.

The Rating Outlook is Stable.

SECURITY

The bonds are a general obligation of the city backed by its full faith and credit and ability to levy ad valorem taxes without limitation as to rate or amount.

KEY RATING DRIVERS

SOUND FINANCIAL PROFILE: Conservative budgeting, both revenue and expenditure flexibility, and willingness to adjust the tax rate drive stable operations and sound reserve levels. The city-owned utility system lends operational support and revenue diversity to the general fund.

LOW DEBT AND MANAGEABLE LONG-TERM OBLIGATIONS: The city has a very low debt burden with rapid amortization, manageable pension costs, and proactive other post-employment benefit (OPEB) funding.

MIXED ECONOMY: The city's economy is diverse but the real estate market is still recovering from the downturn. Wealth levels approximate the nation, and the unemployment rate is above state and national levels.

RATING SENSITIVITIES

STABLE FINANCIAL PERFORMANCE: Fitch expects the city will manage its finances to achieve compliance with policy targets.

CREDIT PROFILE

The city is located adjacent to interstate 395 at the head of the Thames River in southeastern Connecticut, 40 miles southeast of the city of Hartford. The 2013 population is 40,327, an 11.7% increase from 2000.

SOUND FINANCIAL PROFILE

Sound financial performance has been driven by the city's prudent financial policies and diverse revenue sources relative to in-state peers. Balanced operations support adequate reserves consistently between 8-9%, through fiscal 2015 projections. The fiscal 2016 budget grew a moderate 2.2% over prior year projected spending and includes only 80% of the required pension contribution as the city phases in the impact of more conservative assumptions. The city adopted more conservative revenue estimates to support favorable experience to budget and progress towards its new fund balance policy target (12%-17% of spending). Achieving consistently higher reserve levels may be challenging.

The city is not subject to real property taxing limits and has adjusted the millage rated to support continued growth in the levy. The city's per capita tax burden is among the lowest in the state in part due to a charter-mandated annual transfer from the Norwich Public Utilities Department (NPUD), set at 10% of gross utility revenue. The fiscal 2014 transfer contributed 5.8% to general fund revenues. The utility rates are independently controlled by the city's Public Utilities Commissioners.

LOW LONG-TERM LIABILITY BURDEN

Fitch expects debt levels to remain low given marginal near term borrowing plans. Overall debt is 1.8% of market value and $833 per capita and outstanding principal amortizes rapidly; 64% within the next 10 years.

Most of the city's non-certified employees are members of the city's single-employer defined benefit plan. As of the July 1, 2013 valuation report, the plan assumptions were revised to be more conservative and the actuarial liability increased. Using Fitch's more conservative 7% discount rate the unfunded actuarial liability was $252 million or 3.6% of market value. With the adoption of more conservative pension assumptions (affecting fiscal 2015 contributions), the city opted to phase in the full funding of annual contribution, increasing to full funding by no later than fiscal 2020. Board of Education employees participate in the state's multiple employer cost-sharing pension plan, for which the state is responsible.

The city fully funded the OPEB annual required contribution in fiscal 2014. As of the July 1, 2013 valuation, the unfunded liability was $45.8 million (1.8% of market value) and the funded ratio was 17.5%. Total carrying costs for debt service, pension, and OPEB are low at 11% of government spending, including full ARC funding.

MIXED ECONOMIC PROFILE

The city's economy is diverse but has been slow to recover from the economic downturn. The larger components of the economic base include computer companies, the William Backus Hospital, state offices and a Bob's Discount Furniture distribution center. Officials report that several properties are in varying stages for redevelopment. One of the larger projects is the conversion of the Ponemah Mills which was recently awarded a $14 million state aid package.

Five-year property revaluation results in 2013 (for the fiscal 2015 levy) all but erased the previous expansion. The city's tax base decreased almost 26% after relatively stagnant performance following the 26% increase in fiscal 2010. Importantly the city adjusted its millage to facilitate consistent growth in the levy.

The city's unemployment rate in March 2014 was 8.3%, higher than both state and national averages. The city's employment level is improving, but not at the pace of the nation. Wealth levels approximate the national level, and the poverty rate of 15% also approximates the nation. The taxbase shows no concentration with the top 10 taxpayers accounting for a low 4.9% of assessed value. Population growth over the last decade averaged 1% per year.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Zillow.

Applicable Criteria
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314