FITCH AFFIRMS COLCHESTER, CONNECTICUT'S GOS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-24 September 2009: In the course of routine surveillance, Fitch Ratings affirms the 'AA-' rating on approximately $9.9 million of Colchester, Connecticut's outstanding general obligation (GO) bonds, consisting of the following issues:

--$4.7 million GO bonds, issue of 2001;
--$3.5 million GO bonds, issue of 2002 (Lot A);
--$1.4 million GO refunding bonds, issue of 2002 (Lot B);
--$290,000 GO refunding bonds, issue of 2002, series B.

The Rating Outlook is Stable.

The 'AA-' rating reflects Colchester's adequate reserve levels, strong economic indicators, and low debt burden. Despite expecting a third consecutive draw on reserves in fiscal 2009, the town's general fund balances should remain consistent with historical averages and within management's targeted range. Colchester has minimal bonding plans, which should keep debt ratios low. A key rating driver is the town's ability to regain structural balance, despite a challenging revenue-raising environment and increased education costs.

Colchester's proximity to Hartford, Groton, and Ledyard - three large employment centers that provide diverse employment opportunities - coupled with its affordable housing levels and good school system, has driven strong population and tax base growth this decade. The town's 2008 population registered at 15,578, a 7.1% increase over the 2000 Census figure. Tax base growth has averaged 10% annually over five years, including a revaluation year and 1.5% growth in fiscal 2010. The July 2009 unemployment rate of 7.1% was significantly below state and national averages, and median household income levels are high. The town's own economic base reflects a stable mix of healthcare and manufacturing employers.

Fiscal 2009 is anticipated to end with a $900,000 draw on reserves, two-thirds of which was planned; the unreserved general fund balance is projected to equal approximately 8% of spending. Management expects to meet its fund balance goal of an undesignated general fund balance equal to 7%-10% of spending. Real estate-related revenues underperformed the budget in fiscal 2009, adding budgetary stress that is typical of Connecticut municipalities. Fund balance draws in fiscal years 2007 and 2008 were reportedly intended to offset rising costs associated with population and student enrollment growth this decade. However, flattening enrollment over the next several years should provide Colchester with some budgetary relief. The fiscal 2010 budget grew by a manageable 1.1% over that of fiscal 2009. The budget includes two furlough days for board of education employees and prudently reduces estimates of economically-sensitive revenues.

Debt levels are a low $1,160 per capita, or 1% of taxable market value, and amortization is rapid at 78% within 10 years. Fitch expects debt ratios to remain low, as the town's capital needs are minimal and officials have no major bonding plans. The town maintains a very small defined benefit pension plan with a limited unfunded obligation, which adds to credit strengths. Most employees participate in a defined contribution plan, and teachers are part of the state system. An actuarial valuation of Colchester's other post-employment benefits is underway. The town expects a modest liability.

Fitch affirmed the rating on all of the town's outstanding GO bonds in previous rating action commentaries. However, Fitch rates only the bonds listed above.

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