MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS A1 RATING WITH A NEGATIVE OUTLOOK TO TOWN OF COLCHESTER'S (CT) $6.5 MILLION G.O.BONDS

Global Credit Research - 30 Apr 2010

A1 RATING AND NEGATIVE OUTLOOK AFFECT $25.2 MILLION OF LONG-TERM GENERAL OBLIGATION BONDS, INCLUDING CURRENT OFFERING

Municipality
CT

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds, Issue of 2010, Series A		A1
Sale Amount	$3,980,000	
Expected Sale Date	05/06/10	
Rating Description	General Obligation	
General Obligation Bonds, Issue of 2010, Series B		A1
Sale Amount	$2,540,000	
Expected Sale Date	05/06/10	
Rating Description	General Obligation	

Opinion

NEW YORK, Apr 30, 2010 -- Moody's Investors Service has assigned an A1 rating and negative outlook to the Town of Colchester's 's (CT) $6.5 million General Obligation Bonds, Issue 2010, Series A and B. Concurrently, Moody's has affirmed the A1 rating and assigned a negative outlook to the town's $25.2 million in parity debt. The current offering is secured by the town's general obligation, unlimited taxing authority. Series A will currently refund a portion of outstanding General Obligation Bonds, Series 2001 and Series B will fund a variety of capital projects. The A1 rating reflects the town's average-sized tax base with wealth levels that exceeds national averages management's development of financial policies with planned use of reserves. Assignment of the negative outlook reflects the city's diminished financial position as a result of the continued use of reserves for operating expenses, and Moody's belief that the town will be challenged to rebuild financial flexibility to satisfactory levels .

DIMINISHED FINANCIAL POSITION REFLECTS CONTINUED USE OF RESERVES

Moody's believes the town's financial position is likely to remain challenged due to continued expenditure pressures and resulting in weakened financial operations. Undesignated Fund balance declined to $3.5 million (7% of general fund revenues) in fiscal 2009 from its high of $4.3 million (9.5% of general fund revenues) in fiscal 2006, as a result of using reserves to supplement general fund revenues. In fiscal 2007, the town appropriated $1.4 million for increased school operational costs (5.4% over the previous year) related to a new school opening growth in debt service. Continued reserve appropriations for operations of $680,000 fiscal 2008 and $600,000 fiscal 2009, coupled with declining property tax revenue, building fees, and investment income, drove further fund balance declines. In fiscal 2008, General fund balance declined by $211,00 to $4.8 million (9.5% of General Fund revenues) and in fiscal 2009 fund balance declined by a more significant $913,000, to $3.9 million (7.9% of revenues). The town's current fund balance of 7.9% of General Fund revenues falls below the state median of 12.4%.

Fiscal 2010 (ending June 30) projections indicate an additional use of reserves, despite the town's reduced fund balance appropriation to balance the budget. Year-to-date revenues and expenditure performance suggest the town will utilize $154,000 of the $220,000 originally included in the budget. As a result, Undesignated General Fund balance is projected to decline to 6.5% of General Fund revenue. In Fiscal 2010, the town increased the property tax rate by 0.6 mills, the first such increase since 2006. The proposed 2011 budget ($46.2 million) includes a more significant property tax increase of 1.42 mills (adding $1.9 million to the levy), offsetting an overall expenditure increase of 3% over the previous year. The budget is also offset by a fund balance appropriation of $300,000 to operations. The town plans to utilize reserves again in 2012 to offset budgetary increases, allowing undesignated fund balance to decrease to a target floor of 5% of the budget. Although management has outlined a plan to augment reserves in subsequent years, Moody's believes the town will be challenged to do so, reflected in the negative outlook, given the town's history of limited tax increases and track record of aggressive revenue assumptions (particularly property taxes and investment income). Additionally, current plans rely heavily on tax base growth to drive revenue growth, although current and projected economic conditions suggest that growth will continue to stagnate in the medium-term, even in this relatively insulated region. Future rating action will depend heavily on the town's ability to regain structural balance while augmenting reserves in order to achieve a greater degree of financial flexibility.

STEADY TAXBASE EXPANSION EXPECTED TO CONTINUE AT MODEST RATE

Moody's believes that Colchester's average-sized tax base ($1.9 billion) will continue to grow at a moderate pace, as new home and commercial developments regain some momentum and redevelopment of the downtown area continues. Located along Route 2, 11, and 85, Colchester is 25 miles south of Hartford (G.O.rated A2/negative outlook) and 15 miles west of Norwich (G.O. rated A1/ no outlook), serving partly as a small retail center to neighboring rural and residential communities. Commercial and residential development has led to 9.8% average annual growth in the net taxable grand list over the last five years, inclusive of the most recent revaluation in fiscal 2008, which increased net taxable values by a substantial 42.3%. In the years following, growth trends slowed to 0.6% in 2011 from an annual growth rate of 2.1% in 2009, reflective of national market trends. Recent developments include a mix of office buildings, medical service buildings and the addition of various national retailers, supporting a primarily residential (78%) tax base composition with notable commercial presence (8%). Going forward, town officials will continue to focus economic development efforts on the downtown area as well as on multi-family housing units. The town's residential wealth profile approximates state averages and exceed national medians with PCI at 94% of the state and 125% of the US. Equalized value per capita is $118,878 (slightly below the state median of $149,318).

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's anticipates that the town's debt burden will remain favorable, given management's maintenance of a comprehensive capital improvement plan that includes considerable pay-as-you-go spending annually, rapid amortization of principal, and limited future debt issuance. The town's overall debt burden is an average 1.4%, and falls modestly to 1.3% when school construction grants are incorporated. Debt service represents an average 7.8% of operating expenses in fiscal 2009 and principal is amortized at an above-average rate (78% retired in 10 years). The town spends between $300,000 and $850,000 from local sources and between $200,000 and $1.2 million from the capital budget annually for capital purposes.

KEY STATISTICS

2000 Population (estimated): 15,578 (7.1% increase since 2000)

2009 Equalized valuation: $1.9 billion

Equalized value per capita: $118,878 (79.6% of state median)

Median Family Income: $72,346 (96% of the state, 134% of the nation)

Per Capita Income: $27,038 (94% of the state, 125.3% of the nation)

Payout of principal (10 years): 78%

FY2008 Undesignated General Fund balance: $3.9 million (8.1% of revenues)

FY 2009 Undesignated Fund balance: $3.5 million (7% of revenues)

Overall debt burden: 21.4%

Adjusted debt burden: 1.3%

Post-sale parity debt outstanding: $25.2 million

Outlook

The negative outlook reflects our belief that the town's financial position has weakened and that the town will be challenged to restore a healthy level of financial flexibility. The budgeted use of reserves in fiscal 2011 and 2012 underscores the continued difficulty in achieving the town's stated goal of restoring its undesignated General Fund balance to a sound level. Future rating action will depend on successful implementation a plan to restore fund balance.

WHAT COULD MOVE THE RATING DOWN:

*Inability to augment reserves to adequate levels

* The absence of a financial recovery plan that restores structural balance

* Significant increase in debt burden

WHAT COULD MOVE THE RATING UP (REMOVE NEGATIVE OUTLOOK)

*Restoration of available reserves to a level more in line with A1 medians

*Return to structural balance

*Increase in reserve levels

RECALIBRATION OF RATING TO THE GLOBAL RATING SCALE; PRINCIPAL METHODOLOGY

The rating assigned to the Town of Colchester, CT was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moodys.com/gsr.

The principal methodology used in rating the current issue was " General Obligation Bonds Issued by U.S. Local Governments ," published in October 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the Town of Colchester (CT) was on June 2, 2005 when the city's A1 long term rating was affirmed.

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