



**New Issue: MOODY'S ASSIGNS A1 RATING TO TOWN OF COLCHESTER, CT'S G.O. BONDS
SERIES OF 2002**

Global Credit Research - 17 Jul 2002

\$23.9 MILLION OF OUTSTANDING DEBT UPGRADED TO A1 FROM A2

Municipality
CT

Moody's Rating

ISSUE	RATING
General Obligation Bonds Series 2002	A1
Sale Amount	\$11,195,000
Expected Sale Date	07/18/02
Rating Description	General Obligation

Opinion

NEW YORK, Jul 17, 2002 -- Moody's Investors Service has assigned an A1 rating to the Town of Colchester, CT's \$11.2 million in General Obligation Bonds. The bonds, which are secured by an unlimited tax pledge, will refund Series 1993 bonds for a net present value savings of \$181,000 as well as finance various capital projects. Moody's also at this time upgrades the rating on the town's \$23.9 million in outstanding debt to A1 from A2. The rating and upgrade reflects management's assertive stance on expenditure controls and maintenance of financial flexibility as well as the town's sizable taxbase expansion and manageable debt levels.

STEADY TAXBASE EXPANSION EXPECTED TO CONTINUE

Moody's believes that the town will continue to grow at a rapid pace, given the substantial amount of undeveloped land and attractiveness of the location for development. Located along Route 2, Colchester is 25 miles south of Hartford (rated A1) and 15 miles west of Norwich (rated A1). Commercial and residential development has led to 4.6% average annual growth over the last five years, inclusive of the most recent revaluation. Recent developments include four office buildings, two medical service buildings and two shopping plazas. In FY 2003, construction is anticipated for an assisted living facility and additional retail projects. Town officials are focusing economic development efforts on the downtown area as well as several commercial and industrial sites. The town's residential wealth profile approximates state averages, and full value per capita is \$66,947.

SATISFACTORY GENERAL FUND RESERVES

Moody's expects that management's assertive stance regarding cost efficiencies, use of alternate funding methods for capital projects as well as conservative budgeting practices will result in continued increases in financial flexibility. Due partially to a \$600,000 state reimbursement, FY01 posted an operating surplus of \$1.1 million, thereby increasing General Fund reserves to 8.6% of General Fund revenues, or \$2.9 million, providing management with adequate budgetary flexibility. Town officials indicate that FY 2002 estimates indicate an operating surplus of \$250,000. While the town has appropriated \$200,000 from the General Fund balance for capital projects in FY 2003, it is anticipated that due to conservative budgeting practices, reserves will be replenished within the same year. The Town is also very aggressive in acquiring grants to fund various municipal projects. Local property taxes are 55.0% of the operating revenues and tax collections in 2001 were at 97.4%. In an effort to achieve cost synergies, the finance department of the Board of Education and the Town have been combined and there is currently discussion of combining the Board of Education's and Parks and Recreation's ground and maintenance departments. The district has historically maintained a sound liquidity position, holding most of the General Fund reserves in cash and liquid investments. The Town has indicated that it only appropriates reserves for capital projects and not for operations. The Town has successfully implemented sizeable annual levy increases in support of growing expenditure demands. Given the history of sound financial operations and strong fiscal control, Moody's believes the town's financial position will remain favorable going forward.

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's anticipates that the town's debt burden will remain manageable given significant state building aid and a rapid amortization schedule. Net of state school construction aid and, the town's debt burden falls to a moderate 2.5% of full valuation. Principal amortization is well above average with 82.2% retired in 10 years and the debt service portion of expenditures is high, at 13.3% in fiscal 2000. The town expects future borrowing of \$10 million for a new school in the district; however, this project is not authorized at this time. The town will finance streetscape projects with grant funding, as it has in the past and indicates that water and sewer projects will be financed through the enterprise funds.

KEY STATISTICS

2000 population: 14,551

2001 full valuation: \$974 million

2001 full value per capita: \$66,947

Debt burden: 3.5%

Adjusted debt burden: 2.5%

Payout of principal (10 years): 82.2%

FY01 General Fund balance: \$2.9 million (8.6% of General Fund revenues)

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