

ISSUER COMMENT

16 May 2016

RATING

General Obligation (or GO Related)¹

Aa3 No Outlook

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Town of Colchester, CT

Annual Comment on Colchester

Issuer Profile

The Town of Colchester is located in New London County in southeastern Connecticut, approximately 20 miles southeast of Hartford. New London County has a population of 273,676 and a population density of 412 people per square mile. The county's per capita personal income is \$50,271 (1st quartile) and the November 2015 unemployment rate was 5.0% (3rd quartile).² Hospitality services, health services, and retail are key drivers of the local economy. Foxwoods Resort Casino and Mohegan Sun are the principal employers in the county.

Credit Overview

Colchester has a high quality credit position, and its Aa3 rating is equivalent to the median rating of Aa3 for US cities. Key credit factors include an affordable debt burden with an extremely small pension liability. It also incorporates an affluent socioeconomic profile with a solid tax base, and a sound financial position.

Debt and Pensions: The debt and pension burdens of the town are exceptionally low and are quite favorable when compared to the assigned rating of Aa3. The Moody's-adjusted net pension liability to operating revenues (0.01x) is favorably well below the US median. Colchester's net direct debt to full value (0.9%) is also under the US median.

Economy and Tax Base: The town has an exceptionally healthy economy and tax base, which are strengths when compared with its Aa3 rating position. The full value per capita (\$352,113) is materially above other Moody's-rated cities nationwide. Furthermore, the median family income equates to a robust 159.6% of the US level. Lastly, the total full value (\$1.7 billion) is consistent with the US median and decreased modestly from 2012 to 2015.

Finances: The financial position of the town is sufficient but it is slightly weak when compared with its Aa3 rating. Colchester's cash balance as a percent of revenues (11.0%) increased modestly between 2012 and 2015 but is much lower than the US median. The fund balance as a percent of operating revenues (10.0%) also falls far short of other Moody's-rated cities nationwide. Connecticut financial ratio medians tend to be lower than US medians. Though larger fund balances provide more flexibility, it is slightly less critical in Connecticut as city revenues and expenditures tend to be highly predictable.

Management and Governance: Balanced financial operations are a component of good financial management. Over the past few years, Colchester's operations were approximately break-even whereas the tax base decreased modestly.

Connecticut cities have an institutional framework score ³ of "Aa," or strong. Revenues are highly predictable and stable, due to a large reliance on property taxes. Cities additionally benefit from high revenue-raising ability due to the absence of a state-wide property tax cap. Expenditures primarily consist of personnel costs as well as education costs for those cities that manage school operations, and are highly predictable due to state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate as it is somewhat constrained by union presence.

Sector Trends - Connecticut Cities

Connecticut cities will generally benefit from an improving state economy that is experiencing a continued, albeit lagging, recovery from the recession. Cities will also continue to benefit from high resident wealth levels and generally strong housing values. Property tax revenues will continue to rise due to stabilizing residential and commercial real estate markets. However, Connecticut cities will remain somewhat challenged by a high cost of living and doing business, which encourages out-migration and could curb new housing demand.

Exhibit 1

Key Indicators^{4 5}

Colchester, CT

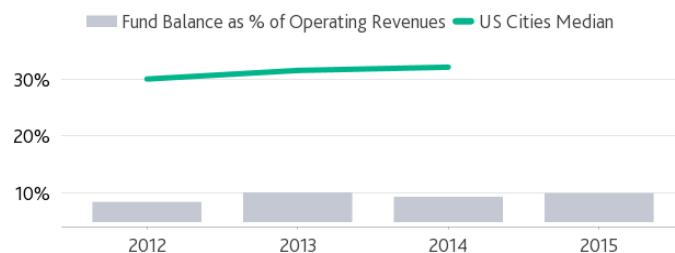
	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$1,769M	\$1,681M	\$1,713M	\$1,683M	\$1,722M	Stable
Full Value Per Capita	\$369,991	\$351,642	\$358,332	\$352,113	\$85,195	Stable
Median Family Income (% of US Median)	159.6%	159.6%	159.6%	159.6%	115.2%	Stable
Finances						
Fund Balance as % of Operating Revenues	8.4%	10.1%	9.3%	10.0%	32.1%	Stable
Cash Balance as % of Operating Revenues	8.7%	11.0%	9.8%	11.0%	34.4%	Stable
Debt / Pensions						
Net Direct Debt / Full Value	0.90%	1.0%	0.95%	0.86%	1.2%	Stable
Net Direct Debt / Operating Revenues	0.29x	0.32x	0.28x	0.25x	0.94x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.02%	0.03%	0.04%	N / A	1.7%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.01x	0.01x	0.01x	N / A	1.35x	Stable

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues grew slightly from 2012 to 2015

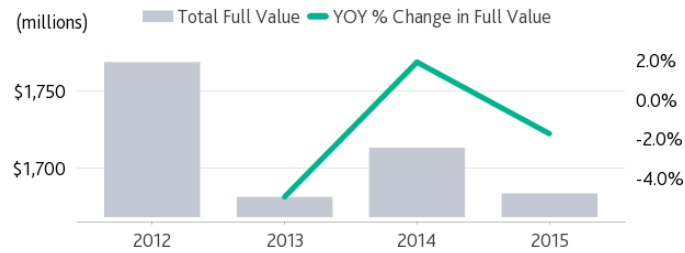
Fund Balance as a Percent of Operating Revenues



Source: Issuer financial statements; Moody's

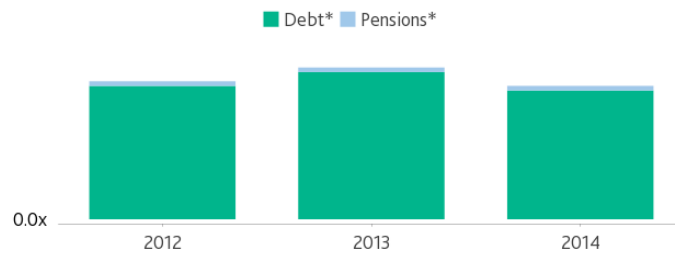
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 3

Total full value decreased slightly between 2012 and 2015**Total Full Value**

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2014**Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues**

*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 4.8 % for November 2015.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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