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

Fitch Ratings-New York-16 August 2011: In the course of routine surveillance, Fitch Ratings has affirmed the 'AA' rating for the following Colchester, Connecticut bonds:

--$2.97 million general obligation (GO) bonds series 2002 (lot A);
--$465,000 general obligation refunding bonds series 2002 (lot B);
--$75,000 general obligation refunding bonds series 2002B.

The Rating Outlook is Stable.

SECURITY
The bonds are secured by the town's general obligation, unlimited tax pledge.

KEY RATING DRIVERS
Maturing Suburban Tax Base: The town benefits from its proximity to New London and Groton. Once-rapid population growth has moderated, easing capital pressures.

Finances Stabilizing After Draws: The town has completed a four-year series of planned draws on general fund balance. Officials expect to maintain reserves in the 7 - 10% range going forward.

Positive Debt Profile: Debt burden is below average at 1.1% and payout is rapid. Significant future borrowing is possible in the medium term, which could materially impact debt position.

WHAT COULD TRIGGER A RATING ACTION

Inability to Achieve Budgetary Balance: Maintenance of the rating is dependent upon the town's successful return to budgetary balance, as planned, and the retention of adequate reserve levels.

CREDIT PROFILE
Maturing Suburban Tax Base

Colchester's advantageous location, within commuting distance of New London and Groton, contributed to rapid growth and development in the past two decades. The rate of population growth has tapered off in recent years, leading to more manageable growth and easing pressure on enrollment. Taxable value has shown a compound annual growth rate of 11% since FY06, allowing millage declines, despite increases in the levy. Tax collections are strong at 98.3%, and no significant appeals are noted. Growth in the residential sector has outpaced commercial/industrial development, and the town has retained its semi-rural character, with a significant agricultural component.

Per capita income levels are average for Connecticut, at 96% of the state, but above average when compared to the nation, at 130% of the U.S. Poverty levels are notably below average, at 2.9%, versus 8.7% for the state and 13.5% for the U.S. Market value per capita is strong at $118,000. Unemployment remains elevated, relative to the historical experience, but compares favorably to the region. May 2011 unemployment of 8.3% is lower than the state's rate of 9.1% but is higher than the May 2010 rate of 7.5%. The labor force has remained relatively stable over the past year.

Finances Stabilizing After Draws

The town recorded four consecutive, planned operating deficits, taking the unreserved general fund balance from 12.8% in FY06 to 6.8% in FY10. The town anticipates a return to budgetary balance for FY11. Conservative revenue forecasting and aggressive cost controls, including furlough days and personnel reductions, are projected to result in a $300,000 operating surplus for the year, despite the budgeted use of $300,000 of general fund balance. The FY12 budget does not include any appropriated fund balance, and officials expect even operations for the year. A recently approved fund balance policy calls for maintenance of unreserved general fund balance in the 7% to 10% range.

Positive Debt Profile

Overall debt levels are below average, at $1,246 per capita and 1.1% of market value. Debt service claims a moderate 8% of operating expenses. Debt is amortized rapidly, with 87% scheduled for retirement within 10 years. Most pressing capital needs have been addressed; however, the town is considering construction of a mixed-use building to serve as both a middle school and a senior/community center. If approved, officials expect a significant portion of the $50 million project would be funded from grants. The amount of borrowing that would be required is currently unknown, but could significantly increase debt levels. Fitch expects the potential borrowing would be manageable, given the flexibility afforded by the currently modest debt levels and rapid amortization rate.

The town's post-employment liabilities are limited to a small police pension fund and a modest OPEB liability. The police pension fund is 43% funded, or 40% when adjusted by Fitch to reflect a 7% discount rate. The fund is six years into a twenty year closed amortization period, and contributions above the annually required contribution (ARC) have resulted in a modest net pension asset. Pension ARC payments represent less than 0.2% of spending. The town funds its other post-employment benefits (OPEB) obligation on a pay-go basis, with the FY10 contribution representing 40% of the ARC and 0.3% of spending. The town is considering the establishment of an OPEB funding trust, which would be funded from the operating budget.

Contact:

Primary Analyst
Arlene Bohner
Director
+1-212-908-0554
One State Street Plaza
New York, NY 10004

Secondary Analyst
Karen Wagner
Director
+1-212-908-0230

Committee Chairperson
Steve Murray
Senior Director
+1-512-215-3729

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in the 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, Zillow.com, National Association of Realtors, Underwriter, US Federal Government.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria'(Aug. 15, 2011);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842