

## ISSUER COMMENT

2 August 2021

### RATING

#### General Obligation (or GO Related) <sup>1</sup>

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. The county has a population of 267,390 and a moderate population density of 402 people per square mile. The county's median family income is \$91,499 (1st quartile) and the June 2021 unemployment rate was 7.5% (4th quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are local government, health services, and retail trade.

#### Credit Overview

Colchester's credit position is healthy. Its Aa3 rating is equivalent to the median rating of Aa3 for US cities. The notable credit factors include an exceptionally low pension liability, a mid-range debt burden and a very strong wealth and income profile. It also reflects a moderately-sized tax base and a satisfactory financial position.

**Debt and Pensions:** Overall, the debt and pension liabilities of the town are negligible and are favorable when compared to the assigned rating of Aa3. The Moody's-adjusted net pension liability to operating revenues (0.06x) is favorably well below the US median, and remained the same between 2016 and 2020. Furthermore, the net direct debt to full value (1.5%) is slightly above the US median.

**Economy and Tax Base:** Colchester has a very healthy economy and tax base, which are a modest credit strength in comparison to town's Aa3 rating. The median family income equates to a robust 151.8% of the US level. In addition, the full value per capita (\$114,213) is slightly higher than other Moody's-rated cities nationwide, and increased between 2016 and 2020. Lastly, the total full value (\$1.8 billion) is consistent with the US median.

**Finances:** The town's financial position is satisfactory. Colchester's cash balance as a percent of operating revenues (16.3%) is below the US median but it remained the same from 2016 to 2020. Also, the fund balance as a percent of operating revenues (16.7%) is lower than other Moody's-rated cities nationwide. Connecticut local governments tend to have financial ratios lower than US medians because they generally derive a majority of revenues from stable property taxes and their financials typically incorporate school operations which are predictable.

**Management and Governance:** Connecticut cities have an institutional framework score <sup>3</sup> 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.

## EXHIBIT 1

## Key Indicators 4.5 Colchester

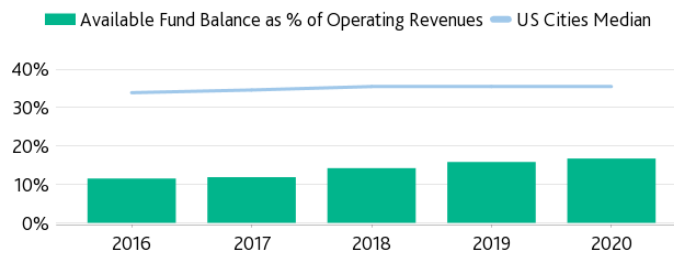
|   | 2016      | 2017      | 2018      | 2019      | 2020      | US Median | Credit Trend |
|---|-----------|-----------|-----------|-----------|-----------|-----------|--------------|
| <b>Economy / Tax Base</b>   |           |           |           |           |           |           |              |
| Total Full Value  | \$1,686M  | \$1,697M  | \$1,718M  | \$1,818M  | \$1,829M  | \$2,024M  | Improved     |
| Full Value Per Capita   | \$104,648 | \$106,013 | \$107,889 | \$113,564 | \$114,213 | \$97,657  | Improved     |
| Median Family Income (% of US Median)                                       | 159%      | 155%      | 152%      | 152%      | 152%      | 114%      | Weakened     |
| <b>Finances</b>   |           |           |           |           |           |           |              |
| Available Fund Balance as % of Operating Revenues                           | 11.5%     | 11.9%     | 14.2%     | 15.8%     | 16.7%     | 35.5%     | Improved     |
| Net Cash Balance as % of Operating Revenues                                 | 14.6%     | 14.4%     | 15.8%     | 17.3%     | 16.3%     | 40.0%     | Stable       |
| <b>Debt / Pensions</b>  |           |           |           |           |           |           |              |
| Net Direct Debt / Full Value  | 0.7%      | 1.2%      | 1.7%      | 1.5%      | 1.5%      | 1.1%      | Weakened     |
| Net Direct Debt / Operating Revenues  | 0.21x     | 0.33x     | 0.48x     | 0.47x     | 0.43x     | 0.82x     | Stable       |
| Moody's-adjusted Net Pension Liability (3-yr average) to Full Value         | 0.1%      | 0.1%      | 0.2%      | 0.1%      | 0.2%      | 1.9%      | Stable       |
| Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues | 0.03x     | 0.04x     | 0.04x     | 0.05x     | 0.05x     | 1.57x     | Stable       |
|   | 2016      | 2017      | 2018      | 2019      | 2020      | US Median |              |
| <b>Debt and Financial Data</b>  |           |           |           |           |           |           |              |
| Population  | 16,112    | 16,015    | 15,927    | 16,015    | 16,015    | N/A       |              |
| Available Fund Balance (\$000s)   | \$6,796   | \$7,388   | \$8,922   | \$9,341   | \$10,467  | \$8,489   |              |
| Net Cash Balance (\$000s)   | \$8,618   | \$8,929   | \$9,899   | \$10,224  | \$10,203  | \$9,759   |              |
| Operating Revenues (\$000s)   | \$58,880  | \$62,117  | \$62,637  | \$58,959  | \$62,500  | \$36,135  |              |
| Net Direct Debt (\$000s)  | \$12,628  | \$20,315  | \$29,777  | \$27,964  | \$27,184  | \$19,137  |              |
| Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)              | \$1,841   | \$2,388   | \$2,613   | \$2,725   | \$3,412   | \$38,399  |              |

Source: Moody's Investors Service

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 2

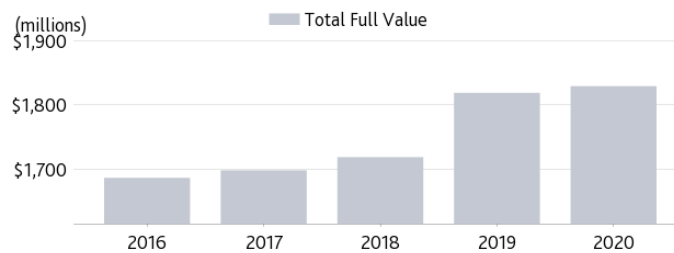
## Available fund balance as a percent of operating revenues increased from 2016 to 2020



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

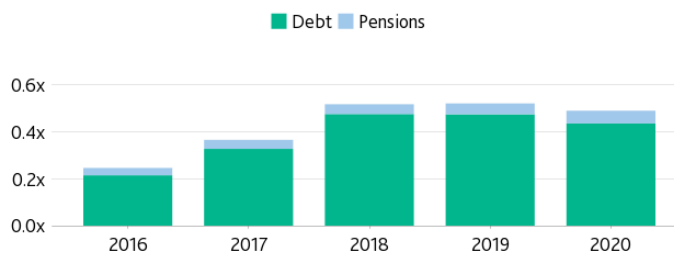
## Full value of the property tax base increased from 2016 to 2020



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

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues increased from 2016 to 2020



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

## Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, 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 guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into 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.

- 3 The institutional framework score assesses 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 \(July 2020\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). 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 - Tax base and revenue increases outpace growth of long-term liabilities \(May 2021\)](#), which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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