



New Issue: MOODY'S ASSIGNS A1 RATING TO TOWN OF COLCHESTER'S (CT) \$10.8 MILLION GENERAL OBLIGATION BONDS, ISSUE OF 2005

Global Credit Research - 03 Jun 2005

A1 RATING AFFIRMED, AFFECTING \$35.6 MILLION IN PARITY DEBT, INCLUDING CURRENT ISSUE

Municipality
CT

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Issue of 2005	A1
Sale Amount	\$10,800,000
Expected Sale Date	06/07/05
Rating Description	General Obligation Bonds

Opinion

NEW YORK, Jun 3, 2005 -- Moody's Investors Service has assigned an A1 rating to the Town of Colchester's \$10.8 million General Obligation Bonds, Issue of 2005. Concurrently, Moody's has affirmed the A1 rating on the town's \$35.6 million in parity debt, including the current issue. The bonds, which are secured by an unlimited tax pledge, will retire \$4 million in bond anticipation notes and provide new financing for school renovations and various capital improvements. Affirmation of the A1 rating reflects a strong management team's development and adherence to financial and debt policies, enabling the town to maintain satisfactory reserve levels and a favorable debt position. The rating also reflects our expectation that the tax base will continue to grow moderately, given redevelopment efforts.

STRONG FINANCIAL PERFORMANCE WITH SATISFACTORY RESERVE LEVELS

Moody's expects that Colchester's financial position will remain stable, given management's strong control of financial operations that has led to four consecutive years of operating surpluses through cost efficiencies, successful applications for grants to fund capital projects as well as conservative budgeting practices. In fiscal 2004, the General Fund balance increased by \$421,000 to reach a satisfactory \$4.26 million (10.3% of revenues), of which \$3.5 million (8.5% of revenues) was undesignated. The increase reflects management's ability to control costs as well as budget revenues conservatively. In fiscal 2005, management preliminarily anticipates a modest \$150,000 draw on reserves, given unanticipated expenditures related to snow and ice for which the town expects to receive FEMA funding. The adopted fiscal 2006 budget includes an additional \$2.2 million in expenses related to contractual salary increases and pension costs, which will be met through a modest property tax increase, and the appropriation of \$420,000 of the General Fund balance to fund capital items. Going forward, management's goal is to maintain the undesignated General Fund balance at between 7 and 8% of the operating budget-a level that's been maintained over the past four years. Local property taxes are 59% of the operating revenues and tax collections have averaged an acceptable 97.5% (97.9% in 2004) over the past four years. Favorably, the town's pension plan is fully funded.

STEADY TAXBASE EXPANSION EXPECTED TO CONTINUE

Moody's believes that Colchester will continue to grow at a moderate pace, as new home building subsidies and redevelopment of the downtown area continues. Located along Route 2, Colchester is 25 miles south of Hartford (rated A2/stable outlook) 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 a mix of office buildings, medical service buildings and the addition of various national retailers. Going forward, town officials will continue to focus economic development efforts on the downtown area as well as on several commercial and industrial sites. The town's residential wealth profile approximates state averages, and equalized value per capita is \$90,127 (slightly below the state median of \$116,217).

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 well-planned future debt issuance. The town's overall debt burden is an average 2.6%, and falls to a more moderate 2.1% when school construction grants are incorporated. Debt service represents an above average 11.8% of operating expenses in fiscal 2004, reflecting the above average amortization of principal (73% retired in 10 years). Anticipated future borrowing includes approximately \$8 million in 2008 for a community services building. Additionally, the town spends between \$1 million and \$2 million from local sources annually for capital purposes.

KEY STATISTICS

2000 Population: 14,551

2004 Equalized valuation: \$1.35 billion

Equalized value per capita: \$90,127

Per capita income as % of CT: 94.0%

Median family income as % of CT: 110.4%

Payout of principal (10 years): 72.6%

Fiscal 2004 General Fund balance: \$4.26 million (10.3% of revenues)

Fiscal 2004 undesignated General Fund balance: \$3.5 million (8.5% of revenues)

Post-sale parity debt: \$35.6 million

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