

ISSUER COMMENT

21 June 2019

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. The county has a population of 270,772 and a moderate population density of 407 people per square mile. The county's median family income is \$85,198 (1st quartile) and the April 2019 unemployment rate was 3.1% (3rd quartile) ². The largest industry sectors that drive the local economy are local government, health services, and retail trade.

Credit Overview

The credit position for Colchester is very healthy. Its Aa3 rating is level with the median rating of Aa3 for US cities. The notable credit factors include an exceptionally low pension liability, an elevated debt burden and a very strong wealth and income profile. Additional factors include a solid tax base and a favorable financial position.

Debt and Pensions: The town has an extremely small pension liability, which is a credit strength in relation to the assigned rating of Aa3. The Moody's-adjusted net pension liability to operating revenues (0.04x) is favorably well below the US median, and remained stable between 2014 and 2018. On the other hand, the town has an elevated debt burden. Colchester's net direct debt to full value (1.7%) is above the US median.

Economy and Tax Base: The economy and tax base of the town are very strong and are slightly favorable in comparison to its Aa3 rating position. The median family income is a robust 155.4% of the US level. In addition, the full value per capita (\$106,650) is stronger than other Moody's-rated cities nationwide, and remained flat from 2014 to 2018. Lastly, the total full value (\$1.7 billion) is consistent with the US median.

Finances: The financial position of the town is favorable overall and is in line with the assigned rating of Aa3. 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. As such, Colchester's cash balance as a percent of operating revenues (15.8%) is materially lower than the US median. That said, this metric grew between 2014 and 2018. Similarly, the fund balance as a percent of operating revenues (14.2%) is materially below other Moody's-rated cities nationwide.

Management and Governance: Connecticut cities have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue

fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Connecticut Cities

While Connecticut cities have generally benefited from stable tax bases, populations are aging and new development is challenged by the high cost of living and doing business. Positively, resident wealth and income levels are high. Median financial reserves are smaller than the national median, which represents a pressure for cities in light of state funding uncertainty. Due to the state's biennium budget process, cities are able to plan for cuts in fiscal 2019, although additional cuts could be implemented at any time. Property tax revenues, the primary revenue source, will continue to rise slowly due to stabilizing real estate markets and absence of a cap on local government levies.

EXHIBIT 1

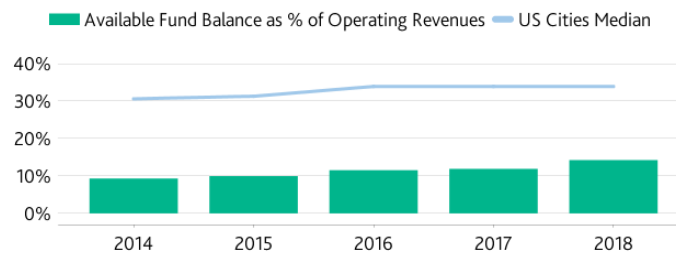
Key Indicators ^{4 5} Colchester

	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$1,713M	\$1,683M	\$1,686M	\$1,697M	\$1,718M	\$1,867M	Stable
Full Value Per Capita	\$106,126	\$104,368	\$104,981	\$106,013	\$106,650	\$89,200	Stable
Median Family Income (% of US Median)	165%	165%	165%	155%	155%	113%	Weakened
Finances							
Available Fund Balance as % of Operating Revenues	9.3%	10.0%	11.5%	11.9%	14.2%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	9.8%	11.0%	14.6%	14.4%	15.8%	36.9%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.0%	0.9%	0.7%	1.2%	1.7%	1.1%	Weakened
Net Direct Debt / Operating Revenues	0.28x	0.25x	0.21x	0.33x	0.48x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.0%	0.1%	0.1%	0.1%	0.2%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.01x	0.02x	0.03x	0.04x	0.04x	1.51x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	16,143	16,130	16,061	16,015	16,112	N/A	
Available Fund Balance (\$000s)	\$5,351	\$5,785	\$6,796	\$7,388	\$8,922	\$7,419	
Net Cash Balance (\$000s)	\$5,640	\$6,386	\$8,618	\$8,929	\$9,899	\$8,404	
Operating Revenues (\$000s)	\$57,443	\$58,053	\$58,880	\$62,117	\$62,637	\$21,930	
Net Direct Debt (\$000s)	\$16,279	\$14,448	\$12,628	\$20,315	\$29,777	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$677	\$1,181	\$1,841	\$2,388	\$2,613	\$32,507	

Source: Moody's Investors Service

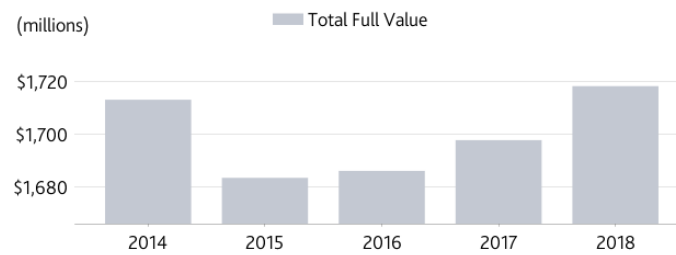
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EXHIBIT 2

Available fund balance as a percent of operating revenues increased from 2014 to 2018

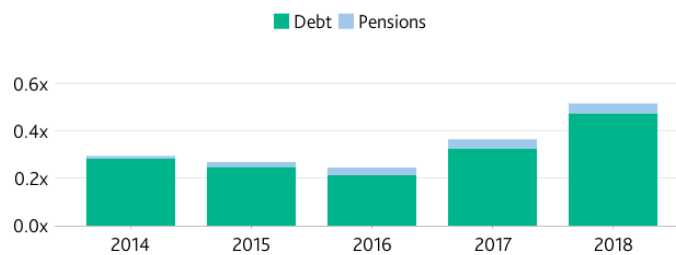
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2014 to 2018

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 2014 to 2018

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 \(December 2016\)](#) 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 - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) 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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