FitchRatings

Public Finance
Tax-Supported
U.S.A.

New London, Connecticut

New Issue Summary

Sale Date: The bonds and notes are scheduled for competitive sale on March 3.

Series: GO Bonds, Series 2022; GO Bond Anticipation Notes (BANs), Issue of 2022

Purpose: Proceeds from the bonds and the notes will be used to finance various city- and school-related projects.

Security: The bonds and notes are a full faith and credit obligation of the city, backed by its unlimited taxing power.

The 'AA-' Issuer Default Rating (IDR) and GO bond rating are based on the city's moderate, but growing, long-term liability burden, solid expenditure flexibility, and unlimited legal ability to raise property taxes. In addition, the ratings reflect the city's improved budget management practices leading to improved liquidity levels along with a notable growth in the city's tax base in recent years. Fitch Ratings believes these factors have positioned the city to manage through future economic downturns while maintaining a high level of fundamental financial flexibility.

The 'F1+' short-term rating on the BANs corresponds to the city's 'AA-' IDR and reflects the unlimited tax pledge for note repayment.

Economic Resource Base: The city of New London is located on Long Island Sound at the mouth of the Thames River, approximately 40 miles east of New Haven and 100 miles southwest of Boston. The city's 2020 population of nearly 27,400 was down about 1% since 2010. New London's employment base is driven by Electric Boat Corporation (a division of General Dynamics, a major U.S. Department of Defense contractor), healthcare and higher education. The city has proven vulnerable to economic weakness, highlighted by unemployment and poverty levels that remain well above state and national levels, and income metrics that lie considerably below.

Key Rating Drivers

Revenue Framework: 'aa': Fitch expects future revenue growth to approximate long-term U.S. inflation, supported by modest property appreciation and new construction that should add to the local tax base. Property taxes and state aid comprise the majority of the city's revenues. There is no legal limit to the property tax rate or levy.

Expenditure Framework: 'aa': Fitch expects the natural pace of spending growth to remain in line with to marginally above that of revenue. Fixed costs related to debt service, pension and other-post employment benefits (OPEB) are expected to climb but remain moderate over the next few years as pension costs increase and the city continues to issue additional debt to support school construction projects. Control over headcount, wages, benefits and work rules is somewhat limited by staffing and labor contract requirements.

Long-Term Liability Burden: 'aa': New London's debt and Fitch-adjusted net pension liabilities (NPL) represent a moderate share of personal income. Fitch expects that the city's liability burden will increase though remain consistent with the 'aa' assessment given future debt plans associated with city and school construction projects and pension liability trends.

Operating Performance: 'aa': Fitch believes the city's substantial, inherent budgetary flexibility and improved reserve levels support management's ability to maintain the highest gap-closing capacity through future downturns. Budgetary controls and policies have supported sound operating results the past nine fiscal years, they have restored reserves to solid levels, and the city has begun to contribute at or above actuarial funding requirements for its pension plans.

FACT Tools

Ratings

Long-Term Issuer Default Rating	AA–

New Issues

$13,800,000 General Obligation Bonds, Series 2022	AA–
$35,830,000 General Obligation Bond Anticipation Notes, Issue of 2022	F1+

Outstanding Debt

General Obligation Bonds	AA–
General Obligation Bond Anticipation Notes	F1+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates New London, CT's $14MM GO Bonds 'AA-' and $36MM GO BANs 'F1+'; Outlook Stable (February 2022)

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Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An acceleration of New London's economic base, generating sustained growth prospects for revenues at a rate above U.S. inflation.
- Continuation of recent improvements in budget management, including fully meeting actuarially determined pension contribution requirements.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A sustained decline in unrestricted general fund balance to notably lower levels that leads to lower financial flexibility.
- Failure of the pipeline of future developments to deliver employment growth, increasing property values and tax base expansion, resulting in revenue growth that trends below U.S. inflation.
- A sustained increase in the city's long-term liability burden above 20% of personal income.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	2/25/22
AA-	Upgraded	Stable	11/01/19
A+	Affirmed	Positive	3/04/19
A+	Downgraded	Stable	11/08/13
AA-	Downgraded	Negative	3/21/12
AA	Revised	Stable	4/30/10
AA-	Assigned	Stable	1/31/03

Current Developments

The city ended fiscal 2021 with a slight general fund net operating surplus of about $426,000 and unrestricted reserves of $15.6 million (15.6% of spending). Revenue collections were under budget by about 1%, primarily due to the city only receiving a $126,500 payment in lieu of taxes (PILOT) from the state of Connecticut, instead of a budgeted $750,000.

The PILOT budgeted was pursuant to a new agreement put in place for the redevelopment of the state pier within the city, and was not fully realized due to project delays. However, expenditures savings primarily associated with vacant positions exceeded revenue underperformance, supporting positive operating results. Due to continued progress on the project, the city anticipates that it will receive the full PILOT amount during fiscal 2022.

Notably, the city also met its goal of funding 100% of its total actuarially required pension contributions during the fiscal year, following a period of contributions below actuarially determined levels. The city now plans to fund additional contributions toward its OPEB trust. If sustained, these improved funding practices should help to limit growth in the city's liabilities and to reduce budgetary pressures related to the city's fixed costs.

The fiscal 2022 adopted general fund budget totaled about $95.6 million, up about 2% from the prior year's budget. Year-to-date results have been positive, with the city receiving about $2.6 million in additional PILOT funds above budgeted levels. The city also reports expenditures have been below budget by about $1.3 million.

New London has been allocated about $26.2 million in American Rescue Plan Act (ARPA) funding, and the schools are entitled to an additional $16.6 million also made available through ARPA. The city expects to primarily utilize the funding to address economic impacts from the coronavirus pandemic and to provide support to disproportionally impacted communities within the city. Fitch expects that federal aid funding will be managed in a way that reduces the risk of structural imbalance once ARPA funding expires. Results contrary to this expectation would diminish the city's recently improved financial resilience.

Credit Profile

The city's economy continues to rely on government and defense-related employment but has diversified somewhat over the past two decades with expansion in the service-related sectors. The presence of healthcare and higher education institutions lends some additional stability to the economy. Major employers include Electric Boat Corporation, Lawrence & Memorial Hospital, Connecticut College and the U.S. Coast Guard Academy. The city's location on local waterways additionally serves as an important economic driver due to the presence of two major piers.

Electric Boat Corporation, which has its research, engineering and development facility in the city and its main shipyard across the river in Groton, is the city's largest taxpayer and employer. Electric Boat's New London-based development facility in the city hosts approximately 3,500 employees. As of 2021, the company had been awarded nearly $40 billion in contracts to design and construct the next generation of U.S. Navy nuclear submarines. Actual construction of the submarines will take place at Electric Boat facilities in Groton, CT and Newport News, VA.

City management has credited the associated influx of employees at Electric Boat for driving the demand for several new and renovated residential apartment complexes in the city and potential new job growth. Additionally, state-supported investment and construction is underway at the state pier located in the city, which positions the city to be the assembly and staging area for the fabrication of components for proposed offshore wind projects in the northeast.

Revenue Framework

Property taxes represented approximately 61% of budgeted fiscal 2022 general fund revenues. State aid is the city's other primary revenue source, making up about 33% of budgeted revenues.

Fitch expects the city's natural revenue growth to be generally in line with Fitch's long-term inflation expectation, absent policy action. This assumption reflects a combination of modest property appreciation and new development.

The city's most recent tax base revaluation, performed in October 2018 and effective for fiscal 2020, resulted in an approximate 9% increase in taxable values. The next revaluation will occur in October 2023. The city's grand list is revalued every five years with interim changes for property improvements, new additions and tax appeals (but not for property sales). New London's five-year tax base growth through fiscal 2022 has averaged about 3% annually; however, the city's tax base values are still below levels from a decade prior.

The city maintains an unlimited legal taxing authority over residential and commercial property.

Expenditure Framework

The city's general fund expenditures are primarily driven by educational costs, which represented over half of fiscal 2022 budgeted spending. Public safety represents the city's second-largest expenditure item.

Fitch expects the natural pace of spending growth to match or marginally exceed revenue growth based on moderate, future increases in salary costs, and future increases in debt service and pension contributions.

Fixed carrying costs for debt service, OPEB and required pension contributions represented a low 8% of total fiscal 2021 governmental fund spending. The largest component of carrying costs is debt service, and Fitch expects overall carrying costs to increase to a more moderate level given management's future debt plans and increasing pension costs.

Fitch views the city's expenditure flexibility as solid despite being somewhat limited by staffing and labor contract requirements. Management has the ability to reduce staff at any time, if necessary, with the exception of firefighters who are subject to minimum required staffing requirements. Union contracts are subject to arbitration. A decision may be rejected by a two-thirds vote by the city's legislative body, but a new arbitration panel would then be appointed by the state. Subsequent decisions are binding but are required to take into consideration the financial capability of the employer.

Long-Term Liability Burden

New London's long-term liability burden associated with overall net debt and Fitch-adjusted NPLs is moderate at 18% of residents' estimated personal income (including this issuance). This is up from a few years ago due to the new borrowings. Direct debt comprises about 68% of the long-term liability burden. Considering the pace of principal amortization and potential for growth in the resource base, the liability metric is expected to remain below 20% of personal income, the top of the metric range for the current assessment. Liability level growth beyond this expectation could result in a downward change in the city's long-term liability burden assessment.

New London administers two single-employer pension plans (contributory and non-contributory), which cover the majority of its employees, aside from certified teachers and certain public safety and public works employees. The city had historically funded less than the actuarially required amount for its contributory plan, resulting in a growing NPL. However, the city recently began making the full, required contribution and expects to continue this practice. The non-contributory plan has long been closed to new employees and has traditionally been funded on a pay-as-you-go basis and has a modest NPL. Public safety and public works employees participate in the Connecticut Municipal Employee's Retirement System, a cost-sharing, multiple-employer plan.

The city's total Fitch-adjusted NPL for all plans totaled roughly $62 million (roughly 6% of personal income), with an assets-to-liabilities ratio of 66% when the liabilities are adjusted to reflect Fitch's standard 6% discount rate assumption. Certified teachers participate in the State of Connecticut Teachers' Retirement Fund, for which the state is liable.

The city had a net unfunded OPEB liability of approximately $26 million as of June 30, 2021, representing roughly 2% of personal income.

Operating Performance

Fitch believes the city's improved budget management practices and increased reserve levels have improved its ability to withstand economic downturns. The city faced significant financial pressures during the Great Recession and experienced large general fund deficits, which significantly reduced its reserve levels and financial flexibility. In subsequent years, management has stabilized the city's financial performance through a combination of spending cuts and tax rate increases, and has since built reserves to above pre-recession levels.

The city's administration has demonstrated a commitment to improving financial flexibility and maintaining sound budgetary management. The city restored reserve levels through more-conservative budget assumptions and implemented a new minimum reserve policy to increase fund balance by 1% annually until the unrestricted fund balance reaches a minimum requirement of 16.67% of budgeted expenditures. The city's recent improvements in fully actuarially funding its pension liabilities, coupled with ongoing prudent revenue forecasting, should help to further strengthen the city's overall budget management, if maintained.

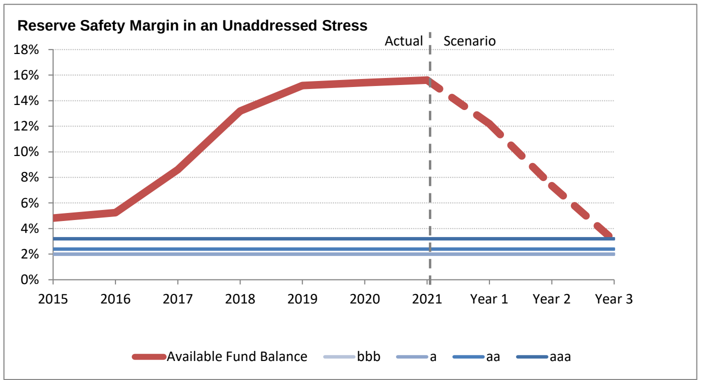
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

New London (CT)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

Fitch believes the city's improved budget management practices and increased reserve levels have improved its ability to withstand economic downturns. The city faced significant financial pressures during the Great Recession and experienced large general fund deficits, which significantly reduced its reserve levels and financial flexibility. In subsequent years, management has stabilized the city's financial performance through a combination of spending cuts and tax rate increases, and has since built reserves to above pre-recession levels.

Scenario Parameters:		Year 1	Year 2	Year 3
GDP Assumption (% Change)		(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)		2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%** *Case Used:* **Moderate**	(1.6%)	0.4%	2.5%
Inherent Budget Flexibility			Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2015	2016	2017	2018	2019	2020	2021	Year 1	Year 2	Year 3
Total Revenues	88,987	91,139	98,850	101,800	101,304	102,380	100,018	98,422	98,853	101,295
% Change in Revenues	-	2.4%	8.5%	3.0%	(0.5%)	1.1%	(2.3%)	(1.6%)	0.4%	2.5%
Total Expenditures	82,548	85,615	89,498	90,378	90,706	91,745	92,197	94,041	95,922	97,840
% Change in Expenditures	-	3.7%	4.5%	1.0%	0.4%	1.1%	0.5%	2.0%	2.0%	2.0%
Transfers In and Other Sources	1,150	-	25	-	268	658	101	100	100	103
Transfers Out and Other Uses	5,663	5,018	5,911	6,817	8,608	10,597	7,496	7,646	7,799	7,955
Net Transfers	(4,513)	(5,018)	(5,886)	(6,817)	(8,340)	(9,939)	(7,395)	(7,546)	(7,699)	(7,852)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	1,926	505	3,466	4,605	2,258	696	426	(3,165)	(4,768)	(4,397)
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	2.2%	0.6%	3.6%	4.7%	2.3%	0.7%	0.4%	(3.1%)	(4.6%)	(4.2%)
Unrestricted/Unreserved Fund Balance (General Fund)	4,245	4,750	8,216	12,822	15,080	15,776	15,564	12,398	7,630	3,233
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	4,245	4,750	8,216	12,822	15,080	15,776	15,564	12,398	7,630	3,233
Combined Available Fund Bal. (% of Expend. and Transfers Out)	4.8%	5.2%	8.6%	13.2%	15.2%	15.4%	15.6%	12.2%	7.4%	3.1%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	**Minimal**	**Limited**	**Midrange**	**High**	**Superior**
Reserve Safety Margin (aaa)	25.5%	12.8%	8.0%	4.8%	3.2%
Reserve Safety Margin (aa)	19.1%	9.6%	6.4%	4.0%	2.4%
Reserve Safety Margin (a)	12.8%	6.4%	4.0%	2.4%	2.0%
Reserve Safety Margin (bbb)	4.8%	3.2%	2.4%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.