

# RatingsDirect®

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## Summary:

# Windsor Town, Connecticut; General Obligation; Note

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## Summary:

# Windsor Town, Connecticut; General Obligation; Note

### Credit Profile

US\$4.285 mil GO bnds ser 2016 due 06/15/2028

*Long Term Rating*

AAA/Stable

New

Windsor GO

*Long Term Rating*

AAA/Stable

Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and stable outlook to Windsor, Conn.'s series 2016 general obligation (GO) bonds and affirmed its 'AAA' long-term rating, with a stable outlook, on the town's existing GO debt.

At the same time, S&P Global Ratings affirmed its 'SP-1+' short-term rating on the town's GO bond anticipation notes (BANs).

The town's unlimited-tax-GO pledge to levy ad valorem taxes without limitation as to rate or amount on all taxable property within its borders secures the bonds and BANs. We understand officials intend to use series 2016 bond proceeds to finance various town capital projects, including road and streetscape rehabilitation, stormwater management enhancements, and building and recreational facility improvements.

The short-term rating reflects the application of our criteria for evaluating and rating BANs. In our view, the town maintains very strong capacity to pay principal and interest when the notes come due June 22, 2017. The town maintains a low market-risk profile because it sustains strong legal authority to issue long-term debt to take out the notes and because it is a frequent issuer that regularly provides ongoing disclosure to market participants. We understand officials are using BAN proceeds to finance pavement rehabilitation and streetscape improvements and the partial roof replacement at a town elementary school.

Windsor's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the town has a predominately locally derived revenue source with 76.2% of general fund revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The long-term rating reflects our opinion of the following factors for the town, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;

- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 49.9% of total governmental fund expenditures and 9.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 31.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 95.9% of debt scheduled to be retired within 10 years; and
- Very strong institutional framework score.

### **Very strong economy**

We consider Windsor's economy very strong. The town, with an estimated population of 28,994, is in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 117% of the national level and per capita market value of \$144,084. Overall, the town's market value grew by 2.6% over the past year to \$4.2 billion in 2017. The county unemployment rate was 5.9% in 2015, which was slightly above the state (5.6%) and national (5.3%) averages.

Windsor is a predominantly residential community with a large and diverse mix of commercial and industrial developments. The town covers a 31.1-square-mile area on the west bank of the Connecticut River and borders Hartford to the north. Interstate Highway 91 traverses the town, connecting residents with regional employment in Hartford and the surrounding metropolitan area. According to management, Windsor also ranks fifth among area communities in total nonretail employment with an employment base of approximately 24,000 jobs in the town.

Windsor is home to a number of sizable employers in the financial services, advanced and precision manufacturing, distribution and logistics, data management, and hospitality industries. The town's leading private employers include:

- Hartford Life (2,600 employees),
- VOYA (1,730),
- GE-Alstom Power (1,050),
- CIGNA (1,000),
- Amazon.com (800), and
- Walgreens (660).

In 2015, Amazon completed construction of a 1.5-million-square-foot regional fulfillment center. According to management, the development has generated 800 new positions and an estimated \$100 million taxable value, which town officials expect to phase in over five years.

Construction is underway for a new \$18 million, 130-unit, market-rate apartment complex in close proximity to the town's commuter rail station. Management indicates the station area and Windsor Center could experience an uptick in transit-oriented development over the next few years, complemented by the state's investment to expand commuter rail services along the New Haven-Hartford-Springfield rail line by the beginning of 2018. In addition, Windsor has approved plans for Great Pond Village, a 600-acre, mixed-use development that includes up to 4,000 new housing units.

## **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Demonstrating the town's key budgeting practices, management uses three years to five years of historical information to formulate its annual budget revenue and expenditure assumptions. Local property tax assessments, the governor's state aid projections, and other economic and demographic information inform annual revenue growth trends. Management determines its annual budget appropriations by evaluating fixed costs, such as debt service and contractual obligations from collective bargaining, to determine a baseline. Management also identifies anomalies, such as large one-time expenditures, and estimates savings from cooperative purchasing agreements. It then identifies and prioritizes the remainder of budgeted appropriations based on department needs and requests. Management and department heads monitor budget-to-actual performance results internally. Management delivers quarterly budget-to-actual reports to the town finance committee, which addresses budget variances with the full town council.

Highlights of management policies include management's strong focus on financial and capital planning. Windsor maintains a comprehensive six-year capital improvement plan that it updates annually and that identifies internal and external funding sources. Windsor also maintains a forward-looking, long-term financial plan that tracks revenue and expenditure conditions and challenges across five years. According to management, it uses this information to refine budgeting assumptions for service-level adjustments and state aid. The town also complies with state guidelines and statutes for investments. Management tracks investment earnings and holdings quarterly and reports the results in the town comprehensive annual financial report.

The town maintains a formal debt issuance policy. Windsor limits total debt outstanding to 50% of the legal limit allowable under Connecticut statute and debt service to 8% of total operating expenditures by policy. In addition, it targets a principal amortization schedule of 70% over a 10-year period. In 2015, Windsor updated its formal reserve policy, requiring the maintenance of unassigned general fund balance of between 15% and 20% of expenditures, based on an evaluation of best practices. In the policy, the town also includes a provision to replenish fund balance if it falls below the minimum reserve amount by allocating, at least, 25% of the difference annually until it achieves the policy minimum.

## **Strong budgetary performance**

Windsor's budgetary performance is strong in our opinion. The town had operating surpluses of 2.2% of expenditures in the general fund and 4.5% of expenditures across all governmental funds in fiscal 2015. General fund operating results of the town have been stable over the past three years, with a positive result of 0.3% of expenditures in 2014 and 2% of expenditures in 2013. These ratios are based on data that was adjusted for recurring transfers, as well as the use of bond proceeds.

In fiscal 2015, Windsor realized an operating surplus of nearly \$2.44 million, or 2.2% of general fund expenditures. For analytical consistency, we adjusted out approximately \$7.7 million for recurring transfers into other governmental funds for capital expenditures and debt service from the general fund. Management attributes the operating surplus largely to higher-than-budgeted revenue, including favorable property tax collections, which totaled \$1.1 million overbudget. In addition, management reports actual permit fees exceeded budget projections by nearly \$170,000 and

conveyance fees by approximately \$420,000. Windsor also held a delinquent property tax sale, which generated an additional \$830,000 in surplus revenue. At the same time, the town realized lower-than-budgeted expenditures, including cost savings from workers' compensation adjustments and vacant positions.

Windsor's balanced \$106.38 million, fiscal 2016 budget includes a 1.48% increase in the tax rate to 30.92 mills from 30.47 mills. The town does not currently plan to appropriate reserves to balance operations. With approximately one month remaining in fiscal 2016, management reports favorable operating results with actual revenue tracking higher than the budget by nearly \$690,000. Management attributes revenue growth partially to new development, which it believes is a contributing factor to increases in revenue from building permit fees, property taxes, and conveyance fees.

Furthermore, due to decreased snow-and-ice expenditures, coupled with lower fuel prices, Windsor's actual expenditures are below budgeted appropriations by approximately \$400,000. In what we consider management's conservative estimates, the town expects to finish fiscal 2016 with a slight surplus.

The town's electorate will vote on a proposed fiscal 2017 budget during a townwide referendum in June 2016. Officials expect the balanced total government budget to increase by \$4.5 million over fiscal 2016, and the budget includes a 1.9% tax rate increase to 31.52 mills from 30.92 mills. As proposed, the budget includes plans to appropriate fund balance. The town has incorporated a \$900,000 general fund reserve annually. Management historically sets aside the general fund reserve for contingencies and general fund stabilization, but the town typically recovers a portion of this appropriation. In addition, the proposed budget includes a \$1.3 million increase in pay-as-you-go transfers into other funds from the general fund for capital expenditures. Windsor also expects to increase its annual contribution to the other postemployment benefit (OPEB) trust fund by \$170,000.

Furthermore, we believe Windsor maintains a stable and predictable revenue profile that is largely independent of state or federal funds. The town benefits from its high property tax base, which makes up more than 76.2% of total revenue. Tax collections have historically remained strong with current collections exceeding 98.6% during the past five years. Intergovernmental sources represent the second highest share of the town's general fund revenue at 19.5%.

### **Very strong budgetary flexibility**

Windsor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 21% of operating expenditures, or \$23.6 million.

Due, in part, to strong budgetary performance from fiscal years 2013-2015, the town increased available fund balances to \$23.6 million from \$20.87 million, leading to improved budgetary flexibility. Other than the town's year-over-year \$900,000 fund balance appropriation, we understand management does not currently plan to draw down reserves in fiscal years 2016 or 2017, which could increase available reserves further; management expects budgetary performance to remain strong and stable.

Furthermore, Windsor has a written reserve policy to maintain available fund balances between 15% and 20% of general fund expenditures, which the town has historically met and sustained. The town council revised and approved the new reserve target in September 2015; previously, the policy required the maintenance of reserves between 8% and 11% of expenditures. According to management, in the event fund balances fall below the 15% minimum, the town is required to appropriate at least 25% of the difference of the fund balance in subsequent years to restore fund

balance and comply with the policy. Therefore, we expect the town's flexibility to remain very strong over the next two fiscal years.

### **Very strong liquidity**

In our opinion, Windsor's liquidity is very strong, with total government available cash at 49.9% of total governmental fund expenditures and 9.5x governmental debt services in 2015. In our view, the town has strong access to external liquidity if necessary.

Windsor is a regular market participant that has issued debt frequently over the past several years, including GO bonds and short-term BANs. In addition, the town does not currently have any variable-rate or direct-purchase debt; management has confirmed it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Town investments are subject to state guidelines. Windsor invests its cash in low-risk assets, including the state's short-term investment funds, certain mutual and money market funds, or short-term certificates of deposit. For these reasons, the town's available cash position remains strong and stable and we expect its liquidity profile to remain very strong over the next two fiscal years.

### **Very strong debt and contingent liability profile**

In our view, Windsor's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.2% of total governmental fund expenditures, and net direct debt is 31.6% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, and approximately 95.9% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following the current issue of bonds and notes, Windsor will have approximately \$38.97 million of total direct debt outstanding. Of that amount, roughly \$450,000 is BANs. In addition, the town's proportionate share of overlapping debt as a member of the Metropolitan District Commission is \$62.1 million. Over the next two years to three years, the town will likely issue about \$5 million-\$6 million annually in additional debt to finance various capital projects. Furthermore, the town is considering preliminary options for renovations to its existing public safety complex; it, however, has not sought voter approval to issue debt. If approved over the next few years, management estimates the cost could be roughly \$24 million. Therefore, due to its low overall net debt and rapid debt amortization, we do not expect our assessment of the town's debt profile to weaken.

Windsor's combined required pension and actual OPEB contribution totaled 3.8% of total governmental fund expenditures in fiscal 2015. Of that amount, 1.6% represented required contributions to pension obligations, and 2.2% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2015.

According to Governmental Accounting Standards Board (GASB) Statement No. 68 standards, which the town implemented for financial statements ended June 30, 2015, employers with benefits administered through single-employer plans are to recognize their net pension liability for pension-related activity incurred before July 1, 2014. The town's proportionate share of the net pension liability was approximately \$8.12 million as of the most recent actuarial valuation, July 1, 2015. The town contributed \$998,378, or 100% of its actuarially determined contribution (ADC), in fiscal 2015. Management expects to make the full ADC of \$1.03 million in fiscal 2016. Historically, the town has funded, and continues to fund, its ADC in full.

Windsor administers a defined-benefit pension plan that covers substantially all town employees, except for police, who participate in a state-administered plan, and those eligible for membership in the Connecticut Teachers' Retirement Plan. The funded status of this plan was 91.8% as of the July 1, 2015, valuation; it fell below 100% in 2013 due to the lowering of the discount rate to 7.5% from 7.75%. A defined-contribution plan, which management expects will help reduce future pension cost increases, covers all newly hired town employees. The town also offers limited OPEB to its retirees in the form of health insurance coverage, which it funds on a pay-as-you-go basis. As of July 1, 2015, the most recent actuarial valuation, the plan was 0.8% funded with an unfunded actuarial accrued liability of \$52.3 million. The town contributed \$2.6 million, or 41.2%, of its annual contribution. Furthermore, the town established a trust fund beginning July 1, 2015; the town initially deposited \$390,000 into the trust for fiscal 2015. It expects to deposit another \$280,000 and \$450,000 for fiscal years 2016 and 2017, respectively.

### Very strong institutional framework

The institutional framework score for Connecticut towns is very strong.

## Outlook

The stable outlook reflects S&P Global Ratings' view that Windsor will likely maintain its very strong budgetary flexibility due to its historically strong budget performance and very strong management. We believe the town's location and access to the Hartford-West Hartford-East Hartford MSA and very strong underlying economy further support the rating. In addition, we expect Windsor will likely maintain a very strong debt and contingent liability profile. For these reasons, we are unlikely to change the rating during the next two years. However, a substantial deterioration in budgetary performance, leading to significantly weakened reserves and constraints on liquidity, could result in our lowering the rating.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

### Ratings Detail (As Of June 3, 2016)

Windsor Twn GO bnds iss (Various Cap Proj)

Long Term Rating

AAA/Stable

Affirmed

**Ratings Detail (As Of June 3, 2016) (cont.)**

Windsor Twn NOTE

*Short Term Rating*

SP-1+

Affirmed

**Windsor GO**

*Unenhanced Rating*

AAA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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