S&P Global Ratings

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Summary:

Windsor, Connecticut; General Obligation

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Credit Profile		
US$6.765 mil GO bnds ser 2018 due 06/15/2033		
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 to Windsor, Conn.'s issue of 2018 general obligation (GO) bonds. In addition, we affirmed our 'AAA' long-term rating on the town's outstanding GO bonds. The outlook is stable.

The town's full faith and credit pledge, payable from the levy of an unlimited-ad valorem tax on all taxable property in the town, secures the bonds. Officials plan to use 2018 bond proceeds to fund various capital improvement projects.

We rate Windsor higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2017, local property taxes generated 75% of general fund revenue, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

The 'AAA' rating reflects our opinion of the following factors for the town, including 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 a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 51.3% of total governmental fund expenditures and 9.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.3% of expenditures and net direct debt that is 33.0% of total governmental fund revenue, as well as rapid amortization, with 86.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Windsor's economy very strong. The town, with an estimated population of 28,779, is in Hartford County. It is in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 122% of the national level and per capita market value of $146,923. Overall, market value grew by 2.5% over the past year to $4.2 billion in 2019. The county unemployment rate was 4.8% in 2017.

Windsor is a residential community with a large and diverse mix of commercial and industrial developments. Management reports that the town is a regional job center, noting the presence of approximately 26,000 jobs, but with only approximately 16,000 working-age individuals residing there. With a number of large employers, as well as being directly north of Hartford and immediately adjacent to the Bradley International Airport, we believe Windsor is well integrated into the broader state and regional economy. Further enhancing mobility options for commuters into and out of Windsor, Amtrak, in conjunction with the state department of transportation, is increasing the number of commuter rail trips per day from New Haven to Springfield, with an increased number of stops in Windsor, beginning mid-June.

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

- Hartford Life (2,200 employees);
- Voya Financial Inc. (1,720);
- Cigna (1,000);
- GE-Alstom Power (800); and,
- Amazon.com (800).

Looking forward, management expects continued development and investment from commercial and industrial firms, particularly in the areas of aerospace and pharmaceuticals. The town's total assessed value has fluctuated over the past few years, with a 1.3% decline for 2018 and a 2.5% increase for 2019. Management attributes this movement to tax abatements and investments in personal property for commercial properties, but expects this to stabilize, with steady growth over the next few years. Given the integration of Windsor with the broader economy and the expectation of continued investment by commercial and industrial properties, we expect the town's economy will remain very strong throughout the outlook period.

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-to-five years of historical information to formulate its annual budget revenues and expenditure assumptions. Local property tax assessments, the governor's budget for state aid, 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 its baseline. Management also identifies anomalies, such as large one-time expenditures, and estimates savings from cooperative purchasing agreements. The remainder of budgeted appropriations are then identified and prioritized based on department needs and requests. Management and department heads monitor budget-to-actual performance internally, and 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 a strong focus on financial and capital planning. Windsor maintains a comprehensive six-year capital improvement plan, which it updates annually and identifies internal and external funding sources. It also maintains a forward-looking, long-term financial plan that tracks revenue and expenditure conditions and challenges across five years. According to management, the town uses this information to refine its budgeting assumptions for service level increases and state aid. Windsor's investment policy mirrors state guidelines and statutes for investments. Management tracks investment earnings and holdings quarterly, which it reports in the town's comprehensive annual financial report.

Windsor maintains a formal debt issuance policy. It limits its total debt outstanding to 50% of the legal limit allowable under Connecticut statute and its debt service to 8% of total operating expenditures by town policy, and targets a principal amortization schedule of 70% over a 10-year horizon. Windsor's formal reserve policy requires an unassigned general fund balance of 15%-20% of expenditures and is based on an evaluation of best practices. The reserve policy includes a replenishment provision. If reserves fall below the minimum reserve requirement, the town would annually allocate at least 25% of the difference between the policy minimum and actual fund balance level until the policy minimum is achieved.

Strong budgetary performance

Windsor's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 0.6% of expenditures, and surplus results across all governmental funds of 3.4% in fiscal 2017. General fund operating results of the town have been stable over the last three years, with results of 0.7% in 2016 and 2.2% in 2015.

For analytical consistency, we adjusted for recurring transfers into other governmental funds for capital expenditures and debt service from the general fund, as well as for the expenditure of bond proceeds. Management attributes the 2017 surplus largely to better-than-budgeted property tax collections, building permit fees and conveyance fees, as well as a delinquent property tax sale, which netted approximately $680,000. At the same time, the town realized lower-than-budgeted expenditures, primarily due to vacant staff positions.

Across Connecticut, municipalities faced difficult budgetary decisions in fiscal 2018, due to the state adopting its own budget four months late. Windsor's proposed budget included a $1 million reduction in state aid; however, this budget was defeated by the voters. Per the town charter, Windsor operated under fiscal 2017 expenditure appropriations and tax-revenues, until adopting a final budget in fiscal 2018. This budget also reduced anticipated state aid by approximately $1 million, mostly in education cost sharing (ECS) grants. Town management credits the board of education (BOE) with making difficult budgetary decisions, resulting in level funding BOE expenditures from 2017 into 2018. As the fiscal year-end approaches, management anticipates that, due to continued conservative budgeting practices and the adaptation to the state aid changes, it will end the year with approximately a $1.7 million addition to unassigned fund balance.

The town adopted the fiscal 2019 budget in May. This budget maintains state aid level with fiscal 2018, while adding to pay-as-you-go capital financing and increasing to $600,000 the transfer into the other postemployment benefit (OPEB) trust fund. It includes a 1.57% mill rate increase.

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 approximately 75% of general fund revenue. Intergovernmental sources represent the second-highest share of the general fund revenue, at about 22%. Tax collections have historically remained strong, with current collections exceeding 98.8% during the past five years. We expect that management will remain proactive in managing anticipated changes in state aid, which we view as the town's largest budgetary uncertainty at this time. Consequently, we expect that the town will continue to produce strong budgetary results over the next two years.

Very strong budgetary flexibility

Windsor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 20% of operating expenditures, or $24.5 million.

Due to ongoing positive operating results, the town continues to add to its available reserves, although in fiscal 2017, they fell as a percentage of expenditures from 21.3% to 19.7%. As management is anticipating positive budgetary performance in fiscal 2018, we expect that the town will continue to add to available reserves and that budgetary flexibility will remain very strong.

Furthermore, Windsor has a written reserve policy to maintain available fund balances of 15%-20% of general fund expenditures, which it has historically met and sustained. Per the policy, should fund balances fall below the 15% minimum, Windsor is required to appropriate at least 25% of the difference of the fund balance in subsequent years to restore the balance and comply with the policy.

Very strong liquidity

In our opinion, Windsor's liquidity is very strong, with total government available cash at 51.3% of total governmental fund expenditures and 9.7x governmental debt service in 2017. 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 bond anticipation notes (BANs). In addition, it does not have any variable-rate or direct-purchase debt, nor does it have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Town investments are subject to conservative state guidelines and the town's investment policy. Windsor invests its cash in low-risk assets, including the state's short-term investment funds, some mutual and money market funds, or short-term certificates of deposit, which we do not review as aggressive. For these reasons, the 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 5.3% of total governmental fund expenditures, and net direct debt is 33.0% of total governmental fund revenue.

Approximately 86.6% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Over the next one-to-two years, we expect that Windsor will issue approximately $4-5 million annually in new-money debt in accordance with the CIP. Additionally, management indicates that the town is moving ahead with a multiyear, multiphase process for a new public safety complex and radio system upgrade. Management tentatively expects a November voter referendum on a $38 million debt issuance for the projects. Management intends to structure the issuance around drop-offs in existing debt service, to keep the amortization period as short as possible, while also keeping overall debt service increases to 3% or less annually. Initial borrowing for this project may begin within the next one-to-two years, in addition to the CIP borrowing. Given the size of the public safety debt issuance relative to existing debt and the town's total governmental funds expenditures, we could revise our view of the debt profile as details of the project emerge. However, we do not anticipate doing so, based on what we know at this time.

Windsor's combined required pension and actual OPEB contributions totaled 3.3% of total governmental fund expenditures in 2017. Of that amount, 1.4% represented required contributions to pension obligations, and 1.8% represented OPEB payments. The town made its full annual required pension contribution in 2017.

Windsor administers a defined-benefit pension plan that covers substantially all town employees, except for police (who participate in a state-administered plan), and board of education employees eligible for the Connecticut Teachers' Retirement Plan. The plan closed to new hires in phases, with the plan completely closed on July 1, 2013. A defined-contribution plan, which management expects will help reduce future pension cost increases, covers all newly hired town employees.

The funded ratio of the local plan was 83.8% as of June 30, 2017; this was based on a 7.25% discount rate. The town's net pension liability was approximately $13 million. Windsor contributed $1.1 million, or 100% of its actuarially determined contribution (ADC), in fiscal 2017. Historically, the town has funded its ADC in full, which we expect to continue. The plan funded ratio was 100% as recently as 2012; however, management, in consultation with the town's actuary, chose to adopt more conservative assumptions, most notably reducing the discount rate incrementally from a high of 8%. For 2019 and 2020, the rate will be lowered to 7%. Management expects to review other plan assumptions with the actuary later this year. While we expect the discount rate change to reduce the funded ratio, increase both liabilities and the annual contribution, we believe over the long term, these changes are a credit positive. We expect that management will continue to adapt the operating budget to accommodate increased costs and will continue to fully fund its annual ADC.

Windsor also offers OPEBs in the form of lifetime-subsidized health care to its retirees, 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. In fiscal 2017, the town contributed $2.4 million, or 51.7%, of its annual OPEB cost. Windsor established a trust fund in July 1, 2015; it initially deposited $390,000 into the trust for fiscal 2015, and $350,000 for fiscal 2016. It deposited $450,000 in fiscal 2017 and $550,000 in fiscal 2018. It expects to increase this to $600,000 in fiscal 2019, with the goal of ultimately adding $750,000 to the trust annually. Management anticipates that at the close of fiscal 2018, the trust will hold approximately $2 million. At this time, we do not anticipate that pension or OPEB costs will pressure the operating budget, or that unfunded retirement liabilities will alter our overall view of the town's general credit quality.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Windsor's management will continue to adjust budgetary assumptions to continue producing annual strong budgetary performance. Consequently, we also believe that budgetary flexibility and liquidity will remain very strong. The town's location and access to the Hartford-West Hartford-East Hartford MSA and strong underlying economy contribute further stability to the town's finances. For these reasons, we are unlikely to revise the rating in the next two years. However, if the town is unable to adjust to budgetary pressure and there is a sizable deterioration in budgetary performance leading to weakened reserves, the rating could be lowered.

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

Ratings Detail (As Of June 4, 2018)		
Windsor Twn GO bnds iss (Various Cap Proj)		
Long Term Rating	AAA/Stable	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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.