

Summary:

Windsor Town, Connecticut; General Obligation; Note

Primary Credit Analyst:

Anthony Polanco, Boston + 1 (617) 530 8234; anthony.polanco@spglobal.com

Secondary Contact:

John Kennedy, New York + 1 (212) 438 2128; john.kennedy@spglobal.com

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Credit Profile

US\$11.97 mil GO BANs ser 2019 due 06/25/2020

Short Term Rating

SP-1+

New

US\$10.0 mil GO bnds (Public Safety Complex) ser 2019 due 06/15/2039

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 series 2019 general obligation (GO) bonds and its 'SP-1+' rating to the town's s series 2019 GO bond anticipation notes (BANs). At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO debt. The outlook is stable.

The town's long-term rating is supported by its strong financial operations, as evidenced by continued positive general fund results and increases in available reserves over the past few years. Furthermore, we believe the town's stable financial position is supported by its very strong management conditions and very strong economy, with access to the Hartford metropolitan statistical area (MSA), coupled with manageable fixed costs.

The short-term rating reflects our view of the town's strong ability to pay principal and interest when the BANs come due. Windsor's market risk profile is low, in our view, because it maintains strong legal authority to issue long-term debt to take out the BANs and it is a frequent issuer, providing regular disclosure to market participants.

Windsor'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 2019 bond proceeds to fund various capital improvement projects. Note proceeds will be used to finance the renovation of a public safety complex.

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 2018, 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.)

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 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 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 52.8% of total governmental fund expenditures and 10.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 40.0% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Windsor's economy very strong. The town, with an estimated population of 29,034, is located in Hartford County 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 \$152,988. Overall, the town's market value grew by 5.1% over the past year to \$4.4 billion in fiscal 2020. The county unemployment rate was 4.2% in 2018.

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 more stops in Windsor, beginning in June 2018.

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).

Management expects continued development and investment from commercial and industrial firms. This includes the completion in 2017 of a 90,000-square-foot manufacturing facility by SCA Pharmaceuticals, which is expected to create a total of 360 jobs over the next three years. Ford Motor Co. has occupied a 235,000-square-foot logistics center, and Verizon is adding a 20,000-square-foot expansion to its current data center. Other light industrial and commercial developments include a new National Tire Warehouse facility and an expansion of Fabbrica, a

manufacturer of building facades and architectural interior components, within the town that is expected to create more than 140 jobs. On the residential side, Great Pond Village, a new 230-unit luxury apartment complex, is being developed and is expected to be completed by 2021. In addition, a 130-unit market-rate apartment development was constructed in Windsor Center. Officials believe these and other projects will continue to support increases in the town's grand list.

Given the integration of Windsor with the broader economy and the expectation of continued investment in residential, 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, and reports annually to the council.

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 operating surpluses of 2.1% of expenditures in the general fund and of 2.6% across all governmental funds in fiscal 2018. General fund operating results have been

stable over the past three years, with a result of 0.6% in 2017 and a result of 0.7% in 2016.

Fiscal 2018 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. According to management, the fiscal 2018 positive financial results were primarily due to revenues coming in higher than budgeted, including property taxes due to strong collections, building permits, and investment income. The town also had savings in expenditures in various areas of the budget, including public works, safety services, education, and lower-than-anticipated salary costs due to vacant positions that were not filled. Given the state's late budget adoption in fiscal 2018 and anticipated cuts to municipalities, Windsor conservatively reduced anticipated state aid by approximately \$1 million, mostly in municipal revenue-sharing grants in its adopted budget. As a result, the state's adopted budget did not have a negative effect on the town's financial results for the year.

For fiscal 2019, officials indicate budget to actuals are tracking favorably and they expect the town to end the year with a \$2.5 million general fund surplus. Similar to last year, the town is experiencing higher-than-budgeted property tax, building permit, and investment income revenue. Expenditures are also tracking below budget, particularly for public works and public safety. The fiscal 2020 proposed budget totals \$118.7 million and contains a fund balance appropriation of about \$900,000 which the town has historically done, and represents a 3% increase over fiscal 2019. According to management, the budget contains a 1.9% tax increase and the town has budgeted more than \$2.4 million toward capital costs. It has also budgeted \$725,000 towards its other postemployment benefits (OPEB) trust fund and \$90,000 toward shifting teachers' pension costs to the town from the state as a conservative measure. Overall, due to Windsor's historically strong operating performance, projected surplus, and proposed balance budget, we expect its budgetary performance to remain strong.

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 general fund revenue, at about 22%. Tax collections have historically remained strong, with current collections exceeding 98.8% during the past five years.

Very strong budgetary flexibility

Windsor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 22% of operating expenditures, or \$27.7 million.

The town expects to continue to increase its available reserves by about \$2.5 million in fiscal 2019 as a result of positive financial operations. In addition, the town does not expect to draw down on reserves over the short term. As a result, given that it has historically maintained reserves at about 20% of expenditures, on average, over the past three years and anticipates another increase, we expect its budgetary flexibility to 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 52.8% of total governmental fund expenditures and 10.2x governmental debt service in 2018. 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. 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 view as aggressive. For these reasons, the available cash position remains strong and stable, and we expect Windsor's liquidity profile to remain very strong over the next two fiscal years.

Strong debt and contingent liability profile

In our view, Windsor's debt and contingent liability profile is strong. Total governmental fund debt service is 5.2% of total governmental fund expenditures, and net direct debt is 40.0% of total governmental fund revenue.

With this issuance, the town will have about \$55 million in total direct debt with \$11.9 million made up of short-term debt. Officials plan to issue about \$32 million over the next three years for various capital improvement projects, including ongoing funding for construction of its public safety complex.

Windsor's combined required pension and actual OPEB contributions totaled 3.1% of total governmental fund expenditures in 2018. Of that amount, 1.6% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The town made its full annual required pension contribution in 2018.

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, and was 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 82.7% as of June 30, 2018; this was based on a 7.25% discount rate. The town's net pension liability was approximately \$14.5 million. 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%. The town plans to lower the rate to 7%. Management expects to review other plan assumptions over the next year. While we expect the discount rate change to reduce the funded ratio, and 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 actuarially determined contribution.

Windsor also offers OPEB in the form of lifetime-subsidized health care to its retirees, which it funds on a pay-as-you-go basis. As of June 30, 2018, the plan was 4.18% funded with an unfunded actuarial accrued liability of

\$44.2 million. Windsor established a trust fund in July 1, 2015. It deposited \$450,000 in fiscal 2017, \$550,000 in fiscal 2018, and \$650,000 in fiscal 2019. The town has budgeted to increase the contribution to \$725,000 in fiscal 2020. Management anticipates that at the close of fiscal 2019, the trust will hold approximately \$2.6 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 do not expect to revise the rating in the next two years. However, although unlikely, if the town were to experience a sizable deterioration in budgetary performance leading to weakened reserves, we could lower the rating.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 4, 2019)		
Windsor Twn GO bnds iss (Various Cap Proj)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Windsor GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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