

RatingsDirect®

Summary:

Windsor, Connecticut; General Obligation; Note

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Credit Profile

US\$15.57 mil GO bnds ser 2020 dtd 06/25/2020 due 06/15/2040		
<i>Long Term Rating</i>	AAA/Stable	New
US\$12.5 mil GO BANs ser 2020 dtd 06/25/2020 due 06/24/2021		
<i>Short Term Rating</i>	SP-1+	New
Windsor GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Windsor, Conn.'s series 2020 general obligation (GO) bonds and its 'SP-1+' rating to the town's s series 2020 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 and its 'SP-1+' rating on the town's existing short-term debt. The outlook is stable.

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 2020 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 2019, local property taxes generated 80% 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.)

Credit overview

The rating reflects our opinion of the town's positive operating results during the past few fiscal years and improved reserves, supported by a strong tax base that has access to the Hartford metropolitan statistical area (MSA). While the majority of operating revenue is from local property taxes, we believe there is an event risk from the current economic environment due to COVID-19, particularly related to intergovernmental revenue and local receipts over the short term. While it remains unclear how the adverse effects from the pandemic will affect the town, we expect some revenue volatility, which could potentially weaken budgetary performance and reserves. However, rating stability is provided by the town's very strong management conditions and conservative budgeting practices, which have led to

positive operating results and improvement in reserves in the last three years, coupled with manageable retirement costs and a very strong liquidity position.

The stable outlook reflects S&P Global Ratings' expectation that Windsor's management will continue to make the necessary budgetary adjustments to maintain balanced operations and stable reserve levels. The town's location and access to the Hartford-West Hartford-East Hartford MSA and strong underlying economy contribute further stability to its finances. Our outlook is generally for two years, but we see some risks due to the COVID-19 pandemic and U.S. recession over the next six-to-12 months.

The long-term rating reflects our view of the town's:

- 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;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 48.8% of total governmental fund expenditures and 8.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.6% of expenditures and net direct debt that is 48.8% of total governmental fund revenue, as well as rapid amortization, with 75.7% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with that of the sector. We analyzed the town's environmental, and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

If the town's budgetary performance declines such that it causes a deterioration of available reserves as a result of economic and financial recessionary pressures, we could lower the rating.

Credit Opinion

Very strong economy

We consider Windsor's economy very strong. The town, with an estimated population of 28,760, is in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. It has a projected per

capita effective buying income of 130% of the national level and per capita market value of \$156,700. Overall, market value grew by 1.5% over the past year to \$4.5 billion in 2021. The county unemployment rate was 3.9% in 2019. However, given the economic disruption caused by the COVID-19 pandemic and subsequent recession, we expect the county's unemployment rate to significantly rise for the year (see "U.S. Jobs Market Buckles Under The Coronavirus Pandemic," published April 2, 2020). Given the county's exposure to high unemployment during the Great Recession, which approached 9.4%, we will monitor the long-term effects of the current downturn on the labor market and the overall economy.

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.

While the town's economy has remained stable over the last few years, we believe the effects of COVID-19 could have a negative effect on the local economy, especially as we forecast a notable decline in regional and national GDP for much of the remainder of the year (for more information, please see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020). Although we currently do not expect a major change in the town's overall economy, especially as officials indicate the manufacturing and commercial base remains relatively active even amid the pandemic, we believe its local unemployment figures (averaged 3.8 % in 2019) could increase significantly if the current economic disruption is prolonged or if the manufacturing and commercial sectors experience further contraction. This could result in a weakening of the town's economic metrics and potentially change our view of its economy.

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 (1,800 employees), Voya Financial Inc. (1,700), Amazon.com (1,600), and CIGNA (1,100).

There have been some notable commercial and industrial developments over the past few years. This include a new 90,000-square-foot manufacturing facility from SCA Pharmaceuticals which now employees more than 350 people, a new \$15 million high-velocity parts distribution center from Ford Motor Co., and the opening of a new \$100 million Amazon fulfillment center which now employs more than 1,000. Management expects further developments from its commercial and industrial sector, which could include a new \$200 million distribution facility that is currently being planned and the expansion of an existing Verizon building, as well as an aerospace supply company that is expanding into the town. On the residential side, Great Pond Village, a new 230-unit luxury apartment complex, continues development 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.

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. It 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 (CIP), 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.

The town has cyber-security protections in place and maintains various back-ups of its networks and systems. It also maintains cyber-security insurance. In terms of climate change, although the town is not a coastal community, it has conducted studies on the effect of potential flooding from the nearby Connecticut River. Officials indicate the town does not have any major assets close to the river and there are only few houses near it.

Adequate budgetary performance

Windsor's budgetary performance is adequate, in our opinion. The town had operating surpluses of 2.5% of expenditures in the general fund and 5.1% across all governmental funds in fiscal 2019. General fund operating results of the town have been stable over the last three years, with a results of 2.1% in 2018 and 0.6% in 2017. Although the town's budgetary performance has been stable the past few years, our assessment includes our view that the town's budgetary results over the next two years could differentiate from those of previous years due to recessionary pressures and economic and financial uncertainty related to COVID-19.

Fiscal 2019 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds.

For fiscal 2020, officials indicate the town has not had any major disruptions in revenues due to COVID-19. The town has already received nearly all of its expected property taxes since it makes collections once a year in July and August. Officials also indicate the town has only incurred about \$100,000 in COVID-19-related costs, which it attributes primarily to supplies, material, and some overtime, for which it expects to receive some federal reimbursement. Expenditures in general are tracking under budget due to savings in salaries and vacancies and school department costs, as well as materials and supplies. On the revenue side, the town is currently tracking a positive budget-to-actual variance of about \$1.8 million. Therefore, officials expect it will end the year with a general fund surplus. Prior to this, the town ended fiscal 2019 with a general fund surplus due to conservative budgeting which led to higher-than-budgeted revenues, including property taxes, licenses, permits, and fees, as well as savings on the expense side such as public safety and public works.

The fiscal 2021 budget has been adopted and totals about \$122.1 million, which represents an increase of about 3.3% over the prior year and includes about \$900,000 in fund balance appropriation, which the town has historically done. The budget also includes a 2.25% increase in property taxes. Although property taxes make up a majority of general fund revenues at 80%, officials indicate the town used state aid figures from the governor's budget as a conservative measure. However, they also indicate that Windsor has flexibility to adjust its expenditures and is prepared to make the necessary changes in its fiscal 2021 budget if local or state revenues come in lower than budgeted. This could include implementation of a hiring freeze, maintaining vacancies, deferring capital, and holding down costs at budget levels all before the town considered any use of reserves. In addition, the town has adopted a 90-day tax deferral program, as allowed by the state, for taxes due in July, which is when most of its taxes are normally due. However, given Windsor's strong liquidity position, management indicates it currently does not expect to experience any cash-flow issues as a result.

Therefore, although we think the town should maintain stable finances during the next two fiscal years, we imagine the unprecedented widespread effects of COVID-19 will have an effect on state revenue and many local economies (including Windsor) that could potentially result in weaker budgetary performance for fiscal 2021 and beyond. If management were to maintain balanced financial results during the next two fiscal years, or until we think the threat of stagnating or decreasing revenue due to negative economic shocks has subsided, we could revise our view of budgetary performance to strong.

Very strong budgetary flexibility

Windsor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 25% of operating expenditures, or \$30.7 million.

The town expects to continue to increase its available reserves by about \$1.6 million in fiscal 2020 as a result of positive financial operations. In addition, although fiscal 2021 and beyond could result in weaker financial performance due to recessionary pressures and uncertainty regarding state and local revenues, officials indicate the town does not expect to draw down on reserves and would only consider doing so as a last measure if it can no longer make any budgetary adjustments. As a result, given that it has historically maintained reserves at about 20% of expenditures, on

average, over the past three years and does not anticipate them falling below 15%, we expect 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, the town 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 48.8% of total governmental fund expenditures and 8.7x governmental debt service in 2019. 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. Nor does it anticipate any liquidity issues or the need to issue cash-flow notes over the next few months. Therefore, we expect liquidity to remain stable.

Strong debt and contingent liability profile

In our view, Windsor's debt and contingent liability profile is strong. Total governmental fund debt service is 5.6% of total governmental fund expenditures, and net direct debt is 48.8% of total governmental fund revenue.

With this issuance, the town will have about \$64.6 million in total direct debt with \$12.5 million made up of short-term debt. Officials plan to issue about \$36 million over the next three years for various capital projects as part of its CIP.

Pension and other postemployment benefits

- We do not view pension and OPEB liabilities as an immediate credit pressure for Windsor, although we expect costs will likely continue to increase.
- Because the pension plans' actuarially determined contribution (ADC) is built from what we view as weak assumptions, we think it increases the risk of unexpected contribution escalations. However, we expect higher contributions will likely remain affordable due to the strength of the town's revenue base and conservative budgeting, which continues to result in stable financial performance.
- Although it funds OPEB liabilities on a pay-as-you-go basis, which, due to claims volatility and medical-cost and demographic trends, is likely to lead to escalating costs, the town has legal flexibility to alter OPEBs, which we view as a potential means to mitigate escalating costs. It also maintains an irrevocable OPEB trust fund, which has a current balance of about \$2.6 million, as of fiscal 2019, according to the town, and is 5.3% funded.

At June 30, 2019, Windsor participated in:

- Town of Windsor Retirement Plan, a single-employer, defined-benefit pension plan that covers all town employees except police. The plan was closed for new hires after July 2013 and new employees participate in the town's

defined-contribution plan. The pension plan's net pension liability totaled \$18.4 as of fiscal 2019 and was 78.9% funded assuming a 7% discount rate

- Connecticut Municipal Employees' Retirement System (CMERS), which is 73.6% funded, with a proportionate share of the town's net pension liability at \$10.3 million, assuming a 7% discount rate
- Windsor's defined-benefit, OPEB health-care plan, which is 5.3% funded, with an OPEB liability of about \$47.7 million

Windsor's combined required pension and actual OPEB contributions totaled 3.6% of total governmental fund expenditures in 2019. Of that amount, 1.8% represented required contributions to pension obligations, and 1.8% represented OPEB payments.

Although the town funds 100% of its ADCs to both plans, contributions fell short of both static and minimum funding progress for its local pension plan. Although the local plan's closed, level-dollar-based amortization is a positive, we believe its lengthy schedule of 20 years, coupled with payroll growth assumptions of 3.5% and 7% discount rates, will result in slow funding progress. The town, however, has made changes to its pension assumptions and adopted more conservative mortality tables in its last actuarial valuation. In addition, for CMERS, we believe the plan's 21-year closed-amortization period, with a payroll growth assumption of 3.5% and discount rate of 7%, could pose cost-escalation risk due to market volatility. Therefore, although pension costs remain manageable at only 2.5% of expenditures as of fiscal 2019, we expect contributions will likely escalate.

Windsor established an OPEB trust fund on July 1, 2015. It deposited \$550,000 in fiscal 2018, and \$650,000 in fiscal 2019. The town has budgeted to increase the contribution to \$725,000 in fiscal 2021. It also plans to continue mitigate the future growth of the liability through contract negotiations.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of June 1, 2020)		
Windsor GO (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Windsor Twn GO bnds iss (Various Cap Proj)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Windsor Twn GO BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed

Many issues are enhanced by bond insurance.

Summary: Windsor, Connecticut; General Obligation; Note

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.

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