

RatingsDirect®

Summary:

Windsor, Connecticut; General Obligation; Note

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Credit Profile

US\$21.27 mil GO bnds ser 2021 due 06/15/2036

<i>Long Term Rating</i>	AAA/Stable	New
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US\$2.61 mil GO BANs ser 2021 dtd 06/24/2021 due 06/23/2022

<i>Short Term Rating</i>	SP-1+	New
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Windsor GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Windsor Twn GO BANs ser 2021 dtd 06/24/2021 due 06/23/2022

<i>Short Term Rating</i>	SP-1+	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Windsor, Conn.'s series 2021 general obligation (GO) bonds, totaling \$21.3 million, and its 'SP-1+' short-term rating to the town's series 2021 GO bond anticipation notes (BANs), totaling \$2.6 million. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO debt and affirmed its 'SP-1+' short-term rating on the town's existing debt. The outlook, where applicable, 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 and notes. Officials plan to use the 2021 bond proceeds to fund various capital improvement projects and permanently finance existing BANs. Note proceeds will finance 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 2020, local property taxes generated 74% 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.)

Credit overview

The rating reflects our opinion of the city'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). Further supporting the rating is the town's very strong management conditions and favorable debt profile as well as

manageable retirement costs. Therefore, 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 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;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 45.5% of total governmental fund expenditures and 7.9x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 5.8% of expenditures and net direct debt that is 48.5% of total governmental fund revenue, as well as rapid amortization, with 65.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

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. The town also maintains various cyber-security protections and plans in place.

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 Connecticut's economy very strong. The town, with an estimated population of 28,772, is 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 111% of the national level and per capita market value of \$159,493. Overall, the town's market value grew by 1.8% over the past year to \$4.6 billion in 2022. The county unemployment rate was 8.1% in 2020.

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 many large employers, along with its 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.

The town is home to several sizable employers in industries such as financial services, advanced and precision manufacturing, distribution and logistics, data management, and hospitality. There have been some notable commercial and industrial developments over the past few years. This includes a new 90,000-square-foot manufacturing facility from SCA Pharmaceuticals, which now employs 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. We understand Amazon is in the process of building an additional fulfillment center in the town. In addition, there are various companies that are looking to move into the town including a new biopharmaceutical organization. A new extended-stay hotel is also in the process of being developed. On the residential side, Great Pond Village, a new 230-unit luxury apartment complex, continues development and the first phase is now complete with development of additional phases now underway.

While we believe the town's economy will remain stable, especially as we believe economic recovery will continue to accelerate and the risk of recession lessens, we believe the lingering effects of the pandemic including elevated state and regional unemployment rates, could potentially lead to slower-than-anticipated economic growth (For more information, see "State, Local Government, School District, And Charter School Sector Views Revised Back To Stable," published March 24, 2021, and "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect). Although officials indicate many of the town's major employers have remain operational throughout the pandemic and tax collections remain very strong, we believe countywide unemployment figures (8.6% as of March 2021) could remain high if the current economic recovery weakens or is hampered by the ongoing pandemic. As a result, this could lead to a weakening of the town's economic metrics and potentially change our view of its economy.

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), updated annually, that 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 the town 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 backups 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.

Strong budgetary performance

Windsor Connecticut's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.0% of expenditures, and surplus results across all governmental funds of 3.1% in fiscal 2020. General fund operating results have been stable, at 2.5% in 2019 and 2.1% in 2018.

Fiscal 2020 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds.

The town has consistently maintained positive operations over the past three years. According to officials, the fiscal 2020 general fund surplus was primarily due to higher-than-budgeted revenues including state aid, and property tax collections among others. In addition, the realized savings in expenses including public safety, recreation, public works, and school department costs. For fiscal 2021, the town currently anticipates ending the year with another general fund surplus of about \$2.5 million. Management indicates the town expects lower-than-budgeted expenditures and is projecting higher-than-expected revenues including new revenues related to the Amazon fulfillment center and a tax lien sale. Property taxes account for 74% of general fund revenues followed by intergovernmental at 22%.

The fiscal 2022 budget totals \$125.8 million, which represents a 3% increase more than the previous year, and it includes a fund balance appropriation of \$2 million in order to limit its mill rate increase for the year. The town budgeted for a mill rate increase of less than 1% to 33.27. We understand the town is also assuming a modest 1% increase in state aid for the year and is planning for any major changes in its budget compared with the previous year. Most of the expenditure increase in its budget will cover administrative services in the form of a 6% increase over the previous year. The town also expects to \$2.9 million in American Rescue Plan funds in addition to \$5 million for the town's Board of Education. We understand the town has not included these funds in its fiscal 2022 budget.

While the pandemic and its lingering effects on the economy, such as elevated unemployment, could lead to budgetary weakness, we think management will likely continue its practice of budgeting conservatively and making the necessary adjustments to maintain balanced operations. In addition, we expect the town's strong tax collections, predominantly property tax revenue base, and additional federal funding for the town and state should allow Windsor to maintain a stable budgetary environment. Therefore, we think budgetary performance will likely remain strong.

Very strong budgetary flexibility

Windsor Connecticut's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 24% of operating expenditures, or \$32.0 million.

The town expects to continue to improve reserves in fiscal 2021, consistent with its track record of increasing reserves over the past few years. As a result, given that it has historically maintained reserves at about 24% of expenditures, on average, over the past three years and the town does not anticipate them to fall below 15%, we expect budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Windsor Connecticut's liquidity is very strong, with total government available cash at 45.5% of total governmental fund expenditures and 7.9x governmental debt service in 2020. 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, or 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. The town also does not anticipate any liquidity issues or the need to issue cash flow notes over the next few months. Therefore, we expect liquidity to remain stable.

Very strong debt and contingent liability profile

In our view, Windsor Connecticut's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 48.5% of total governmental fund revenue. Approximately 65.5% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

With this issuance, the town will have about \$70.0 million in total direct debt with \$2.6 million made up of short-term debt. Officials plan to issue about \$25 million over the next three years for various capital projects as part of its capital improvement plan. We do not expect this debt issuance to weaken its debt profile.

Pension and other postemployment benefits:

- We do not view pension and other postemployment benefits (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, based on 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, as a result of claims volatility and medical-cost and demographic trends, is likely to lead to escalating costs, the town has legal flexibility to alter OPEB, which we view as a potential means of mitigating escalating costs. It also maintains an irrevocable OPEB trust fund, which has a current balance of about \$3.5 million, as of fiscal 2020 and is 5.7% funded.

Windsor participates 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 1, 2011, for town employees and closed for new school department hires after July 1, 2013. New employees participate in the town's defined-contribution plan. The pension plan's net pension liability totaled \$28.6 million as of fiscal 2020 and was 70.6% funded, assuming a 7.0% discount rate.
- Connecticut Municipal Employees' Retirement System (CMERS), which is 71.2% funded, with a proportionate share of the town's net pension liability at \$10.4 million, assuming a 7.0% discount rate as of fiscal 2020.
- Windsor's defined-benefit, OPEB health care plan, which is 5.7% funded, with an OPEB liability of about \$58.4 million as of fiscal 2020.

Windsor's combined required pension and actual OPEB contributions totaled 3.5% of total governmental fund expenditures in 2020. Of that amount, 1.9% represented required contributions to pension obligations and 1.6% represented OPEB payments.

Although the town funds 100% of its ADCs for pensions, 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 7.0% discount rates, will result in slow funding progress. The town, however, has made changes to its pension assumptions and it adopted more conservative mortality tables in its last actuarial valuation. Therefore, although pension costs remain manageable at only 1.9% of expenditures as of fiscal 2020, we expect contributions will likely escalate.

Windsor established an OPEB trust fund on July 1, 2015. It deposited \$725,000 into the fund in fiscal 2020. The town budgeted to increase the contribution to \$750,000 in fiscal 2022. It also plans to continue to mitigate the future growth of the liability through contract negotiations.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- 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

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 4, 2021)

Windsor Twn GO rfdg bnds ser 2020B due 07/15/2024

Long Term Rating AAA/Stable Affirmed

Windsor Twn GO rfdg bnds (Federally Taxable) ser 2020C due 07/15/2032

Long Term Rating AAA/Stable Affirmed

Windsor Twn GO BANs

Short Term Rating SP-1+ Affirmed

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