

RatingsDirect®

Summary:

Windsor, Connecticut; General Obligation; Note

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Summary:

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Credit Profile

US\$8.81 mil GO bnds, issue of 2024 due 06/15/2039

<i>Long Term Rating</i>	AAA/Stable	New
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US\$1.36 mil GO BANs ser 2024 dtd 06/27/2024 due 06/26/2025

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

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Windsor Town GO BANs ser 2024 dtd 06/27/2024 due 06/26/2025

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

- S&P Global Ratings assigned its 'AAA' long-term rating to Windsor, Conn.'s roughly \$8.8 million series 2024 general obligation (GO) bonds.
- At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the town's roughly \$1.4 million bond anticipation notes (BANs).
- Finally, S&P Global Ratings affirmed its 'AAA' long-term rating on Windsor's outstanding GO debt.
- The outlook, where applicable, is stable.

Security

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. The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Windsor maintains a very strong capacity to pay principal and interest when the notes come due. The town has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides disclosure to market participants.

Proceeds will fund various capital improvements. We understand that Windsor plans to retire the notes after receiving state aid to support a school roof replacement.

Credit overview

Windsor's general creditworthiness is supported by its cautious and forward-looking management practices, enabling the town to maintain balanced-to-positive operations and grow its reserves to its currently very strong levels, and offsetting its local income and wealth metrics, which remain stable, but weaker than most of its 'AAA' peers.

An October 2023 revaluation significantly raised residential assessed values relative to nonresidential, triggering a steep increase in residential property taxes beginning in fiscal 2025 that may have factored into voters' decision to reject the town's initial fiscal 2025 proposed budget. The residential gross assessment share of real property increased

to 64% from 56%, while commercial share fell from 17% to 10% and the industrial share stayed relatively consistent at 22%, declining from 23%. Management attributes the revaluation results to a strong housing market, leading to increases of over 50% on average for single family homes, combined with declining demand for traditional office space post-pandemic, contributing to valuations of two large office properties declining by a combined \$90 million. The revaluation will be phased in over two years (in fiscals 2025 and 2026), to limit sharp tax increases for residents. Under state law, all classes of real property must be taxed at the same rate.

Windsor's initial proposed budget--rejected by voters by a narrow 1,028 to 1,024 vote--would have increased the average resident's property taxes by 13%, according to management, although the budget only contained a 3% expenditure increase and used \$3 million in fund balance to mitigate tax increases. Management expects a similar residential tax increase in 2026. Under Windsor's town charter, voters must approve the annual budget, and a vote on an updated budget proposal with minor revisions is planned for mid-June. If a budget is not approved by July 1, Windsor can temporarily operate using the fiscal 2024 budget and collect taxes equal to the fiscal 2024 levy. Taxable values from the revaluation, leading to increased residential property taxes, will still be in effect. If this happened, management indicated that it could defer capital projects or temporarily use fund balance to support operations until a budget is passed, enabling supplemental tax collections. In our view, Windsor's very strong reserves, combined with its flexibility to defer certain costs, mean the town is well-positioned to temporarily operate under a continuing resolution without significant budgetary stress. However, challenges approving a budget persist and lead to operating pressure, we could lower the rating.

A positive operating result is expected in fiscal 2024, with more than \$5 million in positive budgetary variance driven by stronger-than-expected building permit revenue and interest income offsetting roughly \$4 million in reserves appropriated for various nonrecurring needs. Windsor's reserves significantly exceed its target of 15% to 20% of general fund expenditures; in accordance with its fund balance policy, the town is contemplating gradually using reserves to mitigate tax increases during the next few years. While planned drawdowns may result in operating deficits, we expect Windsor to maintain its very strong fund balance.

The rating further reflects our view of Windsor's:

- Strong and stable local economy with access to Hartford and Springfield, Mass., rapidly increasing residential assessed values leading to significant residential property tax increases, and significant ongoing construction of several distribution centers and other industrial buildings;
- Decade-plus track record of operating surpluses that are expected to continue in fiscal 2024, while the fiscal 2025 budget includes significant unadopted residential property tax increases, reserves that we expect will remain very strong despite planned drawdowns to stabilize the tax rate, and very strong liquidity;
- Cautious budgeting practices and monthly budget-to-actual review, a six-year comprehensive capital improvement plan with identified funding sources, a detailed long-term financial plan that projects revenue and expenditure scenarios out five years, a debt management policy limiting debt service costs to 8% of governmental expenditures, an investment policy mirroring state law, a fund balance policy targeting a minimum of 15% to 20% of operating expenditures, steps to mitigate cyber risk, and a strong institutional framework score;
- Approximately \$72.7 million in direct debt following this issuance, with roughly \$24 million in debt plans for various capital projects during the next couple years, and manageable carrying charges; and

- Manageable retirement costs through its single-employer defined benefit pension plan (65% funded, \$39 million net pension liability or NPL), participation in the Connecticut Municipal Employees' Retirement System (69% funded, \$13 million proportionate share of the NPL), and its OPEB obligations (12% funded, \$48 million net liability); the town's plan was closed for new hires after July 1, 2011 for town employees and July 1, 2013 for school employees.

Environmental, social, and governance

We view the town's environmental, social, and governance factors as neutral in our credit rating analysis. Windsor integrates stormwater management projects into its capital plan.

Outlook

The stable outlook reflects our expectation that Windsor will maintain very strong reserves, although they may decrease from current levels, while adopting timely budgets on an annual basis.

Downside scenario

We could lower the rating if the town's reserves decrease beyond expectations, due to either budgetary imbalance or a capital drawdown, or if it faces persistent challenges adopting its annual budget. We could also lower the rating if the town's economic metrics weaken in comparison to its similarly rated peers.

Rating above the sovereign

Windsor's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. The town has a predominately locally derived revenue source, with independent taxing authority and independent treasury management from the federal government.

Windsor, Connecticut--key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Strong economy				
Projected per capita EBI % of U.S.	109			
Market value per capita (\$)	174,926	162,817	157,942	157,179
Population			29,054	28,665
County unemployment rate(%)			4.3	
Market value (\$000)	5,082,294	4,730,489	4,588,843	4,505,534
Ten largest taxpayers % of taxable value	24.7			
Adequate budgetary performance				
Operating fund result % of expenditures		3.9	1.0	3.5
Total governmental fund result % of expenditures		5.3	3.3	7.9
Very strong budgetary flexibility				
Available reserves % of operating expenditures		28.8	27.7	27.9
Total available reserves (\$000)		41,105	38,028	36,670
Very strong liquidity				
Total government cash % of governmental fund expenditures		49	49	54

Windsor, Connecticut--key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Total government cash % of governmental fund debt service		817	840	901
Very strong management				
Financial Management Assessment	Strong			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.9	5.9	6.0
Net direct debt % of governmental fund revenue	45			
Overall net debt % of market value	1.4			
Direct debt 10-year amortization (%)	74			
Required pension contribution % of governmental fund expenditures		2.4		
OPEB actual contribution % of governmental fund expenditures		2.0		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.				

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 31, 2024)		
Windsor Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Windsor Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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