S&P Global Ratings

RatingsDirect®

Summary:

Windsor, Connecticut; General Obligation

Primary Credit Analyst:
Anne E Cosgrove, New York (1) 212-438-8202; anne.cosgrove@spglobal.com

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

Table Of Contents

Summary:

Windsor, Connecticut; General Obligation

Credit Profile		
US$9.2 mil go rfdg bnds ser 2017 A due 07/15/2023		
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 and stable outlook to the Town of Windsor, Conn.'s series 2017 general obligation (GO) refunding bonds and affirmed its 'AAA' long-term rating, with a stable outlook, on the town's GO debt outstanding.

The town's unlimited-tax-GO pledge to levy ad valorem taxes without limitation as to rate or amount on all taxable property within its borders secures the bonds. Bond proceeds will refunding existing GO bonds and provide net present value savings.

Windsor's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the town has a predominately locally derived revenue source with 77.4% of general fund revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The long-term rating reflects our opinion of the following factors for the town:

- 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 slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 50.5% of total governmental fund expenditures and 9.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.5% of expenditures and net direct debt that is 31.4% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 95.9% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider Windsor's economy very strong. The town, with an estimated population of 29,016, 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 119% of the national level and per capita market value of $142,126. Overall, the town's market value fell by 1.3% over the past year to $4.1 billion in 2016. The county unemployment rate was 5.9% in 2015.

The town is a predominantly residential community with a large and diverse mix of commercial and industrial developments. Windsor covers a 31.1-square-mile area on the west bank of the Connecticut River and borders Hartford to the north. Interstate Highway 91 traverses the town, connecting residents with regional employment in Hartford and the surrounding metropolitan area. From 2005 to 2015, the number of jobs in Windsor increased by 33.5% to 24,883 from 18,636.

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

- Hartford Life (2,200 employees);
- VOYA (1,720);
- GE-Alstom Power (1,050);
- CIGNA (1,000);
- Amazon.com (800); and
- Walgreens (660).

In 2015, Amazon completed construction of a 1.5-million-square-foot regional fulfillment center.

According to management, a variety of initiatives are underway to further improve highway access, manage transportation demand, and enhance community livability. We note plan approval has been granted to a 600-acre mixed-use project known as Great Pond Village in the Day Hill Road Corporate Area. In addition, a 130-unit market-rate apartment development was completed in Windsor Center in early 2017. This $18 million investment will be completed in the first quarter of calendar 2017. The Connecticut Department of Transportation has initiated a project for enhanced commuter rail service between New Haven and Springfield, which is expected to more than double the stops in Windsor by the beginning of 2018.

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 Windsor's key budgeting practices, management uses three-to-five years of historical information to formulate its annual budget revenues and expenditure assumptions. Annual revenue growth trends are informed by local property tax assessments, the governor's budget for state aid, and other economic and demographic information. 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-actuals 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 is updated annually and identifies internal and external funding sources. Windsor 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. The town also complies with state guidelines and statutes for investments. Management tracks investment earnings and holdings on a quarterly basis, which is reported in the town comprehensive annual financial report.

The town maintains a formal debt issuance policy. Windsor 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. In 2015, Windsor updated its formal reserve policy, which requires the maintenance of an unassigned general fund balance of 15%-20% of expenditures and is based on an evaluation of best practices. In the policy, the town also includes a provision to replenish the fund balance if it falls below the minimum reserve amount by allocating at least 25% of the difference per year until the policy minimum is achieved.

Strong budgetary performance

Windsor's budgetary performance is strong in our opinion. The town had slight operating surpluses of 0.7% of expenditures in the general fund and of 0.7% across all governmental funds in fiscal 2016. General fund operating results of the town have been stable over the last three years, with a result of 2.2% in 2015 and a result of 0.3% in 2014.

In fiscal 2016, Windsor realized an operating surplus of nearly $766,000, or 0.7% of general fund expenditures. For analytical consistency, we adjusted out approximately $7.6 million for recurring transfers into other governmental funds for capital expenditures and debt service from the general fund. Management attributes the operating surplus largely to better-than-budgeted property tax collections, building permit fees and conveyance fees, which totaled $853,000 over budget. At the same time, the town realized lower-than-budgeted expenditures, including cost savings from salary savings, vacant positions, as well as savings in the storm budget.

Management expects to close fiscal 2017 with a surplus and expects to add to the fund balance. General fund revenues are projected to exceed budget by $1.2 million owing to better-than-budgeted property tax collections and building fees and a one-time delinquent property tax sale. In addition, on the expenditure side, management expects expenditure savings of about $472,000 due to vacant positions.

Windsor's electorate will vote on a proposed fiscal 2018 budget during a town-wide referendum in May 2017. Management noted that there is some uncertainty regarding the state proposed budget and we note that there are potential decreases in education cost-sharing grants as well as the potential for Windsor to have to pay into the Connecticut Teachers Retirement System. This is accounted for in the preliminary 2018 budget. We note that management is looking at various actions to reduce expenditures, including increasing the mill rate as well as appropriating a small portion of reserves, or an estimated $900,000. Management historically sets aside the general fund reserve for general fund stabilization, but the town typically recovers the majority of this appropriation.

Furthermore, 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 more than 77.4% of total revenue. Tax collections have historically remained strong with current collections exceeding 98.8% during the past five years. Intergovernmental sources represent the second highest share of the town's general fund revenue at 19.1%.

Very strong budgetary flexibility

Windsor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 21% of operating expenditures, or $24.4 million.

Due, in part, to strong budgetary performance from fiscal years 2013-2016, the town increased available fund balances to $24.4 million, or 22.9% of total general fund expenditures, leading to improved budgetary flexibility. Other than Windsor's year-over-year $900,000 fund balance appropriation, we understand management does not currently plan to draw down reserves in fiscal 2017; however, we note that there is the potential for a drawdown in fiscal 2018 depending on the enacted state budget. Management expects budgetary performance to remain strong and stable.

Furthermore, Windsor has a written reserve policy to maintain available fund balances of 15%-20% of general fund expenditures, which the town has historically met and sustained. The town council revised and approved the new reserve target in September 2015; previously, the policy required the maintenance of reserves at 8%-11% of expenditures. According to management, 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. Therefore, we expect the town's flexibility to remain very strong over the next two fiscal years.

Very strong liquidity

In our opinion, Windsor's liquidity is very strong, with total government available cash at 50.5% of total governmental fund expenditures and 9.3x governmental debt service in 2016. 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. In addition, the town does not have any variable-rate or direct-purchase debt; management has confirmed it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Town investments are subject to state guidelines. Windsor invests its cash in low-risk assets, including the state's short-term investment funds, certain mutual and money market funds, or short-term certificates of deposit, which we do not review as aggressive. For these reasons, the town's 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 5.5% of total governmental fund expenditures, and net direct debt is 31.4% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, and approximately 95.9% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following the current issue of bonds and notes, Windsor will have approximately $38.7 million of total direct debt outstanding. In addition, the town's proportionate share of overlapping debt as a member of the Metropolitan District

Commission is $79.3 million. Over the next two-to-three years, the town will likely issue about $4 million-$5 million annually in additional debt to finance various capital projects. Furthermore, Windsor is considering options for the construction of a new public safety facility, of which phase one would cost an estimated $3 million, as well as upgrades to its existing facility; however, it has not sought voter approval to issue the additional debt. Therefore, due to Windsor's low overall net debt and rapid debt amortization, we do not expect our assessment of the town's debt profile to weaken.

The town's combined required pension and actual other postemployment benefits (OPEB) contributions were 3.6% of total governmental fund expenditures in 2016. Of that amount, 1.5% represented required contributions to pension obligations, and 2.1% represented OPEB payments. Windsor made its full annual required pension contribution in 2016.

Windsor administers a defined-benefit pension plan that covers substantially all town employees, except for police, who participate in a state-administered plan, and those eligible for membership in the Connecticut Teachers' Retirement Plan. The funded status of this plan was 88.3% as of the July 1, 2016, valuation; this was based on a 7.25% discount rate. We note the funded ratio fell below 100% in 2013 due to the lowering of the discount rate to 7.50% from 7.75% along with other actuarial recommended changes. A defined-contribution plan, which management expects will help reduce future pension cost increases, covers all newly hired town employees.

The town's proportionate share of the net pension liability was approximately $15.4 million as of the most recent actuarial valuation, July 1, 2016. The town contributed $1 million, or 100% of its actuarially determined contribution (ADC), in fiscal 2016. Historically, the town has funded, and continues to fund, its ADC in full.

Windsor also offers limited OPEB to its retirees in the form of health insurance coverage, 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. The town contributed $2.6 million, or 38.4%, of its annual contribution. Furthermore, it established a trust fund beginning July 1, 2015; the town initially deposited $390,000 into the trust for fiscal 2015, and $350,000 for fiscal 2016. It expects to deposit $450,000 in fiscal 2017 and $550,000 is proposed for fiscal 2018.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects S&P Global Ratings' view that Windsor will maintain its very strong budgetary flexibility given its historically strong budget performance and very strong management. The town's location and access to the Hartford-West Hartford-East Hartford MSA and very strong underlying economy further support the rating. In addition, we anticipate Windsor will maintain a very strong debt and contingent liability profile. 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 deterioration in budgetary performance leading to significantly weakened reserves, we could lower the rating.

Ratings Detail (As Of April 11, 2017)		
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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.