

RatingsDirect®

Summary:

Windsor, Connecticut; General Obligation; Note

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Credit Profile

US\$6.725 mil GO bnds ser 2022 due 06/15/2037

Long Term Rating AAA/Stable New

Windsor GO

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Windsor, Conn.'s series 2022 general obligation (GO) bonds, totaling \$6.725 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 bond anticipation notes (BANs). The outlook, where applicable, is stable.

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 2022 bond proceeds to fund various capital improvement projects.

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.

Credit overview

The rating reflects the town's steady financial performance and very strong fund balances which are supported by robust management practices and a strong tax base with access to both Hartford and Springfield metropolitan statistical areas (MSAs). In addition, we view the low debt as favorable, coupled with the town's manageable retirement costs. We expect that management will continue to make the necessary budgetary adjustments to maintain balanced operations and stable reserve levels.

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 2022, local property taxes generated 84% 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.)

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

- Stable tax base with access to Hartford MSA;

- Strong management, supported by a strong institutional framework;
- Consistent surpluses which continue to support very strong fund balances; and
- Low carrying charges with predictable debt plans offset by rapid amortization, and limited pension pressures.

Environmental, social, and governance

We evaluated the town's environmental, social, and governance (ESG) factors relative to its economy, financial measures, management, and debt and long-term liability profile, and consider each a credit neutral in our analysis. Additionally, we believe the town has taken appropriate measures to mitigate cyber security risks.

Stable Outlook

Downside scenario

All else equal, if the town's budgetary performance deteriorates, resulting in declines in fund balance with no plans to restore, we could lower the rating.

Credit Opinion

Residential community with ongoing economic development

Windsor has had steady assessed value (AV) growth of 1%-2% annually between revaluation years; in the last two revaluations, the town's AV increased by 5% and similar results are expected in 2023 reflecting the commercial developments underway. The town benefits from its location between Hartford and Springfield as a regional job center, with officials noting the presence of approximately 26,000 jobs, but only approximately 16,000 working-age individuals residing there. The opening of the \$250 million Amazon fulfillment center has made the company the largest local employer with a staff of over 2,500. Other notable employers include Hartford Life (1,800) and Voya (1,700). In addition, recent developments include a 600-acre mixed-use development, of which 230 units have been completed with an estimated value of \$25 million. Permitting is also in place for a \$100 million 750-square-foot industrial distribution facility, which will include a multiphase onsite 30-acre data center for Verizon. While 2021 had the largest building permit values in recent years due to the Amazon fulfillment center, activity remains strong with total value in 2022. We expect that the town will benefit from its 2023 revaluation, and the local economy will remain stable.

Well-embedded policies and practices with long-term focus

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. Windsor updates its comprehensive six-year capital improvement plan (CIP) annually; it includes internal and external funding sources. It also maintains a five-year financial forecast for revenue and expenditures.

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 it 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. 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. Windsor's investment policy mirrors state guidelines and statutes for investments. Management tracks investment earnings and holdings quarterly and reports annually to the council.

Consecutive surpluses support fund balance growth

Our analysis includes adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Property taxes account for 84% of general fund revenues, followed by intergovernmental revenues at 12%.

The town expects a surplus in fiscal 2022, marking at least five years of positive results. Windsor generated a \$4.6 million operating surplus in its general fund in fiscal 2021. Management attributes the positive performance to conservative budgeting practices, coupled with a high volume of building permit activity, particularly from Amazon, which made up \$2 million of the total. The town expects another \$4 million surplus in fiscal 2022 as the economic momentum continues. As it currently exceeds its 25% fund balance threshold, management proposes to allocate a portion of the surplus toward a tax stabilization fund for future use, as well as toward clean energy, reducing other postemployment benefits (OPEBs), and other capital projects. We anticipate available fund balance will remain level, with no plans to draw down.

The fiscal 2023 budget totals \$129.9 million, which could represent a 3.3% increase compared to the prior year; it includes a fund balance appropriation of \$1.8 million to keep the mill rate flat. The town continues to manage its \$8.5 million in American Rescue Plan Act allocation outside its budget, with the intention to spend it on economic competitiveness, safe neighborhoods, and community health.

Town investments are subject to conservative state guidelines and its investment policy; in our view, it does not hold any aggressive investments nor any direct-purchase debt which could pose a contingent liquidity risk. Overall, we expect Windsor's financial profile to remain stable.

Manageable debt

Including this issuance, the town will have about \$67.2 million in total direct debt by year-end fiscal 2022. Officials plan to issue additional debt over the next few years in line with the town's CIP, but we do not expect it to have a material effect on the debt profile given the associated long-term planning and rapid amortization.

Limited pension and OPEB pressures

- 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, based on the strength of the town's revenue base and conservative budgeting, which continues yield consistent results.
- While it funds OPEB liabilities on a pay-as-you-go basis, the town has legal flexibility to alter OPEBs, 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 \$5.45 million as of fiscal 2021.

As of fiscal 2021, 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 (NPL) totaled \$16.5 million as of fiscal 2021 and was 83.7% funded, at a 6.875% discount rate.
- Connecticut Municipal Employees' Retirement System (CMERS), which is 71.2% funded, with a proportionate share of the town's NPL at \$31.5 million, at a 7.0% discount rate.
- A defined-benefit, OPEB health care plan, which is 8.43% funded, with an OPEB liability of about \$59.2 million.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Windsor, CT -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Weak economy				
Projected per capita EBI % of U.S.	110			
Market value per capita (\$)	160,044			
Population		28,673	28,772	
County unemployment rate(%)		8.1		
Market value (\$000)	4,588,933	4,506,781	4,441,856	
Ten largest taxpayers % of taxable value	25.1			
Strong budgetary performance				
Operating fund result % of expenditures		3.5	1.0	2.5
Total governmental fund result % of expenditures		8.1	3.1	5.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		27.9	23.8	25.3
Total available reserves (\$000)		36,670	32,040	30,737
Very strong liquidity				
Total government cash % of governmental fund expenditures		54	46	49
Total government cash % of governmental fund debt service		901	790	869

Windsor, CT -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Adequate management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.0	5.8	5.6
Net direct debt % of governmental fund revenue	49			
Overall net debt % of market value	3.2			
Direct debt 10-year amortization (%)	68			
Required pension contribution % of governmental fund expenditures		2.4		
OPEB actual contribution % of governmental fund expenditures		1.7		

Strong institutional framework

EBI--Effective buying income. OPEB--Other postemployment benefits.

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 June 6, 2022)

Windsor Twn GO rfdg bnds ser 2020B due 07/15/2024		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Windsor Twn GO rfdg bnds (Federally Taxable) ser 2020C due 07/15/2032		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Windsor Twn GO BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed

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