S&P Global Ratings

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Summary:

Monroe, Connecticut; General Obligation

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Credit Profile		
US$5.57 mil GO bnds ser 2024 due 07/15/2034		
Long Term Rating	AAA/Stable	New
Monroe GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Monroe GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Monroe, Conn.'s $5.570 million series 2024 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's GO debt outstanding.
- The outlook is stable.

Security

Monroe's full-faith-and-credit pledge, including the ability to levy ad valorem property taxes without limitations as to rate or amount, secures the bonds. Proceeds will be used to finance various capital projects undertaken by the town.

Credit overview

The rating reflects our opinion of Monroe's steady finances and robust reserves, supported by modest economic growth, and good management policies and practices. Monroe's strong, primarily residential property tax base, with incomes that are in line with 'AAA' rating medians in the state and nationally, further supports the rating.

Monroe has posted nine consecutive general fund surpluses, due primarily to its conservative budgeting and highly predictable revenue and expenditure framework. Property tax revenue accounts for 78% of general fund revenues, while 18% is intergovernmental, predominantly from school aid, which has been stable. Fiscal 2023 saw positive variances on both its revenue and expenditure profile as well as another addition to the fund balance. Officials indicate a $3 million appropriation from the fund balance in fiscal 2024, with expectations that reserves will remain very strong. Budget-to-actuals are tracking well for fiscal 2024, as another surplus is expected. Fiscal 2025 budget totals $104.1 million, or a 4.37% increase from the previous year, with increases in education and public safety spending.

The town has approximately $31.1 million in total direct debt outstanding. Overall net debt as a percentage of market value is low, and the town continues its rapid amortization. Management plans on layering in new debt as old debt begins to fall off. We do not currently view pension and other postemployment benefits (OPEB) liabilities as a source of credit pressure for Monroe.

The town participates in the following plans:

- The Town Retirement Income Plan, a single-employer, defined-benefit plan: 94.4% funded, with a net pension liability (NPL) of $842,579;
- The Education Retirement Income Plan, a single-employer, defined-benefit plan: 91.38% funded, with an NPL of $1.3 million;
- Connecticut Municipal Employees Retirement System (MERS), a cost-sharing, defined-benefit plan: 68.7% funded, $8.9 million NPL;
- Police OPEB Plan, a single-employer, defined-benefit health care plan: 88.9% funded, with a net OPEB liability of $277,440; and
- Education OPEB Plan, a single-employer, defined-benefit health care plan: 0% funded, with a net OPEB liability of $8.7 million.

The 'AAA' rating reflects our view of Monroe's:

- Strong local economy, which is nearly fully built out, with stability in leading employers and taxpayers and growth in the tax base due to appreciation in existing properties. The town has added $21.5 million in new assessed value (AV) since 2021, with 68% in residential and 31% in commercial value. We expect housing demand to result in incremental growth in AV;
- Consistently positive operating results, which are expected to continue in fiscal 2024 with an estimated $627,000 addition to fund balance following appropriations;
- Good financial policies and practices under our Financial Management Assessment (FMA) methodology, highlighted by conservative budgeting with monthly budget-to-actuals reported to the board, a five-year capital improvement plan encompassing the town and board of education that is updated annually and includes funding sources and priorities, an investment management policy that adheres to state guidelines, debt management policy that limits debt service carrying charges to 8% of budget expenditures while maintaining a minimum 10-year amortization of 70%, and a reserve policy of maintaining a minimum of 8.3% in unassigned general funds as a percentage of annual operating expenditures, with a target of 12.5% and a maximum of 16.6%; and
- Favorable debt and liabilities profile.

Environmental, social, and governance

We analyzed Monroe's environmental, social, and governance (ESG) risks relative to the town's economy, management, financial measures, and debt and liability profile, and determined that all are neutral in our credit rating analysis. The town is taking precautions to mitigate cyber risk.

Outlook

The stable outlook reflects our expectation that Monroe will maintain positive operations and an ongoing commitment to maintaining reserves while keeping its debt and liabilities profile low, all supported by a steady tax base.

Downside scenario

We could lower the rating if the town has a significant reduction in fund balance, whether due to recurring imbalances or budgeted drawdowns.

Rating above the sovereign

We rate Monroe higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, due to 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. (For more information, see "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013.)

Monroe, Connecticut--Key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	152			
Market value per capita ($)	178,375			
Population		18,846	19,737	19,494
County unemployment rate (%)			4.1	
Market value ($000)	3,361,647	3,386,974	3,281,560	
Ten largest taxpayers % of taxable value	6.1			
Strong budgetary performance				
Operating fund result % of expenditures		4.6	1.3	4.5
Total governmental fund result % of expenditures		1.6	6.7	3.8
Very strong budgetary flexibility				
Available reserves % of operating expenditures		26.5	23.1	20.1
Total available reserves ($000)		27,360	22,714	18,717
Very strong liquidity				
Total government cash % of governmental fund expenditures		32	38	29
Total government cash % of governmental fund debt service		627	633	487
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.0	6.0	5.9
Net direct debt % of governmental fund revenue	25			
Overall net debt % of market value	0.9			
Direct debt 10-year amortization (%)	90			
Required pension contribution % of governmental fund expenditures		1.3		
OPEB actual contribution % of governmental fund expenditures		0.2		
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