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Ratings

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Summary:

Monroe, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$9.815 mil GO bnds ser 2021 due 11/15/2041		
Long Term Rating	AAA/Stable	New
Monroe GO bnds		
Long Term Rating	AAA/Stable	Upgraded
Monroe GO rfdg bnds		
Long Term Rating	AAA/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating on Monroe, Conn.'s general obligation (GO) debt to 'AAA' from 'AA+'. At the same time, we assigned our 'AAA' long-term rating to the town's series 2021 $9.8 million GO bonds. The outlook is stable.

The town's full faith and credit pledge, payable from the levy of an unlimited ad valorem tax on all taxable property within its borders, secures the bonds. Proceeds will be used to fund the town's 2020 and 2022 capital budgets, including equipment purchases and road reconstruction projects, and to fund phase 2 of its EMS facility.

Credit overview

The upgrade reflects our view of the town's consistently positive operations, backed by a management team that adheres to the town's well-embedded codified policies and procedures. Further supporting the 'AAA' rating is the town's comparatively minimal fixed-cost pressures, with a low debt burden and annual debt and retirement liability costs that make up less than 10% of its budget. Monroe has shown strength in its adaptability and oversight through various economic cycles, including both an uncertain state aid environment, as well as a national pandemic. While its reserve levels are below those of national peers, management has produced several years of surplus operations, despite the lack of formalized long-term operational planning. We expect it will continue to produce at least balanced operations resulting in a consistent, stable financial profile, with stability further afforded by limited future capital needs.

With access to a broad and diverse metropolitan statistical area (MSA), the town maintains very high per capita household incomes and market values. While the community is largely residential, recent economic developments and real estate appreciation have increased taxable values, albeit modestly, over the last several years, leading to sustained, projected positive operations, and reserve levels comparable to those of its in-state peers. We believe management has been prudent in its budgetary estimating, and has been proactive with its largest departments, championing collaboration and transparency in the budget development process. Debt ratios for the town are low in comparison to 'AAA'-rated peers, and are projected to be sustained at current levels, as the town does not anticipate issuing more debt than it amortizes over the next several years. Moreover, pension and other postemployment benefit

(OPEB) costs are currently low and controllable, and management remains proactive in making the necessary budgetary adjustments to keep them from affecting overall budgetary performance.

The 'AAA' rating reflects our assessment of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good 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 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.6% of total governmental fund expenditures and 4.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 6.2% of expenditures and net direct debt that is 33.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 91.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

We view Monroe's environmental risks as in line with the sector, as we believe management remains proactive in improving infrastructure resiliency, following federal standards for preparedness and response to reduce the town's exposure to acute weather-related risks and resulting flooding. We also have analyzed the town's social and governance risks relative to its economy, budgetary outcomes, management, and debt and liability profile, and view them as consistent with those of the sector.

Stable Outlook

Downside scenario

While we don't anticipate a change in the rating during the outlook period, we could take negative action if the town has multiple years of operating deficits and a significant reduction in fund balance.

Credit Opinion

Very strong economy

We consider Monroe's economy very strong. The town, with a population of 19,512, is in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 144% of the national level and per capita market value of $164,059. Overall, market value grew by 0.8% over the past year to $3.2 billion in 2022. The county unemployment rate was 7.9% in 2020.

Monroe is a residential suburb as residential properties make up roughly 75% of the total taxable grand list. The community maintains above-average household incomes relative to the nation, and the grand list has been growing, albeit at a modest pace over the last several years. Officials anticipate growth will continue, given extensive commercial and residential new and redevelopment underway, even throughout the duration of the pandemic. Looking ahead, given the integration of Monroe into the broader economy and the expectation of continued investment in commercial and industrial properties, we expect the economy will remain very strong throughout the outlook period, although we also expect taxable growth to remain modest and in line with years past.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Monroe is conservative in its management and budgeting practices. The town has done well collaborating with the Board of Education (BOE) on budgetary and planning matters over the past several years. Management seeks to reduce costs and maintain financial sustainability when drafting the budget and uses performance metrics as a means to control expenditures. In doing so, it considers historical trends and future concerns when developing revenue and expenditure assumptions. The finance department provides monthly financial reports to the board of finance, and when necessary, makes appropriate midyear adjustments.

The town's charter, along with state statutes, governs its investment policies and procedures. Monroe does not produce financial forecasts, but it does maintain a robust five-year rolling capital improvement plan (CIP) that is updated and reprioritized annually. It also maintains a formal debt management policy that limits debt service carrying charges to 8% of budgeted expenditures, with a minimum 10-year amortization payout of 70%. Total debt is capped at 1.5% of the full value, which is below that statutory minimum. The town also maintains a formal reserve policy to which it has been adhering for several years and just recently revised. The fund balance policy is to maintain at minimum 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%.

Strong budgetary performance

Monroe'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 1.5% in fiscal 2020. General fund operating results have been stable, at 1.6% in 2019 and 2.7% in 2018.

The town's recent track record of reporting positive operating results reflects strong budgeting practices and financial management, as highlighted by a general fund surplus produced in each of the last eight fiscal years. Through prudent revenue estimating and monitoring of expenditures, the town realized positive revenue variances in each of the last two fiscal years, reflecting higher tax collections and underspending on the expenditure side. It additionally set aside $1.5 million of fund balance as committed for contingencies that could arise related to the pandemic and special education needs, but ended up increasing fund balance in each year, not needing to use any portion of this contingency.

The fiscal 2021 budget (totaling $90.0 million), initially included a use of $8.5 million in appropriated fund balance, reflecting conservative tax collection estimations. Actual unaudited results show a $3.1 million (3.7% of operating expenditures) surplus in the general fund, with a $780,000 increase to fund balance after a sizable transfer out to capital and reserve funds. It is standard practice for the town to transfer monies out of the general fund for ongoing capital after positive year-end results are achieved. Fiscal 2021's transfer also included a one-time payout to close the BOE medical reserve fund. The budget for fiscal 2022 (totaling $93.0 million), includes the appropriation of $4.2 million on fund balance ($3.1 million coming from unassigned). The main budget generators include increased appropriations toward the BOE. Given the expectation for the town to receive $5.75 million in aggregate ARP funding, management expects that year-end results will be strong, as has been the case historically.

We believe Monroe 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 approximately 82% of general fund revenue. Intergovernmental sources represent the second-highest share of the general fund revenue, at about 16%. Given the stable budgetary and economic environment, and the town's record of accomplishment in making prudent budgetary decisions, we expect budgetary performance to remain stable and strong.

Very strong budgetary flexibility

Monroe's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 18% of operating expenditures, or $16.4 million. Due to ongoing positive operating results, the town continues to add to its available reserves. Given that management is anticipating positive budgetary performance in fiscal years 2021 and 2022, we expect that the town will continue to add to available reserves and that budgetary flexibility will remain very strong.

As noted above, Monroe has a written reserve policy to target general fund reserves at 12.5% of expenditures, which it has recently exceeded and sustained. Moreover, for any amounts in excess of 16.6% of expenditures, the town's policy allows management to appropriate toward capital. For fiscal 2020, it maintained a capital reserve fund with a balance of $1.7 million, which provides the resources to manage its CIP while sustaining its general fund balances. In all, given its record of accomplishment and proactive budgeting posture, we expect the town's reserve position to remain very strong.

Very strong liquidity

In our opinion, Monroe's liquidity is very strong, with total government available cash at 25.6% of total governmental fund expenditures and 4.2x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary. Monroe is a frequent issuer of GO debt, which allows for strong access to external liquidity. In addition, it does not currently have any variable-rate or direct-purchase debt. Based on expectations for fiscal 2021 and beyond, we expected the town's liquidity profile to remain very strong.

Very strong debt and contingent liability profile

In our view, Monroe's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.2% of total governmental fund expenditures, and net direct debt is 33.9% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, and approximately 91.9% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Following this issuance, the town will have about $34.8 million in direct debt outstanding, when factoring in roughly $600,000 of outstanding capital leases. In the coming years, management expects to issue debt in line with its CIP, estimating $5.0 million annually. We expect that any forthcoming issuances will be offset by the rolling off of existing debt. As a result, we do not believe future debt will materially affect the debt profile, and that it will remain very strong.

Pensions and other postemployment benefits:

We do not view pension and OPEB liabilities as a source of credit pressure for Monroe at this time because of its limited contributions compared with budget. Pensions face high risk of unexpected contribution escalations if market underperforms and does not meet its assumptions. However, we expect contributions will likely remain affordable, given the current relatively low carrying charge, the strength of the town's revenue base, and our expectation that management will factor rising costs into its budget. OPEB liabilities are largely payable on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs over-time.

As of June 30, 2020, the town participated in the following plans:

- The Town Retirement Income Plan, a single-employer defined-benefit plan: 89% funded with a net pension liability (NPL) of $1.5 million;
- The Education Retirement Income Plan, a single-employer defined-benefit plan: 83% funded with an NPL of $2.5 million;
- Connecticut Municipal Employees Retirement System (MERS), a cost-sharing defined-benefit plan: 73% funded, $6.4 million NPL;
- Police OPEB Plan, a single-employer defined-benefit health care plan: 57% funded with a net OPEB liability of $950,000; and
- Education OPEB Plan, a single-employer defined-benefit health care plan: net OPEB liability of $13.5 million.

Monroe's combined required pension and actual OPEB contributions totaled 1.9% of total governmental fund expenditures in 2020. Of that amount, 1.4% represented required contributions to pension obligations, and 0.5% represented OPEB payments. Historically, the town has funded its actuarially determined contribution (ADC) in full, which we expect will continue. Management expects to maintain and monitor plan assumptions on a regular basis and will continue to adapt the operating budget to accommodate increased costs. We anticipate it will continue to fund the full ADC. In addition, we understand that the town has established trust funds and has been appropriating monies toward the Police OPEB liability for several years. At this time, we do not anticipate that pension or OPEB costs will pressure the operating budget, or that unfunded retirement liabilities will alter our overall view of the town's general credit quality.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

- 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