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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$8.085 mil GO bnds ser 2018A due 06/15/2028		
Long Term Rating	AA+/Stable	New
US$7.01 mil GO rfdg bnds ser 2018B due 04/01/2026		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Monroe, Conn.'s series 2018 series A and series B general obligation (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 in the town, secures the bonds. Officials plan to use 2018A bond proceeds to fund various capital improvement projects. The series B bonds will refund a portion the town's series 2010B bonds for interest savings.

The rating reflects our opinion of the following factors for the town, including its:

- 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 an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 12.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.0% of total governmental fund expenditures and 2.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.3% of expenditures and net direct debt that is 44.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 94.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Monroe's economy very strong. The town, with an estimated population of 19,792, 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 177% of the national level and per capita market value of $156,793. Overall, market value grew by 0.6% over the past year to $3.1 billion in 2019. The county unemployment rate was 4.8% in 2016.

Monroe is a residential suburb and residential properties make up roughly 89% of the total grand-list. The community is fairly affluent with above-average household incomes relative to its neighboring peers. The grand-list has been growing, albeit at a modest pace over the last several years, with officials anticipating additional growth due to commercial and residential projects nearing completion. Over the past three years, building permits in the town have been in excess of $22 million, which is well above the $11.6 million average recorded between 2010 and 2015.

Looking ahead, given the integration of Monroe with 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. Management seeks to reduce costs and maintain financial sustainability when drafting the budget. The town uses performance metrics as it develops an annual budget to help manage expenditure increases. Management considers historical trends and future concerns when developing revenue and expenditure assumptions. The town does monthly financial reporting to the board of finance and has been keen on making midyear expenditures adjustments on noticing deviations.

The town's charter along with state statutes governs the investment policies and procedures. Monroe does not produce financial forecasts, but it does maintain a robust five-year rolling capital improvement plan that is updated and reprioritized annually. The town 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 that it has been adhering to for several years. The fund balance policy is to maintain at minimum 5% in undesignated general funds as a percentage of annual operating expenditures.

Strong budgetary performance

Monroe's budgetary performance is strong, in our opinion. The town had surplus operating results in the general fund of 2.8% of expenditures, and slight surplus results across all governmental funds of 1.3% in fiscal 2017.

Monroe's budgetary performance has been robust for several years, having produced a general fund surplus in each of the last six fiscal years. This is notable given that the economic environment across the state has been challenging.

Across Connecticut, municipalities have been facing an unpredictable state aid environment due to the state's fiscal challenges. Monroe's adopted 2018 budget included a $4.4 million reduction in state aid, in addition to a $1 million budgeted contingency. Despite these challenges, the town is anticipating an additional surplus of $1.7 million due to continued conservative budgeting practices and the adaptation to the state aid changes.

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 78% of general fund revenue. Intergovernmental sources represent the second-highest share of the general fund revenue, at about 19%. Tax collections have historically remained strong, with current collections exceeding 98% during the past five years. We expect that management will remain proactive in managing anticipated changes in state aid, which we view as the town's largest current budgetary uncertainty. Consequently, we expect that the town will continue to produce strong budgetary results over the next two years.

The town adopted the fiscal 2019 budget in April. The budget totals $82.9 million, which is an increase of 2.5% over the prior year. This budget reduces the mill rate by 1.4% due to the appreciable gains in the grand-list. The main budget drivers include increase appropriations toward the board of education (BOE). Notably, we have observed some deficiencies in the town's internal service funds, particularly in the BOE's medical and dental self-insurance funds. An unusually high claims experience has weakened performance in those funds. Nevertheless, the town and the BOE have made the necessary adjustments and have increased employer contributions into the fund over the past two fiscal years, thereby curing any perceived imbalance.

Strong budgetary flexibility

Monroe's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 12.9% of operating expenditures, or $12.0 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 2018, 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 maintain available fund balances in excess of 5% of general fund expenditures, which it has historically exceeded and sustained. Given its track record and proactive budgeting posture, we don't anticipate any deterioration to current reserve balance over the medium term.

Very strong liquidity

In our opinion, Monroe's liquidity is very strong, with total government available cash at 17.0% of total governmental fund expenditures and 2.7x governmental debt service in 2017. 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 the 2018 year-end expectations, 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 6.3% of total governmental fund expenditures, and net direct debt is 44.1% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 94.5% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

We calculate total direct debt to be roughly $45.4 million when factoring in roughly $1.7 million of outstanding capital leases. Looking ahead, we anticipate debt will remain at existing levels given continued adherence to the town's debt management policies and targets. The town continues to assume an aggressive stance on its debt payout, which we believe will allow it to issue new bonding as existing debt rolls off.

Monroe's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.6% of total governmental fund expenditures in 2017. Of that amount, 1.4% represented required contributions to pension obligations, and 1.2% represented OPEB payments. The town made its full annual required pension contribution in 2017.

Monroe administers a defined-benefit pension plan that covers substantially all town employees, except for police (who participate in a state-administered plan), and BOE employees eligible for the Connecticut Teachers' Retirement Plan. Notably, the town closed the plan to all town-side bargaining units as of July 2016.

The plan fiduciary net position as a percentage of the total pension liability was 86% as of June 30, 2017; this was based on a 6.75% discount rate which is below the industry average. The town's net pension liability was approximately $1.7 million. 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.

Monroe also offers OPEBs to its retired Police and BOE employees. It has established trust funds and has been appropriating monies toward the Police OPEB liability for several years. As of June 30, 2017, the plan fiduciary net position as a percentage of the total OPEB liability for the Police plan was 19% with a net OPEB liability of $1.7 million. As for the BOE plan, the unfunded liability was $9.5 million as of the last actuary valuation. The BOE has not appropriated any money toward this liability, but is planning to do so in the future.

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.

We lowered our predictability subfactor twice during the past 15 months based on our view that local governments are operating in a less predictable environment when budgeting and forecasting state revenue. This action resulted from delayed passage of the state's biennial budget in 2017, which slowed payments to local governments, led to a period of significant budgetary stress, and forced municipalities to adopt 2018 budgets amid significant uncertainty. While we view the state's creation of the Municipal Accountability Review Board (MARB) in 2017 as a formal system support mechanism for identifying fiscal distress and providing assistance to municipalities, we continue to monitor MARB's efficacy and its potential effect on the legal and practical environment in which local governments operate in Connecticut. (For more information, please see the article, titled "Connecticut Rating Actions Do Not Affect Strong Institutional Framework Score on Local Governments," published April 19, 2018, on RatingsDirect.)

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Monroe's management will continue to adjust the operating budget to account for budgetary pressures resulting from declining state aid. We expect this will result in at least balanced operating results, leading to the maintenance of very strong budgetary flexibility and liquidity. We do not expect to change the rating during the two-year outlook period.

Upside scenario

We could raise the rating if economic indicators improve to levels commensurate with higher rated peers, along with strengthened financial management policies and practices, particularly in the area of financial planning.

Downside scenario

If the town has multiple years of operating deficits and a significant reduction in fund balance, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.