

CREDIT OPINION

6 October 2016

New Issue

Rate this Research >>

Contacts

Robert Azrin 617-535-7692
 VP-Senior Analyst
 robert.azrin@moodys.com

Nicholas Lehman 617-535-7694
 AVP-Analyst
 nicholas.lehman@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Monroe (Town of), CT

New Issue - Moody's Assigns Aa2 to Monroe, CT's GO Ref. Bonds, Issue of 2016, Ser. B

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the town of Monroe, CT's \$7.2 million General Obligation Refunding Bonds, Issue of 2016, Series B (Bank Qualified). Moody's maintains a Aa2 rating on the town's approximately \$41 million of outstanding parity debt.

The Aa2 rating incorporates the town's affluent moderate sized tax base. The rating also takes into account the town's growing reserves. While below average for the rating category, the narrow reserves are partially mitigated by conservative financial management practices which have resulted in surpluses in 6 of the last 8 years. The rating also factors in the town's manageable fixed costs (debt service, OPEB and pension costs).

Credit Strengths

- » Stable financial performance supported by conservative budgeting practices
- » Strong residential tax base
- » Above average wealth levels
- » Rapid debt repayment
- » Experienced management team

Credit Challenges

- » Below average reserves constrained by formal fund balance policy

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Sustained higher reserve levels
- » Expansion of tax base

Factors that Could Lead to a Downgrade

- » Weakening of financial position

- » Large increase in debt position
- » Deterioration of tax base or local economy

Key Indicators

Exhibit 1

Monroe (Town of) CT	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 3,277,578	\$ 3,220,914	\$ 3,098,920	\$ 3,207,049	\$ 3,118,165
Full Value Per Capita	\$ 168,965	\$ 164,930	\$ 157,858	\$ 162,432	\$ 157,930
Median Family Income (% of US Median)	190.5%	199.9%	187.0%	192.6%	192.6%
Finances					
Operating Revenue (\$000)	\$ 77,484	\$ 80,259	\$ 82,869	\$ 86,604	\$ 85,565
Fund Balance as a % of Revenues	5.5%	5.7%	6.5%	7.7%	8.2%
Cash Balance as a % of Revenues	15.4%	16.0%	11.0%	19.6%	19.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 45,895	\$ 46,470	\$ 42,530	\$ 47,343	\$ 46,025
Net Direct Debt / Operating Revenues (x)	0.6x	0.6x	0.5x	0.5x	0.5x
Net Direct Debt / Full Value (%)	1.4%	1.4%	1.4%	1.5%	1.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.3x	0.3x	0.3x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.7%	0.8%	0.8%	0.8%

Fund (available only) and cash balances are for the General Fund.
 Source: Town's audited financial statements, Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Affluent, Diverse Tax Base

The town's \$3.1 billion tax base is expected to remain stable given its favorable location in Fairfield County and accessibility to other major employment centers via route 8 (connecting I-95 and I-84).

Due to a revaluation in 2014 (effective fiscal year 2016), which fully captured the housing market downturn, the town's Net Taxable Grand List (assessed value) decreased 7% to \$2.15 billion. FY2017 experienced modest growth of 0.3%. Prior to the most recent valuation, the grand list increased at an average annual rate of 1.8% from fiscal 2010 to 2015. The full value as measured by Equalized Net Grand List (ENGL) declined at a compound annual rate of -2.8% for the five year period ending in 2013 (the most recent valuation).

Going forward we expect modest economic growth. The town expects a Walmart will be opening in 2018 and the build out of the industrial park continues.

The mostly residential tax base is diverse with the top ten taxpayers representing 6.9% of the Net Taxable Grand List. The largest taxpayer, FirstLight Hydro Generating Co, accounts for 1.6% of the taxable value.

Income levels are above average with per capita and median family incomes at 170% and 193%, respectively, of the national levels.

Unemployment levels in Monroe (4.9%) are in line with US (5.0%) but below the state (5.6%) as of August 2016.

Financial Operations and Reserves: Stable Financial Position and Below-Average Reserves

Although reserves are narrow compared to similarly rated cities and towns, we expect the town's financial position to remain stable. Through conservative budgeting practices, the town has achieved surpluses in 6 of the last 8 fiscal years. While we believe the town

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

will continue to gradually strengthen its reserve position over the next few years, over the longer term its reserves may be limited by its current policy of capping unassigned fund balance at 10% of expenditures. Favorably, this reserve limit was raised from 7.5% in the last few years. The comparatively low reserves are partially mitigated by the conservative financial practices of the town and the stability of the financial operations and tax base.

In fiscal 2015, the town generated a \$601,000 operating surplus (GAAP) resulting from strong property tax collections and positive expenditure variances. Available ending General Fund balance was \$7 million or a satisfactory 8.2% of revenues.

The fiscal 2016 budget increased spending by a manageable 2.1% with no appropriation from fund balance. Drivers of the increase include a 1.7% increase in education spending as well as greater funding for public safety, debt service and general government. Management estimates another surplus in fiscal 2016 of \$1.7 million mostly due to higher than budgeted property tax receipts and, on the expenditure side, achieved savings from changing health insurance carrier.

The fiscal 2017 adopted budget grew a manageable 1.75% over fiscal 2016. The budget was adopted at the first referendum and did not include any reserve appropriation. Although early in the fiscal year, based on first quarter results, the town anticipates stable operations for the duration of the year.

Property taxes and intergovernmental aid are the largest sources of revenue at 84% and 15%, respectively, in fiscal 2015. Property tax collections are high and have averaged 98.9% over the last 10 years. Educational spending comprises approximately 2/3 of the town's annual spending.

LIQUIDITY

Liquidity is satisfactory with General Fund net cash at close of fiscal 2015 at \$16.9 million or 19.7% of revenues.

Debt and Pensions: Typical Debt Burden and Manageable Pension Liabilities

The town's pro forma debt burden is typical at 1.3% of equalized value. We expect the debt position to remain average over the next few years as issuance plans are manageable, outstanding debt is being repaid quickly and the town plans to fund some projects on a pay as you go basis and with state and federal funds. Half of the town's five-year \$50 million CIP is anticipated to be funded by general obligation debt.

The town has also implemented conservative debt and capital planning practices that should serve to keep debt at manageable levels.

In fiscal 2015, total fixed costs comprised of annual required pension contributions, debt service and OPEB contributions were low at 9.5% of revenues.

DEBT STRUCTURE

The town's debt is all fixed rate. Amortization of principal is rapid at 96% within 10 years.

DEBT-RELATED DERIVATIVES

The town is not party to any derivative transactions.

PENSIONS AND OPEB

The Town maintains a defined benefit plan which covers all town and Board of Education employees, except police and teachers who participate in state plans. As of the most recent valuation in July 2015, the portions of the plan related to the town and Board of Education employees were funded at 87% and 83%, respectively. The annual required contribution is modest and manageable at \$771,329 and accounts for less than 1% of expenditures. For fiscal 2015, the town contributed 97.6% of its ARC for the Board of Education portion of the plan and 99.3% for the town employee's part of the plan. Favorably, the town is increasing its funding percentage for the town employee's portion of the plan in fiscal 2016 and in the fiscal 2017 budget. Separately, with respect to the town's uniformed police officers, the town contributes an actuarially determined rate (amounting to \$0.6 million in fiscal 2015) to the state's pension plan.

The town's Moody's calculated adjusted net pension liability (ANPL) at \$24.3 million (3 year average) is also low at 0.3x operating revenues and 0.8% of full value. The ANPL reflects certain adjustments we make to improve comparability of reported pension

liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town's OPEB liability is not a material source of financial pressure and is funded on a pay as you go basis. In fiscal 2015, the town and its board of education contributed \$0.8 million (or 90%) of the combined \$0.9 million annual required contribution (ARC). The ARC, if paid, would represent approximately 1% of the town's 2015 General Fund expenses. The combined unfunded actuarial accrued liability for the town and board of education is \$11.5 million (7/1/2014 valuation date). Favorably, the town began prefunding its OPEB liability in fiscal 2016 and the adopted 2017 budget allocates \$109,000 above the pay as you go amount.

Management and Governance

The town's management is strong as evidenced by its conservative budgeting, stable operations and long-term capital planning.

Connecticut cities and towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable and stable, due to a large reliance on property taxes. Municipalities additionally benefit from high revenue-raising ability due to the absence of a statewide property tax cap. Expenditures primarily consist of personnel costs as well as education costs for those cities that manage school operations, and are highly predictable due to state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate as it is somewhat constrained by union presence.

Legal Security

The bonds are supported by a general obligation unlimited property tax pledge.

Use of Proceeds

The bond proceeds will be used to refund refinance three series of existing GO bonds for debt service savings. The refunding is projected to achieve a net present value savings of 3.3% of the refunded bonds and does not result in an extension of maturity.

Obligor Profile

The town is located 70 miles east of New York City in Fairfield County, CT and has a population of 19,744.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 3

Monroe (Town of) CT

Issue	Rating
General Obligation Refunding Bonds, Issue of 2016, Series B (Bank Qualified)	Aa2
Rating Type	Underlying LT
Sale Amount	\$7,220,000
Expected Sale Date	10/18/2016
Rating Description	General Obligation

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1044296