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New Issue

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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 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 require pension contributions, debt service and OPEB contributions were low at 9.5% of revenues.

DEBT STRUCTURE

The town' 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.moodys.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

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