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Ratings

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Summary:

Monroe, Connecticut; General Obligation

Primary Credit Analyst:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

Secondary Contact:
Lauren B Carter, Boston + 1 (212) 438 0376; lauren.carter@spglobal.com

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Summary:

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Credit Profile		
US$8.875 mil GO bnds ser 2019 dtd 12/03/2019 due 05/01/2030		
Long Term Rating	AA+/Stable	New
US$3.805 mil GO rfdg bnds ser 2020 dtd 01/21/2020 due 04/15/2030		
Long Term Rating	AA+/Stable	New
Monroe GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Monroe GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Monroe, Conn.'s series 2019 and 2020 general obligation (GO) bonds. The outlook is stable.

Security and use of proceeds

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. Officials plan to use roughly $2.3 million of series 2019 bond proceeds to fund various capital improvement projects, with the remainder refunding outstanding series 2009, 2012, and 2014 bonds for interest savings. The series 2020 bonds will refund a portion the town's outstanding 2015 GO debt for interest savings.

Credit overview

With access to a broad and diverse metropolitan statistical area (MSA), Monroe 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 strong reserve levels relative to those of its in-state peers. Management has been very 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 manageable and projected to lower, 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 manageable and management remains proactive in making the necessary budgetary adjustments to keep them from affecting overall budgetary performance.

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

- Very strong economy, with access to a broad and diverse 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 break-even operating results at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 24.6% of total governmental fund expenditures and 4.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.7% of expenditures and net direct debt that is 33.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 98.1% 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 19,653, 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 163% of the national level and per capita market value of $158,906. Overall, market value grew by 0.6% over the past year to $3.1 billion in 2020. The county unemployment rate was 4.0% in 2018.

Monroe is a residential suburb as residential properties make up roughly 79% 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 do anticipate additional growth due to commercial and residential projects nearing completion and in the pipeline. The town recently hired a new town planner and has increased its engagement with the local business community through a Business Advisory Committee to better maximize growth opportunities.

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. Building permit activity peaked in 2017 and 2018 at $28 million in total value, although it has moderated recently. Nevertheless, there is economic stability in the region as unemployment remains stable and below average, and the risk of national recession over the next two years remains low.

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 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 the 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 surplus operating results in the general fund of 2.7% of expenditures, and balanced results across all governmental funds of 0.2% in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of 2.8% in 2017 and 2.0% in 2016.

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

Across Connecticut, municipalities had 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 produced a good surplus of $2.8 million due to continued conservative budgeting practices and adaptation to the state aid changes. Illustrating management's willingness and commitment to maintain balanced operations, to remedy the shortfall in state aid in the budget, the town raised the mill rate, increasing the tax levy by a commensurate amount. While in fiscal 2019, it lowered the mill rate and did so in a more stable state aid environment, and following growth in the taxable grand list. Ultimately, for fiscal 2019, the town is again estimating a budgetary surplus, after year-end supplemental appropriations of $1.56 million. Higher revenues than anticipated were the primary source of the surplus. Through prudent revenue and estimating, the town realized a positive revenue variance of $2.8 million, reflecting higher taxes and state aid and stronger investment income than budgeted.

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 79% 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 it will continue to produce strong budgetary results over the next two years.

The town adopted the fiscal 2020 budget in April. The budget totals $87.8 million, which is an increase of 3.4% over the prior year. This budget increases the mill rate by 1%. The main budget drivers include increase appropriations toward the board of education (BOE). Notably, in the budget, the town boosted its commitment to capital reserves, and raised its budgetary contingency, which, in the past, has provided the town budgetary cushion to manage unexpected events without impairing overall performance.

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 2018 of 16% of operating expenditures, or $14.8 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 2019, 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 2018, it maintained a capital reserve fund with a balance of $4.4 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 24.6% of total governmental fund expenditures and 4.3x governmental debt service in 2018. 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 2019 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 5.7% of total governmental fund expenditures, and net direct debt is 33.1% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, and approximately 98.1% 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 $35.3 million when factoring in roughly $1.1 million of outstanding capital leases. Looking ahead, we anticipate debt will likely decrease given that the town does not anticipate issuing much more over the next few years, and due to its continued adherence to its debt management policies and targets. Management 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 OPEB contributions totaled 1.9% of total governmental fund expenditures in 2018. Of that amount, 1.3% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The town made 100% of its annual required pension contribution in 2018.

Monroe administers a defined-benefit pension plan that covers substantially all town employees, except for police, who participate in a state-administered Municipal Employee Retirement System (MERS), and BOE employees, who participate in the Connecticut Teachers' Retirement System (CTRS). The state makes the pension payment related to the CTRS.

For the locally administered plan, the plan fiduciary net position as a percentage of the total pension liability was 90% as of June 30, 2019; this was based on a 6.75% discount rate, which is slightly above the 6.5% we believe to be an average, sustainable assumed discount rate. Monroe's net pension liability was approximately $2.5 million on the locally administered plan. Regarding MERS, the town's proportionate share of the liability was also small at $3.3 million, with a plan fiduciary net position as a percentage of the total pension liability of 91.6%.

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, 2019, the plan fiduciary net position as a percentage of the total OPEB liability for the Police plan was 46% with a net OPEB liability of $1.1 million. As for the BOE plan, the unfunded liability was $10.1 million as of the last actuary valuation. The BOE has not appropriated any money toward this liability.

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.

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 those of higher rated peers, along with strengthened financial management policies and practices, particularly in the areas 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
- 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