MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Monroe, CT's $6.2M GO Bonds

Global Credit Research - 06 Apr 2015

Affirms Aa2 on $41.5M of outstanding GO debt

MONROE (TOWN OF) CT
Cities (including Towns, Villages and Townships)
CT

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Issue of 2015	Aa2
Sale Amount $6,220,000	
Expected Sale Date 04/08/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, April 06, 2015 --Moody's Investors Service has assigned a Aa2 rating to the town of Monroe, CT's $6.2 million General Obligation Bonds, Issue of 2015 (Bank Qualified). Concurrently, Moody's has affirmed the Aa2 rating on the town's $41.5 million of outstanding parity debt.

SUMMARY RATING RATIONALE

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 5 of the last 7 years. The rating also factors in the town's manageable fixed costs (debt service, OPEB and pension costs).

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Increase in reserves

- Sustained expansion of tax base

WHAT COULD MAKE THE RATING GO DOWN

- Weakening of financial position

- Large increase in debt position

- Deterioration of tax base or local economy

STRENGTHS

- Stable financial performance supported by conservative budgeting practices

- Strong residential tax base

- Above average wealth levels

- Rapid debt repayment

CHALLENGES

- Below average reserve levels

RECENT DEVELOPMENTS

Fiscal 2014 results were positive with the town achieving their 3rd consecutive General Fund surplus, increasing fund balance by almost $1 million.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE

The town's 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).

Following 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 a modest 6.9% to $2.15 billion. Prior to this most recent valuation, the grand list increased at an average annual rate o 1.8% from fiscal 2010 to 2015. The Equalized Net Grand List (ENGL) declined at a compound annual rate of -1.5% for the five year period ending in 2015.

Going forward we expect modest economic growth. The town reports a Walmart will be opening in the next 18 months and a number of other retail oriented projects have been approved.

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 171% and 200%, respectively, of the national levels. Unemployment levels are very low at 4.8% (as of December 2014) compared to 5.7% and 5.4% for the state and nation, respectively.

FINANCIAL OPERATIONS AND RESERVES: NARROW RESERVES MITIGATED BY STRONG FINANCIAL PRACTICES

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 5 of the last 7 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 fund balance at 10% of expenditures. Favorably, this reserve limit was recently raised from 7.5%. 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.

For audited fiscal 2014, the town generated a $920,000 surplus in the General Fund due to favorable variances in both revenues and expenses. The total General Fund balance was $6.7 million or 7.4% of General Fund revenues with $5.9% (6.6% of revenues) of that unassigned.

The fiscal 2015 budget reflected a modest 2.3% increase in spending over 2014. The budget is balanced with a 2% mil rate with no use of reserves. Management reports year to date operations are stable with a small surplus expected.

The proposed fiscal 2016 budget increases spending by a manageable 2.3% with no appropriation from fund balance required. Drivers of the increase include a 1.8% increase in education spending as well as greater funding for public safety, debt service and general government.

Property taxes and intergovernmental aid are the largest sources of revenue at 77% and 16%, respectively. Educational spending comprises approximately 2/3 of the town's annual spending.

Liquidity

The town's General Fund cash and investments at fiscal year end 2014 was healthy at $17 million or 18.7% of revenues.

DEBT AND PENSIONS: DEBT BURDEN IS TYPICAL AND PENSION AND OPEB COSTS ARE MANAGEABLE

The town's debt burden is typical at 1.4% of equalized value. We expect the debt position to remain manageable over the next few years as issuance plans are modest, outstanding debt is being repaid quickly and the town plans to fund some projects on a pay as you go basis. The town has also implemented conservative debt and capital planning practices that should serve to keep debt at manageable levels.

Debt Structure

The town's debt is all fixed rate. Amortization of principal is rapid at 94% within 10 years.

Debt-Related Derivatives

The town is not a 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 draft valuation in July 2014, the portions of the plan related to the town and Board of Education employees were funded at 80.6% and 85.3%, respectively. The annual required contribution is modest and manageable at $737,564 and accounts for less than 1% of expenditures. For fiscal 2014, the town contributed 100% of its ARC for the Board of Education portion of the plan and 88.1% 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 2015 and is proposing full funding of the ARC in the fiscal 2016 budget. Separately, with respect to the town's uniformed police officers, the town contributes an actuarially determined rate (amounting to $0.8 million in FY2014) to the state's pension plan.

The town's Moody's calculated adjusted net pension liability (ANPL) at $19.7 million is also low at 0.2x operating revenues and 0.6% of full value based upon averages for FY2011-13. 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 2014, the town contributed $0.4 million (or 56%) of its $0.7 million annual required contribution (ARC). The ARC, if paid, would represent less than 1% of the town's 2014 General Fund expenses. The unfunded actuarial accrued liability is $10.6 million (valuation dates are 7/2014 for the town plan and 6/2012 for the Board of Education plan). Favorably, the proposed 2016 budget designates $30,000 to start prefunding the OPEB liability above the pay as you go amount.

MANAGEMENT AND GOVERNANCE

Connecticut cities and towns have an institutional framework score of 'Aa' or strong. The primary revenue source for municipalities is property taxes which are highly predictable and can be increased annually, without statutory limit. Expenditures are largely predictable and cities and towns have the ability to reduce expenditures, despite the presence of collective bargaining units.

Town management employs conservative budgeting and financial management practices as evidenced by the trend of generally balanced operations in the last few years, formal fiscal policies, and long-term planning for capital expenditures.

KEY STATISTICS

- Tax base size: Full Value: $3.3 billion

- Full value per capita: $169,566

- Median family income as % of US: 200%

- Available Fund balance as a % of revenues: 7.3%

- 5-year dollar change in adjusted fund balance as a % of revenues: 3.6%

- Cash balance as a % of revenue: 18.7%

- 5-year dollar change in cash as a % of revenues: 9.2%

- Institutional Framework: Aa

- Operating History: 5-year average of operating revenues/operating expenditures: 1.01x

- Net direct debt/full value: 1.4%

- Net direct debt/operating revenues: 0.52x

- 3-year average Moody's ANPL/Full Value: 0.6%

- 3-year average Moody's ANPL/operating revenues: 0.2x

OBLIGOR PROFILE

The town is located seventy miles east of New York City in Fairfield County, CT and has a population of 19,631 (2013 American Community Survey estimates).

LEGAL SECURITY

The bonds are secured by the town's unlimited property tax pledge.

USE OF PROCEEDS

The proceeds of issuance will be used to pay off the town's Bond Anticipation Notes (rated MIG 1, maturing June 17, 2015) and fund road paving projects, underground storage tank removals and park and recreation field improvements.

PRINCIPAL METHODOLOGY

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

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