

RatingsDirect®

Summary:

Wolcott, Connecticut; General Obligation

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Credit Profile

US\$11.3 mil GO bnds ser 2017 A due 10/15/2037

Long Term Rating AA/Stable New

US\$2.63 mil GO rfdg bnds ser 2017 B due 08/01/2023

Long Term Rating AA/Stable New

Wolcott (Twn) GO

Long Term Rating AA/Stable Affirmed

Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to the Town of Wolcott, Conn.'s series 2017A and 2017B general obligation (GO) bonds. At the same time S&P Global Ratings affirmed its 'AA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. Officials intend to use the series A proceeds to take out notes that were used to finance road reconstruction, public works building improvements, and school facility upgrades. Series B proceeds will refund 2010 bonds for an estimated net present value savings of \$113,417.

The long-term rating reflects our assessment of the following credit characteristics for Wolcott:

- 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;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2016, which closed with a slight operating surplus in the general fund but a slight operating deficit at the total governmental fund level;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2016 of 7.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 9.1% of total governmental fund expenditures and 127.5% of governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 7.1% of expenditures and net direct debt that is 49.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Wolcott's economy very strong. The town, with an estimated population of 16,752, is located in New Haven County in the New Haven-Milford, CT MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 113% of the national level and per capita market value of \$104,651. Overall, the town's market value fell by 4.3% over the past year to \$1.8 billion in 2018. The county unemployment rate

was 5.5% in 2016.

Wolcott continues to see modest economic growth, largely from residential and commercial construction. Recent developments include a new 12,000-square-foot building for wedding and catering services and the expansion and renovation of a medical-supplies facility that increased its workforce from 30 to 100 employees.

The 10 leading taxpayers account for 3.1% of the property tax base. Connecticut Light & Power Co., the largest taxpayer, accounts for less than 1% of the town's taxable property. Based on our regional forecast, we expect Wolcott's economy will remain stable, but with lower growth factors than the nation.

Strong management

We recently revised our view of management to strong from adequate based on Wolcott's adoption and integration of a reserve policy, as well as the pending introduction of a debt-management policy. An assessment of strong indicates the town has good financial policies and practices under our FMA methodology, and that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In our opinion, Wolcott maintains conservative revenue and expenditure assumptions as it relies on property taxes as its primary revenue source. Historical trend analysis for at least three years is referenced in creating the budget. The town council receives monthly budget-to-actual reports and may amend the budget throughout the year for major variances. Wolcott does not maintain formal financial projections, but a five-year capital improvement plan is updated annually with departmental projects and costs specified within its annual budget. The town has its own investment policy with monthly reviews of holdings. Wolcott is in the process of adopting a new debt management policy, which it hopes to approve by December. Town officials adopted a fund balance policy in March 2014 with the goal of maintaining a minimum unassigned fund balance at 7% of the following year's revenues. In 2016, the town became in compliance with this policy.

Adequate budgetary performance

Wolcott's budgetary performance is adequate in our opinion. The town had slight surplus operating results in the general fund of 0.9% of expenditures, but a slight deficit result across all governmental funds of 0.5% in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2016 results in the near term. The town's general fund operating results have been stable over the last three years, with a result of 0.3% in 2015 and 0.8% in 2014.

For analytic consistency, we have adjusted for recurring transfers and the use of bond and lease proceeds for capital outlay. We note the town has not appropriated reserves to balance its budget in the past eight fiscal years.

For fiscal 2016, results reflect conservative budgeting practices with revenues that exceeded expectations and turnbacks from nearly every department. Wolcott officials are expecting fiscal 2017 to show similarly positive results also due to conservative budgeting and departmental turnbacks.

The 2018 budget totals \$54.67 million, a 1.28% increase from the previous year. The town has some exposure to the fluctuation of state aid, as nearly 30% of revenues come from intergovernmental transfers. Wolcott's state aid as a percentage of its revenues has steadily declined over the last three years to 28.99% in 2017 from 36.79% in 2015.

Connecticut has been operating without a budget since June, due to a disagreement over how to close a two-year, \$5 billion budget gap. If the budget does not pass, and the governor's executive budget is activated, Wolcott could lose as much as \$6 million in state aid. Town officials believe the decline in state aid will likely be closer to \$1 million, and that they would make up the difference through spending controls or a midyear tax increase.

Regardless of the size of the hit, we believe Wolcott has sufficient flexibility within its budget to manage a decline in state aid in the near-term, and that our view of performance is unlikely to weaken unless state aid is drastically reduced, and on a sustained basis.

Adequate budgetary flexibility

Wolcott's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2016 of 7.7% of operating expenditures, or \$4.4 million.

In March 2014, Wolcott adopted a fund balance policy that targets 7% of the ensuing fiscal year's revenue as a minimum unassigned fund balance with 10% as the maximum. If the unassigned fund balance falls below 7%, the mayor and town council will move to restore it within a four-year period. The town surpassed this minimum target in fiscal 2016, and expects to remain above policy levels in 2017 and 2018. Although officials would like to continue adding to reserve levels, they say increasing reserves might be challenging if state aid is reduced. At minimum, we expect Wolcott to adhere to its reserve policy. Therefore, we expect our view of budgetary flexibility to remain adequate over the next two years.

Very strong liquidity

In our opinion, Wolcott's liquidity is very strong, with total government available cash at 9.1% of total governmental fund expenditures and 127.5% of governmental debt service in 2016.

Reinforcing our view is Wolcott's strong access to external liquidity, as the town has issued GO bonds regularly in the past several years. We understand Wolcott has not entered into any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The town follows its own investment policy, as well as state guidelines, and we do not consider its investments aggressive as nearly all are in mutual funds. Therefore, we do not expect our assessment of Wolcott's liquidity profile to change in the near term.

Very strong debt and contingent liability profile

In our view, Wolcott's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.1% of total governmental fund expenditures, and net direct debt is 49.9% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, which is in our view a positive credit factor.

Following this issue, Wolcott will have \$34.38 million in outstanding debt. Over the next two years, the town anticipates additional debt of about \$7 million, primarily for road work and pipe improvements. We do not expect this additional debt to have an impact on the town's debt profile.

Wolcott's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.1% of total governmental fund expenditures in 2016. Of that amount, 2.8% represented required contributions to pension obligations, and 1.3% represented OPEB payments. The town made its full actuarially determined contribution (ADC)

in 2016, but due to a timing mismatch, the ADC appears \$30,000 underpaid.

The town maintains two single-employer, defined-benefit pension plans: the Town General Pension Plan (TGPP) and the Board of Education Pension Plan. The plan fiduciary net position as a percent of the total pension liability was 61.98% and 83%, respectively. The TGPP is the largest by liability. Wolcott also provides OPEB funded on a pay-as-you-go basis. The liability was about \$19 million and is entirely unfunded. Despite the plan funding levels, costs should be manageable in the near term.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects Wolcott's history of strong financial performance and increasing budgetary flexibility, which it is likely to maintain. Further supporting the rating is the town's very strong debt and contingent liability profile. We do not expect to change our rating over the two-year outlook period.

Upside scenario

We could raise the rating if Wolcott continues to add to reserves, while managing balanced operations (even as state aid declines).

Downside scenario

We could lower the rating if state-aid cuts are sustained over many years, and the town is unable to maintain a balanced budget that leads to a draw on reserves.

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
- 2016 Update Of Institutional Framework For U.S. Local Governments

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

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