MOODY'S INVESTORS SERVICE

CREDIT OPINION
15 November 2017

New Issue

Rate this Research

Contacts

Joseph Manoleas +1.212.553.7106
Analyst
joseph.manoleas@moodys.com

Nicholas Lehman +1.617.535.7694
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

Farmington (Town of), CT

New Issue - Moody's assigns Aaa to Farmington, CT's GO Bonds; Outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of Farmington, Connecticut's $2.7 million General Obligation Bonds, Issue of 2017. Concurrently, Moody's affirms the Aaa rating on approximately $33.5 million of outstanding GO debt.

The Aaa rating reflects the town's sizeable and affluent tax base, its stable operating profile despite its below average reserve levels, and its manageable long-term liabilities.

Credit Strengths

» Stable historic operating performance

» Formalized fund balance policy

» High resident wealth and income levels

» Manageable long-term fixed costs

» Property taxes represent a significant component of operating revenues with strong collection rates

Credit Challenges

» Below average reserve levels for the rating category

Rating Outlook

The stable outlook reflects the town's consistently balanced operating performance supporting the town's below average reserve position. The stable outlook further reflects the town's robust tax base and above average wealth and income indicator levels.

Factors that Could Lead to an Upgrade

» Not applicable

Factors that Could Lead to a Downgrade

» Decline in reserve levels

» Increased debt levels

» Contraction of tax base and/or weakening of wealth and/or income indicators

Key Indicators

Exhibit 1

Farmington (Town of) CT	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 5,016,473	$ 5,313,947	$ 5,286,801	$ 5,214,499	$ 5,115,010
Full Value Per Capita	$ 198,053	$ 208,972	$ 207,204	$ 203,986	$ 200,094
Median Family Income (% of US Median)	171.2%	177.8%	181.5%	181.8%	181.8%
Finances					
Operating Revenue ($000)	$ 93,722	$ 97,225	$ 99,969	$ 100,846	$ 104,543
Fund Balance as a % of Revenues	8.8%	9.4%	9.7%	11.0%	11.0%
Cash Balance as a % of Revenues	9.3%	10.4%	12.1%	15.8%	17.8%
Debt/Pensions					
Net Direct Debt ($000)	$ 56,453	$ 50,529	$ 44,250	$ 43,711	$ 74,427
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.4x	0.4x	0.7x
Net Direct Debt / Full Value (%)	1.1%	1.0%	0.8%	0.8%	1.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.6x	0.6x	0.7x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.0%	1.2%	1.2%	1.3%	1.3%

Post-sale Farmington will have $81.6M in direct debt for 1.6% of FV
Source: Moody's Investors Service; audited financial statements

Recent Developments

On October 31 the state adopted a biennial budget for fiscal years 2018 and 2019. The passage of the budget came after nearly four months of impasse which reflected significant disagreement over the amount and the allocation of funding provided by the state to local governments. The budget adopted for 2018 and 2019 reduces total funding of local governments by 1.4% from funding provided in the prior budget. Funding of local governments will, however, be revisited in negotiation of future state budgets and resilience to reductions in state funding will be a consideration in our assessment of Connecticut local government credits. The newly adopted budget reduces total funding to Farmington to $5.3 million in 2018, down from $5.5 million in 2017. Fiscal 2019 funding Farmington is $5.2 million.

In June 2017 a voter referendum that would have authorized $130 million in debt issuance for a new high school failed. The town would have absorbed approximately $100 million of this amount with the state reimbursing the balance.

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base with Strong Wealth and Income Indicators

Farmington's sizeable $5.1 billion Equalized Net Grand List (ENGL) will remain stable with moderate growth over the medium term. The ENGL, which approximates full value, has declined modestly in each of the last three fiscal years after a nearly 6% gain in fiscal 2013. Following a revaluation in 2012 (effective starting in fiscal 2014), which captured the housing market downturn, the net taxable grand list or assessed value declined 7.2%. In each of the four years since then assessed value has increased modestly, with growth ranging from 0.6% to 1.2%.

Management reports a number of residential and commercial projects in various stages of development. Due to recent zoning regulation changes, management expects future development for office space near the University of Connecticut (UCONN) Health Center facility. UCONN Health Center is the town's largest employer with approximately 5,189 employees.

Wealth and income levels are strong with per capita and median family incomes representing 181% and 182% of the nation, respectively. While these levels are generally in line with the national medians for Aaa rated cities, they are weaker than the medians for similarly rated Connecticut municipalities which have median MFI and PCI levels exceeding 200% of the US. Housing values in the town are also strong as evidenced by a robust equalized value per capita of approximately $200,000 (225% and 149% of the US and state medians, respectively). The town's unemployment rate (3.4% in August 2017) remains below those of the state (4.6%) and the nation (4.5%).

Financial Operations and Reserves: Strong Operating Profile Underpins Stable Finances; Reserves Remain Below State and National Medians

Farmington's financial position will likely remain stable given the town's history of conservative budgeting and maintenance of satisfactory reserve levels guided by a formal fund balance policy. Reserve levels have trended up gradually over the past few years, with the available General Fund balance (unassigned, assigned, and committed) averaging 9.8% of revenues since 2011. The town has a formal policy to maintain unassigned General Fund balance between 8% and 12% of revenues. The town's stable operating performance is a key credit strength as reserves are below average compared to similarly rated state and US municipalities and declines in reserves would put downward pressure on the rating.

Fiscal 2016 results were positive with the town achieving an operating surplus just over $400,000. Drivers of the surplus included favorable property tax variances ($399,000; current and delinquent) and lower than anticipated town and education spending ($505,000). The available General Fund balance at fiscal year end was $11.3 million or 10.8% of revenues, below average for the rating category. Stable financial performance and the high percentage of revenues derived from predictable property taxes (85.3%) are a credit strength that somewhat mitigate the lower than typical reserves.

The fiscal 2017 adopted budget reflected growth of 3.1% over the revised fiscal 2016 budget and included a 2.7% increase in the mill rate and no appropriation of fund balance. About three-quarters of the increase in spending is attributable to growth in education costs. Although audited 2017 information is not available, management projects a $1 million operating surplus and growth to reserves, which would bring available fund balance to approximately 12% of operating revenues.

The fiscal 2018 budget reflects a 2.1% increase in spending over the adopted fiscal 2017 budget and includes a 3.5% increase in the mill rate and no appropriation of reserves. The town's budget reflects state aid cuts detailed in the Governor's proposed budget from earlier in the calendar year and therefore the town assumed a $1.7 million reduction in state aid. The recently adopted state budget reflects a $277 thousand reduction in 2018 aid for the town.

Favorably, Farmington is not heavily reliant on economically sensitive or state revenues, as property taxes represent the largest component (85.3% in fiscal 2016) and collections are very strong at greater than 99.5% annually over the last decade. State aid, including aid for education, comprised 12.6% of 2016 revenues. The largest expenditure is education (64.5% of 2016 operating expenditures), followed by public safety (9.2%), and debt service (6.2%).

LIQUIDITY

The town's net cash position at the close of fiscal 2016 was $18.6 million, or 17.8% of General Fund revenues.

Debt and Pensions: Slightly Elevated Debt; Below Average Pension Burden

The direct debt burden (post-sale) of 1.6% of equalized full value is slightly above average compared to other Aaa rated towns nationwide and in Connecticut. The five year capital improvement plan contains a very manageable $17 million of debt financing. The town has a policy to allocate a minimum of 2.5% of General Fund revenues to capital projects. The 2017 pay-go capital expenditures accounted for 2.9% of expenditures.

Total fixed costs for fiscal 2016, including retiree health care payments, required pension contributions, and debt service, represented a manageable 10.5% of expenditures.

DEBT STRUCTURE

All of the debt is fixed rate with 87.2% amortizing over the next decade.

DEBT-RELATED DERIVATIVES

The town is not party to any debt-related derivatives.

PENSIONS AND OPEB

The town's pension liability is currently manageable. The town maintains a single-employer defined benefit pension plan for substantially all town employees, with the exception of teachers and certain school administrators who are covered under the state plan. The town fully funds its actuarially determined contribution, which was $3.1 million in fiscal 2016, or a manageable 2.9% of General Fund expenditures. Teachers participate in the state teachers' pension plan however the town has no obligation to contribute.

The 2016 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $66.8 million (3 year average), or a below average 0.6 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the towns reported liability information, but to improve comparability with other rated entities.

The town funds other post employment benefits (OPEB) on a pay-as-you-go basis which cost $1.1 million (1.1% of expenditures) in fiscal 2016, representing 33% of the town's ARC. The total unfunded liability is $38.8 million as of July 1, 2015, the most recent valuation report.

Management and Governance

Management practices are strong as evidenced by conservative budgeting, long-term capital planning, and adherence to formal financial and debt policies.

Connecticut Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The town's bonds are general obligations of the town.

Use of Proceeds

The bond proceeds will be used funds for road improvements, the acquisition of open space and for the purchase of fire engine equipment.

Obligor Profile

Farmington is a residential suburb located in Hartford County. Its estimated population is 25,563 residents

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Farmington (Town of) CT

Issue	Rating
General Obligation Bonds, Issue of 2017	Aaa
Rating Type	Underlying LT
Sale Amount	$2,700,000
Expected Sale Date	11/28/2017
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1098522

CLIENT SERVICES

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

MOODY'S INVESTORS SERVICE