

# RatingsDirect®

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## Summary:

# Thomaston Town, Connecticut; General Obligation

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### Credit Profile

US\$8.415 mil GO bnds ser 2018 due 07/15/2038

|                          |                 |          |
|--------------------------|-----------------|----------|
| <i>Long Term Rating</i>  | AA/Stable       | New      |
| Thomaston Twn GO (AGM)   |                 |          |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Thomaston Twn GO         |                 |          |
| <i>Long Term Rating</i>  | AA/Stable       | Affirmed |

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Thomaston, Conn.'s series 2018 general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds.

We understand officials plan to use series 2018 bond proceeds to fund various capital improvement projects and permanently finance bond anticipation notes outstanding.

The rating reflects our opinion of the town's:

- Adequate economy, with projected per capita effective buying income at 105% of the national level and market value per capita of \$103,351;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total-governmental-fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 12.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 35.4% of total-governmental-fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 10.6% of expenditures and net direct debt that is 92.5% of total-governmental-fund revenue, as well as rapid amortization, with 73.2% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

### **Adequate economy**

We consider Thomaston's economy adequate. The town, with an estimated population of 7,549, is in Litchfield County. The town has a projected per capita effective buying income of 105% of the national level and per capita market value of \$103,351. Overall, market value grew by 1.1% during the past year to \$780.2 million in fiscal 2017. The county unemployment rate was 4.3% in 2017.

Thomaston is a primarily residential community with a small manufacturing base, about 23 miles west of Hartford and directly north of Waterbury with Interstate 84 just 11 miles south. Aside from the town itself and the state, leading employers include:

- Albea Inc.,
- Thomaston Savings Bank,
- Ward Leonard Electric, and
- UniMetal.

About 61% of the property tax base is residential, and commercial and industrial properties account for about 12%; personal property and motor vehicles account for the remainder. There is no taxpayer concentration with the 10 leading taxpayers accounting for 7.8% of the total grand list.

In 2007, the economic development commission established a tax-incentive program to:

- Attract, retain, and expand qualified businesses;
- Create employment; and
- Promote responsible economic growth to ensure Thomaston's future as a desirable community in which to live and work.

A 10-year plan of conservation and development to address all aspects of governmental services, including economic development, is underway. One aspect of this plan is to establish goals and develop a plan for the downtown area in conjunction with local business owners.

A local developer is currently developing a 47-unit active-adult community complex. Another developer transformed the former Star Manufacturing building into a mixed-use professional service and office building. A 20,000-square-foot industrial building is also currently under construction along River Street; a local manufacturer who wishes to expand operations in Thomaston has committed to leasing 15,000 square feet. Another 10,000-square-foot addition to a local manufacturing company at 45 Old Waterbury Road will soon be complete, allowing the company to accommodate new machinery and expand its operations in the town.

Overall, officials believe these and other developments will help continue to grow the tax base. Therefore, we expect the town's economy will likely continue to improve at a modest pace and remain, at least, adequate during the next few years.

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Revenue and expenditure assumptions are conservative, in our opinion. Management monitors financial performance and reports the results to the town board monthly, coupled with investment holdings and performance. The town does not perform any long-range projections for financial operations. Management, however, maintains a formal five-year capital improvement plan, including project funding sources, it updates annually.

Management also maintains formal debt- and investment-management policies that mirror state guidelines.

Thomaston's formal reserve policy calls for the maintenance of unassigned general fund balance between 5% and 10% of expenditures.

### **Strong budgetary performance**

Thomaston's budgetary performance is strong, in our opinion. The town had slight operating surpluses of 0.7% of expenditures in the general fund and 1% of expenditures across all governmental funds in fiscal 2017. General fund operating results have been stable during the past three fiscal years, with 1% of expenditures in fiscal 2016 and 0.1% in fiscal 2015.

Fiscal 2017 results include adjustments for one-time capital expenditures paid for with bond proceeds and recurring transfers. Management attributes the fiscal 2017 positive performance primarily to revenue, including higher-than-budgeted tax collections the town budgets for conservatively. In addition, Thomaston made some changes in the health-insurance plans for retirees that netted cost savings. Before this, the town experienced a general fund surplus in fiscal 2016 of about \$267,000 due to higher-than-budgeted investment income, building permit fees, property taxes, and good controls on departmental expenditures.

Thomaston expects to end fiscal 2018 with balanced operations. The town has appropriated about \$675,000 in fund balance toward the fiscal 2018 budget due to uncertainties related to state aid at the time of budget adoption. The town indicates that state aid will exceed budgeted estimates and that it is currently waiting on the state's last disbursement for the year; therefore, management does not expect to use fund balance. According to officials, expenditures are on track and all other revenue items are on budget. Therefore, we expect budgetary performance will likely remain strong.

The proposed fiscal 2019 budget totals \$26.5 million, a 0.64% increase over the fiscal 2018 budget and a \$100,000 use of fund balance, which the town has budgeted for to offset potential state aid shortfalls. Property taxes generate 67% of general fund revenue and intergovernmental revenue accounts for 32%.

### **Strong budgetary flexibility**

Thomaston's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 12.9% of operating expenditures, or \$3.6 million.

The town has consistently increased available reserves during the past three fiscal years due to positive financial performance. For fiscal 2018, while the town had appropriated about \$675,000 in fund balance due to state aid

uncertainties, management expects to end the fiscal year with balanced operations and no drawdown in reserves. Thomaston's formal fund-balance policy calls for the maintenance of unassigned general fund balance between 5% and 10% of expenditures, which the town adheres to historically.

### **Very strong liquidity**

In our opinion, Thomaston's liquidity is very strong, with total government available cash at 35.4% of total-governmental-fund expenditures and 3.3x governmental debt service in fiscal 2017. In our view, the town has strong access to external liquidity if necessary.

We adjusted liquidity metrics to account for investments in the general fund making up the funds invested in the state's short-term-investment fund and other local savings accounts. We believe Thomaston's history of debt issuance during the past 20 years supports its strong access to external liquidity.

Thomaston does not have any variable-rate or direct-purchase debt. It has consistently maintained very strong liquidity, and we expect our liquidity assessment will likely remain unchanged during our two-year outlook period.

### **Adequate debt-and-contingent-liability profile**

In our view, Thomaston's debt-and-contingent-liability profile is adequate. Total-governmental-fund debt service is 10.6% of total-governmental-fund expenditures, and net direct debt is 92.5% of total-governmental-fund revenue. Approximately 73.2% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

With this issuance, the town will have about \$29.5 million in total direct debt outstanding. Management indicates it currently plans to issue approximately \$1.4 million of additional new-money debt within the next two years to three years for a sewer project through the state's clean water fund; it expects the state to reimburse 30%.

Thomaston's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 5% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 2.1% represented required contributions to pension obligations and 2.9% represented OPEB payments. The town made 120% of its actuarially determined pension contribution in fiscal 2017.

Thomaston provides pension benefits through a self-administered plan; the town has contributed above its actuarially determined contribution historically to increase the plan's funded ratio. The plan's net pension liability totaled \$4.2 million, with 79.6% funded, at June 30, 2017, using a 7% assumed rate of return.

The town also provides OPEB for eligible retirees. The unfunded OPEB liability totaled \$21.2 million at June 30, 2017. The Thomaston school department's OPEB liability totaled \$6 million. The town has set up an OPEB trust fund, which had a balance of \$248,947 at June 30, 2017. Management plans to continue to make small contributions to the trust fund; management's goal is to increase funding to the trust once it fully funds its pension. While we expect retirement costs to remain manageable, if Thomaston's liabilities were to increase, it would require higher contributions, which could pressure the budget.

## **Strong institutional framework**

The institutional framework score for Connecticut municipalities is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion of the town's strong budgetary performance and flexibility, supported by its strong management. We believe management will likely continue to make the necessary budgetary adjustments to maintain stable finances, continue to improve reserves, and manage retirement costs during a challenging state aid environment. Therefore, we do not expect to change the rating within the two-year outlook period.

### **Upside scenario**

If economic indicators were to improve to levels we consider comparable with higher-rated peers while management reduces long-term liabilities and improves reserves through positive financial operations, we could raise the rating.

### **Downside scenario**

If finances were to deteriorate, leading to decreases in reserves, we could lower the rating.

## **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
- 2017 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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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