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Summary:

Montville Town, Connecticut; General Obligation

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Credit Profile

US\$2.5 mil GO bonds ser 2019 due 04/01/2029

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Montville, Conn.'s series 2019 general obligation (GO) bonds.

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

We understand officials plan to use series 2019 bond proceeds to finance road improvements.

The rating reflects our view of the town's adequate, but stable, economy and positive financial operations during the past two fiscal years. Due to strong financial performance, we consider budgetary flexibility very strong. Montville's strong management and very strong debt-and-contingent-liability profile, coupled with manageable retirement costs, further support the rating.

The town's general creditworthiness reflects our opinion of its:

- Adequate economy, with projected per capita effective buying income at 95.5% of the national level and market value per capita of \$93,955;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 39.6% of total governmental-fund expenditures and 5.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 6.8% of expenditures and net direct debt that is 42.2% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 92.9% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Montville's economy adequate. The town, with an estimated population of 19,505, is in New London County. The town has a projected per capita effective buying income of 95.5% of the national level and per capita

market value of \$93,955. Overall, market value has grown by 0.8% during the past year to \$1.8 billion in fiscal 2019. County unemployment was 4.5% in 2017.

The roughly 42-square-mile Montville is in eastern Connecticut, about 10 miles north of New London, including Mohegan Sun Casino & Resort, which provides significant economic activity. The primarily residential town contains about 60% residential properties. The 10 leading taxpayers account for 11.9% of total assessed value.

Leading town employers include:

- Corrigan Correctional Center,
- Stop & Shop, and
- Home Depot.

However, Mohegan Sun Casino also greatly contributes to the area's job sector with its more than 10,000 employees. Montville's industrial base includes manufacturing firms and a power-generating plant operated by Montville Power LLC. The town's commercial sector, which has grown significantly during the past five years, includes retail development, hotels, restaurants, finance, and other service-based businesses.

Nature's Art, a commercial development, continues to grow, according to the town. In addition, a townhouse development is currently underway along Maple Avenue. In addition, officials expect further residential base growth as General Dynamics Electric Boat plans to expand its presence in the area, creating additional housing demand. Therefore, we expect the town's economy will likely remain, at least, adequate.

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.

Montville's budgeting assumptions are, in our view, conservative, coupled with multiyear historical trend analysis and monthly reports on budget-to-actual results and investments to the town council. Management's formal five-year capital improvement plan identifies funding sources, and management updates it annually. The town's formal reserve policy limits unassigned fund balance to 12%-16% of general fund expenditures, which it adheres to historically. There is no formal multiyear financial plan or debt-management policy. The town also adheres to state guidelines regarding investments.

Strong budgetary performance

Montville's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.3% of expenditures and surplus results across all governmental funds of 2.3% of expenditures in fiscal 2018.

Fiscal 2018 results include adjustments for recurring transfers and one-time capital expenditures paid for with lease proceeds. Management primarily attributes fiscal 2018 positive general fund operations to revenue outperforming the budget and good expenditure controls, including higher-than-budgeted property taxes and miscellaneous and

intergovernmental revenue. Although the town experienced roughly \$1 million of lower-than-budgeted education-cost-sharing grants due to the state's late budget adoption and state aid cuts, the town absorbed these cuts through a spending freeze for a majority of fiscal 2018 and prudent expenditure control.

The fiscal 2019 budget totals \$59.4 million and includes a fund-balance appropriation of \$565,000. The budget also includes a minimal property-tax-levy increase to 31.73 mills from 31.7 mills in fiscal 2018, which management indicates it will actively manage in accordance with town needs to maintain a stable tax rate. For fiscal 2019, officials indicate budget-to-actual results are generally on target.

Although officials indicate, on a worst-case scenario, they might need to cover about \$400,000 in additional education costs to comply with the state's minimum-funding education requirement, they expect the budget will absorb these costs. Therefore, management currently expects to end fiscal 2019 with balanced operations. Still, we expect budgetary performance will likely remain strong. Montville believes it could absorb any potential cost shifting from the state through a combination of tax rate and expenditure adjustments, coupled with possibly using a portion of fund balance.

Property taxes generate 64% of general fund revenue followed by grants and contracts at 31%. Collections have been stable, averaging 98% during the past three fiscal years.

Very strong budgetary flexibility

Montville's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 of 16% of operating expenditures, or \$10.2 million. During the past three fiscal years, total available fund balance has remained consistent overall: It was 15% of expenditures in fiscal 2017 and 15% in fiscal 2016.

The town has consistently improved available reserves during the past three fiscal years. Management currently estimates it will end fiscal 2019 with balanced operations, and it does not currently expect to draw down reserves. Therefore, we expect budgetary flexibility will likely remain very strong. However, although not expected, if available reserves were to decrease below 15% of expenditures, our budgetary flexibility assessment could change. The town's formal reserve policy calls for maintaining unassigned fund balance between 12% and 16% of general fund expenditures, which the town adheres to historically.

Very strong liquidity

In our opinion, Montville's liquidity is very strong, with total government available cash at 39.6% of total governmental-fund expenditures and 5.9x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

Montville is a regular market participant that has issued debt frequently during the past several years, including GO bonds. The town privately placed its series 2015 GO refunding bonds, totaling \$3.2 million as of fiscal 2019, with TD Bank N.A. The town also has a private-energy-savings loan outstanding for \$281,025, as of fiscal 2018, with M-Core Credit Corp. In our opinion, there are no events of default or remedies that would result in immediate principal acceleration; in addition, nothing here would have an effect on liquidity. Therefore, we expect liquidity will likely remain very strong.

Very strong debt-and-contingent-liability profile

In our view, Montville's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is 6.8% of total governmental-fund expenditures, and net direct debt is 42.2% of total governmental-fund revenue. Overall net debt is low at 1.6% of market value and about 92.9% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, and including capital leases, the town will have \$30.1 million in total direct debt outstanding. Officials currently expect to issue about \$7.5 million of additional debt during the next two years to three years for road improvements.

Montville's pension contributions totaled 2.1% of total governmental-fund expenditures in fiscal 2018. The town made its full annual required pension contribution in fiscal 2018.

Montville contributes to Connecticut Municipal Employees' Retirement System (CMERS) for town employees. The town's proportionate share of the net pension liability totaled \$8 million at June 30, 2018, using an assumed rate of return of 8%. The plan's fiduciary net position, as a percent of total pension liability, was 91.68% in fiscal 2018. For teachers, the town participates in Connecticut State Teacher's Retirement System; however, the state makes on-behalf contributions for the town.

While we expect pension costs to remain manageable, should the state lower its rate of return for CMERS or shift a portion of teacher pension costs onto municipalities, we think this would result in increased contributions and added financial pressure.

Montville also provides other postemployment benefits (OPEB) for school employees. At June 30, 2018, the town's OPEB liability totaled \$1.8 million, which we view as manageable. The town currently plans to fund OPEB through pay-as-you-go financing; it has not set up an OPEB trust fund.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Montville's positive budgetary performance, which has led to very strong budgetary flexibility. What we consider strong management and a favorable debt profile, coupled with manageable retirement liabilities and costs, further support the rating. In our opinion, below-average economic indicators compared with higher-rated peers somewhat limit the rating. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

If wealth and income were to improve substantially to levels we consider comparable with higher-rated peers while management maintains positive financial operations and improving reserves, we could raise the rating.

Downside scenario

If available reserves were to weaken materially due to negative financial performance, 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
- 2018 Update Of Institutional Framework For U.S. Local Governments

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