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CREDIT OPINION
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Farmington (Town of) CT

Update to credit analysis

Summary

Farmington, Connecticut (Aaa stable) benefits from a robust and stable tax base anchored by the University of Connecticut Health Center. The town is supported by an affluent local resident wealth and income profile. Farmington's financial operations are stable, but its reserve position is below medians for Aaa rated cities. The town's debt and pension burden is manageable.

Credit strengths

- Sizeable tax base
- Significant health care presence anchored by University of Connecticut Health Center
- High resident wealth and income levels
- Stable financial position guided by sound formal policies
- Manageable long-term liability profile

Credit challenges

- Below average reserve levels for the rating category
- General fund support for golf enterprise fund

Rating outlook

The stable outlook reflects our expectation that the town will maintain balanced operations supporting its below average but stable reserve position through the outlook period.

Factors that could lead to an upgrade

- Not applicable

Factors that could lead to a downgrade

- Material increase in debt burden
- Decline in reserve position
- Contraction of tax base and/or weakening of income indicators
- Material growth of general fund support for golf fund

Key indicators

Exhibit 1

Farmington (Town of) CT	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$4,964,907	$5,214,499	$5,115,010	$5,329,529	$5,493,137
Population	25,515	25,563	25,569	25,596	25,596
Full Value Per Capita	$194,588	$203,986	$200,047	$208,217	$214,609
Median Family Income (% of US Median)	181.5%	181.8%	183.9%	182.6%	182.6%
Finances					
Operating Revenue ($000)	$99,969	$100,846	$104,543	$112,959	$117,504
Fund Balance ($000)	$9,674	$11,066	$11,501	$13,681	$16,409
Cash Balance ($000)	$12,081	$15,892	$18,637	$22,612	$20,753
Fund Balance as a % of Revenues	9.7%	11.0%	11.0%	12.1%	14.0%
Cash Balance as a % of Revenues	12.1%	15.8%	17.8%	20.0%	17.7%
Debt/Pensions					
Net Direct Debt ($000)	$44,250	$43,711	$74,427	$82,084	$72,826
3-Year Average of Moody's ANPL ($000)	$62,885	$65,904	$66,856	$73,197	$77,989
Net Direct Debt / Full Value (%)	0.9%	0.8%	1.5%	1.5%	1.3%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.7x	0.7x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.3%	1.3%	1.3%	1.4%	1.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.6x	0.7x	0.6x	0.6x	0.7x

Source: Moody's Investors Service and audited financial statements

Profile

Farmington is a residential suburb located in Hartford County. Its estimated population is 25,596 residents.

Detailed credit considerations

Economy and tax base: Robust tax base supported by presence of UCONN Health

Farmington's sizeable $5.5 billion fiscal 2018 Equalized Net Grand List (ENGL) will remain stable in the near term given several ongoing development projects and the significant local presence of University of Connecticut Health Center. Through fiscal 2018 the town's tax base has grown at a five-year compound annual rate of 0.7%. Taxable grand list values are stable in assessment year 2017 and in revaluation 2018 (fiscal years 2019 and 2020).

Management reports a number of residential and commercial projects in various stages of development. Management expects future development for office space near the University of Connecticut (UCONN) Health Center facility, two new senior living facilities, and two condominium developments that should contribute to taxable valuations in the future. UCONN Health Center is the town's largest employer with approximately 5,189 employees.

Wealth and income levels are strong with median family incomes representing 183% and 138% of the nation and state, respectively. Housing values in the town are also strong as evidenced by a robust equalized value per capita of approximately $214,609, strong compared to both the state and nation. The town's unemployment rate (2.5% in December 2018) remains below those of the state (3.2%) and the nation (3.7%).

Financial Operations and Reserves: Strong operating profile underpins stable finances; reserves below 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. The town's fiscal 2018 results were positive with the town achieving an operating surplus and growth to fund balance of $2.2 million. The surplus was driven by a favorable property tax variances and lower than anticipated personnel costs. The available general fund balance at fiscal year end was $14.9 million or 12.6% of revenues, below average for the rating category.

In 2018, the town's general fund provided financial support of $48 thousand its golf course enterprise fund, which currently has a negative unrestricted net position. The golf course fund owes the general fund $970 thousand. Any material increase in general fund support of this enterprise could exert pressure on the town's rating.

The fiscal 2019 adopted budget reflected growth of 3.45% over the revised fiscal 2018 budget and included a 1.9% increase in the mill rate and no appropriation of fund balance. The largest budgeted expenditure increase was for debt service, associated with a planned new issuance, and education. Management reports positive variances to both revenues and expenditures and driven by stronger property tax revenues, state grants, and lower than projected debt service expenses attributed to the postponement of a planned issuance. Management anticipates generating an approximately $2 million surplus in 2019.

The fiscal 2020 budget, not yet formally adopted, reflects a 4.8% increase in spending over the adopted fiscal 2019 budget and includes a 2.9% increase in the mill rate and an $800 thousand appropriation of reserves. The town's budget conservatively reflects $256 thousand payment towards the state Teachers Retirement System (TRS).

Property taxes represent the largest component revenues (82% in fiscal 2018) and collections are very strong at greater than 99.5% annually over the last decade. State aid, including aid for education and state on-behalf payments for teachers' pensions, comprised 15.6% of 2018 revenues. The largest expenditure is education (67.2% of 2018 operating expenditures), followed by public safety (8.4%).

LIQUIDITY

The town's net cash position at the close of fiscal 2018 was $20.7 million, or 17.6% of general fund revenues.

Debt and Pensions: Slightly elevated debt; moderate near term borrowing plans

Farmington's debt and pension profile will remain manageable given quick amortization and only modest future borrowing plans. The town has $70.6 million in direct debt representing 1.3% of full value. The town's debt consists of $33.6 million in GOULT bonds, $32.9 million in Clean Water Fund (CWF) loans, and $4 million in capital leases. In the near term the town has plans for an additional $14 million loan from the state CWF and an additional $19 million in town GO bonding outlined in the town's five-year capital improvement plan.

DEBT STRUCTURE

All of the debt is fixed rate with 68.2% 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 $3.3 million in fiscal 2018, or a manageable 3% of general fund expenditures. The 2018 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $78 million (three-year average), or a below average 0.66 times general fund revenues.

For its teachers, the town participates in the State of Connecticut Teachers' Retirement System (TRS). Employer contributions to the TRS, which are covered by on behalf payments made by the state, totaled $12.3 million in 2018. When including the town's share of the TRS ANPL to the adjusted liabilities of the city managed plans, the ANPL increases to $341 million, representing a high 6% of full value and 3.2 times operating revenues. Notably, any changes to the current funding structure would require approval by the state legislature.

The town funds other post employment benefits (OPEB) on a pay-as-you-go basis, which cost $1.1 million in fiscal 2018. The town's adjusted net OPEB liability of $36.3 million as of June 30, 2018, the most recent valuation report date.

Total town fixed costs including debt service, annual pension and OPEB contributions amount to $13.7 million or 11.6% of 2018 expenditures.

Management and Governance: Formalized long-term planning policies

The management team continues to demonstrate strong fiscal management including compliance with formal financial policies, conservative budgeting, adopting a five year capital plan, and aggressive funding of long-term liabilities. The town has a formalized fund balance policy of maintaining between 10-15% of revenues in unassigned general fund balance.

The town reports it was the victim of an online scheme in 2016 that cost it approximately $1.1 million. Since the scheme the town reports it has conducted several trainings for personnel and improved IT security.

Connecticut cities have an Institutional Framework score of Aa, which is high. 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.

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