

RatingsDirect®

Summary:

Windham, Connecticut; General Obligation

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Credit Profile

US\$14.0 mil GO bnds ser 2019 A due 08/15/2045

<i>Long Term Rating</i>	AA-/Stable	New
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US\$13.2 mil GO BANs ser 2019 dtd 08/21/2019 due 08/20/2020

<i>Short Term Rating</i>	SP-1+	New
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US\$2.105 mil GO rfdg bnds ser 2019B due 08/15/2030

<i>Long Term Rating</i>	AA-/Stable	New
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Windham GO rfdg bnds

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Windham, Conn.'s general obligation (GO) series 2019 bonds and its 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs). At the same time, S&P Global Ratings affirmed its 'AA-' rating on the town's existing long-term GO debt. The outlook, where applicable, is stable.

Credit overview

Windham has drawn on reserves in each of the past three years as a result of both planned one-time use of reserves for capital projects and uncertainty around state aid revenue. Despite that, we still view the town's general fund operations as stable. We project fiscal 2019 ended with an approximately break-even result and that fund balance will expand starting in fiscal 2020. Good management practices have historically allowed the town to maintain stability despite a weak, although growing, economy. We understand management is focused on rebuilding fund balance using growing revenues and one-time asset sales.

Supporting the 'AA-' rating is our view of Windham's:

- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Very strong liquidity, with total government available cash at 16.9% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 2.8% of expenditures and net direct debt that is 46.9% of total governmental fund revenue; and
- Strong institutional framework score.

These strong factors, however, are offset, in part, by our view of Windham's:

- Weak economy, with projected per capita effective buying income at 62.4% and market value per capita of \$54,870, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);

- Adequate budgetary performance, with an operating deficit in the general fund and a slight operating deficit at the total governmental fund level in fiscal 2018; and
- Adequate budgetary flexibility, with an available fund balance in fiscal 2018 of 7.6% of operating expenditures.

Security and use of proceeds

Windham's full faith and credit pledge secures the bonds and notes. The short-term rating on the notes reflects our criteria for evaluating and rating BANs. In our view, Windham maintains a very strong capacity to pay principal and interest when the notes come due. We view the town's market risk profile as low because it has strong legal authority to issue long-term debt to take out the notes and is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The town will use \$2.2 million of the \$14.8 million bonds to refund 2010 GO bonds outstanding for net present value savings of approximately 5%. The remainder of the bond proceeds will finance various capital projects. Proceeds from the \$13.2 million BANs will finance several projects, most notably a senior and community center.

Weak economy

We consider Windham's economy weak. Windham is in eastern Connecticut, 27 miles east of Hartford via Route 6, and 50 miles west of Providence, R.I. The 28-square-mile town includes the former city of Willimantic, which Windham consolidated with in 1983. The town, with an estimated population of 24,745, is located in Windham County in the Worcester MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 62.4% of the national level and per capita market value of \$54,870. The county unemployment rate was 4.5% in 2018.

Economic growth appears to have picked up in 2019 and 2020. Windham completed a revaluation in 2018 and sent out the first tax bills reflecting the new valuation in July 2019. Commercial property valuations increased 14%. Officials attribute this growth to multiple unused or underused properties being redeveloped, commercial renters choosing to purchase properties, and out-of-state developers investing in properties within the town. Major employers are also expanding their plant and property. Notably, Micro Precision Group increased its presence from 9,000 square feet to 18,000 square feet, and added a second manufacturing shift. The downtown area was also designated an opportunity zone under the federal Tax Cuts and Jobs Act, which incentivizes additional development in the area.

As noted, however, Windham's projected per capita EBI and market values are weak compared with those of its regional and state peers. Based on our forecasts, we anticipate the regional economy will remain steady, but with growth likely to remain modest. Residential real properties account for about 49% of Windham's tax base, while 27% is commercial and industrial. The top 10 taxpayers constitute a very diverse 10.4% of the grand list. The largest taxpayer is Connecticut Light and Power, accounting for 1.9% of the grand list.

Strong management

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

The board of finance is the budget-making authority responsible for financial and taxation matters. The board presents annual operating budgets to the town meeting for its approval and tax rate establishment. In our view, Windham maintains some best practices we consider critical to supporting credit quality, and these are embedded in the town's daily operations and practices. The town maintains formal policies supporting some of these activities, adding to the likelihood that it will continue and transcend changes in the operating environment or personnel.

The town regularly monitors revenue and expenditures, ensuring timely budget adjustments, and makes realistic budget assumptions based on trends, with the goal of yielding positive operating results. For example, in preparation of the 2018 budget, the town used a zero-based budget approach amid the uncertainty related to the state budget and its effects on state revenues. This allowed the town to produce a near-balanced budget.

Windham also maintains a comprehensive five- and 10-year capital plan that looks at both facilities and infrastructure improvements, and links funding sources for each project. In addition, the town maintains an informal 8% fund balance policy for its unassigned funds, a level which it has historically adhered to. According to the town's calculations, it is currently meeting the target. Windham's investment policies adhere to state guidelines and the town's board of finance committee reviews holdings and performance monthly.

Adequate budgetary performance

Windham's budgetary performance is adequate, in our opinion. The town had deficit operating results in the general fund of 1.8% of expenditures, and slight deficit results across all governmental funds of 0.8% in fiscal 2018. The deficits were the result of the town using general fund resources to fund capital projects, along with revenues that lagged the budget.

Historically, Windham has maintained balanced operations, supported by its strong budget development and monitoring framework. However, given recent budgetary pressure associated with uncertainty relating to state funding and capital expenditures, performance was more volatile over the past three years. Connecticut's budget impasse in 2018 extended almost five months into the 2018-2019 biennium, and had a harmful effect on municipal finances entering the fiscal 2018 year. While this affected all local governments in the state, Windham's budgetary performance was particularly exposed due to the amount of state funding it receives, particularly education cost-sharing grants. On the whole, intergovernmental revenue accounts for 50% of general fund revenue and property taxes make up 45%. In addition to receiving less state aid than expected in fiscal 2018, Windham also used general fund reserves to fund deferred capital expenditures.

The town made adjustments in fiscal 2019 to maintain stable financial reserves, and we anticipate its performance could improve over our two-year outlook horizon. Intergovernmental revenues received were approximately \$200,000 short of the budget, and revenues broadly came in \$700,000 below budget. However, cost savings and expenditure control should mean the town produces a roughly break-even result in fiscal 2019.

For fiscal 2020, Windham adopted a balanced \$76.0 million general fund budget. The adopted budget incorporates the town's receipt of 2.5% higher state aid and forecasts level statutory aid and a 1.78-mill increase in the property tax mill rate. The town also hopes to generate additional revenue through regional service agreements and an unbudgeted increase in building fees and permits.

Adequate budgetary flexibility

Windham's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2018 of 7.6% of operating expenditures, or \$6.3 million.

At its peak, Windham maintained total general fund balance of \$13 million, which amounted to about 21% of general fund expenditures. At the end of fiscal 2018, total fund balance declined to \$7.1 million; we consider \$6.3 million available.

Officials intend to increase fund balance through positive operating results and one-time revenues. Windham is in talks to sell a building to Eastern Connecticut State University. If the sale goes through, the town would put proceeds—which we estimate could range from \$500,000-\$600,000—into undesignated fund balance.

We anticipate reserves will regrow slowly after bottoming out in fiscal 2018. While it does not have a formal reserve policy, the town does maintain an informal target of maintaining reserves at a level above 8% of expenditures, to which it has historically adhered. According to the town's calculations, it is currently meeting the target.

Very strong liquidity

In our opinion, Windham's liquidity is very strong, with total government available cash at 16.9% of total governmental fund expenditures and 6.1x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

We believe the town maintains strong access to external liquidity if needed. It has issued bonds frequently over the past several years, including GO bonds and short-term BANs. We include investments we consider to be highly liquid in our calculation of the town's cash position.

Strong debt and contingent liability profile

In our view, Windham's debt and contingent liability profile is strong. Total governmental fund debt service is 2.8% of total governmental fund expenditures, and net direct debt is 46.9% of total governmental fund revenue.

Windham intends to continue rolling BANs outstanding for two years while adding approximately \$7 million in new debt. Given these limited plans and the amount of current debt outstanding over that time, we do not expect our view of the town's debt profile to change.

Windham's pension contributions totaled 2.9% of total governmental fund expenditures in 2018. The town made 104% of its annual required pension contribution in 2018.

The town is the administrator of three separate single-employer public-employee contributory pension plans for its municipal employees, police, and firefighters, and one separate single-employer defined-benefit noncontributory pension plan for all board of education employees (excluding teachers). These plans all have high funded ratios ranging between 78%-91%, which we view as a positive credit factor. The aggregate net pension liability of these plans totals \$10.1 million, which, in our view, is low. In addition, Windham's other postemployment benefits costs are limited to an implicit subsidy from allowing retirees to buy into the employee health care plan.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our expectation that Windham will sustain good financial practices and policies that contribute to generally stable budgetary performance. It also represents our view that the town maintains sufficient capacity to adjust revenue and expenditures to mitigate downward pressure from an uncertain state fiscal environment. For these reasons, we do not expect to change the rating within our two-year outlook horizon.

Downside scenario

We could lower the rating if the town were to experience a substantial weakening of budgetary performance, due to significant state aid reductions or otherwise, leading to a material decline of available reserves or constrained liquidity.

Upside scenario

If Windham improves financial reserves through sustained improvement in its financial performance, while growing and diversifying locally generated revenue to reduce its moderate reliance on state aid, and exhibiting improved wealth and income levels that are commensurate with those of higher-rated peers, we could raise the rating.

Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments

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