

# RatingsDirect®

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## Summary:

# Wolcott, Connecticut; General Obligation

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US\$6.845 mil GO bonds iss 2019 due 11/15/2039		
Long Term Rating	AA+/Stable	New
Wolcott Twn GO		
Long Term Rating	AA+/Stable	Upgraded

## Rationale

S&P Global Ratings has raised its long-term rating on the Town of Wolcott, Conn.'s GO debt outstanding to 'AA+' from 'AA'. At the same time, S&P Global Ratings has assigned its 'AA+' long-term rating to Wolcott's series 2019 general obligation (GO) bonds. The outlook is stable.

### Credit overview

The upgrade reflects Wolcott's improved policies and practices following the adoption of a comprehensive debt management policy, as well as the recent implementation of long-term financial planning. Following state aid cuts in 2018, the city's management demonstrated a willingness to increase taxes to counteract the effects of the lost revenue, which resulted in four years of operating surpluses. The town has an otherwise stable economy, which has benefitted from its lakeside location leading to growth in taxable values and new development. The economic implications of the town's modest decline in wealth and income indicators in recent years are offset by Wolcott's improving reserve position since 2016 following the adoption of a fund balance policy and very strong debt position. However, a slow-growing economy and limited growth potential remain constraining factors.

### Security and use of proceeds

The town's full-faith-and-credit pledge secures the bonds. Officials intend to use the proceeds primarily for the reconstruction and repair of town roads and parking lots, as well as fire equipment maintenance and senior center improvements.

### Rating factors

The rating reflects our assessment of the following credit characteristics for Wolcott:

- Strong economy, with access to a broad-and-diverse metropolitan statistical area (MSA);
- Very strong management, with strong 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;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 9.3% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.7% of total governmental fund expenditures and

2.7x governmental debt service, and access to external liquidity that we consider strong;

- Very strong debt and contingent liability profile, with debt service carrying charges at 7.4% of expenditures and net direct debt that is 51% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

### **Strong economy**

We consider Wolcott's economy strong. The town, with an estimated population of 16,420, is located in New Haven County in the New Haven-Milford, CT MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 103.4% of the national level and per capita market value of \$108,062. Overall, the town's market value grew by 0.6% over the past year to \$1.8 billion in 2020. The county unemployment rate was 4.4% in 2018.

Despite declines in income and wealth levels, Wolcott continues to see modest economic growth, largely from residential and commercial construction relating to senior assisted living facilities, which management expects will bring in additional jobs. The 10 leading taxpayers account for 3.4% of the property tax base. Connecticut Light & Power Co., the largest taxpayer, accounts for less than 1% of taxable property. Based on our regional forecast, we expect Wolcott's economy will remain stable, but with lower growth factors than the nation.

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In our opinion, Wolcott maintains conservative revenue and expenditure assumptions, as it relies on property taxes as its primary revenue source. Historical trend analysis for at least three years is referenced in creating the budget. The town council receives monthly budget-to-actual reports and may amend the budget throughout the year for major variances. Wolcott introduced formal financial projections in 2019, and continues to maintain a five-year capital improvement plan, which is updated annually with departmental projects and costs specified within its annual budget, and funding sources identified. The town has its own investment policy with monthly reviews of holdings. Furthermore, it adopted a comprehensive debt management policy; this includes borrowing thresholds, whereby total net debt should not exceed 10% of expenditures and amortization requirements. Wolcott is in compliance with this policy. Town officials adopted a fund balance policy in March 2014 with the goal of maintaining a minimum unassigned fund balance at 7% of the following year's revenues. In 2016, the town became in compliance with this policy and exceeded its threshold since.

### **Strong budgetary performance**

Wolcott's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 1.0% of expenditures, and surplus results across all governmental funds of 3.2% in fiscal 2018. General fund operating results of the town have been stable over the last three years, with a result of 1.2% in 2017 and a result of 0.9% in 2016.

For analytic consistency, we have adjusted for recurring transfers and the use of bond and lease proceeds for capital

outlay. We note the town has not appropriated reserves to balance its budget in the past eight fiscal years.

For fiscal 2017, results were positive due to conservative expenditure assumptions. In 2017, the town realized a favorable expenditure variance of \$596,000 (1.2% of budgeted expenditures) in the general fund.

Similarly, in 2018, despite a reduction of \$1.9 million in state aid, and significant budgetary uncertainty through the course of the fiscal year because of a state budget impasse, the town realized a strong surplus. Instead of utilizing reserves to remedy the shortfall in state aid, the town elected to raise the tax levy mid-year. In addition, Wolcott was prudent in its expenditure monitoring, again realizing a favorable expenditure variance of \$410,000. These actions, led to the town generating an adjusted surplus of \$687,000 in the general fund. For fiscal 2019, management is again estimating another surplus, which will be its fourth consecutive surplus.

The 2020 budget totals \$56.51 million, a 2.12% increase from the previous year. The town has some exposure to the potential fluctuation of state aid, as nearly 30% of revenues come from intergovernmental transfers. Despite potential uncertainty in future decisions, we believe the state funding environment is more stable. Moreover, we believe Wolcott has sufficient flexibility within its budget to manage a decline in state aid –should it occur, and that our view of performance is unlikely to weaken unless expenditures outpace revenues as a result of a slowing economy.

### **Strong budgetary flexibility**

Wolcott's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 9.3% of operating expenditures, or \$5.5 million.

Wolcott has adopted a fund balance policy that targets 7% of the ensuing fiscal year's revenue as a minimum unassigned fund balance with 10% as the maximum. If the unassigned fund balance falls below 7%, the mayor and town council will move to restore it within a four-year period. The town surpassed this minimum target since fiscal 2016, and continues to build its reserve levels. Although officials would like to continue adding to reserves, they indicate this might be challenging if state aid is reduced. At a minimum, we expect Wolcott will continue to adhere to its reserve policy. Therefore, we expect our view of budgetary flexibility will remain strong over the next two years.

### **Very strong liquidity**

In our opinion, Wolcott's liquidity is very strong, with total government available cash at 19.7% of total governmental fund expenditures and 2.7x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

The town has issued GO bonds regularly in the past several years. We understand Wolcott has not entered into any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The town follows its own investment policy, as well as state guidelines, and we do not consider its investments aggressive, as nearly all are in mutual funds. Therefore, we do not expect our assessment of Wolcott's liquidity profile to change in the near term.

### **Very strong debt and contingent liability profile**

In our view, Wolcott's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.4% of total governmental fund expenditures, and net direct debt is 51.0% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, which is in our view a positive credit factor.

Following this issue, Wolcott will have \$34.22 million in debt outstanding. It does not have any additional debt plans at this time.

Wolcott's pension contributions totaled 3.2% of total governmental fund expenditures in 2018. The town made its full annual required pension contribution in 2018.

The town maintains two single-employer, defined-benefit pension plans: the Town General Pension Plan (TGPP) and the Board of Education Pension Plan. The plan fiduciary net position as a percent of the total pension liability was 68.01% and 92.79%, respectively. The TGPP is the largest by liability. Wolcott also provides other postemployment benefits funded on a pay-as-you-go basis. The liability was about \$20.8 million and is entirely unfunded. Despite the plan funding levels, costs should be manageable in the near term.

### **Strong institutional framework**

The institutional framework score for Connecticut municipalities is strong.

## **Outlook**

The stable outlook reflects Wolcott's history of strong financial performance and increasing budgetary flexibility, which it is likely to maintain given the current budgetary environment. Further supporting the rating is the town's very strong debt and contingent liability profile. We do not expect to change our rating over the two-year outlook period.

### **Upside scenario**

We could raise the rating if Wolcott's wealth and income indicators improve to levels akin to those of higher-rated peers, while the town manages balanced operations and maintains strong reserves.

### **Downside scenario**

We could lower the rating if circumstances arise whereby the town is unable to maintain a balanced budget, leading to a deterioration in reserves.

## **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

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