

CREDIT OPINION

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 Rate this Research

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Woodbury (Town of) CT

Update to credit analysis following upgrade of GO to Aa1

Summary

Woodbury, CT (Aa1) benefits from a sound financial position, supported by conservative budgeting and formal policies, as well as stable property tax revenue and significant budgetary flexibility given low fixed costs. The town's tax base is stable, although below medians of similarly rated cities, and wealth and income indicators are strong.

On January 16, 2019, we upgraded the town's general obligation unlimited tax (GOULT) rating to Aa1 from Aa2.

Credit strengths

- » Sound financial position supported by formal policies and conservative management
- » Limited reliance on state revenues
- » Very low fixed costs
- » Strong resident income and wealth levels

Credit challenges

- » Tax base is below the medians of similarly rated credits

Rating outlook

Outlooks are not typically assigned to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Tax base expansion and strengthened socioeconomic indicators
- » Maintenance of reserves at levels consistent with higher rating category

Factors that could lead to a downgrade

- » Tax base deterioration
- » Trend of structural imbalance leading to fund balance declines
- » Significant increase in debt or pension burdens

Key indicators

Exhibit 1

Town of Woodbury, CT

Woodbury (Town of) CT	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$1,491,657	\$1,610,306	\$1,548,752	\$1,540,778	\$1,550,059
Population	9,851	9,791	9,723	9,557	9,557
Full Value Per Capita	\$151,422	\$164,468	\$159,288	\$161,220	\$162,191
Median Family Income (% of US Median)	161.5%	156.7%	143.0%	143.0%	143.0%
Finances					
Operating Revenue (\$000)	\$31,255	\$31,409	\$32,248	\$33,264	\$33,992
Fund Balance (\$000)	\$3,445	\$3,939	\$4,389	\$5,616	\$6,334
Cash Balance (\$000)	\$4,395	\$5,077	\$7,417	\$7,707	\$9,531
Fund Balance as a % of Revenues	11.0%	12.5%	13.6%	16.9%	18.6%
Cash Balance as a % of Revenues	14.1%	16.2%	23.0%	23.2%	28.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$4,717	\$4,367	\$6,761	\$7,895	\$8,245
3-Year Average of Moody's ANPL (\$000)	\$4,691	\$6,808	\$8,886	\$10,798	\$10,811
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.4%	0.5%	0.5%
Net Direct Debt / Operating Revenues (x)	0.2x	0.1x	0.2x	0.2x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.4%	0.6%	0.7%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.2x	0.2x	0.3x	0.3x	0.3x

Source: audited financial statements, US Census Bureau, Moody's Investors Service

Profile

The Town of Woodbury is located in Litchfield County in western Connecticut, approximately 30 miles southwest of Hartford. Current population is approximately 9,723.

Detailed credit considerations

Economy and tax base: stable, residential tax base with strong socioeconomic indicators

The town's \$1.6 billion tax base, which is below the median for the rating category, will remain stable, but not materially expand, given its residential nature. The tax base is predominantly residential and the Equalized Net Grand List (ENGL, full value) increased at a compound annual rate of 0.8% over the last five year, driven largely by property value growth. Development projects are limited and consist of a mix of commercial and residential properties.

The town benefits from a strong wealth profile. Median family income represents 106.4% of the state and 143% of the nation, and the town's poverty rate is very low at 5%. The town's unemployment is also low at 3.3% (September 2018), compared to 3.8% for the state and 3.6% for the nation.

Financial operations and reserves: healthy financial position supported by stable property tax revenues

The town's financial position will remain sound given management's conservative budgeting assumptions and high reliance on stable property tax revenues. The town has reported operating surpluses in at least the last six fiscal years, increasing general fund balance to \$6.3 million (18.6% of revenues) in fiscal 2018 from \$3.4 million (11.3% of revenues) in fiscal 2012. While reserves are below national medians, they are above the statewide medians for Aa1 rated towns and cities.

In fiscal 2018, the town saw a \$700,000 reduction in state revenues. The original budget included a \$1 million increase in expenditures to fund a potential shift in teachers' pension contributions. This shift was not implemented by the state, so these savings offset the reduction in state revenues leading to an operating surplus of \$718,000 in the general fund.

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The fiscal 2019 budget reflects a 2% increase over the prior year and does not include the use of fund balance. Should the town realize another surplus, the additional fund balance will likely be appropriated to the fiscal 2020 budget as reserves are in excess of the town's 10% of expenditures fund balance policy.

The town's largest revenue source is property taxes, accounting for 92.3% of fiscal 2018 revenues, followed by state revenues at 4.4%, which is a credit strength. The stable revenue profile, as well as very low fixed costs provide the town with significant fiscal predictability and flexibility.

LIQUIDITY

The town's liquidity position is strong with \$9.5 million in net cash, or 28% of general fund revenues at the end of fiscal 2018.

Debt and pensions: manageable debt levels and pension liability

The debt burden will remain manageable given modest capital needs. Including the issuance of the 2019 GO bonds, the direct debt burden is a modest 0.7% of ENGL. The town's overlapping debt burden, currently 1.3%, will increase in coming years due to planned issuance by Regional School District #14. Even with this additional debt, the town's debt burden and debt service costs will remain manageable.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is slightly below average, with 79% repaid within ten years. Debt service accounted for a modest 2.4% of fiscal 2018 expenditures.

DEBT-RELATED DERIVATIVES

Woodbury is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The town maintains a single employer pension plan. The actuarial determined contribution in fiscal 2018 was \$596,000, or a low 1.8% of expenditures.

The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$9.6 million, or a below average 0.28 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town currently funds its other post employment benefits on a pay-as-you-go basis, contributing \$210,000 in fiscal 2018. The total unfunded liability is \$7.9 million as of July 1, 2018.

Total fixed costs, including debt service, required pension contributions and retiree healthcare payments, represented a very low 4.8% of expenditures.

Management and governance: strong institutional framework

Connecticut Cities have an Institutional Framework score of Aa, which is strong. 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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