

CREDIT OPINION

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Somers (Town of) CT

Update to credit analysis following removal of negative outlook

Summary

Somers, CT, (Aa2) benefits from a modestly-sized but stable tax base and strong local resident wealth and incomes. The town's financial position is healthy and its debt, pensions and other post-employment benefit (OPEB) liabilities are low.

Credit strengths

- » Stable grand list valuations
- » Solid operating history supporting healthy financial position
- » Strong resident wealth and income indicators
- » Low debt and pension burdens

Credit challenges

- » Modest tax base size

Rating outlook

The removal of the negative outlook reflects our expectation that the town's conservative budgeting practices and strong operating performance will continue to support its financial profile at a level sufficient for the rating category.

Factors that could lead to an upgrade

- » Material grand list expansion
- » Significant strengthening of resident wealth and incomes

Factors that could lead to a downgrade

- » Material erosion of financial position
- » Significant tax base contraction

Key indicators

Exhibit 1

Somers (Town of) CT	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$1,110,038	\$1,200,743	\$1,243,529	\$1,208,933	\$1,281,789
Population	11,431	11,437	11,368	11,284	11,649
Full Value Per Capita	\$97,108	\$104,988	\$109,389	\$107,137	\$110,034
Median Family Income (% of US Median)	159.6%	157.9%	159.8%	157.1%	157.1%
Finances					
Operating Revenue (\$000)	\$32,941	\$33,675	\$33,665	\$33,348	\$34,611
Fund Balance (\$000)	\$6,631	\$7,608	\$7,561	\$6,878	\$6,988
Cash Balance (\$000)	\$8,508	\$9,314	\$9,338	\$8,362	\$8,082
Fund Balance as a % of Revenues	20.1%	22.6%	22.5%	20.6%	20.2%
Cash Balance as a % of Revenues	25.8%	27.7%	27.7%	25.1%	23.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$13,274	\$16,028	\$14,985	\$13,587	\$12,024
3-Year Average of Moody's ANPL (\$000)	\$3,063	\$2,952	\$3,161	\$3,479	\$3,539
Net Direct Debt / Full Value (%)	1.2%	1.3%	1.2%	1.1%	0.9%
Net Direct Debt / Operating Revenues (x)	0.4x	0.5x	0.4x	0.4x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.2%	0.3%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.1x	0.1x	0.1x	0.1x	0.1x

Source: Moody's Investors Service and audited financial statements

Profile

Located in northern Connecticut (A1 stable), Somers is largely rural and suburban community with residents commuting to large employment centers, including nearby Hartford (B1 positive) and Springfield, MA (A2 stable).

Detailed credit considerations

Economy and tax base: Modestly-sized but stable tax base; above average income and wealth

Somers' \$1.3 billion Equalized Net Grand List (ENGL) will continue to remain stable given the town's proximity to various regional economic centers and modest forthcoming local development. The town's proximity to employment opportunities in nearby Hartford, CT and Springfield, MA has contributed to its stable ENGL, which has grown at a five-year average annual growth rate of 1.8% through 2018, bringing values to their pre-recession peak. Management reports additional modest residential and commercial development in the early stages of the approval process that will likely take one to three years to be complete. The town's taxable grand list values increased to \$861 million in fiscal 2019, up from \$852 million in fiscal 2018. Somers is also preparing for a full revaluation to take place in calendar year 2019 to be reflected in fiscal 2021 grand list values.

Somers' resident wealth and income profile is above average. Full value per capita is \$110,034, slightly below the statewide rating category median but consistent with the nation. Similarly, median family incomes are strong at 157.1% of the US median and 118.6% of the state median. The unemployment rate as of March 2019 of 3.5% is in line with national rate.

Financial operations and reserves: Conservative budgeting and effective management of state aid

Somers' operating performance is stable, and management's conservative budgeting and willingness to adjust operations to offset reductions in state aid will support the town's finances at levels sufficient for the rating category.

Somers adopted its fiscal 2018 budget prior to the state's budget, and deftly adjusted to unexpected cuts in state aid with timely increases to its mill rate, which drove balanced 2018 results. The town adopted its 2018 budget in May 2017 and assumed largely flat state aid relative to its 2017 budget. Ultimately the actual state aid in 2018 was approximately \$1 million less than fiscal 2017. The town mitigated this challenge by implementing a mid-year rate increase of one mill, which generated approximately \$900,000 in

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revenue. Various expenditure savings related to public safety and education also resulted in a \$500,000 positive expenditure variance. As a result, Somers largely broke even and the town ended 2018 with \$7 million in fund balance or 20% of revenue.

The town's 2019 budget was largely held flat relative to the 2018 budget and included significantly reduced state funding offset by increases in local source revenues. The budget included a 0.9 mill increase, generating \$780,000, and a continuation of the supplemental levy issued in 2018, which created an additional \$1 million in revenues. Collectively, the increase represented a 9.7% budget-to-budget increase in local revenues. The 2019 budget also reflected \$1.5 million less in state aid, or a 16% reduction. Positive expenditure variances and approximately \$400,000 in better-than-expected state revenues are driving a 2019 surplus, which management expects to be around \$900,000.

The town's 2020 budget was adopted in May and represents a 4.5% budget-to-budget increase after a largely flat 2019 budget. Property tax revenues are scheduled to grow by 1.26%, driven by grand list growth with no increase in the town's mill rate. The budget includes a \$562,000 appropriation of fund balance and a modest increase in the state's Education Cost Sharing (ECS) grant. The town's budget did not include an appropriation to support the state contributions towards the Teachers Retirement System (TRS), which is currently entirely paid for by the state.

LIQUIDITY

In line with fund balance the town's liquidity position is sound, with \$8 million or 23.5% of revenues in General Fund cash.

Debt and pensions: Manageable long-term liability profile

The town has \$12 million in direct debt outstanding, representing a modest 1.1% ENGL, or 0.4 times operating revenues. In November 2018, local voters approved \$10 million in bonding for schools and road improvements. The town recently issued \$2 million in bond anticipation notes against the authorization and will issue short-term notes again in fall 2019 before taking out the notes with long-term financing in 2020. The town anticipates being reimbursed by the state for \$1.5 million of the issuance.

DEBT STRUCTURE

All of the town's debt is fixed rate. An above average 85% of principal is scheduled to amortize over the next ten years.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Somers administers two small defined benefit plans for certain town employees and non-teaching staff of the Board of Education. In fiscal 2018, the town contributed 100% of its actuarially determined contribution for both plans, amounting collectively to \$343,000. The fiscal 2018 three-year average adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, is very low at \$3.6 million representing a low 0.1 times operating revenues and 0.24% of ENGL.

For 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 \$2.7 million in 2018. Including the town's share of the TRS ANPL in the adjusted liabilities of the town managed plans, would bring the 2018 ANPL to \$97 million, representing an elevated 2.7 times revenues. Notably, any changes to the current funding structure would require approval by the state legislature and a recent proposal to cost-shift a portion of these costs was not adopted in the state's 2020 budget.

The town's unfunded OPEB liability is \$3.6 million. The town contributed \$143,000 in fiscal 2018. The town maintains an OPEB trust, with a currently minimal \$25,000 balance, but this amount will increase as the town reallocates \$787,000 of restricted balance held in the General Fund into the OPEB trust fund in the coming years.

Total fixed costs including debt service, required pension contributions, and retiree healthcare payments, represented a low 6.6% of revenues.

Management and governance: Conservative budgeting guides strong operating performance

Management's conservative budgeting practices have supported break-even or positive operations in five of the past six years. Town management maintains an informal fund balance policy of maintaining 15% in unassigned balance.

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

Rating methodology and scorecard factors

The [US Local Government General Obligation Rating Methodology](#) includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Somers (Town of) CT		
Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$1,281,789	A
Full Value Per Capita	\$115,414	Aa
Median Family Income (% of US Median)	157.1%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	20.2%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	2.8%	A
Cash Balance as a % of Revenues	23.4%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	1.6%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Notching Factors: ^[2]		
Unusually Strong or Weak Budgetary Management and Planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.9%	Aa
Net Direct Debt / Operating Revenues (x)	0.3x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.3%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.1x	Aaa
Notching Factors: ^[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Contingent risk associated with state pension support		Down
Scorecard-Indicated Outcome		Aa2
Assigned Rating		Aa2

[1] Measures are based on data from the most recent year available

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard Inputs Updated for 2019 publication](#)

Source: US Bureau of Economic Analysis, Moody's Investors Service

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