



## Town of Cromwell Office of the Town Manager

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### FOR IMMEDIATE RELEASE:

December 6, 2017

**CROMWELL, CT**— Standard & Poor's Rating Services ("S&P") today announced that the Town of Cromwell once again has earned its highest classification of 'AAA' with a stable outlook. According to S&P's own criteria, "An obligation rated 'AAA' has the highest rating assigned by S&P Global Ratings. The [Town's] capacity to meet its financial commitments on the obligation is extremely strong."

In its formal rating report, S&P cited the Town's "very strong economy, strong management, strong budgetary performance, very strong budgetary flexibility, and very strong liquidity" as the determining factors for the 'AAA' designation. Additionally, they stated that Cromwell had earned the right to be rated above both the state and federal governments, saying: "Cromwell's general obligation bonds are eligible to rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. federal government in a stress scenario."

"This is a complete validation of the direction we have taken for the Town of Cromwell," said Town Manager Anthony Salvatore. "Despite the headwinds created by the financial crisis in Hartford, including continued reductions in municipal aid from the state, Cromwell is in the strongest possible position to maintain stability and predictability which, in turn, attracts continued residential and commercial investment."

"These are not easy times for Connecticut municipalities. To be able to maintain a 'AAA Stable' rating from S&P at a time when many of our peer communities are under tremendous budgetary pressure affirms that we are doing a lot of things right," said Finance Director Marianne Sylvester. "We received 'very strong' or 'strong' scores in every category of their rating formula, and that is a testament to our management team, our finance team and our elected officials. We will continue to seek ways to further improve our financial performance to ensure Cromwell retains its 'AAA' designation despite the external challenges we may face in the future."

The full rating report from S&P is attached to this transmission.

# RatingsDirect®

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**Summary:**

## Cromwell, Connecticut; General Obligation

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## Summary:

# Cromwell, Connecticut; General Obligation

### Credit Profile

US\$6.41 mil rfdg bnds iss ser 2017 due 06/01/2029

<i>Long Term Rating</i>	AAA/Stable	New
Cromwell GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Cromwell GO</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Cromwell, Conn.'s series 2017 refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's previously issued GO debt. The outlook is stable.

The issue is secured by Cromwell's full faith and credit, with debt service payable from ad valorem taxes levied without limitation on all taxable property within the town. The series 2017 proceeds will be used to refund 2008 and 2010 bonds for net present value savings.

Cromwell's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. federal government in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. local governments are considered to have moderate sensitivity to country risk. The town's GO pledge is the primary source of security on the debt; this limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the city. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. In 2016, 81.6% of the city's revenue was derived from local sources, demonstrating a lack of dependence on federal government revenue.

The 'AAA' rating reflects our view of Cromwell's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.9% of total governmental fund expenditures and



3.8x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt and contingent liability position, with debt service carrying charges at 6.8% of expenditures and net direct debt that is 41.1% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 83.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Cromwell's economy very strong. The town, with an estimated population of 14,068, is in Middlesex County near the intersection of Interstate 91 and Route 9, about 14 miles south of Hartford and 28 miles northeast of New Haven. It is in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 140% of the national level and per capita market value of \$139,677. Overall, the town's market value grew by 3.5% over the past year to \$2.0 billion in 2018. The county unemployment rate was 4.4% in 2016.

The town has undergone a transformation from primarily agricultural to a largely residential community, with residential uses now accounting for 64.4% of the grand list. The property tax base is diverse, with Algonquin Gas Transmission, being the highest property value at 4.2% of the grand list. The town's grand list has continued to experience growth the past three years. With a number of proposed residential developments and shopping center upgrades in the pipeline, we expect the tax base to grow over the next few years.

### **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.

Factors taken into account for our assessment include the town's conservative budgeting practices, which are grounded in a historical trend analysis; regular budgetary surveillance; and ongoing financial forecasting. Cromwell shares budget-to-actual reports with the council monthly, and has the flexibility to make amendments throughout the year. Its long-term capital plan is annually updated, and projects five years out. Cromwell also has an annually updated financial model with projections through 2044. The town's investment policy is consistent with state statutes and holdings are reviewed at least annually by council. The debt policy is to maintain a debt ratio (annual service debt to budget) of 8%-10% and limit long-term debt amortization to 20 years or less. While the town's formal fund balance policy does not include a target or minimum level, officials informally strive to maintain minimum fund balance above 15% of budget.

### **Strong budgetary performance**

Cromwell's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of negative 0.3% of expenditures, and slight surplus results across all governmental funds of 1.4% in fiscal 2016.

The negative operating result in the general fund is a result of capital expenses, such as a land purchase, minor building renovations, and a vehicle acquisition. In 2017, the town held back on several expenditures due to news about challenged finances at the state level. However, local aid was not reduced in 2017, and the town ended with an estimated \$1.4 million surplus. Cromwell is likely to lose \$626,000 in state aid in 2018. It has already identified

\$400,000 in additional revenue or in savings to plug the budgetary gap. The current shortfall is \$200,000 (or 0.4% of expenditures), which town officials expect to make up through higher revenues in tax collections, building inspections and permitting. About 15.7 % of revenue comes from state aid.

Based on the town's conservative budgeting, and consistent (yet modest) tax rate increases, we expect operating performance to remain strong.

### **Very strong budgetary flexibility**

Cromwell's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 16% of operating expenditures, or \$7.8 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 16% of expenditures in 2015 and 16% in 2014.

Management maintains an informal fund balance target at 15% of expenditures, which it has met or exceeded in the past three years. Town officials have no plans to draw down on the fund balance, or to increase it significantly. Therefore, we expect our view of budgetary flexibility to remain very strong.

### **Very strong liquidity**

In our opinion, Cromwell's liquidity is very strong, with total government available cash at 35.5% of total governmental fund expenditures and 5.2x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

Cromwell has demonstrated strong market access through recent GO issuances. The town does not engage in aggressive use of investments that could add significant volatility to its liquidity position. In addition, it is not exposed to variable-rate or privately placed debt that could result in undue contingent liabilities through acceleration events or interest rate risk. In our opinion, the town is likely to maintain its very strong liquidity.

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

In our view, Cromwell's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.8% of total governmental fund expenditures, and net direct debt is 41.1% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, and approximately 83.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Cromwell has \$22.9 million in debt outstanding. Town officials could issue as much as \$9 million over the next two-or-three years for a land acquisition, a library renovation, and various facility improvements. Over the long term, Cromwell expects to issue debt for school improvements, but has only begun to plan for those projects. We expect the town's debt profile to remain very strong during our two-year outlook horizon.

The town's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.9% of total governmental fund expenditures in 2016. Of that amount, 2.2% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The town made its full annual required pension contribution in 2016.

Cromwell administers a single defined-benefit plan for employees of the town while police officers participate in the state Municipal Employees Retirement System. The town contributed 100% of its required contributions to the plans.



The town-administrated plan reported a plan fiduciary net position 84% for the total pension liability for the year, and a net pension liability of \$3.9 million. Cromwell contributed 69% of its OPEB required contribution for the year, which has historically been funded on pay-as-you-go basis, but is working toward achieving full funding and contributing excess fund to a trust. The plan has some prefunding at 7% for July 1, 2015, and an unfunded liability of \$5.996 million.

### **Strong institutional framework**

The institutional framework score for Connecticut municipalities is strong.

## **Outlook**

The stable outlook reflects our view of Cromwell's very strong economic factors and very strong debt profile supported by our view of strong management conditions. Continued active management of the town's fund balance should allow it to sustain very strong budgetary flexibility and strong performance. However, we continue to monitor the state situation and cuts to local government aid. Should performance deteriorate due to reduced state assistance or higher pension costs, leading to significant draws on reserves, we could lower the rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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