

## CREDIT OPINION

12 April 2019



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## Wilton (Town of) CT

### Update to credit analysis

#### Summary

The Town of Wilton, CT (Aaa stable) will continue to benefit from a stable financial position given revenue raising flexibility and low fixed costs. The town's tax base is sizable and resident income and wealth levels are very strong. While the town's debt burden is slightly elevated relative to peers, pension and OPEB plans are very well funded with manageable liabilities over the long-term.

#### Credit strengths

- » Stable and healthy reserve position bolstered by formal fund balance policy
- » Affluent residential tax base
- » Prudent funding of pension and OPEB liabilities

#### Credit challenges

- » Possible decline in state education funding due to the state's ongoing budget challenges
- » Potential shifting of some teachers' pension costs to the town from the state

#### Rating outlook

The stable outlook reflects the expectation that the town's financial position will remain sound, consistent with prior years, given conservative budgeting practices, formal policies and operating flexibility due to low fixed costs. Additionally, the town's tax base will see moderate growth given new developments and will continue to benefit from very strong resident income and wealth levels.

#### Factors that could lead to an upgrade

- » N/A

#### Factors that could lead to a downgrade

- » Trend of operating deficits resulting in a material decline in reserves
- » Significant declines in the tax base or deterioration of the resident wealth and income profile
- » Material growth in debt burden

## Key indicators

Exhibit 1

Wilton (Town of) CT	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$6,054,409	\$6,802,946	\$6,535,482	\$6,590,104	\$6,070,177
Population	18,519	18,643	18,616	18,659	18,581
Full Value Per Capita	\$326,930	\$364,906	\$351,068	\$353,186	\$326,687
Median Family Income (% of US Median)	309.0%	307.6%	303.1%	290.6%	290.6%
Finances					
Operating Revenue (\$000)	\$126,114	\$126,763	\$130,647	\$137,738	\$142,138
Fund Balance (\$000)	\$22,390	\$22,999	\$23,472	\$22,581	\$24,133
Cash Balance (\$000)	\$30,302	\$29,424	\$31,743	\$34,578	\$28,670
Fund Balance as a % of Revenues	17.8%	18.1%	18.0%	16.4%	17.0%
Cash Balance as a % of Revenues	24.0%	23.2%	24.3%	25.1%	20.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$59,241	\$74,506	\$83,700	\$83,194	\$85,699
3-Year Average of Moody's ANPL (\$000)	\$40,802	\$48,097	\$54,707	\$62,560	\$61,164
Net Direct Debt / Full Value (%)	1.0%	1.1%	1.3%	1.3%	1.4%
Net Direct Debt / Operating Revenues (x)	0.5x	0.6x	0.6x	0.6x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.7%	0.8%	0.9%	1.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.4x	0.4x	0.5x	0.4x

Source: Moody's Investors Service

## Profile

Wilton is located in Connecticut's Fairfield County, approximately 55 miles northeast of New York City (Aa1 stable). The town provides municipal services, including primary and secondary education, to approximately 18,700 residents.

## Detailed credit considerations

### Economy and Tax Base: Stable tax base with very strong resident income and wealth levels

The sizeable \$6.1 billion Equalized Net Grand List (ENGL) will remain healthy given its favorable location and strong property values. The base has decreased at a compound annual rate of 0.2% over the last five years and is slightly below the median for Aaa rated towns and cities nationally, but in line with the Connecticut Aaa median. The most recent reassessment effective fiscal 2019 led to a 0.7% increase in the net grand list, or assessed values. Future tax base growth will be supported by the construction of a new medical office building, an assisted living facility and a recently announced expansion by ASML, a Dutch manufacturer of semiconductors and related systems that is the town's sixth largest taxpayer (0.6% of 2017 net taxable grand list) and largest employer (approximately 1,400 employees).

The town is affluent as evidenced by a high median family income that is 219.5% and 290.6% of state and national medians, respectively. Housing values are very strong with equalized value per capita is a robust \$326,687. The town's unemployment rate of 3.8% as of January 2019 remains below the state rate of 4.7% and national rate of 4.4%.

### Financial Operations and Reserves: Stable financial position supported by conservative budgeting and formal policies

Wilton's financial position will remain stable given sound reserve levels and adherence to a formal fund balance policy. Positively, the town is not heavily reliant on state funding and is therefore somewhat insulated from the ongoing fiscal challenges of the state. Reserve levels have been stable for the past six years, and the available general fund balance (unassigned, assigned, and committed)

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has averaged a sound 16.3% of revenues since 2013, which is stronger than the median for similarly rated credits in the state, but well below the national median.

Audited fiscal 2018 results reflect a \$871,000 surplus driven by favorable variances on revenues and expenditures which fully replenished the \$4.1 million in fund balance appropriation. Available fund balance remains sound at \$21 million representing 14.8% of revenues. Of this amount, \$14.5 million (10.2%) is unassigned, which is in line with the town's 10% fund balance policy.

The fiscal 2019 budget is relatively level to the prior year and included a 1.5% mill rate increase and \$1.7 million appropriation of fund balance. The reserve appropriation is in line with the policy of appropriating unassigned fund balance in excess of 10% to offset annual tax increases. Management expects that fund balance will likely increase by yearend largely due to the unused \$1.2 million contingency.

Property taxes are the largest revenue source at 84.3%, and current year collections remain very strong at over 99%.

Intergovernmental revenues from the state account for the second largest revenue source, totaling 13.6%, which is relatively modest when compared to statewide peers.

#### LIQUIDITY

Wilton's cash position remains healthy. general fund cash and investments at fiscal 2018 year-end totaled \$16.2 million or 18.5% of revenues.

#### Debt and Pensions: Moderate debt burden; well-funded pension and OPEB plans

The debt burden will increase modestly over the near term due to future borrowing plans but will remain manageable given satisfactory principal amortization. Following the issuance of the 2019 GO bonds, the town's debt burden will increase to 1.4% of ENGL, which is slightly elevated for the rating category. The capital improvement plan totals \$36.7 million through fiscal 2024 and will be financed entirely with debt.

#### DEBT STRUCTURE

All debt is fixed rate and the ten year principal amortization is satisfactory at 71.1%. Debt service comprised 8.9% of fiscal 2018 operating expenditures.

#### DEBT-RELATED DERIVATIVES

The town is not party to any derivative agreements.

#### PENSIONS AND OPEB

Wilton is responsible for the administration of a single-employer defined benefit pension plan for substantially all employees, other than teachers and certain administrators who are covered under the state run plan. The town maintains a policy of funding in excess of the actuarially determined contribution (ADC) depending on the plan's funded ratio. Due to the town's aggressive funding of this liability, the plan's funded ratio has increased annually and was 98.7% as of the June 30, 2018 valuation date. The town contributed \$2.4 million in fiscal 2018, which was 105% of the ADC.

The three year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$61.2 million representing a below-average and manageable 0.4 times revenues and 1.0% of ENGL. 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.

For its 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 \$14.8 million in 2018. When including the town's share of the TRS ANPL to the adjusted liabilities of the city managed plans, the ANPL increases to \$398 million, representing a high 6.6% of full value and 2.8 times operating revenues.

The town contributes to its OPEB liability on a partial pre-funded basis. The town has historically contributed 100% of the annual cost, far more than most local governments across the country. The fiscal 2018 contribution was \$392,000 accounting for 0.3% of expenditures. The plan's funded ratio is 83.8%, which represents a substantial improvement from 7.2% in 2008. In fiscal 2018, the town funded 120% of the annual cost. Management's prudent funding policies for pension and OPEB represent a strong commitment to maintaining superior funding levels for both liabilities.

Fixed costs for fiscal 2018, including debt service, required pension contributions and retiree healthcare payments totaled a manageable 10.9% of expenditures.

### Management and Governance

The management team continues to demonstrate strong fiscal management including compliance with formal financial policies, conservative budgeting, adopting a five year capital plan, and aggressive funding of long-term liabilities.

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.

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REPORT NUMBER

1170446

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