



August 15, 2017

Secretary Benjamin Barnes
State of Connecticut
Office of Policy and Management
450 Capitol Avenue
Hartford, CT 06106

Dear Secretary Barnes,

I have received your letter dated August 7, 2017 where you have requested, on behalf of the Governor, updated information regarding Farmington's fund balance. Please find that information attached to this letter.

The Town of Farmington is recognized as an outstanding community that offers exceptional quality of life to its residents. Our schools continue to offer nationally acclaimed programs to our children, we have a broad spectrum of recreational and cultural offerings, and the Town government provides outstanding services.

The Town of Farmington works extremely hard to meet the facility, land, infrastructure and service needs of the community without significantly burdening the residents with higher taxes. This is due to the exceptional long-term planning of our Town leaders, and fiscal responsibility driven by our strong financial policies. The Town prides itself on always looking at ways to improve our services and reduce our costs to the taxpayers by regionalization, leveraging new technologies and demanding best practices in how we provide our municipal services.

The Town has earned and maintained an AAA rating from Moody's, but as you can see from the attached 2016 Moody's Credit Opinion, Farmington's credit challenges include "below average reserve levels". Farmington has deliberately focused on increasing its fund balance over the last few years and our credit rating will continue to remain stable *as long* as we maintain satisfactory reserve levels guided by Farmington's formal fund balance policy.

The Governor's proposed budget reduced Farmington's funding by 30% this year. Our Education Cost Sharing Grant funding was eliminated completely. The Town of Farmington has been negatively impacted as a result of the financial crisis at the State level, which is completely out of our control.





It is unacceptable to compromise Farmington's high level of service which has been achieved through years of long-term strategic planning and through the political will of our town leaders to follow our established financial policies. The Town of Farmington anxiously waits for the State of Connecticut to pass this year's budget, but ultimately we are hopeful that a long-range economic plan, including structural fiscal reform, will be created to address the State of Connecticut's financial crisis.

Sincerely,

Kathleen Eagen
Town Manager
Farmington, CT

CC: Farmington Town Council
Farmington Legislators

/Attachments





STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

OFFICE OF THE SECRETARY

August 7, 2017

Dear Ms. Eagen,

On August 2nd, the Governor directed the Office of Policy and Management to produce a series of reports on the fiscal health of municipalities (please see attached).

To that end, I am requesting updated information on your municipality's fund balance. We have historic data already reported to our office, which we have included below. We are looking for estimates of your General Fund's total fund balance and unassigned fund balance for as of June 30, 2017. In addition, we are requesting projections of your municipality's General Fund total fund balance and unassigned fund balance as of June 30, 2018, based on the assumptions from your adopted FY 18 budget.

FARMINGTON

General Fund

	<u>Total Fund Balance</u>	<u>Unassigned Fund Balance per GASB 54</u>
FY 15 Actual	10,861,650	10,343,295
FY 16 Actual	11,275,021	10,904,638
FY 17 Estimated	\$ 12,282,382	\$ 11,609,638
FY 18 Projected (based on adopted municipal budget)	\$ 12,282,382	\$ 11,609,638

Finally, please provide any supplemental information about the potential impact of a continuing state budget impasse on your community's finances, such as contingency plans to utilize fund balance, issue supplemental taxes or reduce spending.

Please email the requested information to Michael Izadi on my staff at michael.izadi@ct.gov by August 16, 2017.

Sincerely,

Benjamin Barnes
Secretary

Cc: Joseph Swetcky, Jr, Director Of Finance & Administration
Michael Izadi, Office of Policy and Management
Kerry Kelley, Office of Policy and Management

CREDIT OPINION

9 September 2016

New Issue

Rate this Research >>

Contacts

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Farmington (Town of), CT

New Issue - Moody's Assigns Aaa to Farmington, CT's GO Bonds, Issue of 2016

Summary Rating Rationale

Moody's Investors Service has assigned an Aaa rating to the Town of Farmington's (CT) \$5.5 million General Obligation Bonds, Issue of 2016. Moody's maintains an Aaa rating on \$33 million of outstanding GO bonds and a MIG 1 on \$35 million of bond anticipation notes.

The Aaa rating reflects the town's sizeable and affluent tax base near a major metropolitan center, stable financial position, and manageable long-term liabilities

Credit Strengths

- » Stable financial position guided by sound formal policies
- » Sizeable tax base located 10 miles west of Hartford
- » Manageable long-term fixed costs
- » High wealth and income levels

Credit Challenges

- » Higher debt levels in connection with this financing
- » Below average reserve levels for the rating category

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Not applicable.

Factors that Could Lead to a Downgrade

- » Decline in reserves
- » Increased debt levels above those forecasted leading to loss of financial flexibility

Key Indicators

Exhibit 1

Farmington (Town of) CT	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 5,237,838	\$ 5,016,473	\$ 5,313,947	\$ 5,286,801	\$ 5,214,499
Full Value Per Capita	\$ 207,653	\$ 198,225	\$ 208,799	\$ 207,106	\$ 204,370
Median Family Income (% of US Median)	N/A	171.3%	171.3%	171.3%	171.3%
Finances					
Operating Revenue (\$000)	\$ 88,739	\$ 93,722	\$ 97,225	\$ 99,969	\$ 100,846
Fund Balance as a % of Revenues	9.2%	8.8%	9.4%	9.7%	11.0%
Cash Balance as a % of Revenues	16.0%	9.3%	10.4%	12.1%	15.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 59,638	\$ 56,453	\$ 50,529	\$ 44,250	\$ 43,711
Net Direct Debt / Operating Revenues (x)	0.7x	0.6x	0.5x	0.4x	0.4x
Net Direct Debt / Full Value (%)	1.1%	1.1%	1.0%	0.8%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.5x	0.6x	0.6x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.0%	1.2%	1.2%	1.3%

Fund balance only includes available reserves in the General Fund.
Source: Town's audited financial statements, Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base Near Hartford

Farmington's sizeable \$5.2 billion Equalized Net Grand List (ENGL) will continue to be stable and experience moderate growth over the medium term given its close proximity to the City of Hartford (Baa1 negative) and presence of the University of Connecticut Health Center.

The ENGL which approximates full value has been relatively stable in the last three fiscal years after a 4% decline in fiscal 2012. Following a revaluation in 2012 (fiscal year 2014), which captured the housing market downturn, the net taxable grand list (which the levy is based off of) declined 7.2%, a moderate amount compared to surrounding areas. Since then, the grand list has experienced three consecutive years of modest growth 0.7%, 0.9% and 1.2% in fiscal years 2015, 2016 and 2017, respectively.

Management reports a 300 unit \$60 million apartment complex is expected to begin construction in the first half of 2017, which will likely contribute to future growth and positively to the city's finances. At full build out, this residential development could add nearly \$1.2 million in annual tax revenue.

Wealth and income levels are strong with per capita and median family incomes representing 192% and 171% of the nation, respectively. While these levels are generally in line with the national medians for Aaa rated cities, they are weaker than the medians for similarly rated Connecticut municipalities which have median MFI and PCI levels exceeding 200% of the US. Housing values in the town are also strong as evidenced by a robust equalized value per capita of \$204,370 (236% of the US median). Due to its location adjacent to Hartford, the town's unemployment rate (4.4% in July 2016) remains below the state (5.6%) and the nation (4.9%).

Financial Operations and Reserves: Stable Financial Position

Farmington's financial position will continue to remain stable given a history of conservative budgeting and maintenance of satisfactory reserve levels guided by a formal fund balance policy. Reserve levels have trended up over the past few years, with the available General Fund balance (unassigned, assigned, and committed) averaging 9.6% of revenues since 2010.

The town has a formal policy to maintain unassigned General Fund balance between 8% and 12% of revenues, and management has prudently not used reserves to balance budgets for the past three years. The town's General Fund balance policy is reviewed every two

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years and management has indicated that they may revise this policy to require higher levels. The town has another formal policy to maintain 25% of expected healthcare claims within the Internal Services fund, and current reserves represent approximately 30% of expected town and Board of Education claims.

Audited fiscal 2015 results were favorable with the combined available General Fund and Debt Service Fund balance increasing by \$1.2 million to \$11 million or 11% of revenues.

The adopted fiscal 2016 budget, which voters approved on the first attempt, is a 3.4% increase over 2015 budget and is balanced with a 2.7% tax levy increase. The budget did not include any appropriation of reserves. Management estimates surplus operations in the General Fund of approximately \$0.5 million primarily driven by a combination of favorable variances for property taxes, debt service expenditures due to a refinancing, and medical costs as well as savings related to unfilled positions.

The fiscal 2017 adopted budget reflects growth of 3.1% over the revised fiscal 2016 budget and includes a 2.7% increase in the mill rate and no appropriation of fund balance. About three-quarters of the increase in spending is attributable to growth in education costs.

Farmington is not heavily reliant on economically sensitive or state revenues, as property taxes represent the largest component (85% in fiscal 2015) and collections remain very strong at over 99.5% annually. State aid, including aid for education, comprised 12.4% of 2015 revenues. The largest expenditure is education (63.7% of 2015 operating expenditures), followed by public safety (9.5%), debt service (6.5%), and pension/other employee benefits (6.0%).

LIQUIDITY

The town's net cash position at the close of fiscal 2015 was \$15.9 million, or 15.8% of General Fund revenues.

Debt and Pension: Increasing Debt Levels; Below Average Pension Liability

The direct debt burden (pro forma) is a typical 1.4% of equalized value compared to other Aaa rated towns in Connecticut. The town's debt burden will remain manageable given the quick payout of principal and formal debt policies. Favorably the town's debt policies limit debt service to under 10% of expenditures.

In May of 2016 the town issued \$35 million of BANs issuance for the upgrade to the wastewater treatment. The town has indicated it will likely seek permanent financing of the BANs in about 3 years through low interest loans from the state's clean water program.

The town has indicated that it is exploring the possibility of a \$75 million high school renovation project however this project has not gone to voters yet or been authorized. The pro forma debt service schedule for the current issuance and takeout financing of the BANs indicates debt service of \$6.2 million in fiscal 2017 million and peaking at \$9.1 million in fiscal 2020. Debt service drops by half over the next five years allowing the town to be able to manage additional debt service associated with other additional bonding contemplated in the \$17.3 million five year capital improvement program (fiscal 2017 to fiscal 2021). Furthermore, the low interest debt service and relatively longer term for the state loans than the town's typical GO issuances will also mitigate the impact of the additional debt. The town also has been committed to its pay-as-you-go capital program in recent years which has helped keep debt at manageable levels. The town has a policy of allocating a minimum of 2.5% of General Fund revenues to capital projects. The budgeted 2017 pay-go capital expenditures accounted for 2.9% of expenditures.

Total fixed costs for fiscal 2015, including retiree health care payments, required pension contributions, and debt service, represented \$10.3 million, or 10.4% of expenditures.

DEBT STRUCTURE

All debt is fixed rate with 88% of principal on outstanding bonds amortized over the next ten years.

DEBT-RELATED DERIVATIVES

The town is not party to any derivatives.

PENSIONS AND OPEB

The town maintains a single-employer defined benefit pension plan for substantially all town employees, with the exception of teachers and certain school administrators who are covered under the state plan. The town fully funds its annual required contribution (ARC), which was \$2.8 million in fiscal 2015, or a manageable 2.3% of General Fund expenditures. The 2015 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$60.6 million, or a below average 0.65 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 OPEB liability is funded on a pay-as-you-go basis, and the town contributed \$1.1 million (1.1% of expenditures) in fiscal 2015, representing 32% of its ARC. The total unfunded liability is \$36.1 million as of July 1, 2015, the most recent valuation report.

Management and Governance

Town management employs conservative budgeting practices and is guided by formal debt and financial policies.

Connecticut cities and towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable and stable, due to a large reliance on property taxes. Cities additionally benefit from high revenue-raising ability due to the absence of a statewide property tax cap. Expenditures primarily consist of personnel costs as well as education costs for those cities that manage school operations, and are highly predictable due to state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate as it is somewhat constrained by union presence.

Legal Security

The bonds are secured by the town's unlimited tax general obligation pledge.

Use of Proceeds

The bond proceeds will be used to fund various general purpose projects and school projects.

Obligor Profile

Farmington is a residential suburb located in Hartford County. Its estimated 2014 population is 25,515 residents.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Farmington (Town of) CT

Issue	Rating
General Obligation Bonds, Issue of 2016	Aaa
Rating Type	Underlying LT
Sale Amount	\$5,500,000
Expected Sale Date	09/21/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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