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Ratings

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Summary:

Plymouth, Connecticut; General Obligation

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Summary:

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Credit Profile		
Plymouth GO bnds issue		
Long Term Rating	AA-/Stable	Upgraded
Plymouth GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings raised its ratings to 'AA-' from 'A+' on the Town of Plymouth, Conn.'s existing general obligation (GO) debt. The outlook is stable.

The upgrade reflects our view of Plymouth's improved general creditworthiness, as reflected by its positive operating results in recent years and growing reserve levels and liquidity, which we expect will continue given management's conservative budgeting practices.

Plymouth's full faith and credit pledge, payable from the levy of an unlimited ad valorem tax on all taxable property in the town, secures the series GO debt.

Credit overview

During the past three years, Plymouth's financial profile has strengthened, as demonstrated by its positive operating results leading to stronger reserves and liquidity. Available reserves have increased to 12% of operating expenditures as of fiscal 2020 from 3.5% in fiscal 2017, which reflects the town achieving structurally balanced operations after several years of deficits and drawdowns. Fiscal 2021 estimated results reflect an additional surplus and an available fund balance of 14%. We understand Plymouth's improved budgetary performance is largely due to management adopting conservative budgeting practices and greater spending control. Given this recent trend and improved financial management, we expect the town to continue reporting at least balanced operating results and growing reserves. Plymouth's large pension and other postemployment benefit obligation remain a constraining factor for the credit. The town has recently made some progress on its unfunded pension liabilities and we expect it will continue to do so by funding at or above 100% of its actuarially determined contribution (ADC). The stable outlook reflects our expectation that Plymouth will maintain at least balanced operations and strong reserves based on its recent performance and improved budget assumptions.

The rating further reflects:

- Adequate economy, with projected per capita effective buying income at 98.3% of the national level and market value per capita of $94,008;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment

(FMA) methodology;

- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 11.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.7% of total governmental fund expenditures and 2.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 6.9% of expenditures and net direct debt that is 32.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 81.2% of debt scheduled to be retired in 10 years, but significant medium-term debt plans and a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

We analyzed the town's environmental, social, and governance (ESG) factors relative to its economy, management, financial measures, and debt and liability profile. We believe the town's ESG risks are all in line with our view of the sector standard. We understand the town experienced a cyberattack in 2019 and that the town quickly identified and isolated the attack, and existing systems in place resulted in limited disruptions to operations and no financial damage. Since the incident, the town has taken steps to further mitigate its exposure to cyberattacks.

Stable Outlook

Downside scenario

Should Plymouth fail to adequately address its unfunded pension liabilities, or if management is unable to maintain balanced operations, leading to negative operating results and a decrease in reserves, we could lower the rating.

Upside scenario

If Plymouth achieves a material reduction in its unfunded pension liability while maintaining its strong financial profile, we could raise the rating.

Credit Opinion

Adequate economy

We consider Plymouth's economy adequate. The town, with an estimated population of 11,596, is in Litchfield County. The town has a projected per capita effective buying income of 98.3% of the national level and per capita market value of $94,008. Overall, the town's market value grew by 2.1% during the past year to $1.1 billion in 2020. The county's unemployment rate was 6.9% in 2020.

Southwest of Hartford and just north of Waterbury, Plymouth has strong access to regional employment centers. Within the town, major employers include the town itself, a nursing home, and a construction business.

The town is primarily a residential community, with roughly 74% of its tax base made up of residential properties. In recent years, AV growth remained relatively flat with a revaluation resulting in decreased AV in fiscal 2018. Management noted several development projects within the town, and it continues to market the sale of industrial park lots and other town-owned properties as well as aggressively targeting blighted areas. We understand the town experienced increased housing demand during the past year and management expects this to result in significantly increased property valuations. Overall, we anticipate incremental growth in Plymouth's grand list and we therefore expect the town's local economy to remain adequate during the next few years.

Adequate management

We view the town's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Following the discovery of financial theft in 2014, the town instituted stronger financial controls to prevent any chance of recurrence. Included in these controls are the installation of new financial management software, requiring two-person signoff on transfers, and checks, and financial reviews by multiple staff. Based on recent budgetary performance and positive budget-to-actual variance, we believe the town has adopted conservative budgeting practices and greater control in spending. In addition, the town engages in regular budget monitoring, with monthly budget-to-actual reports sent to the town council, and management can make midyear budget amendments. The town's investment policy is consistent with state guidelines with at least an annual review of investment holdings. While Plymouth has adopted a capital improvement policy and generally maintains level debt service, affordability metrics for debt management are not identified. The town has an informal reserve policy for the general fund unreserved and undesignated fund balances to be at a minimum 5% of revenues. The town does not practice long-term financial planning, but it is beginning to develop a capital plan. The town is taking steps to mitigate its cybersecurity risks.

Strong budgetary performance

Plymouth's budgetary performance is strong in our opinion. The town had operating surpluses of 3.1% of expenditures in the general fund and 5.5% across all governmental funds in fiscal 2020. General fund operating results have been stable, at 2.0% in 2019 and 1.4% in 2018.

For analytical consistency, we adjusted Plymouth's budgetary performance to account for recurring transfers.

The town's recent track record of reporting positive operating results reflects improved budgeting practices and financial management. Prior to 2017, the town had several years of negative results. We understand management has since adopted conservative budgeting practices and has strategically reduced spending to maintain balanced operations. Moreover, state aid has stabilized though we understand management is particularly conservative when budgeting for state aid given the uncertainty of funding levels in recent years. The town's major general fund revenues are property tax revenue (69%) and state aid (30%).

For fiscal 2021, management estimates a year-end surplus, adding $1.5 million to its available fund balance. Year-end results represent a positive variance compared to the fiscal 2021 budget and we understand the surplus was in part due to staffing reductions driven by the COVID-19 pandemic. For fiscal 2022, the town has approved a $42 million budget that includes a $145,000 use of fund balance, which management does not anticipate needing to use. Based on recent positive budget-to-actual variance, we anticipate the town will maintain at least balanced operations for fiscal 2022.

In addition to other COVID-related funds the town has received, the town will receive a total of $3.4 million in ARPA funds of which it has already received $1.7 million. We understand the town has not yet made any decisions on how these funds will be spent.

Looking forward, the town recognizes the rising costs of services and wages as well as long-term capital needs as a budgetary pressure. However, based on the town's recent performance and management's budgeting practices, we expect budgetary performance to remain strong.

Strong budgetary flexibility

Plymouth's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 11.9% of operating expenditures, or $5.2 million.

The town's available fund balance has increased significantly in recent years. Management estimates a year-end available fund balance of $6.8 million, or roughly 14% of operating expenditures for fiscal 2021. Management intends to continue adding to its reserves with no plans for drawdowns. Based on recent financial performance, we expect Plymouth will maintain strong budgetary flexibility.

Very strong liquidity

In our opinion, Plymouth's liquidity is very strong, with total government available cash at 15.7% of total governmental fund expenditures and 2.3x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

We believe Plymouth maintains strong market access, given its issuance of GO bonds and notes in recent years. The town does not have any financial instrument that could strain liquidity through acceleration provisions, nor are its investments in vehicles we consider risky. We expect liquidity to remain very strong.

Adequate debt and contingent liability profile

In our view, Plymouth's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.9% of total governmental fund expenditures, and net direct debt is 32.7% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 81.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Our assessment of the town's debt profile includes significant medium-term debt plans.

The town has $17.5 million in direct debt outstanding. Management reports plans to issue debt within the next two years for a Water Pollution Control Authority (WPCA) project with a total estimated cost of $7.5 million and a new police facility with a total estimated cost of $12.6 million. We understand the town has not yet determined if the WPCA debt will be issued as general obligation debt or sewer revenue debt.

Pension and other postemployment benefits

Though we view pension and OPEB liabilities as a continuing source of credit pressure for the town due to lower funding levels relative to those of higher-rated peers and we expect these costs will increase over time given funding expectations, we consider its obligations manageable. The town's pension plans use actuarially determined contributions (ADC) and have been funded at or above the ADC in recent years, both of which we view positively.

The town currently administers two Public Employee Retirement Systems (PERS) defined-benefit plans for its general town employees and BOE. The two plans are closed to new employees with the town amortizing its unfunded liability on a level-percent basis. While we view the closure and the level amortization positively, the level percent will result in increasing outyear costs. The town also participates in the Connecticut Municipal Employees Retirement System (MERS), a cost-sharing, multiple-employer, defined-benefit pension plan which is only open to police. Employees previously eligible to participate in the PERS plans now participate in a defined contribution plan. We understand the town is considering establishing an OPEB trust to pre-fund its OPEB liability.

As of June 30, 2020, Plymouth participated in the following plans:

- The Town Plan (PERS): 34% funded, $8.04 million net pension liability;
- The Board of Education Plan (PERS): 63% funded, $2.97 million net pension liability;
- Connecticut Municipal Employees Retirement System (MERS): 71% funded, $4.07 million net pension liability; and
- OPEB Plan, a single-employer defined benefit health care plan: net OPEB liability of $16.9 million.

Plymouth's combined required pension and actual OPEB contributions totaled 5.3% of total governmental fund expenditures in 2020, which we consider manageable. Of that amount, 3.5% represented required contributions to pension obligations, and 1.8% represented OPEB payments. We expect costs to increase and the ability of Plymouth to absorb these costs without pressuring its budgetary performance is critical to reaching a higher rating.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments