

**Summary:**

# Ledyard Town, Connecticut; General Obligation; Note

**Primary Credit Analyst:**

Anthony Polanco, Boston + 1 (617) 530 8234; anthony.polanco@spglobal.com

**Secondary Contact:**

Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

## Table Of Contents

---

Rationale

Outlook

Related Research

## Summary:

# Ledyard Town, Connecticut; General Obligation; Note

### Credit Profile

US\$14.0 mil GO BANs ser 2019 dtd 06/12/2019 due 06/11/2020		
<i>Short Term Rating</i>	SP-1+	New
US\$6.0 mil GO bnds ser 2019 due 06/01/2039		
<i>Long Term Rating</i>	AA/Stable	New
Ledyard Twn GO bnds		
<i>Long Term Rating</i>	AA/Stable	Outlook Revised

## Rationale

S&P Global Ratings revised the outlook on its 'AA' long-term rating on Ledyard, Conn.'s general obligation (GO) debt to stable from negative.

S&P Global Ratings also assigned its 'AA' long-term rating and stable outlook to the town's series 2019 GO bonds and affirmed its 'AA' long-term rating on the town's existing GO debt.

In addition, S&P Global Ratings' assigned its 'SP-1+' short-term rating to the town's series 2019 GO bond anticipation notes (BANs) and affirmed its 'SP-1+' short-term rating on the town's existing notes.

The outlook revision reflects our opinion of the town's stable budgetary operations despite a challenging and uncertain state aid environment due to midyear state aid changes and a late state budget adoption in fiscal 2018 that could have resulted in material fund balance drawdowns for the town. By making necessary budgetary adjustments and cuts while issuing supplementary tax bills, the town ended fiscal 2018 with balanced operations and slightly improved available reserves. In addition, the town expects to end fiscal 2019 with another general fund surplus because the state aid environment has become more stable since fiscal 2018, allowing the town to budget more conservatively for revenue and expenditures. We also expect management will likely continue to make the necessary budgetary adjustments to maintain balanced operations. In our opinion, the town's stable economy and strong management further support the rating and outlook.

The town's full-faith-and-credit pledge secures the bonds and BANs.

Officials plan to use series 2019 bond proceeds to finance a portion of BANs permanently and series 2019 BAN proceeds to renew the town's remaining BANs outstanding.

The short-term rating reflects our view that Ledyard will likely maintain its very strong capacity to pay principal and interest when BANs come due. The town maintains, what we view as, a low market-risk profile because it has strong legal authority to issue long-term debt to take out the BANs and it is a frequent issuer that regularly provides ongoing

disclosure to market participants.

The long-term rating reflects our opinion of the town's:

- Strong economy, with market value per capita of \$105,944 and projected per capita effective buying income at 126% of the national level;
- 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 an operating surplus at the total governmental-fund level in fiscal 2018;
- Adequate budgetary flexibility, with available fund balance in fiscal 2018 at 6.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.9% of total governmental-fund expenditures and 11.9x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 4.5% of expenditures and net direct debt that is 76.5% of total governmental-fund revenue; and
- Strong institutional framework score.

### **Strong economy**

We consider Ledyard's economy strong. The town, with an estimated population of 14,984, is in New London County. The town has a projected per capita effective buying income at 126% of the national level and per capita market value of \$105,944. Overall, market value has grown by 0.6% during the past year to \$1.6 billion in fiscal 2020. County unemployment was 4.5% in 2017.

The 40.5-square-mile suburban and predominantly residential Ledyard is a coastal community on Thames River's eastern shore. Notably, the northern portion of the U.S. Naval Submarine base extends north along Ledyard's riverfront. State routes 2, 12, 117, and 214 traverse Ledyard, connecting it to interstate highways 95 and 395 and regional employment centers. Residential properties account for 75.2% of the net taxable grand list while commercial and industrial properties account for 6.3%. Although the grand list has remained stable during the past few years, growth has been modest, averaging about 1% during the past three years. Although the town is largely residential, the local economy hosts gaming enterprises and chemical and plastics manufacturing. Leading employers, aside from the town itself, include Foxwoods Casino, Hard Rock Cafe, and Holdridge Farm Nursery. There is no taxpayer concentration with the 10 leading taxpayers accounting for a very diverse 7.7% of assessed value.

Established by an act of the U.S. Congress in 1983, Mashantucket Pequot Indian Tribe, which resides on a 2,224-acre reservation in northeast Ledyard, has built Foxwoods Resort & Casino, one of the world's largest gaming venues; MGM Grand; and Mashantucket Pequot Museum & Research Center. Large spinoff developments at or adjacent to the casino continue to increase local economic activity. Tanger Outlet at Foxwoods--a \$100 million upscale shopping mall with 312,000 square feet of retail space--opened for business in spring 2015, and it is thriving according to town officials. Therefore, management reports this development has added 600 full- and part-time jobs to the local economy with the retail outlets contributing more than \$500,000 to the local tax base through personal property taxes.

Ledyard continues to develop and implement initiatives to promote economic growth and expansion, upgrade public infrastructure, assist with housing rehabilitation, and provide business-incubator space at Gales Ferry Landing. Town officials report private developers have provided redevelopment plans or financed local real estate investments, including Thames Aquatic Center. The aquatic center, which is moving its operations from another town, will include tennis courts and other recreational activities; it should be complete during the next few months.

General Dynamics Electric Boat is also expanding area facilities and operations to develop new submarines, which the town expects will lead to commercial sector growth and increase new employee housing. Dow Chemical, which operated out of the town's Trinseo plant, moved out of the state. The landowner is currently engaged with potential buyers and marketing for the former Dow site. However, American Styrenics still operates at the former Dow site. Officials also report American Styrenics has reached a settlement with the town regarding its grand list value appeal, resulting in an overall property tax reduction of \$48,280. We do not expect this to have a material effect on the town's budget.

Various other commercial and residential developments should achieve completion during the next few years, including new residential subdivisions, high-end apartments, and more than 50 new single-family homes. Therefore, we expect the local economy will likely remain strong.

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

We revised our view of the town's FMA to good from standard based on the town's formal reserve policy adoption. The policy calls for maintaining unassigned fund balance at no less than 7% of expenditures, which management has adhered to during the past three fiscal years.

Management conservatively budgets for revenue and expenditures and uses five years of historical data to identify tax collection and growth trends. Management also compares yearly municipal department budget requests to historical expenditure increases, and it adjusts for one-time appropriations and increases to contractual obligations. The town frequently monitors budget-to-actual performance. Management meets with the finance committee twice monthly and delivers monthly budget reports to the town council that address variances and propose budget amendments when necessary.

In addition, management's maintenance of a rolling five-year capital improvement plan (CIP) that identifies project priorities and internal and external financing sources strengthens policies and practices. Management presents the CIP before the town council to inform annual budget discussions. The town has also adopted formal debt- and investment-management policies that mirror state guidelines with annual holdings and earnings reporting. Ledyard also adopted a formal reserve policy in May 2018 that limits unassigned fund balance to no less than 7% of expenditures, which it has adhered to historically. It does not conduct any formal long-term financial planning.

### **Strong budgetary performance**

Ledyard's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund at 0.4% of expenditures and surplus results across all governmental funds of 3.5% of expenditures in fiscal 2018. General fund operating results have been stable during the past three fiscal years with results of negative 0.8% of expenditures in fiscal 2017 and 0.5% in fiscal 2016.

Fiscal 2018 results include adjustments for recurring transfers, one-time capital expenditures paid for with bond proceeds, and one-time state aid reimbursements for capital projects across total governmental funds. Management attributes the fiscal 2018 general fund surplus primarily to underbudget expenditures, particularly due to education-cost savings, budget freezes, and employee furlough days to reduce expenditures. Since the adoption of the fiscal 2018 budget, which did not include a state aid decrease like the prior year, Ledyard enacted significant savings initiatives in response to uncertainty from the state budget impasse earlier in fiscal 2018 that led to lower-than-budgeted state aid. While the town had budgeted for about \$13 million in state aid, it only received roughly \$11 million after late state budget adoption. Officials indicate they covered the remainder throughout the year with supplemental tax bills that generated almost \$1 million of additional revenue.

The town was also able to cut expenditures through reducing its two public libraries' hours, instituting a hiring freeze, and selling surplus town and board of education buildings to raise one-time revenue and reduce associated operations-and-maintenance costs. These initiatives netted about \$1.7 million of savings. Officials report there are no major capital-spending deferments.

For fiscal 2019, officials indicate budget-to-actual results are generally on target. While the town has experienced increases in certain line items--such as education, employee expenses, public safety, and debt service--management offsets this with higher revenue, including taxes and charges for services. Therefore, officials are currently projecting to end fiscal 2019 with a \$921,000 general fund surplus. In addition, although the town appropriated \$100,000 in fund balance toward the budget, management indicates it did not use this appropriation.

The proposed fiscal 2020 budget is currently a 4.4% increase over fiscal 2019, and it contains a mill rate increase of 2.25% to a total of 35.06 mills. The town does not plan to appropriate fund balance toward the budget. In addition, it has instituted changes in sewer-and-water operations through new rate structures, rate increases, and annual contributions from these funds toward capital improvements. Therefore, due to Ledyard's willingness and ability to make necessary budgetary adjustments to maintain stable financial operations, history of maintaining balanced finances, and projected positive results during a more-stable budgetary environment, we expect budgetary performance will likely remain strong.

Property taxes generate 60% of general fund revenue, followed by intergovernmental revenue at 35%. Collections remain strong, averaging 99% during the past three years.

### **Adequate budgetary flexibility**

Ledyard's budgetary flexibility is adequate, in our view, with available fund balance in fiscal 2018 at 6.5% of operating expenditures, or \$4 million.

Ledyard has maintained adequate budgetary flexibility during the past three fiscal years. Although uncertainty over

state aid in fiscal 2018 and potential revenue volatility might require the town to draw on reserves, available reserves increased slightly during fiscal 2018 due to management's budget cuts and issuing supplemental tax bills throughout the year. Ledyard expects to end fiscal 2019 with another available reserve increase. The fiscal 2020 budget does not appropriate fund balance. Therefore, we expect budgetary flexibility will likely remain adequate.

### **Very strong liquidity**

In our opinion, Ledyard's liquidity is very strong, with total government available cash at 53.9% of total governmental-fund expenditures and 11.9x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

We believe Ledyard's frequent debt issuance, including GO bonds, supports its strong access to external liquidity. In addition, the town does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. The town does not currently have investments we consider permissive or aggressive because most investments are in mutual funds and 'AAA' rated mutual bond funds. Ledyard indicates available cash remained strong in fiscal 2018, and it did not issue revenue or tax anticipation notes due to timing issues associated with state aid disbursements earlier in fiscal 2018.

### **Adequate debt-and-contingent-liability profile**

In our view, Ledyard's debt-and-contingent-liability profile is adequate. Total governmental-fund debt service is 4.5% of total governmental-fund expenditures, and net direct debt is 76.5% of total governmental-fund revenue.

With this issuance, Ledyard will have about \$50.7 million of total direct debt, including \$14 million of short-term debt. Officials currently plan to issue about \$7 million of additional debt for a school project.

Ledyard's pension contributions totaled 1.9% of total governmental-fund expenditures in fiscal 2018. The town made 103% of its annual required pension contribution in fiscal 2018.

Ledyard provides pension benefits through a self-administered, single-employer, defined-benefit, public-employee retirement system. The town closed the defined-benefit plan to new employees in 2013; it continues to make actuarially determined contributions, as required by collective-bargaining agreements. In place of the defined-benefit retirement system, the town negotiated a voluntary defined-contribution retirement plan for all full-time union and nonunion general government and board of education employees. The town's net pension liability was roughly \$6.1 million at June 30, 2018. The fiduciary net position, as a percent of pension-fund liability, was 79.7%. New employees are eligible to participate in the defined-contribution plan.

In addition, Ledyard's teachers and other certified board of education members participate in the Teachers' Retirement System (TRS), a cost-sharing, multiple-employer, state-administered, state-funded, defined-benefit pension plan. The state is statutorily required to make 100% of the required contribution on the town's behalf; however, recent state budget discussions have proposed shifting a portion of TRS costs to municipalities from the state. While we cannot ascertain the likelihood of the state formally adopting this measure, should the current structure change, we could revisit our view of Ledyard's exposure to escalating pension costs. Conservatively, the town also plans to include these potential added costs in its fiscal 2020 budget.

Ledyard provides other postemployment benefits (OPEB) for eligible town and board of education retirees. The

unfunded actuarial accrued OPEB liability was nearly \$11.6 million at July 1, 2017. Management currently funds the liability on a pay-as-you-go basis. Overall, we consider retirement costs and liabilities manageable.

### Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

## Outlook

The stable outlook reflects S&P Global Ratings' opinion of Ledyard's strong management, which has led to the continued maintenance of strong budgetary performance and stable available reserves, even during an unpredictable, challenging budgetary environment in fiscal 2018. We believe Ledyard's manageable debt profile, with low fixed costs, and stable economy support the outlook further. Therefore, we do not expect to change the rating within the two-year outlook period.

### Upside scenario

Although we currently view upward rating potential as limited, if wealth and income were to improve to levels we consider comparable with higher-rated peers while management improves reserves through consistent positive financial results and reduces debt, however, we could raise the rating.

### Downside scenario

If available reserves were to decrease due to revenue and expenditure misalignment, with no plan in place to correct them, we could lower the rating.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

### Ratings Detail (As Of May 16, 2019)

Ledyard Twn GO rfdg bnds ser 2016B due 07/01/2028		
<i>Long Term Rating</i>	AA/Stable	Outlook Revised
Ledyard Twn GO BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed

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 S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.