FitchRatings

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Fitch Affirms Town of Madison, CT's GO Bonds at 'AAA'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-New York-25 September 2014: Fitch Ratings has affirmed its rating on the following general obligations (GO) of the Town of Madison, CT (the town):

--$32.9 million GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are a general obligation of the town secured by its full faith, credit, and unlimited taxing authority.

KEY RATING DRIVERS

SOUND FINANCIAL MANAGEMENT: Madison's healthy operating results and solid reserve levels are the result of its sound financial management, which includes prudent fiscal policies and conservative budgeting practices.

ABOVE-AVERAGE WEALTH LEVELS: The town's economic profile is strong, characterized by low unemployment, above-average wealth levels, and access to regional employment centers.

LOW DEBT METRICS: The debt burden is low and is expected to remain so, given the rapid amortization of existing debt and limited future debt needs.

MANAGEABLE OPEB AND PENSION COSTS: Pension and other post-employment benefit liabilities (OPEB) are modest and overall carrying costs are very low.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics including the city's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

The town of Madison is located on the Long Island Sound 15 miles east of New Haven and 25 miles south of Hartford. With an estimated 2013 population of 18,297, the town's population has remained relatively flat since the 2000 census.

ABOVE-AVERAGE SOCIOECONOMIC INDICATORS
The town is primarily a residential community drawing a large number of summer residents and visitors to its parks and beaches. Residents commute to professional positions in Fairfield County, New Haven, and Hartford, while local employment largely centers on retail and service establishments oriented toward residents and tourists.

Wealth levels are very high, with median household and per capita income representing 201% and 192% of the nation, respectively. As of July 2014, the town's unemployment rate of 4.8% was well below that of the state's 6.8% and nation's 6.5%, and stayed at 6.4% or below on an annual basis throughout the economic downturn.

SOUND FINANCIAL MANAGEMENT
Financial operations are strong and reserve levels remain healthy. In fiscal 2013, the general fund experienced a net operating deficit of $1 million following a $4.1 million transfer out to the capital projects fund to support pay-as-you-go maintenance needs and capital improvements. The town ended fiscal 2013 with an unrestricted fund balance of $8.9 million, or a sound 11.2% of operational spending. The bulk of the town's revenues are derived from property taxes (86% of general fund revenues in fiscal 2013), providing a steady and flexible revenue stream as municipalities are not subject to statutory tax limitations in Connecticut. Property tax collections are historically strong (99.5% in fiscal 2013).

Preliminary fiscal 2014 results estimate that both revenues and expenditures will outperform the budget. Healthcare costs were $1.8 million under budget, allowing the town to transfer additional resources to the town-administered pension fund to improve funding levels. Town management is projecting a year end general fund surplus of $1.2 million following this transfer, increasing unrestricted fund balance to a projected $10.3 million, or 13.9% of budgeted spending.

A statutory five-year reassessment of property values effective Oct. 1, 2013 resulted in a 17% reduction to the grand list (or assessed value), reflecting a decrease in housing values since the last reassessment in 2008. Management adjusted the tax rate upward in its fiscal 2015 budget to offset this revenue loss.

The fiscal 2015 budget is up 2.3% over fiscal 2014, primarily as a result of salary increases and a rise in capital spending. The budget also includes a $300,000 appropriation of fund balance, up from the $100,000 appropriation used to balance the fiscal 2014 budget. However, given historically conservative budgets, Fitch expects year-end results to be more favorable.

LOW DEBT LEVELS
The town's overall debt ratios are low with debt per capita at $1,796 and debt to market value at 0.7%. Also, debt amortization is rapid, with 82% of principal paid off in 10 years.

Town officials indicate that they have no specific debt plans at this time and will continue to fund their modest capital needs from reserve funds set aside from operations. The town regularly builds up capital reserves to fund projects on a pay-as-you-go-basis.

FUTURE RETIREE COSTS WELL FUNDED
The town maintains three single employer defined benefit pension plans. The two largest plans, for police and municipal employees, have recently been closed to new hires. The town continues to make its full annual required contribution (ARC) for all three plans. The overall liability of the three plans is very modest with a combined unfunded actuarial accrued liability of $11 million as of July 1, 2013, or 0.2% of market value. All new full-time hires of the town now participate in a defined contribution plan.

The town's OPEB plan is closed to new town employees and school employees receive an implicit rate subsidy. The plan's unfunded liability was $16.7 million as of Jan. 1, 2011, or a manageable 0.3% of market value. The town continues to fund its obligation on a pay-as-you-go basis. Carrying costs for debt service, pension and OPEB contributions are very modest at 7.2% of fiscal 2013 total governmental spending.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Underwriter, Bond Counsel.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status