

TOWN MANAGER'S REPORT

TO: Honorable Town Council Members

FROM: Karl F. Kilduff, Town Manager

DATE: December 15, 2021

Please find my report concerning various items of interest to the Town Council and community.

1. Council Business:

- State COVID Test Kit Distribution – Despite the problems associated with the State securing and then making at-home COVID tests available to municipalities, the Town was able to hand out all kits we were assigned. I would like to extend my thanks and appreciation to Mike Neff and Mary Schettino for their role in helping get kits into residents' hands. Unfortunately, we were not able to meet local demand for tests in the community given the small number of kits made available. Mask distribution from the State's surplus supply of N95 (adult-sized) masks will be later in the week.
- Bonding – Standard & Poors affirmed our bond rating and the report makes note of the Town progress. I have attached a copy of the rating report to this memo for your reference. The bond sale is scheduled for January 6. I will give the Council a report on the results of the sale.
- FY22-23 Budget – Preparation of the next town budget is currently underway. Department requests were due by the end of December. Internal reviews and meetings with department heads will take place this month as the Town Manager's Proposed Budget is prepared for submission to the Council in February. The Council will need to set a schedule for budget workshops to review the budget and make adjustments before the budget advances to a public hearing.
- Housing Plan – As I noted at the last meeting, work will begin soon with the COG's consultant team to develop a state-mandated affordable housing plan for Clinton. I have asked the Planning & Zoning Commission and the Economic Development Commission to identify members that would be interested in participating in the process. If there is any Council interest it would be helpful to have that participation as the plan will ultimately need Town Council approval.
- MIRA – Following the Council's action to accept a revision to the service agreement that delivers our solid waste to MIRA, I alerted MIRA to our position. They will be distributing a new agreement to all participating municipalities later this month. Pricing will also be firmed up for the upcoming fiscal year.

2. 9 Town Transit:

The merger of 9 Town Transit with Middletown Transit continued to move forward. The Board of 9 Town Transit votes to accept Durham, Middletown and Middlefield into the transit district. Only Middlefield has yet to schedule a vote to leave Middletown Transit and join 9 Town. The transfer of assets from one district to another needs to be ironed out as well as personnel policies that will merge the operations.

Of note, ridership was increasing and returning faster to pre-pandemic levels in the transit district. The rate of return to ridership was faster than seen in other neighboring transit districts.

3. Miscellaneous:

- Hiring – Retirements in Town Hall will set in motion an external hiring process. Two vacancies were created in December with the retirement of the Building Department Clerk and the Accounts Payable Clerk. Per the union contract, these positions need to be posted internally for any qualified internal candidates. I expect 1 internal candidate which will in turn create another vacancy to post internally before going out on the street for external candidates. In addition to these positions, I plan to re-advertise the WPCC clerk position and the Senior Program Coordinator.

RatingsDirect®

Summary:

Clinton, Connecticut; General Obligation; Note

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Summary:

Clinton, Connecticut; General Obligation; Note

Credit Profile

US\$6.575 mil GO bnds ser 2022 due 08/01/2041

<i>Long Term Rating</i>	AA+/Stable	New
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US\$2.0 mil GO BANs ser 2022 dtd 02/03/2022 due 02/02/2023

<i>Short Term Rating</i>	SP-1+	New
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Clinton Twn GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Clinton, Conn.'s 2022 \$6.575 million general obligation (GO) bonds. At the same time, we assigned our short term 'SP-1+' rating to the town's \$2.0 million GO bond anticipation notes (BANs). We also affirmed our 'AA+' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. The short-term rating on the notes reflects our criteria for evaluating and rating BANs. In our view, Clinton maintains a very strong capacity to pay principal and interest when BANs come due. We view the town's market-risk profile as low because it has strong legal authority to issue long-term debt to take out the BANs, with no additional authority required, and it is a frequent debt issuer that regularly provides ongoing disclosure to market participants. BAN proceeds will provide financing for various capital projects.

Officials plan to use series 2022 bond proceeds to provide new money for various capital projects and refund certain maturities.

Credit overview

The rating reflects our view of the town's access to a broad and diverse metropolitan statistical area (MSA) and strong wealth and income indicators. Clinton is primarily residential with large retail businesses and continuing economic development, which contribute to financial stability. Furthermore, we believe the town's fixed costs should remain manageable, as it does not have significant debt plans and maintains manageable fixed costs. Moving forward, we anticipate its healthy level of reserves and proactive management will continue to support positive operations.

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

- Primarily residential community, with access to a broad and diverse MSA;
- Consistent budgetary operations with stable and very strong fund balances and no contingent liquidity risks;
- Limited fixed costs and debt plans; and
- Standard financial management policies and institutional framework that we consider strong.

Environmental, social and governance

We have evaluated the town's environmental, social, and governance (ESG) factors relative to its economy, financial measures, management, and debt and long-term liability profile. We consider its governance and social risks in line with the sector standard. We view environmental risks and their potential effect on taxable properties, which are elevated compared with its peers because the town is on Long Island Sound. We recognize management is working on various resiliency efforts and is a member of the Lower Connecticut River Valley Council of Governments, which recently completed an update to its broader hazard mitigation plan. Within that plan, several projects have been identified for Clinton, and the town is in the process of updating its capital plans and exploring grant and other funding opportunities.

Stable Outlook

Downside scenario

We could consider a negative rating action if budgetary flexibility were to weaken due to negative budgetary performance.

Upside scenario

We could consider a positive rating action if economic indicators were to improve to levels we consider comparable with those of higher-rated peers as evidenced by the "U.S. Local Governments Credit Brief: Connecticut Municipalities," published on Sept. 30, 2021, on RatingsDirect.

Credit Opinion

Growing tax base supported by recent re-evaluation provides stability for town's local economy

The roughly 17.2-square-mile Clinton is 17 miles east of New Haven and 40 miles south of Hartford, traversed by Interstate 95 and routes 1, 81, and 145. The primarily residential town maintains a modest commercial presence, along with some industrial properties. It recently underwent a re-evaluation, which saw the grand list grow by 5.56%, which is a significant increase when compared to the previous year's growth, which, on average, was less than 1%. We also note that the town's economic developments--e.g., Tidewater, Hammocks on Long Island Sound--are ongoing or close to completion. The site of the town's old Morgan High School facility is under development after being sold in October 2020, while the redevelopment of Unilever's former building continues. We anticipate the town's local economy will continue to expand, providing necessary revenue to support ongoing operations.

Standard policies, that are updated as needed, with a focus on long term capital planning

Clinton's budgetary assumptions are conservative, and management uses three-year historical trend analysis when developing the budget. The town also reports on budget-to-actual results to the council monthly. Clinton follows state guidelines on investments. While it does not have a formal long-term financial plan, it does informally project out revenues and expenses as part of its budgeting process, and to inform town council members. The town's rolling capital plan extends into fiscal 2028, but it does not identify funding. Its formal reserve policy calls for maintaining unassigned reserves at no less than 15% of expenditures. Management recently increased this target from its previous level of 10% and has adhered to this policy during the past three fiscal years.

Consistently positive year-end results, with very strong levels of budgetary flexibility and liquidity

Clinton budgeted conservatively for intergovernmental, property tax, and charges for services revenue. Town departments also maintained good control of expenditures, which netted cost savings over the last few years. Fiscal 2021 results include adjustments for one-time capital expenditures paid for with bond proceeds, adding investments with maturities with less than one year and recurring transfers. We note the town elected to include the one-time revenue from the sale of its high school below the line, so no adjustments were made. Management primarily attributes fiscal 2021 positive performance to conservative budgeting for revenues, primarily property tax and state revenue. On the expense side, the town did not fully expend its budget, with savings across its expense categories. Property taxes accounted for 82% of fiscal 2021 general revenue, followed by intergovernmental revenue at 16%. Tax collections averaged 99.3% during the past three fiscal years; the town budgets for 98.8% collections, which provided additional operating flexibility.

Management continued to budget conservatively for revenues in fiscal 2022. The town's 2022 budget grew 3.9%, to \$58.5 million. As part of the budgeting process, roughly \$1 million was cut from the proposed budget. The town is continuing to pursue ongoing pay-as-you-go capital projects, with a special emphasis on paving, which should reduce the need for long-term debt. On the revenue side, it returned to its normal tax collection assumption rate and reduced the amount of fund balance appropriated. Additionally, with the increase in the grand list as part of the re-evaluation, the town was able to lower its millage rate. Currently, it reports no major changes in budget-to-actuals and anticipates ending the year at least balanced. We note the town was allocated \$3.8 million in American Rescue Plan Act funds and has started its community outreach for input for the expending of these funds. We anticipate the town will most likely continue its strong performance, but will monitor the effects of longer term environmental capital projects, as well as increases in pensions and other postemployment benefit (OPEB) costs.

Clinton has consistently maintained very strong budgetary flexibility during the past three fiscal years, with available reserves averaging 22% of expenditures, bolstered by the one-time sale of the town's high school building. As the town saw a large increase in fund balance, and consistently maintains higher reserves than its previous policy, it revised its formal reserve policy of maintaining unassigned fund balance at 15% of expenditures. We expect management will spend fund balance on various capital projects and other one-off expenses, although we do not expect budgetary flexibility will likely weaken materially. With the town's consistent positive operations, its liquidity levels remain very strong. Clinton is a regular market participant that has issued debt frequently during the past several years, including GO bonds and short-term BANs. It does not have any variable-rate or direct-purchase debt. We expect liquidity will likely remain very strong.

Manageable debt burden with growing pension and OPEB costs

Following this issuance, the town will have about \$54.9 million of total direct debt, including \$2.0 million in BANs. We note that we have not included the amortization of the BANs in our 10-year amortization calculation to be conservative. Officials have \$10.1 million of authorized, but unissued, debt. The town anticipates receiving various grants to offset a large portion of the authorized but unissued debt. We do not anticipate significant changes in its debt profile over the outlook horizon. We note that Clinton is in the very preliminary stages of a possible sewer project, and the scope is not known at this time, but may result in future debt issuances outside the outlook horizon.

Pension and OPEB highlights:

- We do not view pension and OPEB liabilities as an immediate credit pressure for Clinton despite lower funding and our expectation that costs will likely increase.
- Under a special funding situation, the state is obligated to make pension contributions on behalf of Clinton for Connecticut State Teachers' Retirement System (CSTRS), mitigating risks of escalating costs, despite poor plan funding.
- Because the town's actuarially determined pension contribution is built from what we view as weak assumptions and methodologies, we think it increases the risk of unexpected contribution escalations. However, we expect higher contributions will likely remain affordable due to the strength of the town's revenue base.
- Although Clinton funds OPEB liabilities on a pay-as-you-go basis, which, due to claims volatility and medical cost and demographic trends, is likely to lead to escalating costs, the town has established a trust and is working toward a funding policy.

At June 30, 2021, the town participated in:

- Clinton Police Pension Plan, a single-employer police retirement system, established and administered by the town, which was 73.34% funded, with a \$6.3 million net pension liability (NPL);
- Clinton Board of Education Noncertified Personnel Pension Plan, a single-employer pension system, established and administered by the board to provide pension benefits to noncertified employees of the board of education, which was 88.91% funded, with a \$944,510 NPL;
- Volunteer Firefighters' Plan, which was 16.97% funded, with a NPL of \$808,310;
- Connecticut Municipal Employees' Retirement System, which was 71.18% funded, with a proportionate share of the plan's NPL of \$4.8 million;
- CSTRS, which was 49.24% funded; and
- OPEBs for eligible school and town employees.

The town's OPEB plan had a total liability of \$2.9 million at June 30, 2021, while the board of education's OPEB plan has a total liability of \$6.6 million. The fiduciary net position for the town's plan is 1.39%, while that for the board's plan is 1.43%.

Management has created an OPEB trust fund and is developing a funding policy for it. While the town's total pension and OPEB carrying charge as a percentage of expenditures has grown during the past fiscal year, we think costs will likely remain manageable; however, should they increase significantly, we could revise our view of the town's pension and OPEB profile. We view its retirement costs and long-term liabilities as manageable.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Clinton, CT -- Key Credit Metrics

	Most recent	Historical information	
	2021	2020	2019
Very strong economy			
Projected per capita EBI % of U.S.	114		
Market value per capita (\$)	186,745		
Population		12,602	12,709
County unemployment rate(%)		6.5	
Market value (\$000)	2,353,360	2,229,504	2,205,496
Ten largest taxpayers % of taxable value	8.3		
Strong budgetary performance			
Operating fund result % of expenditures	6.1	5.7	0.5
Total governmental fund result % of expenditures	10.8	8.9	6.7
Very strong budgetary flexibility			
Available reserves % of operating expenditures	30.8	20.7	16.6
Total available reserves (\$000)	18,026	12,217	9,478
Very strong liquidity			
Total government cash % of governmental fund expenditures	38	29	27
Total government cash % of governmental fund debt service	425	332	328
Adequate management			
Financial Management Assessment	Standard		
Adequate debt & long-term liabilities			
Debt service % of governmental fund expenditures	9.0	8.8	8.2
Net direct debt % of governmental fund revenue	88		
Overall net debt % of market value	2.5		
Direct debt 10-year amortization (%)	64		
Required pension contribution % of governmental fund expenditures	3.3		
OPEB actual contribution % of governmental fund expenditures	0.7		
Strong institutional framework			

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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