

CREDIT OPINION

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 Rate this Research

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Salem (Town of) CT

Update following upgrade to Aa2

Summary

Salem, CT (Aa2) benefits from a healthy financial position following several years of operating surpluses. Additionally, the town's long-term liabilities and fixed costs are exceptionally low, allowing for substantial operating flexibility. The town's tax base is small relative to peers, but resident income and wealth levels are very strong.

On May 17, we assigned a Aa2 rating to the town's \$2.9 million General Obligation Bonds, Issue of 2021. Concurrently, we upgraded the town's outstanding GO debt to Aa2 from Aa3, affecting approximately \$3.3 million of debt outstanding.

Credit strengths

- » Sound financial position supported by multiple years of operating surpluses
- » Strong income and wealth levels
- » Very low long-term liabilities and fixed costs

Credit challenges

- » Limited tax base
- » Stagnant population growth and aging population trends

Rating outlook

Outlooks are not typically assigned to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Tax base expansion

Factors that could lead to a downgrade

- » Sustained trend of structural imbalance
- » Significant declines in reserves and/or liquidity
- » Substantial increase in debt or capital needs

Key indicators

Exhibit 1

Salem (Town of) CT	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$496,155	\$525,692	\$528,683	\$546,135	\$578,612
Population	4,169	4,162	4,126	4,112	4,126
Full Value Per Capita	\$119,011	\$126,308	\$128,134	\$132,815	\$140,235
Median Family Income (% of US Median)	172.2%	172.1%	174.7%	166.4%	166.4%
Finances					
Operating Revenue (\$000)	\$16,527	\$17,277	\$16,672	\$16,573	\$16,625
Fund Balance (\$000)	\$2,794	\$3,771	\$4,376	\$4,338	\$4,884
Cash Balance (\$000)	\$4,828	\$5,526	\$5,825	\$6,288	\$6,986
Fund Balance as a % of Revenues	16.9%	21.8%	26.2%	26.2%	29.4%
Cash Balance as a % of Revenues	29.2%	32.0%	34.9%	37.9%	42.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$4,761	\$4,356	\$4,001	\$4,238	\$3,721
3-Year Average of Moody's ANPL (\$000)	\$0	\$0	\$0	\$0	\$0
Net Direct Debt / Full Value (%)	1.0%	0.8%	0.8%	0.8%	0.6%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.2x	0.3x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Source: Moody's Investors Service, Town audits

Profile

The town is located in New London County in southeastern Connecticut. As of 2020, the town's population was estimated at approximately 4,100.

Detailed credit considerations

Economy and tax base: limited tax base with strong income and wealth metrics

The town's limited tax base will remain stable given moderate new residential development and renovations. Equalized net grand list (ENGL, or full value) was \$578.6 million as of fiscal 2020 and has increased at a sound compound annual rate of 3.1% over the last five years, most which was because of a large gas line installed in 2020. The tax base is small compared to Aa2 medians. The primarily residential tax base will benefit from minimal new development and significant increases in renovations.

Resident income and wealth levels are strong, ENGL per capita of \$140,235 is above the median of similarly rated peers. Median family income equal to 166.4% of the nation is a credit strength. Unemployment as of March 2021 is elevated at 8.7%, an effect of the pandemic.

Financial operations and reserves: strong operating trends leading to strong reserves and liquidity

Salem's financial position is healthy and will remain so given limited operating pressures and formal fiscal policies. The town has reported surpluses in at least the last six years, including fiscal 2020, which ended with a \$377,000 increase to general fund balance. Available fund balance is strong at \$4.9 million, or 29.4% of revenue, which compares favorably to statewide medians. The town maintains additional reserves in its capital non-recurring (CNR) fund of \$1.3 million.

Property taxes are the town's largest revenue, accounting for 72.8% of revenue, followed by intergovernmental revenue (25.1%). Education expenditures comprise most of the town's budget at 71.7%.

Officials project balanced operations in fiscal 2021 and plan to maintain unassigned fund balance in line with its recently adopted fund balance policy of 18%; excess reserves will likely be transferred to the CNR fund for capital outlay.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Liquidity

The town pools cash in the general fund and as such, liquidity is strong. As of fiscal 2020, operating cash totaled \$7 million or an ample 42% of revenue.

Debt and pensions: low long-term liabilities and fixed costs

Long-term liabilities are very low and will remain manageable given the town's minimal capital needs. Following the 2021 refunding, the town's debt burden equals 0.6% of ENGL, below the median for the rating category. The town does not have any additional debt plans at this time.

Legal security

The GO bonds are payable from the town's unlimited ad valorem tax rate.

Debt structure

All of the town's debt is fixed rate. Payout is rapid with 100% of principal repaid in 10 years.

Debt-related derivatives

The town is not party to any derivative agreements.

Pensions and OPEB

The town does not provide pension benefits or OPEB to town employees. Teachers participate in the state-managed defined benefit plan, the contributions to which are made by the state on behalf of the town. OPEB for teachers is funded on a pay-go basis.

Combined long-term liabilities (Moody's adjusted OPEB liability and debt) is very low at 0.3x operating revenue. Total fixed costs are very manageable at 3.1% of operating revenue.

ESG considerations**Environmental**

Environmental factors represent a moderate risk to Salem's credit profile. According to data compiled by Moody's affiliate Four Twenty Seven, New London County is exposed to an elevated risk of water stress and hurricanes, which can damage infrastructure and affect property values. This exposure is mitigated by the town's revenue and capital raising capacity and sound financial position, as well as federal government support for disaster recovery costs.

Social

Social considerations influence local economies, financial and leverage trends and governance stability. Social factors are incorporated into the town's rating by way of wealth (full value per capita) and income (median family income) metrics. The town's population has been relatively stagnant in recent years, which when combined with aging population trends, could challenge the town's revenue base and public health needs over the long term. In 1990, the county's median age was 32.8 years old, which nearly matched the state and national figures. In 2019, the estimated median age had risen to 45.7 compared to 41 for the state and 38.1 for the nation.

The town is proactive in taking steps to prevent and mitigate the impact of cyber events. We consider the coronavirus outbreak to represent social risk under our ESG framework, given the substantial implications for public health and safety.

Governance

The town benefits from a formal fund balance policy and conservative budgeting practices.

Connecticut cities have an institutional framework score of "Aa," or strong. Revenues are highly predictable and stable, because of a large reliance on property taxes. Cities additionally benefit from high revenue-raising ability because of 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 because of state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate as it is somewhat constrained by union presence.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Salem (Town of) CT

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$578,612	A
Full Value Per Capita	\$140,235	Aa
Median Family Income (% of US Median)	166.4%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	29.4%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	13.7%	Aa
Cash Balance as a % of Revenues	42.0%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	15.6%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.6%	Aaa
Net Direct Debt / Operating Revenues (x)	0.2x	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.0%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.0x	Aaa
Notching Factors: ^[2]		
Other Scorecard Adjustment Related to Debt/Pensions		Down
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Moody's Investors Service

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