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INVESTORS SERVICE

ISSUER COMMENT
30 July 2018

RATING

General Obligation (or GO Related) [1]	
Aaa	Stable

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Town of Farmington, CT

Annual Comment on Farmington

Issuer Profile

The Town of Farmington is located in Hartford County in central Connecticut, on the western edge of the Hartford metro area. Hartford County has a population of 895,699 and a high population density of 1,218 people per square mile. The county's median family income is $86,124 (1st quartile) and the May 2018 unemployment rate was 4.4% (4th quartile) [2] . The largest industry sectors that drive the local economy are health services, finance/insurance, and retail trade.

Credit Overview

Farmington's credit position is superior, and its Aaa rating far surpasses the median rating of Aa3 for US cities. The key credit factors include a very strong wealth and income profile, a large tax base and a small pension liability. The credit position also reflects a light debt burden and a satisfactory financial position.

Economy and Tax Base: The town has an exceptionally healthy economy and tax base, which are in line with the assigned rating of Aaa. Median family income equates to a robust 183.9% of the US level. In addition, Farmington's full value per capita ($208,437) is materially above other cities nationwide, and was flat from 2013 to 2017. Lastly, total full value ($5.3 billion) is considerable compared to the US median.

Debt and Pensions: Overall, the debt and pension liabilities of the town are affordable. However, they are slightly weak in relation to its Aaa rating. Moody's-adjusted net pension liability to operating revenues (0.65x) is materially below the US median, and remained stable between 2014 and 2017. Furthermore, Farmington's net direct debt to full value (1.5%) is slightly above the US median.

Finances: The town's financial position is satisfactory, yet it is unfavorable in comparison to the assigned rating of Aaa. Cash balance as a percent of operating revenues (20%) is materially lower than other cities nationwide, and this metric increased from 2013 to 2017. Also, fund balance as a percent of operating revenues (12.1%) is well under the US median. Connecticut local governments tend to have financial ratios lower than US medians because they generally derive a majority of revenues from stable property taxes and their financials typically incorporate school operations which are predictable.

Management and Governance: Connecticut cities have an Institutional Framework score [3] of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated

costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Connecticut Cities

While Connecticut cities have generally benefited from stable tax bases, populations are aging and new development is challenged by the high cost of living and doing business. Positively, resident wealth and income levels are high. Median financial reserves are smaller than the national median, which represents a pressure for cities in light of state funding uncertainty. Due to the state's biennium budget process, cities are able to plan for cuts in fiscal 2019, although additional cuts could be implemented at any time. Property tax revenues, the primary revenue source, will continue to rise slowly due to stabilizing real estate markets and absence of a cap on local government levies.

EXHIBIT 1

Key Indicators [4] [5] Farmington

	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$5,313M	$5,286M	$5,214M	$5,115M	$5,329M	$1,867M	Stable
Full Value Per Capita	$208,972	$207,204	$203,986	$200,047	$208,437	$89,200	Stable
Median Family Income (% of US Median)	178%	182%	182%	184%	184%	113%	Improved
Finances							
Available Fund Balance as % of Operating Revenues	9.4%	9.7%	11.0%	11.0%	12.1%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	10.4%	12.1%	15.8%	17.8%	20.0%	36.9%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.0%	0.8%	0.8%	1.5%	1.5%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.52x	0.44x	0.43x	0.71x	0.73x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N/A	1.2%	1.3%	1.3%	1.4%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N/A	0.63x	0.65x	0.64x	0.65x	1.51x	Stable

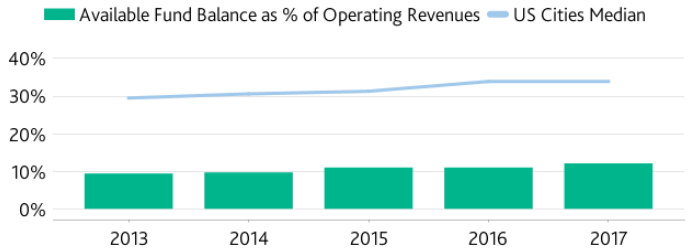
	2013	2014	2015	2016	2017	US Median
Debt and Financial Data						
Population	25,429	25,515	25,563	25,569	25,569	N/A
Available Fund Balance ($000s)	$9,098	$9,674	$11,066	$11,501	$13,681	$7,419
Net Cash Balance ($000s)	$10,094	$12,081	$15,892	$18,637	$22,612	$8,404
Operating Revenues ($000s)	$97,225	$99,969	$100,846	$104,543	$112,959	$21,930
Net Direct Debt ($000s)	$50,529	$44,250	$43,711	$74,427	$82,084	$18,580
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	N/A	$62,885	$65,904	$66,856	$73,197	$32,507

Source: Moody's Investors Service

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.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 2

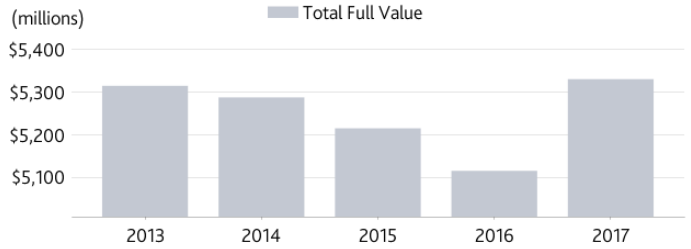
Available fund balance as a percent of operating revenues was consistent from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

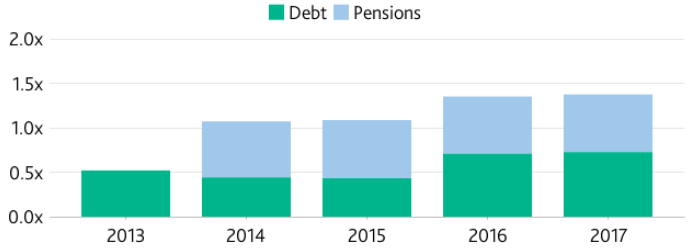
Full value of the property tax base was relatively stable from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues remained stable from 2014 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.

2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (December 2016) methodology report for more details.

4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014) . Metrics represented as N/A indicate the data were not available at the time of publication.

5 The medians come from our most recently published local government medians report, Medians - Property values key to stability, but pension burdens remain a challenge (March 2018) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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