

Research Update:

Watertown, CT Series 2025 GO Bond Anticipation Notes Assigned 'SP-1+ Rating; 'AA' GO Debt Rating Affirmed

October 7, 2025

Overview

- S&P Global Ratings assigned its 'SP-1+' short-term rating to the Town of [Watertown](#), Conn.'s approximately \$40 million series 2025 general obligation (GO) bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the town's existing GO debt.
- The outlook on the long-term rating is stable.

Rationale

Security

Watertown's full-faith-and-credit pledge, payable from the levy of an unlimited ad valorem tax on all taxable property in the town, secures the series 2025 BANs and existing GO debt.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Watertown maintains a very strong capacity to make principal and interest payments when the BANs come due. The town has 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 because it is a frequent issuer that regularly provides ongoing disclosure to market participants.

Officials plan to use series 2025 bond proceeds to fund road improvements and finance a judgement resulting from litigation filed in 2018, in which the Connecticut Appellate Court earlier this year upheld a prior lower court's ruling that Watertown owed more than \$18 million to the town of Waterbury for unpaid water and sewer services. We understand this note issuance will cover all debt balances outstanding, that the litigation is now fully settled, and there is no other additional litigation pending that could have a material impact on the town finances.

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Credit highlights

The long-term rating reflects our opinion of Watertown's stable local economy, with incomes that are on par with the national averages, improving reserve positions, strong set of financial management policies, and manageable debt burden but a high other postemployment benefits (OPEB) liability.

Watertown is a suburban and primarily residential community, about 30 miles from New Haven. Although there have been no major changes in the local economy in the past year, there are various projects underway, including two senior residential developments, that are expected to add to the town's revenue base.

Management attributes the fiscal 2024 positive results to higher-than-budgeted revenues including investment income, property tax collections, and intergovernmental services. We understand expenses came in on budget for the year. Over the past few years, Watertown has also implemented regular budget reporting on the school side, coupled with increased state aid and more realistic budgeting for educational costs. For fiscal 2025, the town estimates to have ended the year with another general fund surplus of about \$517,000, for similar reasons as in fiscal 2024.

For fiscal 2026, Watertown adopted a \$95.9 million budget, a 3.3% increase over fiscal 2025. Aside from increased education costs, the town also budgeted for higher overall expenses, including public safety costs and health insurance costs. Similar to fiscal 2025, the town did not appropriate the fund balance into the fiscal 2026 budget. According to management, budget to actuals are on target so far in the year and they currently don't expect the town to end the year with negative financial operations.

Including this issuance, Watertown will have about \$91 million of debt outstanding. Although a little over 40% of its debt outstanding will be made up of short-term debt, we understand the town plans to maintain a level debt service when it converts the notes to bonds. Therefore, we don't expect its debt service costs will increase significantly over the next few years.

Watertown participates in two local pension plans as well as the Connecticut Municipal Employees' Retirement Fund, with a combined net pension liability of \$14.8 million. It also provides OPEB, with a net liability of \$90.9 million, which we view as significant and that could create future budgetary pressure given its size and the town's lack of material pre-funding of the plan.

The long-term rating reflects our view of the following for Watertown:

- A residential community that continues to grow due to some expansion of its tax base. Although county-level economic output indicators are lower than the national average and local income metrics slightly higher than the U. S. averages, overall we believe the town's local economic indicators are comparable with those of similarly rated peers.
- Stable financial operations and overall balanced financial results that have led to modest improvement in reserves over the past few years and continued adherence to the town's reserve policy of keeping the unassigned fund balance at 7%-12% of budget. Watertown plans to continue to build on these reserves.
- Financial management practices that we consider sufficient, including conservative budgeting policies and monthly financial statements provided to the board that include budget to actuals and a formal capital improvement plan, as well as formal debt, investment, and reserve policies.

- A manageable debt burden and fixed costs despite a large increase in total direct debt with this issuance. However, we view the town's retirement liabilities, particularly OPEB, as large and we believe this weakens Watertown's liability profile.
- For more information on our institutional framework assessment for Connecticut municipalities, see "[Institutional Framework Assessment: Connecticut Local Governments](#)," Sept. 9, 2024.

Environmental, social, and governance

We have analyzed Watertown's environmental, social, and governance factors relative to the town's economy, management, financial measures, and debt and liability profile, and have determined all are neutral within our credit rating analysis. We understand the town was affected by a storm in August 2024 that caused flood damage to storm drains and roads, with damages totaling more than \$1.4 million. The town has applied for Federal Emergency Management Agency reimbursement for this amount, which management indicates it has been receiving over the past year and has not received indications from the federal government of potential changes.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that management will likely continue to maintain balanced financial results while making the necessary adjustments to reserve drawdowns.

Downside scenario

We could lower the rating if Watertown were to experience ongoing negative financial operations or material reserve drawdowns, bringing the unassigned fund balance to levels we no longer consider commensurate with the rating.

Upside scenario

We could raise the rating if the town were to demonstrate a consistent record of positive finances and notable increase in reserves, coupled with improved economic metrics to levels that are comparable with those of higher-rated peers, while materially lowering its OPEB liability.

Watertown, Connecticut--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.56
Economy	3.0
Financial performance	2
Reserves and liquidity	2
Management	2.05
Debt and liabilities	3.75

Watertown, Connecticut--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	--	--	72	74

Watertown, Connecticut--key credit metrics

	Most recent	2024	2023	2022
County PCPI % of U.S.	--	--	117	116
Market value (\$000s)	--	2,803,971	2,754,653	2,654,957
Market value per capita (\$)	--	125,716	125,223	125,548
Top 10 taxpayers % of taxable value	--	7.7	6.7	6.4
County unemployment rate (%)	--	2.8	3.0	3.8
Local median household EBI % of U.S.	--	111	116	112
Local per capita EBI % of U.S.	--	110	115	108
Local population	--	22,304	21,998	21,147
Financial performance				
Operating fund revenues (\$000s)	--	99,981	95,031	89,007
Operating fund expenditures (\$000s)	--	98,637	97,422	86,563
Net transfers and other adjustments (\$000s)	--	(37)	1,964	763
Operating result (\$000s)	--	1,307	(427)	3,207
Operating result % of revenues	--	1.3	(0.4)	3.6
Operating result three-year average %	--	1.5	0.3	1.2
Reserves and liquidity				
Available reserves % of operating revenues	--	11.2	10.6	11.7
Available reserves (\$000s)	--	11,237	10,040	10,449
Debt and liabilities				
Debt service cost % of revenues	--	6.1	7.9	7.3
Net direct debt per capita (\$)	4,087	2,295	2,190	2,499
Net direct debt (\$000s)	91,166	51,194	48,181	52,841
Direct debt 10-year amortization (%)	62	73	77	--
Pension and OPEB cost % of revenues	--	4.0	4.0	4.0
NPLs per capita (\$)	--	664	771	801
Combined NPLs (\$000s)	--	14,811	16,956	16,933

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List**New Issue Ratings**

US\$40.0 mil GO BANs dtd 10/29/2025 due 10/28/2026

Short Term Rating SP-1+

New Rating**Local Government**

Watertown, CT Unlimited Tax General Obligation BAN SP-1+

Ratings Affirmed**Local Government**

Watertown, CT Unlimited Tax General Obligation AA/Stable

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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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