

Research Update:

Watertown, CT Series 2026A And B GO Bonds Assigned 'AA' Rating; Outlook Stable

October 2, 2026

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to [Watertown](#), Connecticut's \$40.6 million series 2026A and 2026B general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the town's existing GO bonds and its 'SP-1+' short-term rating on the town's GO notes outstanding.
- 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 2026 bonds and existing GO debt. The primary source of repayment for the series A bonds is the Watertown Sewer Authority (WSA). The WSA approved rate increases to pay the debt service on the series A bonds.

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.

The series 2026 proceeds will fund road improvements and the WSA judgement.

Credit highlights

The 'AA' rating reflects the town's healthy reserve position on a nominal basis, which is supported by well-embedded management practices and policies and a residential-based economy. Watertown's reserve position as a percentage of operating expenditures lags that of similarly rated peers. Elevated fixed costs, along with significant liabilities, constrain credit quality.

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Fiscal 2025 recorded a fund balance reduction of approximately \$2.1 million, primarily reflecting costs associated with its transition from a self-funded health insurance plan to the state plan. The transition resulted in approximately \$5 million in one-time costs, which the town funded through budgetary savings and approximately \$2 million of fund balance. Management expects the transition to moderate health insurance cost pressures going forward. Preliminary fiscal 2026 results indicate a return to positive operations, with an approximately \$1 million general fund surplus and total general fund balance that will likely increase to approximately \$9.7 million.

For fiscal 2027, Watertown adopted a \$99 million general fund budget, representing a 3.3% increase from fiscal 2026. The budget incorporates higher education, personnel, and contractual expenditures, partially offset by approximately \$1.7 million of additional state education and municipal aid. Property tax revenue will increase approximately 4.4%, while the mill rate remains flat year over year. Management reports that year-to-date performance is in line with budget and currently expects balanced operations. We will monitor the town's financial performance and could take a negative rating action if material and sustained operating deficits result in further reserve deterioration.

Watertown participates in two locally administered pension plans as well as the Connecticut Municipal Employees' Retirement System, with a combined net pension liability of \$13.8 million. The town also provides other postemployment benefits (OPEB), with a net OPEB liability of \$75.7 million. We view the sizable OPEB liability, coupled with limited prefunding, as a potential source of longer-term budgetary pressure.

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

- Watertown has a residential community that is growing due to some expansion of its tax base. Although county-level economic output indicators are lower than the national average and local income metrics are 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 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 build on these reserves.
- We consider financial management practices sufficient, including conservative budgeting policies and quarterly 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.
- The manageable debt burden and fixed costs, despite a large increase in total direct debt with this issuance, totals \$129.78 million of debt outstanding. The town does not have additional debt plans. 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.
- Although physical risks are relevant for the local government sector, we consider Watertown's exposure to natural hazards, including flooding and extreme weather, low compared with that of national peers and in a nominal sense; therefore, it is not a material factor in our credit analysis.

Outlook

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

Downside scenario

We could lower the rating if Watertown were to experience ongoing negative financial operations or further 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 a significant 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)	2.71
Economy	2.5
Financial performance	3
Reserves and liquidity	2
Management	2.05
Debt and liabilities	4.00

Watertown, Connecticut--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	--	--	85	86
County PCPI as % of U.S.	--	--	99	98
Market value (\$000s)	--	3,711,087	2,803,971	2,754,653
Market value per capita (\$)	--	163,657	125,716	125,223
Top 10 taxpayers as % of taxable value	--	5.7	7.7	6.7
County unemployment rate (%)	--	4.5	3.8	3.7
Local median household EBI as % of U.S.	--	109	--	--
Local per capita EBI as % of U.S.	--	105	--	--
Local population	--	22,676	22,304	21,998
Financial performance				
Operating fund revenue (\$000s)	--	103,651	99,981	95,031
Operating fund expenditures (\$000s)	--	105,017	98,637	97,422
Net transfers and other adjustments (\$000s)	--	(727)	(37)	1,964
Operating result (\$000s)	--	(2,093)	1,307	(427)
Operating result as % of revenue	--	(2.0)	1.3	(0.4)
Operating result three-year average %	--	(0.4)	1.5	0.3
Reserves and liquidity				

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Watertown, Connecticut--key credit metrics

Available reserves as % of operating revenue	--	8.8	11.2	10.6
Available reserves (\$000s)	--	9,077	11,237	10,040

Debt and liabilities

Debt service cost as % of revenue	--	5.6	6.1	7.9
Net direct debt per capita (\$)	5,723	2,421	2,295	2,190
Net direct debt (\$000s)	129,784	54,889	51,194	48,181
Direct debt 10-year amortization (%)	56	69	73	77
Pension and OPEB cost as % of revenue	--	4.4	4.2	3.9
NPLs per capita (\$)	--	611	638	763
Combined NPLs (\$000s)	--	13,849	14,234	16,778

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\$10.000 mil GO bnds ser 2026B due 10/15/2046

Long Term Rating AA/Stable

US\$30.600 mil GO bnds ser 2026A due 10/15/2046

Long Term Rating AA/Stable

Ratings Affirmed

Local Government

Watertown, CT Unlimited Tax General Obligation AA/Stable

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

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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