

RatingsDirect®

Summary:

Rocky Hill, Connecticut; General Obligation; Note

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Credit Profile

US\$10.72 mil GO rfdg bnds ser 2022 due 04/15/2034

| | | |
|--------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | New |
| Rocky Hill GO BANs | | |
| <i>Short Term Rating</i> | SP-1+ | Affirmed |
| Rocky Hill GO | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Rocky Hill, Conn.'s series 2022 general obligation (GO) refunding bonds and affirmed its 'AA+' rating on the town's GO debt outstanding. The outlook on the long-term rating is stable. At the same time, S&P Global Ratings affirmed its 'SP-1+' short-term rating on Rocky Hill's \$2.25 million GO bond anticipation notes (BANs) outstanding.

The town's unlimited-tax GO pledge to levy ad valorem taxes, without limit as to rate or amount, on all taxable property within its borders secures the bonds and notes.

The short-term BAN rating reflects our criteria for evaluating and rating BANs. In our view, Rocky Hill maintains a very strong capacity to pay principal and interest when the notes come due. In our view, and in accordance with our criteria "Bond Anticipation Note Rating Methodology" (published Aug. 31, 2011, on RatingsDirect), the town maintains a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

Proceeds from the refunding bonds will refund the town's 2014 GO bonds for an approximately 11% net present value savings.

Credit overview

The town is a suburban community in Hartford County with a strong and stable residential and commercial economic base. While it maintains available reserves below state and national peers, its conservative budgeting practices have helped it maintain stable and predictable budgetary performance over the past several years, including through the pandemic. While we recognize growth in the tax base has been modest, the town maintains above-average socioeconomic demographics and a stable taxing base, with access to and participation within the broader Hartford metropolitan statistical area (MSA). While debt service costs rose approximately \$3 million from fiscal years 2020 to 2021, we expect debt service costs to fall and its long-term pension and other postemployment benefit (OPEB) costs are minimal, resulting in overall low fixed costs, which should continue to support its ability to produce strong budgetary performance.

The rating further reflects our opinion of Rocky Hill's:

- Largely residential tax base but with new development across sectors;
- Strong financial management environment with a team that actively budgets to its adopted policies, along with a strong institutional framework score;
- Stable financial profile with predictable revenue and expenditure environment leading to stable reserve and cash balances;
- Rising debt services costs over the past year that will incrementally decline and no material retirement liability or cost pressures.

Environmental, social, and governance

We analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. Over the long term, we believe it could face inland flooding risks from the Connecticut River, but management reports no flooding issues in the recent past.

Stable Outlook

Downside scenario

If the town experiences weakened budgetary performance or continued drawdowns to fund balance, resulting in weakened flexibility, we could lower the rating.

Upside scenario

Over time, we could raise the rating if the town produces balanced-to-positive operating results and maintains budgetary flexibility at levels in line with those of higher-rated peers, in addition to improvements to the debt profile levels.

Credit Opinion

Stable residential tax base with ongoing development

Rocky Hill is primarily a residential community with a robust commercial sector. State Routes 3, 99, and 160, and Interstate 91 traverse the town, providing residents access to broader regional employment opportunities. We expect the local economy and tax base to remain stable, with incremental growth in residential, commercial, and industrial sectors. The town's economic development demonstrated through its building permit activity over the past several years is robust, with expected continued development. Management notes the second phase of a multi-use development will begin later this calendar year and another one forthcoming on a brownfield site along the river, with applications pending for another development of luxury apartments and commercial space. Commercial and industrial properties also continue reinvestment in existing properties, particularly in the industrial park. We anticipate that our assessment of the town's economic profile will remain very strong, bolstered by its participation in the broad and diverse MSA.

Strong financial management environment with well-embedded policies and practices

The town has generally conservative budgeting practices, and management reviews the past five years of revenue and expenditure trends to inform budgetary assumptions. Management presents monthly budget-to-actual reports to the finance board. The town adheres to the state's investment-management limitations, but does not have any formal reporting outside of the audit. Rocky Hill has five-year capital improvement plans that identify funding sources and include both town and school department needs that it updates annually.

The town does not maintain a formal long-term financial forecast, but management does account for pending issues in its budget formulation with structural balance as the clear goal in the outyears. Its adopted reserve policy requires management to maintain unassigned fund balance at 5% of expenditures, transferring any balance of more than 6% into the capital projects fund. Rocky Hill does not have any formal debt management plans.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Stable performance likely to lead to stable cash, reserves over the next few years

We expect the town to maintain strong budgetary performance over the next few years. Its fiscal 2021 general fund audited reserve drawdown was due to the budgeted use of reserves for capital as management worked to adhere to its reserve policy. The 2022 budget again includes a \$382,000 use of reserves, as part of a \$1.6 million cash-funded capital investment plan, to maintain reserves in accordance with the town's reserve policy. The budget also includes \$1.4 million in American Rescue Plan Act (ARPA) funds. The town will receive \$5.9 million total from ARPA, the remainder of which is likely to be used in subsequent budget years for approved capital projects, health and safety investments, and other community investments. We understand that management currently projects approximately balanced general fund results at year-end and we do not expect a material change in reserve levels or our views of the town's budgetary performance, or flexibility and liquidity profiles.

Our analysis of budgetary performance includes adjustments to account for regularly recurring transfers from the general fund, coupled with one-time revenues and expenditures associated with bond and note proceeds and one-time intergovernmental grants. The town benefits from a stable and predictable revenue profile that is largely independent of state or federal funds. Property taxes makes up more than 80% of operating revenue. Tax collections have historically remained strong, with current collections exceeding 98% during the past five years. Intergovernmental sources represent the second-highest share of general fund revenue at 17%. We understand management expects to receive increases in state funded education cost-sharing grants and certain payments-in-lieu-of-taxes, although we do not expect a material change in the revenue profile. The 2022 budget totals \$88.6 million, a 3.3% overall increase over the previous year. While the town maintains lower available reserves than comparably rated state and national municipalities, we believe its financial profile will remain stable due to proactive management and a stable revenue and expenditure environment.

Stable debt profile with limited future debt needs

The town has approximately \$85 million in total direct debt outstanding, of which \$2.2 million is BANs for which it expects to receive partial reimbursement from the state. It has about \$6 million authorized but unissued debt it could issue over the next few years; we do not expect this to materially alter the town's debt profile.

Rocky Hill's combined required pension and actual OPEB contributions totaled 2.3% of total governmental fund expenditures in 2021. Of that amount, 1.5% represented required contributions to pension obligations, and 0.8% represented OPEB payments. The town made 45% of its required pension contribution in 2021.

Pension and OPEB costs we expect to remain affordable

We do not expect pension and OPEB liabilities or costs to meaningfully pressure the town's finances. Its two largest plans are funded at least 100%, while the smaller two have low costs relative to the overall budget. All four plans use a 7% discount rate, which is higher than our guidance, but given the respective high funded ratios or low liabilities and costs, we do not expect material cost volatility. The town did not make its actuarially determined contribution (ADC) in any of its four plans in the most recent year due to a timing issue with the valuations and a change in budgeting due to expected investment performance; we expect it will continue to meet its ADC in future years.

Rocky Hill also provides retiree health care benefits to employees. As of June 30, 2021, the liability was 14% funded with a \$18.6 million net OPEB liability. We believe there cost be some escalation in the town's OPEB costs, but given the current low charge, do not expect significant budgetary pressure in the near term.

Rocky Hill participates in the following local administered pension plans, as of June 30, 2021:

- General Employees' Pension Plan: 108% funded, \$4.1 million net pension asset;
- Police Officers Pension Plan: 100% funded, \$71,000 net pension asset;
- Firefighters Pension Plan: 69% funded, \$850,000 net pension liability (NPL); and
- Ambulance Pension Plan: 85% funded, \$172,000 NPL.

Rocky Hill, CT -- Key Credit Metrics

| | Most recent | Historical information | | |
|---|-------------|------------------------|-----------|-------|
| | | 2021 | 2020 | 2019 |
| Very strong economy | | | | |
| Projected per capita EBI % of U.S. | 131 | | | |
| Market value per capita (\$) | 160,072 | | | |
| Population | | 20,044 | 20,083 | |
| County unemployment rate(%) | | 8.1 | | |
| Market value (\$000) | 3,208,487 | 3,189,872 | 3,155,641 | |
| Ten largest taxpayers % of taxable value | 10.8 | | | |
| Strong budgetary performance | | | | |
| Operating fund result % of expenditures | | (0.6) | 2.2 | (0.4) |
| Total governmental fund result % of expenditures | | (0.7) | 0.6 | (1.6) |
| Adequate budgetary flexibility | | | | |
| Available reserves % of operating expenditures | | 7.7 | 8.9 | 7.2 |
| Total available reserves (\$000) | | 7,077 | 7,636 | 5,786 |
| Very strong liquidity | | | | |
| Total government cash % of governmental fund expenditures | | 21 | 28 | 32 |
| Total government cash % of governmental fund debt service | | 226 | 442 | 506 |

Rocky Hill, CT -- Key Credit Metrics (cont.)

| | Most recent | Historical information | | |
|---|-------------|------------------------|------|------|
| | | 2021 | 2020 | 2019 |
| Strong management | | | | |
| Financial Management Assessment | Good | | | |
| Weak debt & long-term liabilities | | | | |
| Debt service % of governmental fund expenditures | | 9.5 | 6.4 | 6.4 |
| Net direct debt % of governmental fund revenue | 89 | | | |
| Overall net debt % of market value | 4.2 | | | |
| Direct debt 10-year amortization (%) | 56 | | | |
| Required pension contribution % of governmental fund expenditures | | 1.5 | | |
| OPEB actual contribution % of governmental fund expenditures | | 0.8 | | |
| Strong institutional framework | | | | |

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

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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