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Summary:

Rocky Hill, Connecticut; General Obligation

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Credit Profile

US\$28.95 mil go bnds iss ser 2017 due 08/01/2036

Long Term Rating AA+/Stable New

Rocky Hill GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Rocky Hill, Conn.'s series 2017 general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the town's existing GO debt.

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.

We understand officials intend to use series 2017 bond proceeds to finance bond anticipation notes (BANs), maturing on June 22, 2017, permanently.

The rating reflects our opinion of Rocky Hill's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results we expect could deteriorate in the near term relative to fiscal 2016, which closed with balanced operating results in the general fund but a slight operating deficit at the total-governmental-fund level;
- Adequate budgetary flexibility, with an available fund balance we expect will decrease in the near term from its fiscal 2016 level of 8.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 42.9% of total-governmental-fund expenditures and 9.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 4.4% of expenditures and net direct debt that is 64.3% of total-governmental-fund revenue; and
- Very strong institutional framework score.

Very strong economy

We consider Rocky Hill's economy very strong. The town, with an estimated population of 20,049, is located in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 144% of the national level and per capita market value of \$146,901. Overall, the town's market value grew by 1.4% over the past year to \$2.9 billion in fiscal 2018. The county unemployment rate was 5.3% in 2016.

Rocky Hill is a suburban community approximately eight miles south of Hartford. The town is primarily a residential community with a thriving commercial sector. State routes 3, 99, and 160 and Interstate 91 traverse Rocky Hill. We expect Rocky Hill's economy to be stable. The 10 leading taxpayers accounted for just 10.4 % of fiscal 2016 assessed value.

Strong management

Based on its strengthened budget reporting to the finance board our view of the town's management has improved to strong from adequate, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis.

The town generally has conservative budgeting practices, and management reviews the past five years to inform revenue and expenditure assumptions. Management presents monthly budget-to-actual reports to the finance board. The town follows the state's investment-management policy but does not have any formal reporting. Rocky Hill has five-year capital improvement plans, with identified funding sources, for the town and school that it updates annually, both of which it uses during the budgeting process.

Currently, the town's adopted reserve policy requires management to maintain unassigned fund balance at 5% of expenditures with it transferring any excess balance of more than 6% into the capital projects fund. Currently, Rocky Hill does not have any formal debt-management plans. In addition, it does not perform long-term financial planning.

Adequate budgetary performance

Rocky Hill's budgetary performance is adequate, in our opinion. The town had balanced operating results in the general fund of negative 0.4% of expenditures but a slight deficit result across all governmental funds of 0.8% of expenditures in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2016 results in the near term. General fund operating results of the town have been stable over the past three fiscal years, with a result of 0.2% of expenditures in fiscal 2015 and 0.4% of expenditures in fiscal 2014.

Management notes there is some uncertainty regarding the state's proposed budget, and we recognize that there are potential decreases in education cost-sharing grants and that the potential decrease in state aid might be less than initially expected. Management is reviewing various actions to reduce expenditures, as well as to increase the millage rate as needed.

Our analysis of budgetary performance includes adjustments to account for regularly occurring transfers from the general fund and nonmajor governmental funds, coupled with one-time expenditures associated with bond and BAN proceeds.

Rocky Hill produced surpluses from fiscal years 2011-2015. Management planned for the fiscal 2016 drawdown and fiscal 2017 use of about \$1.1 million of fund balance from previous surpluses for capital projects. According to the adopted reserve policy, the town will use excess unassigned fund balance above 6% of expenditures on capital projects.

Officials indicate the fiscal 2018 budget will contain a reduction of fund balance appropriation to \$159,000 from \$1.1 million in fiscal 2017. The town expects to make this amount up through conservative budgeting and strong tax collections.

Officials indicate the state passed legislative measures to deal with Hartford failing to pay its proportional share of sewer expenses; if this occurs, the state will intercept payments in lieu of taxes and make payments on behalf of Hartford. Rocky Hill could have been liable for an additional \$474,000 in fiscal 2018 without this measure. Officials do not expect they will need to make this payment on behalf of Hartford.

Furthermore, we believe Rocky Hill maintains a stable and predictable revenue profile that is largely independent of state or federal funds. The town benefits from its high property tax base, which makes up more than 83% of total revenue. Tax collections have historically remained strong with current collections exceeding 99% during the past five years. Intergovernmental sources represent the second-highest share of general fund revenue at 14.5%. Therefore, we expect budgetary performance including general fund and total governmental funds, guided by sound management practices and policies, to remain, at least, adequate.

Adequate budgetary flexibility

Rocky Hill's budgetary flexibility is adequate, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2016 level of 8.2% of operating expenditures, or \$6 million.

Rocky Hill's adopted reserve policy requires management to maintain unassigned fund balance at 5% of expenditures with it transferring any excess balance of more than 6% into the capital projects fund. In-line with this policy, the town used \$1.1 million in available reserves on capital projects. Therefore, we expect available reserves to decline, and to remain at least adequate in line with the town's policy.

Very strong liquidity

In our opinion, Rocky Hill's liquidity is very strong, with total government available cash at 42.9% of total-governmental-fund expenditures and 9.7x governmental debt service in fiscal 2016. In our view, the town has strong access to external liquidity if necessary.

We do not currently expect any deterioration in the town's cash; therefore, we expect liquidity to remain very strong. The town confirmed it does not currently have any contingent-liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events.

Adequate debt-and-contingent-liability profile

In our view, Rocky Hill's debt-and-contingent-liability profile is adequate. Total-governmental-fund debt service is 4.4% of total-governmental-fund expenditures, and net direct debt is 64.3% of total-governmental-fund revenue.

Total direct debt is \$52.9 million. The town is currently in the planning stage of a new intermediate school for which it could issue \$31 million-\$35 million of additional debt within the next two years to three years for the school, as well as smaller projects. We, however, do not expect this to change the town's debt profile materially.

Rocky Hill's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 1.9% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 1.1% represented required contributions to pension obligations and 0.8% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2017.

Rocky Hill maintains four single-employer pension plans, each of which is well funded. All new employees are part of a

defined-contribution plan. The town's firefighter pension fund had a fiscal 2016 net pension liability of \$1.39 million and a net position of 86.8%. The general employee, police, and ambulance pension funds each have net pension assets of \$34.4 million; \$20 million; and \$515,438, respectively. The fiscal 2016 net positions of the employee, police, and ambulance pension plans were 104.6%; 111.1%; and 127.4%, respectively.

Teachers and other certified personnel are eligible to participate in the Connecticut State Teachers' Retirement plan, a cost-sharing, multiemployer system. The state contributes into the plan on behalf of the town. Notably, as part of the governor's initial budget, the proposal seeks a one-third shift of costs to local governments totaling \$2 million, or roughly 2.7% of general fund revenue. We note the governor's proposal is meeting heavy political resistance. The town is aware of this shift, and we believe it has the budgetary flexibility and tax-raising ability to address the change.

Rocky Hill also provides retiree health care benefits to employees. This unfunded liability, as of the last actuarial valuation, was \$16.9 million. The town has been contributing funds to this obligation; it currently maintains roughly \$1.3 million in assets with plans to add an additional \$200,000 in fiscal 2018. The funded ratio is 7.1%.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Rocky Hill's very strong economy, supported by access to the Hartford MSA. The outlook further reflects our view of the town's very strong liquidity, coupled with the maintenance of, at least, adequate budgetary flexibility and supported by strong management. We also note the town's lack of budgetary pressure, typically due to the risk of accelerating pension contributions. Due to these factors, we do not expect to change the rating over the two-year outlook period.

Downside scenario

If budgetary performance were to weaken or if management were to continue to draw down fund balance, resulting in weakened flexibility, we could lower the rating.

Upside scenario

Over time, we could raise the rating if the town were to produce balanced-to-positive operating results and if it were to maintain budgetary flexibility at levels we consider in-line with its higher-rated peers, coupled with an improving debt profile.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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