

RatingsDirect®

Summary:

Rocky Hill, Connecticut; General Obligation

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Summary:

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Credit Profile

US\$7.265 mil GO rfdg bnds ser 2013 due 08/01/2024

Long Term Rating

AA/Stable

New

Rocky Hill GO bnds ser 2010

Long Term Rating

AA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Rocky Hill, Conn.'s series 2013 general obligation (GO) refunding bonds and affirmed its 'AA' rating, with a stable outlook, on the town's existing GO debt.

The rating reflects our opinion of the town's:

- Very strong wealth and income and historically below-average unemployment;
- Strong, primarily residential property tax base, complemented by an established commercial presence;
- Strong finances; and
- Low debt and carrying charges with some additional capital needs.

The town's full-faith-and-credit pledge secures the bonds. It is our understanding officials plan to use bond proceeds to refund the town's series 2004B GO bonds for debt service savings.

Rocky Hill, with a population estimate 19,309, is a suburban community approximately eight miles south of Hartford. The town is primarily a residential community with a thriving commercial sector. Town officials estimate about 33% of the property tax base consists of commercial properties. Growth in Rocky Hill's local employment base and the town's access to employment opportunities throughout the greater Hartford area have been key factors in its historically low unemployment. Throughout the recession, unemployment remained well below state and national rates; as of November 2012, unemployment was 6.5% compared with the state's 8.3% and the nation's 8%.

Leading town employers include:

- Henkel Corp. (500 employees), an adhesives and sealant manufacturer;
- SYSCO Food Services (480), a distribution warehouse;
- ISGN (340), loan processing; and
- Veterans' Home & Hospital (300).

Income is, in our opinion, strong with median household and per capita effective buying incomes at 130% and 133%, respectively, of national levels. Assessed value (AV) has remained stable throughout the recession. AV is \$2.16 billion in fiscal 2013. Market value has also been stable. Market value is \$3.08 billion, or \$159,536 per capita, a level we consider extremely strong. Despite the strong commercial presence in the town, the tax base remains diverse with the

10 leading taxpayers accounting for 8.8% of AV.

Finances have been, in our opinion, solid. Rocky Hill has consistently maintained general fund reserves at levels we consider good. The adopted reserve policy requires management to maintain unassigned fund balance at 5% of expenditures with any excess balance of more than 6% transferred into the capital projects fund. The local property tax levy generates the majority of general fund revenue, typically generating 80%-85%. Property tax collections are, in our view, strong with current collections historically averaging 99%.

The fiscal 2013 budget totals \$62.8 million, a 4.6% increase over the fiscal 2012 budget. The fiscal 2013 budget includes \$2.1 million of capital spending while education spending increased by just 3%. The budget does not include a fund balance appropriation. Through the midpoint of the fiscal year, Rocky Hill reports revenue is on budget. Expenditures, however, are ahead of budgeted amounts due to higher-than-expected school security costs and unexpected legal fees related to the attempted relocation of state prisoners to a local convalescent home. Management indicates it will cut other areas of the budget to offset these increases.

Fiscal 2012 ended with a \$52,000 general fund surplus after transfers into the capital and nonmajor funds. At fiscal year-end 2012, general fund balance was \$4.3 million, or 6.8% of expenditures, which we consider good, \$4.1 million, or 6.4%, of which was unassigned. The capital projects fund had a balance of \$1.97 million at fiscal year-end 2012. Year-end liquidity was, in our opinion, good with unrestricted cash at \$9.6 million, or 55 days' operating liquidity.

Standard & Poor's considers Rocky Hill's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Highlights of management's practices include a five-year capital improvement plan that identifies planned funding sources and that management updates annually. In addition to the 5% fund balance policy, management also has a defined investment policy that follows state guidelines. Management, however, does not report investment holdings and performance to governing officials regularly. Management tracks government spending and tax revenue and reports the results to the town council monthly; management monitors all other revenue regularly and reports the results to the council upon request. Rocky Hill does not currently have a debt management policy, and it does not conduct long-term financial forecasts.

Overall debt is, in our view, a low \$1,312 per capita, or 0.8% of market value. Carrying charges were, in our opinion, a low 3.6% of governmental expenditures in fiscal 2012. We consider debt amortization rapid with officials planning to retire 100% over 15 years. Rocky Hill authorized a \$45 million high school renovation project; it has issued \$2 million of short-term debt for the initial phase of the project. Officials also expect to receive \$16 million of state reimbursements for the project. We understand officials plan to issue additional debt for the project in 2014 and 2016. Due to the town's low current debt with rapid amortization, we do not believe the proposed bonding would increase overall debt beyond levels we consider moderate.

Rocky Hill has four pension plans for town employees: general town employees, police officers, volunteer firefighters, and volunteer ambulance personnel. The plans for volunteer personnel provide a small monthly stipend for certain volunteers. The town has historically contributed 100% of the annual required contribution (ARC) for all of the plans. In fiscal 2012, the ARC for all of the plans was \$2.1 million, or 3% of governmental expenditures. As of the Sept. 1,

2010, valuations, the general employees' fund was 79.4% funded with a \$5.9 million unfunded liability while the police officers' plan was 75.6% funded with an unfunded liability of \$4.9 million. As of the July 1, 2010, valuation, the volunteer firefighters' plan was 67.2% funded with an unfunded liability of \$379,000. As of the July 1, 2011, valuation, the volunteer ambulance personnel plan was 93.1% funded with an unfunded liability of \$35,000.

Rocky Hill also provides other postemployment benefits (OPEB) for certain retirees. While the town does not fully fund its OPEB ARC, it continues to contribute additional funds to the OPEB trust fund above the pay-as-you-go costs. As of the July 1, 2010, valuation, the OPEB liability was 1.6% funded with an unfunded liability of \$11.2 million. The OPEB ARC was \$1.2 million, or 1.7% of governmental expenditures. The actual contribution was \$320,000, or 27% of the ARC and 0.5% of governmental expenditures.

Outlook

The stable outlook reflects Standard & Poor's opinion of Rocky Hill's very strong income and property wealth, which, when combined with the diverse property tax base, should continue to generate sound property tax collections. The town's strong financial policies are, in our opinion, an additional stabilizing rating factor. We expect management to continue to maintain its consistent finances in accordance with its policies due to, what we regard as, its conservative budgeting practices and willingness to increase revenue and cut expenditures, as needed, to maintain balanced financial operations. Due to these factors, we do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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