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## Summary:

# Rocky Hill, Connecticut; General Obligation; Note

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## Summary:

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### Credit Profile

US\$11.6 mil GO bnds ser 2021 due 01/15/2041		
<i>Long Term Rating</i>	AA+/Stable	New
US\$2.25 mil GO BANs ser 2021 dtd 07/28/2021 due 07/27/2022		
<i>Short Term Rating</i>	SP-1+	New
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 2021 general obligation (GO) bonds and affirmed its 'AA+' rating on the town's existing GO debt. The outlook on the long-term rating is stable. At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating on Rocky Hill's \$2.25 million GO bond anticipation notes (BANs) maturing July 27, 2022.

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 bonds will permanently finance BANs previously issued to finance the senior/community center project and road improvement program. Roughly \$500,000 of the bonds will apply toward land preservation purposes. Proceeds from the notes will refund a portion of the outstanding BANs applicable to the high school renovation project.

### Credit overview

The town is a suburban community in Hartford County with a strong and stable residential and commercial economic base. Its conservative budgeting practices have helped it maintain steady budgetary performance and stable reserves over the past several years, even 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). Its financial reserves typically range from adequate to strong annually, and its long-term pension and other postemployment benefit (OPEB) obligations are minimal, which should continue to support its ability to produce strong budgetary performance.

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

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 8.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.4% of total governmental fund expenditures and 4.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 6.4% of expenditures and net direct debt that is 95.7% of total governmental fund revenue; and
- Strong institutional framework score.

### **Environmental, social, and governance factors**

We analyzed the town's environmental, and governance 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.

## **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**

### **Very strong economy**

We consider Rocky Hill's economy very strong. The town, with a population of 20,083, is in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 139% of the national level and per capita market value of \$159,761. Overall, market value grew by 0.6% over the past year to \$3.2 billion in 2022.

Rocky Hill is primarily a residential community with a steady commercial sector. State Routes 3, 99, and 160, and Interstate 91 traverse the town, providing residents access to broader regional employment.

The 10-leading taxpayers account for just 11 % of assessed value (AV), and economic development, while modest, is

ongoing, with officials indicating a very active residential market and several new residential and commercial developments on the way.

The regional economy in Hartford County is well-diversified and has been slowly growing over the past few years, but the pandemic has stymied its momentum. The county unemployment rate was 3.9% in 2019, although it increased significantly because of the stay-at-home orders, peaking at 10.7% in July 2020. Unemployment has since come down to 8.6% as of March 2021. IHS Markit forecasts Hartford County's real gross county product (GCP) fell by 2.7% in calendar 2020, which we note is better than the state's decline. The forecast suggests that economic activity will return to pre-pandemic levels in late 2021, increasing 4.8% in 2021 and 2.2% in 2022. This is in line with S&P Global Economics' U.S. base-case forecasts. (For more information on S&P Global Ratings' economic outlook, please see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," June 24, 2021, on RatingsDirect.)

### **Strong management**

We view the town's management as strong, 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 and adjusts the budget as conditions arise. The town follows the state's investment-management policy with reporting of its investment holdings done periodically. Rocky Hill has five-year capital improvement plans (CIPs), with identified funding sources, for the town and school that it updates annually, both of which it uses during the budgeting process.

The town does not maintain a formal long-term financial forecast, although management does consider 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 budgetary performance**

The town has maintained strong budgetary performance through the pandemic, in large part because of its conservative budgeting practices, particularly its careful budget planning and in-year performance monitoring. It had surplus operating results in the general fund of 2.2% of expenditures, and slight surplus results across all governmental funds 0.6% in fiscal 2020.

Rocky Hill has maintained steady operating results for the past several years, with previous reductions of fund balance related one-time capital purchases. 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.

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 82% of total 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%. For fiscal 2022, the town's budget totals \$88.6 million, a 3.3% overall increase

over the previous year. Overall, we believe conservative assumptions underpinning the fiscal 2022 budget and a strong management team will allow the town to maintain adequate performance despite near-term uncertainties.

Throughout the pandemic, the town implemented several cost-saving initiatives and was conservative in its planning, revising revenue estimates downward for fiscal 2021 and reducing spending in like amounts. It also provided for contingencies in its budget to offset any sudden drop in revenues. Management anticipates overall fund balance levels declining by \$1.2 million on a generally accepted accounting principles (GAAP) basis at the close of fiscal 2021 because it did allocate fund balance toward its CIP in accordance with its reserve policies. Nevertheless, budgetary results for fiscal 2021 are better than anticipated, and with level funding of state aid in fiscal years 2021 and 2022, the town is estimating a budgetary surplus in the general fund of roughly \$400,000. Moreover, it is eligible to receive upward of \$5.9 million in direct and county-allocated American Rescue Plan (ARP) funds, and the school district is also benefiting from Elementary and Secondary School Emergency Relief (ESSER) stimulus funds, which we believe will support steady operating performance across all its major departments.

### **Adequate budgetary flexibility**

Rocky Hill's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 8.9% of operating expenditures, or \$7.6 million. For fiscal 2021, we anticipate overall reserves declining by \$1.2 million as the town allocated reserves toward its CIP. We project ending reserves will decline to \$6.4 million, or 7.5% of expenditures, levels in line with previous years.

As noted above, 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. In line with this policy, the town continues to appropriate available reserves to capital. Therefore, we do not anticipate material changes to its reserve position over the long term.

### **Very strong liquidity**

In our opinion, Rocky Hill's liquidity is very strong, with total government available cash at 28.4% of total governmental fund expenditures and 4.4x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

We do not expect any deterioration in the town's cash; therefore, we expect liquidity to remain very strong. Management confirmed it does not currently have any contingent liquidity risk from financial instruments with payment provisions that change on 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 6.4% of total governmental fund expenditures, and net direct debt is 95.7% of total governmental fund revenue.

Total direct debt is \$91.2 million; of that amount, \$2.2 million consists of BANs. The town has recently completed several new projects, and currently it does not have any sizable debt plans on the horizon outside of projects these bonds are supporting.

Pension and other postemployment benefits:

- We do not view pension and OPEB liabilities as an immediate credit risk for Rocky Hill.
- The town's pension costs are low as a percentage of expenditures and the plans maintain high funded ratios.
- Although the town pays OPEB liabilities on a pay-as-you-go basis, the low cost and liability is unlikely to lead to credit stress in the near term, and it has begun funding an OPEB trust.

Rocky Hill participates in the following local administered pension plans, which are all closed to new employees:

- General Employees' Pension Plan: 89.2% funded, with a net pension liability (NPL) of \$4.9 million
- Police Officers Pension Plan: 100.66% funded;
- Firefighters Pension Plan: 55.4% funded, with a NPL of 1.1 million; and
- Ambulance Pension Plan: 69.2% funded, with a NPL of \$339,242.

Rocky Hill's combined required pension and actual OPEB contributions totaled 1.5% of total governmental fund expenditures in 2020. Of that amount, 0.7% represented required contributions to pension obligations, and 0.8% represented OPEB payments.

Notably, teachers and other certified personnel are eligible to participate in the Connecticut State Teachers' Retirement plan, a cost-sharing, multiple-employer system. The state contributes to the plan on behalf of the town.

Rocky Hill also provides retiree health care benefits to employees. This unfunded liability, as of the last actuarial valuation, was \$22.3 million. The town has been contributing funds to this obligation; it currently maintains roughly \$2.2 million in assets with plans to add money in fiscal 2021. The funded ratio is 9.14%.

### **Strong institutional framework**

The institutional framework score for Connecticut municipalities is strong.

## **Related Research**

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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