

RatingsDirect®

Summary:

Rocky Hill, Connecticut; General Obligation; Note

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Credit Profile

US\$30.75 mil GO bnds ser 2019 due 06/01/2039

Long Term Rating AA+/Stable New

US\$2.25 mil GO BANs ser 2019 dtd 07/30/2019 due 07/29/2020

Short Term Rating SP-1+ New

Rocky Hill GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating to Rocky Hill, Conn.'s series 2019 general obligation (GO) bonds and affirmed its 'AA+' rating on the town's existing GO debt. The outlook is stable.

S&P Global Ratings also assigned its 'SP-1+' short-term rating to Rocky Hill's bond anticipation notes (BANs) maturing July 29, 2020.

The rating is based on the town's very strong and stable residential and commercial economic base. We believe Rocky Hill's conservative budgeting has helped it maintain steady budgetary performance and stable reserves over several years. While we recognize growth in the tax base has been minimal, the town does maintain above-average socioeconomic demographics and a stable taxing base with access and participation within the broader Hartford MSA. Favorably, its long-term pension and other postemployment benefit (OPEB) obligations are minimal, which should continue to support the town's ability to produce strong budgetary performance.

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 rating reflects our view that Rocky Hill maintains a very strong capacity to pay principal and interest when the BANs come due. The town maintains 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 it provides ongoing disclosure to market participants.

Proceeds from the bonds and BANs will be used to fund various capital projects outlined in its capital improvement plan (CIP). The largest project is related to the construction of its new intermediate school.

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;

- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2018 of 7.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.6% of total governmental fund expenditures and 7.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 91.0% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Rocky Hill's economy very strong. The town, with an estimated population of 19,998, is a suburban community in Hartford County, approximately eight miles south of Hartford. It is in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 152% of the national level and per capita market value of \$157,963. Overall, market value grew by 5.6% over the past year to \$3.2 billion in 2020. The county unemployment rate was 4.2% in 2018.

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.

We expect Rocky Hill's economy to be stable. The 10 leading taxpayers accounted for just 11 % of assessed value (AV). Economic development, while slow, is ongoing, with officials indicating the town continues to see growth in its tax base. Rocky Hill issued an average of 377 building permits with an average value of \$50.0 million (annually) over the past five years. In 2018, the value of new building permits was particularly strong with an estimated value of \$76.7 million. Due to the large amount of these projects and a generally stable real estate market, AV remains poised for further growth. Therefore, we anticipate that the town's economy assessment will remain very high with low unemployment and strong socioeconomic demographics.

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. The town follows the state's investment-management policy but does not have any formal reporting. Rocky Hill has five-year 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; however, management does take into account pending issues in its budget formulation with structural balance as the clear goal in the out-years. Currently, the town's 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. Currently, Rocky Hill does not have any formal

debt-management plans.

Strong budgetary performance

Rocky Hill's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of negative 0.1% of expenditures, and slight surplus results across all governmental funds of 0.7% in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of 0.2% in 2017 and negative 0.4% in 2016.

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 has maintained steady operating results for several years, with past reductions of fund balance related to funding capital. As noted in the reserve policy, the town appropriates excess unassigned fund balance above 6% of expenditures on capital projects, which is a practice to which it has historically adhered. For fiscal 2019, it estimates it will generate balanced operating results, even after appropriating \$1.3 million in reserves for capital improvements.

The town has worked through the collective bargaining process with its major unions to control health expenses, aiding in the ability to deliver balanced operations. The fiscal 2020 budget is expected to be similar in service delivery to fiscal 2019. The 2020 budget totals \$81.2 million, a 4.2% increase over fiscal 2019. 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 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%.

Adequate budgetary flexibility

Rocky Hill's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2018 of 7.5% of operating expenditures, or \$6.1 million.

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.

Very strong liquidity

In our opinion, Rocky Hill's liquidity is very strong, with total government available cash at 28.6% of total governmental fund expenditures and 7.5x governmental debt service in 2018. 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 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 3.8% of total governmental fund expenditures, and net direct debt is 91.0% of total governmental fund revenue.

Total direct debt is \$80.8 million, of that amount \$2.2 million consists of BANs. The town does not have any sizable debt plans on the horizon, as it is an infrequent debt issuer, and mainly funds capital on a pay-as-you-go basis.

Rocky Hill's combined required pension and actual OPEB contributions totaled 1.8% of total governmental fund expenditures in 2018. Of that amount, 1.0% represented required contributions to pension obligations, and 0.8% represented OPEB payments. The town made 102% of its annual required pension contribution in 2018.

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 fiscal 2018 net positions of the employee, fire, police, and ambulance pension plans were 98.1%; 83.9%; 108%; and 116%, respectively.

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 \$23.2 million. The town has been contributing funds to this obligation; it currently maintains roughly \$1.7 million in assets with plans to add monies in fiscal 2020. The funded ratio is 8%.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our opinion of Rocky Hill's strong economy that is supported by access to the Hartford MSA. The outlook further reflects our view of the town's very strong liquidity profile with maintenance of at least adequate flexibility supported by its strong management practices. We also note its lack of budgetary pressure typically arising from the risk of accelerating pension contributions. Given these factors, we do not anticipate changing the rating over the outlook horizon.

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.

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

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