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Summary:

Simsbury, Connecticut; General Obligation

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Credit Profile		
US\$9.11 mil GO		
Long Term Rating	AAA/Stable	New
Simsbury GO bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to the Town of Simsbury, Conn.'s series 2020 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

Security and use of bonds proceeds

The town's full-faith-and-credit pledge secures the bonds.

We understand officials plan to use series 2019 bond proceeds, about \$9.1 million, to finance various renovations to a middle school building.

Credit summary

Simsbury is an affluent, residential community within the Hartford-West Hartford-East Hartford metropolitan statistical areas (MSAs). The town has well-entrenched financial policies that we believe will continue to lead to positive year-end variances and maintenance of very strong reserves. While its net debt might increase outside of the outlook period as it addresses town and school infrastructure needs, we expect Simsbury will incorporate increased costs into its operating budget while maintaining high reserve levels. We consider the town's pension other postemployment benefit (OPEB) costs to be manageable and the town continues to make progress in funding its retirement liabilities.

We rate the town higher than the nation because we believe Simsbury can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In fiscal 2019, local property taxes generated 85% of town revenue, which demonstrated a lack of dependence on central government revenue. (For further information, please see our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.)

The rating also reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the

total governmental fund level in fiscal 2019;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 31.7% of total governmental fund expenditures and 6.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 4.9% of expenditures and net direct debt that is 36.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 91.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Simsbury's economy very strong. The town, with an estimated population of 24,979, is located in Hartford County 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 186% of the national level and per capita market value of \$139,685. Overall, the town's market value grew by 1.1% over the past year to \$3.5 billion in 2020. The county unemployment rate was 4.2% in 2018.

Simsbury is about 11 miles northwest of Hartford, to which many residents commute for employment. The town is a wealthy, primarily residential community with a small commercial and industrial component. Residential properties account for 77% of the property tax base, followed by commercial and industrial properties at almost 10%.

The local economy remains very strong, in our view, supported by a stable real estate market and continued commercial and residential developments that should underpin near-term stability. Major projects include the expansion of the Ensign-Bickford Aerospace and Defense facility, one of the town's leading employers. Officials indicate that this project will create an additional 140 new high-paying jobs in Simsbury. Additional development includes a solar project, construction of a Big Y supermarket, and continued residential development.

The total value of building permits increased by over 44% to \$92.5 million in fiscal 2019 from \$64.2 million in fiscal 2018. Management indicated that the primary driver of this increase was the construction of the solar power facility.

We believe because of the town's location and management's intentional economic planning the incremental tax base will continue to grow. We expect Simsbury's underlying wealth and income metrics to remain stable, and with access to the broad and diverse Hartford MSA, the economy will remain very strong.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Simsbury's budgetary assumptions are conservative, coupled with the use of a five-year historical trend analysis when developing the budget. Management also makes quarterly reports on budget-to-actual results and holdings and earnings to the town board. Management also maintains a formal long-term five-year financial plan and six-year capital improvement plan (CIP) with identified funding sources. Furthermore, the town has formal investment- and debt-management and reserve policies; the debt policy limits debt service to 5%-7% of expenditures, and the reserve

policy calls for maintaining available reserves at no less than 10% of expenditures. The town has adhered to these policies during the past three fiscal years.

The town has taken notable steps to mitigate exposure to cyber-related risks, including daily backups of servers, employee training, and acquiring cyber insurance.

Strong budgetary performance

Simsbury's budgetary performance is strong in our opinion. The town's budgetary performance has been steady over several years. In 2019, we calculate the town had a general fund net result of negative 0.9% of expenditures; however, our calculation includes a \$1.4 million discretionary general fund transfer to the health insurance trust fund and does not include a one-time \$1.3 million premium on bond issuances. Taking these figures into account, results were positive. Across all governmental funds the town had a surplus of 5% in fiscal 2019.

For analytical consistency, we adjusted budgetary performance to account for recurring transfers out of the general fund into the capital projects fund and nonmajor funds, as well as for expenditure of bond proceeds. The town consistently maintains strong financial performance as demonstrated by management's conservative budgeting practicing, particularly its careful budget planning and in-year performance monitoring. We expect these types of actions will continue, as needed, to ensure continued strong budgetary performance.

The fiscal 2019 year-end operating result is also a result of careful budgeting. As noted above, the fiscal 2019 general fund result was due to a budgeted transfer to the internal service fund for health insurance costs. The health insurance trust fund itself performed well in 2019 with a surplus of \$253,674. Town officials transferred general fund money into this account to bolster its ending balances. Overall, revenues and expenditures generally outperformed the budget. Local property taxes were about 86% of general fund revenues while intergovernmental revenue was approximately 11.4% and licenses and permits were 1.3%.

The board of finance has adopted the fiscal 2020 \$101.2 million budget, a 3.5% increase over fiscal 2019. Management has indicated that budget-to-actuals are currently on target. Based on recent performance, we expect the town will likely continue to make the necessary budgetary adjustments to maintain stable financial operations; therefore, we expect budgetary performance will likely remain strong.

Very strong budgetary flexibility

Simsbury's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 17% of operating expenditures, or \$17.1 million.

Available reserves include a committed fund balance management could be made available with board approval. The town has increased reserves to what we consider very strong levels in the past fiscal years. Management adheres to its formal reserve policy of maintaining available reserves at a minimum 10% of expenditures. Furthermore, it does not expect to draw down on the fund balance. Therefore, we expect budgetary flexibility will likely remain very strong.

Very strong liquidity

In our opinion, Simsbury's liquidity is very strong, with total government available cash at 31.7% of total governmental fund expenditures and 6.4x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We believe Simsbury's frequent debt issuance, including GO bonds, supports its strong access to external liquidity. The town mainly invests in certificates of deposit, mutual funds, and highly rated federal government securities. In addition, the town does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. We expect liquidity will likely remain very strong because we do not expect any significant cash deterioration.

Very strong debt and contingent liability profile

In our view, Simsbury's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.9% of total governmental fund expenditures, and net direct debt is 36.0% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, and approximately 91.5% of the direct debt is scheduled to be repaid within 10 years, which in our view are positive credit factors.

With this issuance, Simsbury will have about \$42.7 million of total direct debt outstanding. Officials expect to issue about \$31.5 million of additional debt over the next three years for various capital projects, including school renovations and other capital projects, as part of the CIP. We do not expect this debt issuance to materially affect the debt score due to the aggressive amortization schedule.

Pension and other postemployment benefits

- We do not believe pension and OPEB costs or liabilities present a credit pressure at this time due to generally sound actuarial assumptions.
- Although the town pays OPEB liabilities on a pay-as-you-go basis, it is prefunding benefits through a trust that we view favorably.

Simsbury participates in the following single-employer, defined benefit pension plans as of June 30, 2019:

- The General Government Plan: 75.59% funded, \$8.1 net pension liability (NPL);
- The Police Plan: 82.14% funded, \$3.8 million NPL;
- The Board of Education Plan: 76.92% funded, \$19.9 million NPL.

The town also participates in the following multiple-employer, defined benefit plan as of June 30, 2019:

- The Connecticut Teacher's Retirement System (TRS): 55.93% funded, \$0 net NPL. Under a special funding situation, the state is obligated to make pension contributions on behalf of the town for TRS, mitigating risks of escalating costs for the town despite poor plan funding.

Simsbury's combined required pension and actual OPEB contributions totaled 2.6% of total governmental fund expenditures in 2019. Of that amount, 1.5% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The town made its full annual required pension contribution in 2019.

Currently, all plans use a 6.75% discount rate, which is slightly above the 6.5% discount we consider a sustainable rate of return to limit the impact of market volatility on the costs. However, we note that management intends to revise the discount rate toward 6.5% in the upcoming budget cycle. In 2019, the plans exceeded our static funding and minimum

funding progress calculations, indicating the plans made progress in funding the unfunded liability. We believe the 15-year closed amortization period and the payroll growth assumption of 3.5% are reasonable. Simsbury has historically fully funded the required contribution and we expect it will continue to do so. We believe these costs will remain manageable; however, while not anticipated, should costs significantly increase over time, we could revise our view of the town's pension and OPEB profile.

Simsbury also offers OPEB to eligible retirees. At June 30, 2019, the latest actuarial valuation, the net OPEB liability totaled \$6.1 million with a funded ratio of 72%. The town's OPEB trust fund totaled \$14 million in fiscal 2019. Based on currently funded ratios and management's prefunding of OPEB, we view retirement costs and long-term liabilities as manageable.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the town's very strong economy supported by its access to the Hartford MSA. Further supporting the rating is the town's very strong management conditions, debt and contingent liability profile, and budgetary flexibility, which we expect management to continue to maintain through stable financial operations. Therefore, we do not expect to change the rating within the two-year outlook horizon. Although unlikely, should Simsbury's budgetary performance deteriorate, leading to drawdowns in reserves, we could lower the rating.

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
- 2019 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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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