

RatingsDirect®

Summary:

Canton Town, Connecticut; General Obligation

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Credit Profile

US\$7.875 mil GO bnds ser 2022B due 05/15/2042

Long Term Rating

AAA/Stable

New

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Canton, Conn.'s series 2022B roughly \$7.875 million general obligation (GO) bonds.

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

Officials intend to use series 2022B bond proceeds to finance various general-purpose projects.

We rate Canton higher than the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario due to its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. (For further information, see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.) In 2021, local property taxes generated 79.2% of general fund revenue, demonstrating a lack of dependence on central government revenue.

Credit overview

Canton's strong credit quality reflects the stability of the local economy and very strong financial management. The predominantly residential town has high wealth and household income. Its participation in a broad, diverse regional economy provides economic support.

The rating reflects our view of Canton's:

- Very strong local economy with access to the broad, diverse Hartford-West Hartford-East Hartford metropolitan statistical area (MSA);
- Very strong management with strong financial-management policies and practices and strong Institutional Framework;
- Stable budgetary performance with very strong budgetary flexibility and liquidity; and
- Manageable debt and pension.

Environmental, social, and governance

We have analyzed social and governance risks relative to Canton's economy, management, financial measures, and debt-and-liability profile and have determined all are in-line with our view of the sector standard. Due to Canton's location on the Farmington River, environmental risks are slightly elevated; however, the town is in the midst of

completing a hazard-mitigation plan with the Capital Region Council. The town periodically updates its stormwater plan to limit the impact of future floods.

Stable Outlook

Downside scenario

While unlikely to occur within the next two years, we could lower the rating if budgetary performance were to deteriorate and reserves were to diminish.

Credit Opinion

A residential, bedroom community for the MSA with forecast grand list growth

Canton benefits from access to the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. The primarily residential town has several new residential construction projects with the largest project opening 103 market-rate apartments. Building permits have increased sharply. In addition, the town is redeveloping Collins Ax Factory: A developer is proposing 260 apartments and significant commercial space over the 19 acres. The town's primary economic area is the Shoppes at Farmington Valley, a 45-tenant, 45,000-square-foot shopping plaza, which town management notes has been very stable.

Leading town employers include:

- Canton (389 employees),
- Farmington Valley ARC (300),
- Cherry Brook Health Care Center (170), and
- Shoprite supermarket (170).

Due to a relatively stable employment base with access to a broader MSA, we expect the local economy will likely remain very strong.

A focus on long-term planning underscores very strong financial-management policies and practices

Canton uses 15-year financial projections to identify budgetary concerns and trends. Projections reflect several years of trends and incorporates known expenditure variations, as well as predictions about revenue and expenditures; this model influences decisions about revenue and expenditures, which management updates multiple times a year. Management provides monthly budget-to-actual reports to the board of finance. Management also completes a formal five-year capital-improvement plan that identifies funding, which it updates annually.

Canton's formal debt-management policy limits total direct debt at 5% of the grand list and debt service at less than 10% of general fund expenditures. Management maintains different investment-management policies for governmental and pension investments and other postemployment benefits (OPEB), all of which it has updated within the past several fiscal years. Regarding general investments, the monthly financial report to the board includes investments with broader reporting yearly. The town does not have a formal reserve policy that identifies a targeted fund balance;

it, however, aims to maintain more than 15% of expenditures in unreserved balance, which it has adhered to historically.

A stable budgetary performance, maintenance of very strong budgetary flexibility and liquidity

Canton has maintained consistent positive finances during the past several fiscal years, which we attribute to long-term planning and conservative, prudent budgeting. The town has produced operating surpluses since fiscal 2015, which has led to very strong unencumbered fund balance in fiscal 2021 at 18% of operating expenditures, or \$7.9 million. Canton's informal fund-balance policy requires maintaining available reserves of about 15% of expenditures. For these reasons, we think available fund balance will not decrease because officials do not currently plan to spend reserves during the two-year outlook. We expect liquidity will likely remain very strong during the next two years.

Overall revenue has been steady with more than 76% of total revenue from property taxes, which has remained stable, predictable. Tax collections have historically remained strong: Current collections have exceeded 99.4% during the past five years. According to officials, even when extending the collection period early on during COVID-19, collections did not decrease. Intergovernmental sources represent the second-highest share of general fund revenue at 19.1%.

The fiscal 2022 budget is in-line with previous years with an expenditure increase of 2.98%; meanwhile, the millage rate increased by 1.94%. Officials report budget-to-actual results are trending well, and they expect balanced-to-positive fiscal year-end results. Canton received \$3 million in American Rescue Plan Act of 2021 funding, which the town has allocated for various projects. The town's board of finance recommended a \$43.6 million fiscal 2023 budget, which will go to an automatic referendum in early May 2022.

Limited debt

After this refunding, Canton expects it will have roughly \$20 million in debt outstanding. Officials do not currently expect to issue additional new-money debt during the two-year outlook.

Pension highlights

We do not view pension and OPEB liabilities as an immediate credit pressure for Canton. Canton administers two single-employer, defined-benefit pension plans: one for town employees and the other for volunteer firefighters and ambulance personnel. The town closed the employees' and firefighter-ambulance personnel's plans in 2003 and 1994, respectively. Its defined-contribution plan was opened to town employees and firefighters and ambulance volunteers when their respective plans closed. The town has since closed the defined-contribution plan to firefighters and ambulance volunteers, with new hires participating in a pay-per-call and stipend program.

Canton participates in:

- Town Employee Retirement Plan, a single-employer, defined-benefit plan, which is 92% funded, with a net pension liability of \$1.86 million;
- Canton Volunteer Firefighters & Ambulance Pension Plan, a single-employer, defined-benefit plan, which is 91.1% funded, with a net pension liability of \$42,502;
- Canton Board of Education Plan, a single-employer, noncontributory, defined-benefit plan, which is 97% funded, with a net pension liability of \$281,680; and

- Canton's defined-benefit, OPEB health-care plan, which is 157.85% funded, with an OPEB asset of 519,323.

Strong Institutional Framework

The Institutional Framework score for Connecticut municipalities is strong.

	Most recent	--Historical information--		
		2021	2020	2019
Very strong economy				
Projected per capita effective buying income as a % of U.S.	167.2			
Market value per capita (\$)	149,187			
Population			10,608	10,585
County unemployment rate(%)			8.1	
Market value (\$000)	1,582,574	1,559,866	1,544,101	
10 leading taxpayers as a % of taxable value	9.0			
Strong budgetary performance				
Operating fund result as a % of expenditures		(0.5)	1.2	1.9
Total governmental fund result as a % of expenditures		(0)	2.3	(3.4)
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		17.5	17.9	16.9
Total available reserves (\$000)		7,917	7,808	7,280
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		41.4	37.2	30.9
Total government cash as a % of governmental fund debt service		1,054.9	836.0	719.2
Very strong management				
Financial Management Assessment	Strong			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		3.9	4.4	4.3
Net direct debt as a % of governmental fund revenue	41.0			
Overall net debt as a % of market value	1.3			
Direct debt 10-year amortization (%)	62.0			
Required pension contribution as a % of governmental fund expenditures		2.5		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0.1		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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

- 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
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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