

RatingsDirect®

Summary:

Hamden, Connecticut; General Obligation

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Credit Profile

US\$9.66 mil GO rfdg bnds ser 2022 due 08/15/2032

Long Term Rating BBB+/Stable New

Hamden Twn GO (MBIA) (National)

Unenhanced Rating BBB+(SPUR)/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'BBB+' long-term rating to the Town of Hamden, Conn.'s \$9.66 million series 2022 refunding bonds. At the same time, S&P Global Ratings affirmed its 'BBB+' rating on debt outstanding. The outlook is stable.

Hamden's full-faith-and-credit pledge of ad valorem taxes levied on the taxable property within its borders secures the GO bonds. The bonds will refund several maturities and is part of the city's efforts to achieve structural balance while also building its reserve and liquidity position. This debt restructuring, like the one it did in fiscal 2020, will provide budgetary relief and grow reserves, while also giving it time to improve budgetary performance and ameliorate its structural imbalance. The town anticipates its final debt restructuring occurring in fiscal 2023 as part of its fund balance growth plan.

Credit overview

The rating reflects our view of the town's weak, albeit improving financial position, and structural imbalance. It also factors in high pension and other postemployment benefit (OPEB) liabilities, largely due to years of underfunding pension liabilities, including in fiscal 2020. The town's fund balance growth plan requires it adopt its budget with a millage tax increase to aid in budgetary alignment. To achieve structural balance, it is budgeting nearly the full amount of debt service that would otherwise have been payable until the amount reaches \$31.6 million, which is the debt service payable for fiscal 2025, following all the planned debt restructurings. Currently, the town is estimating a surplus of \$6.6 million and an estimated ending fund balance of \$14.4 million at the close of fiscal 2022. Following this restructuring, it anticipates improving fund balance to \$23.5 million by 2023. The stable outlook reflects a notable improvement in budgetary flexibility and liquidity. However, despite its progress in replenishing its fund balance, the budgetary environment will remain challenging over the long term, particularly if its tax-base growth stagnates hampering the town's ability to raise revenues necessary to sustain structural balance amid growing expenditures.

Additional rating factors incorporated into the rating include our view of Hamden's:

- Stable economy profile benefiting from its access to and participation in a broad and diverse metropolitan statistical area (MSA);
- Challenging management environment, despite standard financial policies and practices under our Financial Management Assessment (FMA) methodology and strong institutional framework score;

- Improving budgetary performance and reserves that is in line with its fund balance growth plan; and
- Very weak debt and contingent liability profile, and a large pension and OPEB obligation and evolving plan to pre-fund the obligation.

Environmental, social, and governance

A social factor in our analysis is Hamden's high property tax rate which we believe may present affordability challenges given its demographics and given management's efforts to increase the tax levy to remedy its persistent structural imbalance. We also note, there was a recent cybersecurity breach of the town's IT systems. This is the second incidence of a cybersecurity attack the town has had within the past two years, which, in our view, is a governance factor in our analysis. Following the first breach that occurred in 2020, the town updated its technology and process, which minimized the effects of the second incident. According to management, there was no financial impact, and the town is working with consultants to continue and address weaknesses in its IT infrastructure. Finally, we evaluated the town's environmental risk relative to its economy, financial measures, management, and debt and long-term liability profile, and view them as neutral in our credit rating analysis.

Stable Outlook

Downside scenario

We could lower the rating if the town were to deviate from its fund balance growth plan and experience budgetary pressure beyond current projections, resulting in a reversal of reserves and deterioration of liquidity.

Upside scenario

While not likely over the outlook time horizon, we could raise the rating should Hamden achieve long-term structural balance and reserves remain at strong levels sufficient for it to provide the financial flexibility to mitigate the budgetary effects of its high liabilities and growing debt service costs. This would require the town to align the budget without requiring one-time budget measures, including pension deferrals or asset sales.

Credit Opinion

Stable economic profile with some growth prospects and benefiting from its location in the broad and diverse New Haven-Milford MSA

State Route 15 (The Wilbur Cross Parkway) and Interstate 91 traverse the town, connecting residents to regional employment opportunities. In addition to public sector employment, Hamden's local economic and employment base centers on higher education, health care and assisted-living services, commercial retail, and manufacturing. Its municipal government and board of education (1,337 employees) is the community's leading employer, followed by Quinnipiac University (851), Genesis Health Care and Rehabilitation (350), Whitney Center (290), and the American Automobile Association (265).

Due to its predominantly residential property mix, Hamden historically experienced modest year-over-year gains in its net taxable grand list. Officials, however, report that due to recent efforts to attract new economic growth, the town has identified several new development and redevelopment projects that could provide stronger uplift to the net

taxable grand list.

The county unemployment rate has come down over the past few months as measures relating to the pandemic have eased. However, we note U.S. real-time economic trackers show that a recent surge in daily COVID-19 cases, along with supply-chain disruptions and inflation, among other factors, have softened economic activity. Nevertheless, our view is that the town's economy and tax base should remain stable, given the demonstrated strength and diversity of the region. For more information on S&P Global Economics' view, see "U.S. Real-Time Data: Higher Prices And Interest Rates Dampen Activity As COVID-19 Cases Rise," published May 27, 2022, on RatingsDirect.

More realistic budgetary assumptions and renewed emphasis on financial controls and planning highlight stronger financial management practices and procedures

We view the town's sizable pension and OPEB exposure and its inability to achieve structural balance without the need for debt restructurings as a sign of budgetary stress, which we reflect in our management assessment. While the management environment is challenging, the town's new administration is working to institutionalize stronger financial controls and forward-looking financial policies and practices. The town is also working with consultants to address deficiencies in its IT infrastructure to better prepare for, respond to, and recover from further cybersecurity breaches and improve financial controls.

Currently, under our FMA methodology, we view the town's management practices as standard, indicating the finance department maintains policies in some, but not all, key areas. While the town has bolstered certain policies and budgeting practices, our analysis hinges on its ability to adhere to them over the long term.

Management implemented a comprehensive approach to developing revenue and expenditure projections, and is incorporating realistic revenue assumptions in its budget. However, we believe Hamden continues to face political pressure and at times political gridlock, which limits our confidence that future budget practices and financial projections will remain well-grounded to achieve and sustain budget balance.

During each fiscal year, management monitors Hamden's budget performance on a regular basis, with the ability to amend the budget if necessary. The town has a rolling six-year capital improvement plan (CIP), which identifies project costs for municipal and school projects. It reviews the CIP annually and incorporates it into the budgeting process. Hamden also maintains a five-year financial forecast, which it enacted in accordance with state statutes under the pension deficit-funding plan, and which the town council uses to aid in its decision-making.

Hamden's investment policy restricts investment vehicles to certificates of deposits, repurchase agreements, and state investment funds. Under its debt policy, carrying charges for capital investment cannot exceed 10% of the current fiscal year's budgeted expenditures, unless approved via binding referendum; noncapital-related borrowing cannot exceed 4% of the current fiscal year's budget.

Finally, as part of its fund balance restoration plan, the town approved a fund balance policy striving to accumulate an unassigned general fund balance equal to a minimum of 7% of expenditures, with the goal to target fund balance between 10% and 12%. The purpose of the policy is to preserve the town's financial position, provide capital to meet cash-flow needs and attempt to stabilize year-to-year fluctuations in revenues.

Hamden's financial position is improving, although achieving structural balance remains a long-term challenge

Hamden maintains a high millage rate relative to other municipalities in the state, and constrained in its ability to reduce expenditures given the service demands of the community. Property taxes represent the largest share of general fund revenues, and its tax collections have remained strong through the pandemic. However, should there be an unexpected run-up of costs or state funding gaps in future years, increasing the tax levy beyond current estimates may prove difficult given Hamden's already high mill rate and limited grand list growth in recent years.

The main source pressure has been the town's persistent underfunding of pension and OPEB liabilities, and its inability to raise revenues to meet its demands. Moreover, financial reserves deteriorated because of the cumulative effect of past state aid reductions that materially affected the town's revenue. Although past audited financial statements showed break-even operating results, the town was deferring annual pension costs, masking general fund performance on a GAAP basis. Hamden issued pension deficit funding bonds in fiscal 2015, and the state imposed a requirement that the town increase its actuarially determined contribution (ADC) incrementally within six years (fiscal 2021). Although the town budgeted the full ADC in fiscal years 2019 and in 2020, it did not achieve its target until 2021, when it substantially increased its tax levy as part of its fund balance restoration plan.

Hamden maintains strong access to external liquidity, which has aided its ability to meet its cash-flow requirements despite its low reserves and has also enabled the town to restructure its debt for budgetary relief. Management intends to achieve upward of \$23.5 million of fund balance by fiscal 2023, or 8.3% of budgeted expenditures. The town also received \$16 million of additional funds from the sale of its middle school, of which management is allocating \$5 million toward fund balance replenishment, and the remainder toward a dedicated capital reserve. The town and school department are also benefiting from American Rescue Plan Act (ARPA) and ESSR funds, which should provide operations support.

The 2023 budget totals \$278 million, an increase of 6.01%, which is like the increase in fiscal 2022. The budget does include a higher debt service payment otherwise payable prior to the debt restructuring, as well as a council-approved 3.68-mill tax levy increase. Reserves will likely grow, and the town is on a path to structural balance, but this assumes it maintains cost controls and is able to continue to raise revenues as needed.

Very weak debt and contingent liability profile

Currently, the town's total direct debt totals \$308 million. Hamden plans to prioritize and limit annual debt issuances over the next several years, instead allocating funds from the recent asset sale and from ARPA to manage its capital needs. The town does plan for another debt restructuring in 2023 as part of its strategy to achieve structural balance, and may also issue additional debt for capital, although the amount will likely be small.

Pension and OPEB highlights:

- Annual pension and OPEB costs represent a large portion of expenditures (15.8%), and our expectation is that costs will increase, presenting a budgetary burden for the town given its sizable unfunded liabilities.
- The town is now paying the full amount of its ADC toward its pensions, but is addressing its OPEB liability on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs.

The town participates in the following retirement plans:

- Public employees Retirement System (PERS): 42.9% funded, \$270.6 million net pension liability (NPL);
- Municipal Employees' Retirement System (MERS): 71.2% funded, \$52.7 million NPL; and
- Single-employer health care plan (OPEBs): \$633 million net OPEB liability.

PERS is a single-employer system administered solely for town employees. In 2014, Hamden issued a pension obligation bond, which raised the system's funded ratio to 36% in 2015 from 11% in 2014. The plan falls short of minimum funding progress metrics in 2021, meaning it is not making measurable progress on the unfunded portion of the liability. Moreover, the 7% discount rate could lead to contribution volatility if market returns fall short of expectations. The town closed its plan to new participants and now is primarily made up of pensioners, which limits Hamden's ability to share risk with employees and therefore puts contribution volatility squarely on the town. All new hires participate in MERS, a cost-sharing multiple-employer plan administered by the state.

The town's OPEB liability is also a sizable \$627 million. We do not expect Hamden to make material progress in addressing this liability in the near term.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Hamden, CT -- Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	109			
Market value per capita (\$)	97,831			
Population		60,967	61,067	
County unemployment rate(%)		6.6		
Market value (\$000)	6,091,548	5,964,486	5,564,684	5,551,311
Ten largest taxpayers % of taxable value	7.3			
Adequate budgetary performance				
Operating fund result % of expenditures		2.6	(3.2)	(2.4)
Total governmental fund result % of expenditures		2.3	(3.7)	(1.6)
Weak budgetary flexibility				
Available reserves % of operating expenditures		2.4	(1.2)	0.8
Total available reserves (\$000)		6,542	(3,033)	1,975
Adequate liquidity				
Total government cash % of governmental fund expenditures		3	4	2
Total government cash % of governmental fund debt service		51	58	28
Weak management				
Financial Management Assessment	Standard			

Hamden, CT -- Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.6	6.5	5.8
Net direct debt % of governmental fund revenue	104			
Overall net debt % of market value	5.2			
Direct debt 10-year amortization (%)	60			
Required pension contribution % of governmental fund expenditures		9.4		
OPEB actual contribution % of governmental fund expenditures		6.3		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 10, 2022)

Hamden Twn GO		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Hamden Twn GO		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Hamden Twn GO		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO Bnds		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Ratings Detail (As Of June 10, 2022) (cont.)

Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Hamden Twn GO (SYNCORA GTY)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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