

RatingsDirect®

Summary:

Cheshire, Connecticut; General Obligation

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Credit Profile

US\$17.5 mil GO bnds ser 2023 due 07/15/2042

Long Term Rating AAA/Stable New

Cheshire GO bnds

Long Term Rating AAA/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Cheshire, Conn.'s \$17.5 million series 2023 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's GO debt outstanding.
- The outlook is stable.

Security

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

Bond proceeds will finance various road, building, and equipment needs as well as sewer and school capital projects. The bonds are the first debt issued to finance the construction of two new elementary schools.

Credit overview

Cheshire is located in New Haven County and benefits from participation in the New Haven-Milford metropolitan statistical area (MSA), which we consider broad and diverse. Cheshire revaluated its property tax base in 2018, with the next reevaluation scheduled to be effective Oct. 1 of this year. Market value grew by 6.5% over the last three years to over \$4.3 billion. Recent and current development includes new businesses in the West Main Street corridor, a brewery and taproom, and a mixed-use development called Stone Bridge Crossing. This project includes single and multi-family residences, a hotel, and 130,000 square feet of retail space on a parcel the town has long sought to develop. Officials expect that this development will contribute \$100 million to the town's grand list. The town's largest employer, wholesale distributor Bozzuto's, hired additional staff over the last three years and other companies, including those in the manufacturing and insurance sectors, relocated to the town in recent years. Steady residential development and associated increased enrollment is one of the reasons the town is building two new schools.

Cheshire's long-term performance trend is positive; according to its fiscal 2022 audit, the town ended the fiscal year with a \$936,000 surplus. Its fund balance is on a similar positive trend, increasing to \$17.4 million in fiscal 2022. Results were supported by the strength of property tax revenues, building department fees, and grants. The town is expecting to produce another surplus for fiscal 2023, and officials project about \$2.4 million in favorable revenue variances to date, primarily due to the revenue sources that were also a source of strength in the prior year. The town benefits from stability in compensation expenses, with town labor agreements settled through fiscal 2024, as well as

from the timing of energy and utility contracts. The 2024 budget will use the town's traditionally conservative assumptions and will budget for one full-time social service position and a part-time position in the building department.

Cheshire will have approximately \$111 million in debt outstanding following this issuance. Voters approved a project to build two new elementary schools, and the town expects to issue approximately \$163 million in debt over the next few years to finance these projects, to be offset by \$72 million in state building aid. The town also has approximately \$5 million in other authorized but unissued debt, some of which may also be issued in the medium term. Amortization of its debt is rapid at 68.44% over the next ten years.

We believe pension and other postemployment benefit (OPEB) liabilities will likely remain a long-term credit pressure due to lower funding and our expectation that costs will likely increase; therefore, we expect they will likely remain a credit weakness. However, we note that the town closed its defined-benefit plans to new entrants and has paid its full actuarially determined contributions. The town participates in one plan for police employees and one for non-police employees, funded at 48.9% and 66.4%, respectively, with a combined net liability of about \$55 million. Cheshire funds OPEB on a pay-as-you-go basis, which--due to claims-volatility, medical-cost, and demographic trends--is likely to lead to escalating costs. Management also maintains an OPEB trust fund for eligible town and police employees.

The long-term rating also reflects our view of the following factors:

- Robust financial profile supported by positive operating performance and intentional management of reserve levels;
- Good management practices, including a five-year capital improvement plan, supported by formal budget monitoring and a fund balance policy to maintain 9.25% of expenditures in reserves, and a strong institutional framework score; and
- Moderate debt burden, with plans for significant additional debt for two new schools, but participation in a poorly funded pension plan.

Environmental, social, and governance

We assessed Cheshire's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that they are neutral in our credit rating analysis.

Outlook

The two-year stable outlook reflects S&P Global Ratings' opinion of Cheshire's strong budgetary performance and ongoing commitment to maintaining reserves, supported by a robust property tax base.

Downside scenario

We could lower the rating if debt service or pension costs were to pressure the town's financial performance, leading to a draw on reserves.

Ratings above the sovereign

Cheshire's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. The city has a predominately locally derived revenue source,

with 67% of governmental activity revenue from property taxes with independent taxing authority and treasury management from the federal government. (For further information, see "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

Cheshire, Connecticut -- Key Credit Metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	135.6			
Market value per capita (\$)	146,781			
Population			29,512	29,683
County unemployment rate(%)			6.6	
Market value (\$000)	4,331,797	4,112,147	4,063,031	
Ten largest taxpayers % of taxable value	7.8			
Strong budgetary performance				
Operating fund result % of expenditures		0.7	(0.1)	1.8
Total governmental fund result % of expenditures		1.7	0.9	1.6
Strong budgetary flexibility				
Available reserves % of operating expenditures		13.1	13.1	13.4
Total available reserves (\$000)		17,411	16,483	16,491
Very strong liquidity				
Total government cash % of governmental fund expenditures		22.1	23.4	20.9
Total government cash % of governmental fund debt service		338.4	321.2	286.8
Strong management				
Financial Management Assessment	Good			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.5	7.3	7.3
Net direct debt % of governmental fund revenue	75.5			
Overall net debt % of market value	2.6			
Direct debt 10-year amortization (%)	68.4			
Required pension contribution % of governmental fund expenditures		3.3		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

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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