Cheshire, Connecticut

FACT Tools

Ratings

Long Term Issuer Default Rating	AAA

New Issue

$17,500,000 General Obligation Bonds, Issue of 2023	AAA

Outstanding Debt

General Obligation Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Cheshire, CT's $17.5MM Series 2023 GO Bonds 'AAA'; Outlook Stable (March 2023)

New Issue Summary

Sale Date: The bonds are scheduled to sell competitively on April 4

Series: General Obligation (GO) Bonds, Issue of 2023

Purpose: Proceeds of the bonds will be used to fund various city road and other infrastructure projects and various school related projects.

Security: The bonds are general obligations of the town backed by its full faith and credit and unlimited taxing power.

The 'AAA' Issuer Default Rating (IDR) and GO bond rating reflect the town's low long-term liability burden and solid financial operations, supported by high levels of revenue-raising authority and strong expenditure flexibility, positioning it well to withstand the challenges associated with economic downturns.

Economic Resource Base: Cheshire is a wealthy residential suburban community located 14 miles outside of New Haven and 25 miles southwest of Hartford. The town has a 2021 estimated Census population of about 28,600, down 2% since 2010.

Key Rating Drivers

Revenue Framework: 'aa': Revenues are derived primarily from property taxes, for which there is no limit on the rate or levy. Fitch Ratings expects natural growth prospects for revenues (absent tax rate increases) to remain in line with long-term inflationary trends as new development and long-term changes in property values contribute to tax base expansion. The bulk of state funding, which has been variable, is received for education.

Expenditure Framework: 'aa': The majority of the general fund budget pays for education. Future spending growth is expected to remain in line with revenue performance. Fixed carrying costs are at the low end of the moderate range and are expected to climb with the issuance of future school-related debt but remain a manageable portion of the budget. Management maintains moderate control over wages and benefits in labor contracts, providing solid expenditure flexibility.

Long-Term Liability Burden: 'aaa': Cheshire's combined burden of debt and Fitch-adjusted net pension liabilities (NPLs) is low at around 7% of residents' estimated personal income. Fitch expects the metric to increase but remain closer to the high-end of the range for a 'aaa' assessment based on future debt plans; the assessment also considers a rapid pace of principal amortization. Fitch expects moderate changes in future NPLs as management is expected to fully fund its actuarially determined contributions to its pension plans, which are closed to new hires.

Operating Performance: 'aaa': The town has strong gap-closing capacity relative to Fitch's expectations of revenue sensitivity during economic cycles. Cheshire's superior level of inherent budget flexibility reflects its high revenue-raising authority and solid expenditure flexibility. Conservative budget management practices have contributed to improved reserve levels above what Fitch deems adequate for an 'aaa' reserve safety margin (notwithstanding annual allocations for pay-as-you-go capital spending).

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Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/24/23
AAA	Revised	Stable	4/30/10
AA+	Upgraded	Stable	6/11/09
AA	Affirmed	Positive	12/8/06
AA	Affirmed	Stable	4/16/04
AA	Assigned	—	10/22/01

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- The ratings are currently 'AAA', the highest Fitch rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- An increase in long-term liabilities associated with debt and NPLs to a sustained level above 10% of residents' personal income.
- A notable increase in fixed costs spending associated with debt and retiree benefits to more than 20% of total governmental spending, leading to a weakening of expenditure flexibility assessment.
- A material erosion in gap-closing capacity due to sustained fund balance declines.

Current Developments

General fund results for fiscal 2022 reflect a net operating surplus of $0.9 million (0.7% of spending), increasing the unrestricted fund balance to $17.4 million, or 13.1% of spending. The town also maintains a separate debt service reserve fund that had a FYE balance of $3.2 million. The positive operating results reflect mostly town-related expenditures savings and better than anticipated property tax collections, departmental revenues, and reimbursement grants for storm and pandemic-related expenditures.

The fiscal 2023 budget is $126 million and is up 3% compared to the prior year's budget; the bulk of the increase is attributable to increases in board of education spending. The town increased its mill rate by 0.6 mill, or 2%, from 33.72 to 34.42. Expense drivers include salary and benefits costs, pension contributions and debt service.

Property tax collections are reportedly performing better than expected, and building permit fees and real estate transfer fees have outpaced budget expectations. These preliminary revenue results, along with expenditure savings, are leading management to project a moderate net surplus of around $1 million, exclusive of appropriated fund balance of $1.7 million. Projected results also include a budgeted transfer of $1.5 million to the capital and non-recurring fund.

In 2022, the town's voters approved a $166.6 million bond referendum to facilitate the design and construction of two new elementary schools. This project will take approximately three years to complete. Assuming 50% reimbursement from the state, the project is estimated to require $80 million–$95 million in future town borrowing. Fitch considers these estimates conservative given that management has a built-in contingency that includes an 8% inflationary increase of constructions costs each year of the three-year construction period.

Fitch estimates that the additional borrowing will move the town's long-term liability metric closer to 10% of personal income. Should higher borrowing costs and lagging growth in the resource base lead to a higher than expected long-term liability burden, it could pressure the rating.

Credit Profile

Cheshire has evolved over several decades from a predominately rural farming community to a more residential community with an established industrial and commercial component. Despite this growth, the town retains its rural characteristics with thousands of acres of open space and an active agricultural industry. Top taxpayers include a mix of industrial, retail and manufacturing companies. The town's proximity to interstates 84, 691 and 91 linking to larger nearby employment centers contributes to economic activity. Cheshire is also home to two large state prison facilities.

Residents' wealth levels exceed national and the state's above-average levels; pre-pandemic unemployment rates were low and have historically been below the state's rate. Unemployment rates as of December 2022 were 2.2%. Building permit values for the past five years have ranged from 1% to 2% of taxable assessed values, as management continues to support efforts for new commercial and industrial development within the town.

Revenue Framework

The town derives the bulk of its revenues from property taxes and state aid (81% and 13% of fiscal 2023 budgeted general fund revenues, respectively) and has an unlimited legal ability to levy property taxes.

Fitch expects natural revenue growth exclusive of policy actions to trend in line with long-term inflation, notwithstanding new development planned or in the works and expected strong results from its upcoming five-year revaluation effective Oct. 1, 2023 (effective for the fiscal 2025 budget year). Historical revenue growth has been supported by moderate annual tax rate increases, and Fitch expects such actions to continue to support similar expenditure growth related to programs and services.

Expenditure Framework

The town's primary expenditure responsibility is for education, which accounts for roughly two-thirds of budgeted spending. Public safety accounted for only 5% of fiscal 2022 spending, reflecting in part the volunteer nature of the town's fire department. Fitch expects the natural pace of spending growth to match or marginally exceed revenue growth.

The town maintains a solid level of expenditure flexibility. Fixed carrying costs for debt service, required pension contributions and annual other post-employment benefit (OPEB) contributions were moderate at approximately 10% of total governmental spending in fiscal 2022. This amount includes debt service paid partially from user charges that supports water and sewer projects and accounts for roughly 1% of spending.

Fitch expects fixed costs to increase due to future school project costs but remain moderate as a percentage of total governmental spending. Debt service reserves have been prudently established to help support future debt associated with a large water treatment plant project and are being used to partially offset annual increases in debt service.

The town has adequate control over staffing, wages, and benefits. Management can reduce staff at any time if necessary. Union contracts are subject to arbitration, but a decision may be rejected by two-thirds vote by the town council. A new arbitration panel would then be appointed by the state and their subsequent decisions are required to take into consideration the financial capability of the employer.

Long-Term Liability Burden

Long-term liabilities for debt and Fitch-adjusted NPLs represent 7% of residents' estimated personal income. This metric includes the town's sewer bonds and clean water fund notes for the water treatment plant upgrade, which is supported partially by user charges reported in the water pollution control special revenue fund. The town has no overlapping debt. Amortization of debt is above average at approximately 70% of principal retired in 10 years.

Fitch expects liability levels to increase with the planned school project borrowing but remain at or around 10% of personal income.

The town administers three single-employer pension plans, one each for its town, police and volunteer firefighters. The town and police plans were closed to new hires between 2006 and 2012 for the town plan and 2014 for the police plan. The town's aggregate funded ratio for all three pension plans was 58% as of June 30, 2022 based on the town's 7.0% investment rate of return assumption or an estimated 52% using Fitch's more conservative 6% rate of return. The combined Fitch-estimated NPL for the three plans was $73 million, or 3% of personal income.

Teachers participate in the State Teacher's Retirement System, a cost-sharing pension plan, for which the state carries the NPL and is solely responsible for all contributions.

Fitch considers Cheshire's OPEB liabilities to be manageable. The unfunded net liability at June 30, 2022 for town and police OPEB was $27 million.

Operating Performance

Fitch believes the town is well-positioned to manage the challenges associated with a moderate economic downturn based on its superior level of inherent budget flexibility. The town's moderate fixed carrying costs, high revenue raising abilities, and solid control over expenditures afford the town substantial gap-closing capacity. Operating results (net of transfers out for capital pay-go) have been stable, and reserves have typically remained at or above the town's 9.25% unassigned general fund balance policy minimum. Reserves outside of the general fund, particularly in the capital fund and aforementioned debt service fund, also support overall flexibility.

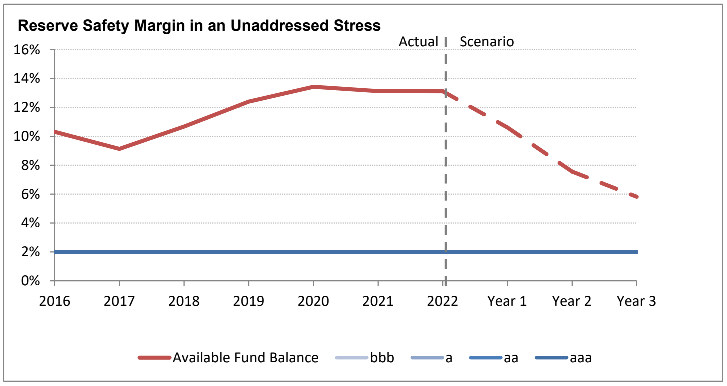
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Cheshire (CT)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

Fitch believes the town is well-positioned to manage the challenges associated with a moderate economic downturn based on its superior level of inherent budget flexibility. The town's moderate fixed carrying costs, high revenue raising abilities, and solid control over expenditures afford the town substantial gap-closing capacity. Operating results (net of transfers out for capital paygo) have been stable and reserves have typically remained at or above the town's 9.25% unassigned general fund balance policy minimum. Reserves outside of the general fund, particularly in the capital fund and aforementioned debt service fund, also support overall flexibility.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)			2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* -1%	*Case Used:* **Moderate**	(1.0%)	1.4%	3.3%
Inherent Budget Flexibility				Superior	

Revenues, Expenditures, and Fund Balance				Actuals					Scenario Output	
	2016	2017	2018	2019	2020	2021	2022	Year 1	Year 2	Year 3
Total Revenues	112,704	119,698	121,107	116,353	124,266	124,649	132,914	131,585	133,408	137,828
% Change in Revenues	-	6.2%	1.2%	(3.9%)	6.8%	0.3%	6.6%	(1.0%)	1.4%	3.3%
Total Expenditures	112,534	119,139	120,607	114,578	121,751	123,651	130,668	133,281	135,947	138,666
% Change in Expenditures	-	5.9%	1.2%	(5.0%)	6.3%	1.6%	5.7%	2.0%	2.0%	2.0%
Transfers In and Other Sources	7,189	755	1,063	743	738	11,524	690	683	692	715
Transfers Out and Other Uses	7,504	850	782	1,133	1,090	12,551	2,000	2,040	2,081	2,122
Net Transfers	(315)	(95)	281	(390)	(352)	(1,027)	(1,310)	(1,357)	(1,389)	(1,407)
Bond Proceeds and Other One-Time Uses	6,319	-	-	-	-	10,660	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	(144)	464	781	1,385	2,164	(29)	936	(3,053)	(3,927)	(2,245)
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	(0.1%)	0.4%	0.6%	1.2%	1.8%	(0.0%)	0.7%	(2.3%)	(2.8%)	(1.6%)
Unrestricted/Unreserved Fund Balance (General Fund)	11,729	10,959	12,960	14,348	16,490	16,483	17,410	14,357	10,429	8,185
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	11,729	10,959	12,960	14,348	16,490	16,483	17,410	14,357	10,429	8,185
Combined Available Fund Bal. (% of Expend. and Transfers Out)	10.3%	9.1%	10.7%	12.4%	13.4%	13.1%	13.1%	10.6%	7.6%	5.8%

Reserve Safety Margins			Inherent Budget Flexibility		
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.