STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Canton Town, Connecticut; General Obligation

Primary Credit Analyst:
Danielle A Messler, Boston (617) 530-8322; danielle.messler@standardandpoors.com

Secondary Contact:
Timothy W Little, New York (212) 438-7999; timothy.little@standardandpoors.com

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Summary:

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Credit Profile		
US$5.6 mil GO bnds iss (Bnk Qual) ser 2015 due 06/01/2035		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Canton Town, Conn.'s series 2015 general obligation (GO) bonds.

We base the rating on our local GO criteria, reflecting our opinion of the following factors for Canton, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial management policies under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash of 17.3% of total governmental fund expenditures and 4.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 3.5% of expenditures and net direct debt that is 46.3% of total governmental fund revenue and low overall net debt at less than 3% of market value and rapid amortization with 69.3% of debt scheduled to be retired over 10 years; and
- Very strong institutional framework score.

The town's full-faith-and-credit pledge secures the bonds. We understand officials intend to use series 2015 bond proceeds to finance roof replacements at the community center and various school facilities, acquire a firetruck, and make various road and drainage improvements within the town.

Very strong economy

We consider Canton's economy very strong. Canton, with an estimated population of 10,378, 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 180% of the national level and per capita market value of $150,606. The town's market value fell by 3.7% over the past fiscal year to $1.6 billion in fiscal 2015, largely due to a revaluation. The county unemployment rate was 6.9% in 2014.

Canton is a primarily residential community in northwestern Connecticut, about 14 miles from Hartford. The town benefits from a small commercial component, which represented roughly 13% of the grand list in fiscal 2014. The property tax base is diverse with the 10 leading taxpayers representing just 7.7% of the grand list. Leading employers include Canton, a Shoprite grocery store, and Kohl's; residents also have access to the Hartford employment base.

University of Connecticut has opened several medical offices in the town. Our forecast for the region suggests employment will likely continue to grow in the state, resulting in modest GDP growth. (Please see the article, titled U.S. State And Local Government Credit Conditions Forecast, published April 2, 2015.)

Very strong management

We view the town's management as very strong, with "strong" financial management policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. The town uses a 15-year budget projection to identify future budgetary concerns and trends. Revenue and expenditure assumptions are influenced by this model, which is updated multiple times a year. Monthly budget-to-actual reports are provided to the board of finance. The town also completes a formal five-year capital improvement plan that identifies funding sources. Canton has a formal debt management policy that limits total direct debt to 5% of the grand list and debt service to less than 10% of expenditures. A formal investment policy is followed with monthly reports included in the report to the board of finance. The town currently does not have a formal reserve policy that identifies a target fund balance level; but it aims to keep roughly 10% in unreserved balance, which it has historically adhered to.

Strong budgetary performance

Canton's budgetary performance is strong, in our opinion, with slight surplus operating results in the general fund of 0.8% of expenditures adjusted for recurring transfers and one-time capital expenditures, and surplus results across all governmental funds adjusted for one-time capital expenditures of 4.4% in fiscal 2014.

Fiscal 2015 included no fund balance appropriation, and officials expect to end the fiscal year with at least break-even operations. The fiscal 2016 budget is an increase of about 3.34% with a fund balance appropriation of about $200,000 to mitigate tax increases. Management indicates it could continue to appropriate small amounts of fund balance over the next few years to smooth out tax increases. Due to the town's financial management policies and historical performance, however, we do not expect these small fund balance appropriations to negatively affect budgetary performance over the next few years. The revenue profile is stable, in our opinion. Property taxes generated 80% of general fund revenue in fiscal 2014.

Strong budgetary flexibility

Canton's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 14.6% of operating expenditures, or $5.5 million.

Fiscal 2015 included no fund balance appropriation, and management indicates it expects at least break-even operations. Fiscal 2016 and beyond could include smaller appropriations to mitigate tax increases. Budgetary flexibility, however, will likely remain strong because the town has an informal policy of maintaining at least 10% of expenditures in unassigned fund balance, which it has adhered to historically.

Very strong liquidity

In our opinion, Canton's liquidity is very strong, with total government available cash of 17.3% of total governmental fund expenditures and 4.9x debt service in fiscal 2014. In our view, the town has strong access to external liquidity if necessary, demonstrated by the town's issuance of debt several times over the past 20 years.

Very strong debt and contingent liability profile

In our view, Canton's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.5% of total governmental fund expenditures, and net direct debt is 46.3% of total governmental fund revenue. Overall net debt is low at 1.3% of market value and approximately 69.3% of the direct debt is scheduled to be repaid over 10 years, which are, in our view, positive credit factors. The town has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

Canton's combined pension and other postemployment benefits (OPEB) contribution totaled 3.1% of total governmental fund expenditures in fiscal 2014. Of that amount, 2.5% represented contributions to pension obligations and 0.6% represented OPEB payments. The town made 100% of its annual required pension contribution in fiscal 2014.

Canton administers two defined-benefit 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 2001 and 1994, respectively; the town's defined-contribution plan covers new members. The town plan is 67% funded with an unfunded actuarial accrued liability (UAAL) of $7.2 million. The firefighters and ambulance plan is 66% funded with an UAAL of $165,000. The town also administers one OPEB plan that is an implicit subsidy for the board of education. As of the last valuation, the OPEB UAAL was $1.5 million. The town funds the OPEB annual required contribution in full.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that Canton's very strong economy and management practices will likely translate into strong budgetary performance and operating flexibility over the two-year outlook period. In addition, we expect Canton's debt and contingent liability profile to remain very strong because the town does not currently have any significant debt plans within the next two years. Although unlikely to occur, we could lower the rating if budgetary performance were to deteriorate, resulting in a decrease in available reserves to levels we consider adequate. We, however, do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Connecticut Local Governments

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