

# RatingsDirect®

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## Summary:

# North Haven, Connecticut; General Obligation; Note

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## Summary:

# North Haven, Connecticut; General Obligation; Note

### Credit Profile

US\$16.25 mil GO BANs ser B dtd 11/03/2022 due 11/02/2023		
<i>Short Term Rating</i>	SP-1+	New
US\$1.2 mil GO bnds ser 2022 due 11/01/2042		
<i>Long Term Rating</i>	AAA/Stable	New
North Haven GO BANs due 11/03/2022		
<i>Short Term Rating</i>	SP-1+	Affirmed
North Haven GO BANs ser B dtd 11/03/2022 due 11/02/2023		
<i>Short Term Rating</i>	SP-1+	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to North Haven, Conn.'s \$1.2 million series 2022 general obligation bonds and our 'SP-1+' short-term rating to the town's \$16.25 million bond anticipation notes.
- At the same time, we affirmed our 'AAA' long-term rating on the town's existing general obligation debt and our 'SP-1+' short-term rating on notes outstanding.
- The outlook is stable.

### Security

North Haven's full-faith-and-credit pledge secures the bonds and bond anticipation notes (BANs).

The short-term rating on the BANs reflects our criteria for evaluating and rating BANs. North Haven maintains a very strong capacity to make principal-and-interest payments when the notes come due. We view the city's market risk profile as low because it has strong legal authority to issue long-term debt to take out the BANs and is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

Officials plan to use series 2022 bond proceeds to permanently finance a portion of outstanding BANs for the town's share of the Sackett Point Bridge project. Note proceeds will be used for the bridge project and to provide money for road paving and athletic field improvement projects.

### Credit overview

The rating reflects our view of North Haven's very strong tax base and economy, coupled with steady management conditions and very little dependence on state aid, as about 84% of revenue comes from local sources. Despite these strengths, North Haven's budgetary performance has been adequate, as it has deferred pension contributions and has been relying more on the use of reserves in the budget. While we believe the town will work toward ensuring budgetary stability by fully funding its actuarially determined contribution of its pension costs, downward pressure on

the rating could arise if budgetary performance leads to further deterioration in reserves, especially since they are currently below those of 'AAA' peers, or if the town reverts to poor funding discipline of its pension costs in future budgets.

The rating further reflects:

- Solid local economy that benefits from a mix of residential and commercial developments;
- Steady management environment and a strong institutional framework;
- Close to breakeven financial results expected for current fiscal year, with an expectation to add to fund balance levels; and
- Moderate debt profile with typical medium-term debt plans, and pension costs that could increasingly pressure operations if the town does not make its full pension contribution.

### **Environmental, social and governance**

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

## **Outlook**

The stable outlook reflects our expectation that North Haven will continue to maintain at least breakeven financial operations while fully funding its pension contributions and decreasing its reliance on reserves.

### **Downside scenario**

We could consider a negative rating action if the town's budgetary performance leads to further declines in reserves or if rising pension and other postemployment benefits (OPEB) costs pressure the budget. North Haven has been relying more on reserves in the budget and has previously not paid annual pension costs to their full amount. While the town is expecting to fully fund pensions from fiscal 2022 onward and decrease its use of reserves, downward pressure would arise if pension funding discipline remains a challenge or reserve levels remain below those of peers.

## **Credit Opinion**

### **Solid local economy with moderate but steady grand list growth**

North Haven is a suburban residential community with a solid commercial and industrial base that supports the underlying economy. The town is located just north of the city of New Haven and participates in the New Haven-Milford metropolitan statistical area. Residential properties account for about 53% of the grand list while commercial and industrial accounts for 23%.

Following the 2021 revaluation year, the net taxable grand list increased by about 8% to \$3.1 billion; prior to the revaluation the town had maintained moderate but steady grand list growth of about 1% annually. Its commercial and industrial base has grown over the past few years because of various development projects and the expansion of current businesses. The most notable development is a new Amazon distribution and fulfillment center that now

employs more than 3,000 and is the town's top taxpayer. The town is also seeing more mixed-use developments in recent years in order to add both residential and commercial to its tax rolls; one development with 225 housing units and retail on the bottom floor is nearing completion, and another 88-unit mixed-use development is planned for a currently vacant land parcel. We expect that the town's economy will remain solid based on historical trends and anticipated steady growth over the next few years.

### **Mostly formalized policies and practices in place**

A home rule charter governs North Haven, with a town meeting form of government and boards of selectmen and finance. The first selectman serves as the town's chief executive and administrative officer, and the board of finance is responsible for financial and taxation policies. The town maintains a number of best practices favorable to financial and management operations.

Budgets consider prior trends and include conservative wage and other fixed-cost assumptions. The board of finance formally reviews budgetary performance at meetings 10 times per year, but the administration reviews this weekly. Management updates its five-year capital improvement plan annually and with viable funding sources identified. While it lacks a formal investment-management policy, it follows state investment guidelines; the board of selectmen reviews investments at budgetary review meetings. North Haven's policy is to maintain an available general fund balance at 8% to 14% of expenditures; we understand that the town is discussing increasing the minimum threshold to 10% of budgeted expenditures but no final decisions have been made. The town does not maintain a formal long-term financial plan or debt management policy.

### **Breakeven financial performance expected for current and next budget year, with plans to at least maintain reserve levels**

For analytical consistency, we adjusted North Haven's operating performance to account for capital expenditures funded with bond proceeds. We also adjusted both total government funds and general fund results to account for the deferred pension payment of \$555,000.

North Haven ended fiscal 2021 with a \$215,000 surplus based on audited results; management attributed the positive result to strong revenue collections as well as to unbudgeted FEMA reimbursements for both pandemic-related expenses and weather-related events in prior years. The town expects to end fiscal 2022 with a \$97,000 surplus as it received more state aid than had been budgeted for. The fiscal 2023 budget is trending positively so far year-to-date, with building permit fees coming in strong so far with the completion of an apartment complex.

The town has consistently maintained strong budgetary flexibility over the past three years. Notably, it used a portion of the fund balance from its debt service reserve fund (within assigned fund balance) to help manage the expected increases in debt service costs from its new middle school and police headquarters renovation projects. Officials indicate that moving forward, the town does not plan to further draw on reserves and instead is planning to add to its fund balance. Should the town continue to reduce fund balance levels, we believe it could weaken budgetary flexibility and place downward pressure on the rating if these levels are no longer comparable with those of similarly rated peers.

We understand that North Haven does not have any variable rate or privately placed debt, nor contingent liabilities from financial instruments with payment provisions that change on certain circumstances. The town is a regular market participant, and we expect its liquidity position will remain stable.

### **Manageable debt burden with typical annual capital issuances planned**

After this issuance, North Haven's total direct debt will be \$114 million, including BANs outstanding, clean-water notes, and capital leases. Management expects to issue around \$2 million annually over the next two years for road paving projects, as is part of its standard practice. The town also has \$6 million in notes outstanding for the Sackett Point Bridge project that is scheduled for completion within the next 16 months; about 90% of the project is funded by federal and state reimbursable grants. We do not expect our view of the town's debt profile will materially change over the outlook period.

### **Manageable pension costs with expectation of fully funding contributions in future budget years**

We do not view pension and OPEB liabilities as a source of credit pressure for North Haven at this time because of its limited contributions compared with budget. Pensions face a high risk of unexpected contribution escalations if the market underperforms and the assumptions are not met. However, we expect that contributions will likely remain affordable, given the current relatively low carrying charge, the strength of the town's revenue base, and our expectation that management will factor rising costs into its budget.

North Haven participated in the following plans as of June 30, 2021:

- Employee Retirement Plan: 93.7% funded using a 7% discount rate, with a \$4.5 million net pension liability (NPL);
- Police Retirement Plan: 84.8% funded, with a \$5.9 million NPL;
- Fire Retirement Plan: 95.7% funded, with a \$1 million NPL;
- Volunteer Fire Retirement Plan: 72% funded, with a \$742,000 NPL; and
- A defined-benefit health care: 0.5% funded, with a net OPEB liability of \$92 million.

North Haven made 88% of its required pension contribution in 2021. As noted, the fiscal 2021 audit indicates that it did not make the full pension contributions for its police retirement, fire retirement, and employees retirement plans. According to officials, the town always budgets for its full contribution towards all its pension plans as recommended by its actuarial valuations. However, it has budgeted this contribution as a percentage of payroll in the past instead of the full required nominal amount (as presented in the audit), which leads to some small discrepancies between its required and actual pension contributions in the town's audit. Nevertheless, the persistent underfunding of these plans does not comport with 'AAA' rated peers. Officials indicate that the town changed this practice in fiscal 2022 and is budgeting for the full nominal amount.

North Haven pays OPEB costs on a pay-as-you-go basis and has worked to reduce its OPEB liability through changes in health care programs offered. It officially established an OPEB trust fund, which has a balance of \$464,700.

### **Rating Above the Sovereign**

North Haven's GO bonds are eligible to be rated above the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario, as outlined in our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect). The town maintains predominantly locally derived revenue from property taxes, and its taxing authority and treasury management are independent from the federal government.

North Haven, Conn.: Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	131.5	135.0	133.0	131.0
Market value per capita (\$)	191,866	185,660	171,799	174,820
Population		23,969	24,003	23,993
County unemployment rate(%)		6.6		
Market value (\$000)	4,598,834	4,450,094	4,123,696	4,194,463
Ten largest taxpayers % of taxable value	16.9			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		(0.3)	(1.0)	(0.8)
Total governmental fund result % of expenditures		2.4	(1.0)	(0.7)
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		9.8	9.6	12.1
Total available reserves (\$000)		11,277	10,503	13,000
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		19.2	16.6	18.7
Total government cash % of governmental fund debt service		263.9	212.6	330.9
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		7.3	7.8	5.7
Net direct debt % of governmental fund revenue	88.1			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	59.6			
Required pension contribution % of governmental fund expenditures		3.8		
OPEB actual contribution % of governmental fund expenditures		2.3		
<b>Strong institutional framework</b>				
<b>EBI--Effective buying income. OPEB--Other postemployment benefits.</b>				

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

Ratings Detail (As Of October 14, 2022)		
North Haven GO bnds		
Long Term Rating	AAA/Stable	Affirmed

**Ratings Detail (As Of October 14, 2022) (cont.)**

North Haven GO bnds iss of 2020 ser B dtd 11/05/2020 due 11/01/2040

*Long Term Rating*

AAA/Stable

Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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