

RatingsDirect®

Summary:

North Haven, Connecticut; General Obligation; Note

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Credit Profile

US\$13.36 mil GO BANs ser b dtd 11/02/2023 due 11/01/2024		
<i>Short Term Rating</i>	SP-1+	New
US\$5.5 mil GO bnds, issue of 2023 due 11/01/2043		
<i>Long Term Rating</i>	AAA/Stable	New
North Haven GO BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed
North Haven GO BANs ser b dtd 11/02/2023 due 11/01/2024		
<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 \$5.5 million series 2023 general obligation (GO) bonds and our 'SP-1+' short-term rating to the town's \$13.36 million bond anticipation notes (BANs).
- 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 notes. 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 town'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.

Bond proceeds will permanently finance a portion of outstanding BANs for road and athletic field improvements; note proceeds will renew previously financed projects and provide new-money debt for various capital improvements.

Credit overview

The rating reflects our view of North Haven's steady tax base and local economy, coupled with stable management conditions and very little dependence on state aid as about 84% of revenue comes from local sources. The town's economic development opportunities are ongoing as it has mixed-used developments recently completed or in construction along with new businesses moving in, adding both residential and commercial to its tax rolls. However, income metrics are on the weaker end of the 'AAA' rating category. Despite these economic strengths, North Haven's budgetary performance has been adequate as it has previously deferred pension contributions and has been relying

more on the use of reserves in the budget. As a result of this historical reliance, North Haven's reserve levels are what we consider weak for the rating and compared with similarly rated peers. Preliminary estimates indicate fiscal 2023 ended in a surplus and year-to-date fiscal 2024 performance is in line with budget. North Haven made 96% of its required pension contribution in fiscal 2022, which officials attributed to an accounting discrepancy, and we understand the town overfunded pensions in fiscal 2023 to correct for the prior year. Management indicates that it plans to fully fund its pension contributions going forward. Downward pressure on the rating could occur if the town cannot increase reserves to levels commensurate with 'AAA' peers or if it reverts to underfunding its pension contribution.

The rating further reflects the town's:

- Suburban residential community with a local economy that benefits from a mix of residential (53% of AV) and commercial/industrial (22% of AV) and a return to 1.5% average annual grand list growth following the 8% increase in fiscal 2021 attributable to the revaluation.
- Steady management environment highlighted by a formal reserve policy and a five-year capital improvement plan, but lack of multi-year planning for the general fund and an informal debt management policy that officials intend to formalize this fiscal year. In addition, the institutional framework score for Connecticut municipalities is strong.
- Break-even financial results expected to continue based on year-end fiscal 2023 and year-to-date fiscal 2024 performance, with steady fund balance levels that lag state and national 'AAA' peers.
- Moderate debt profile with medium-term debt plans limited to typical road paving projects, along with pension costs that could increasingly pressure operations if the town reverts to underfunding its pension contributions.

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 maintain break-even-to-surplus financial results while fully funding its pension contributions and decreasing its operating reliance on reserves.

Downside scenario

We could consider a negative rating action if the town's reserve levels fail to grow to levels more commensurate with similarly-rated peers.

Credit Opinion

Steady local economy with minor annual market value growth but weaker income metrics compared with state peers

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

and industrial accounts for 23%. The town's economic development opportunities are ongoing as it has mixed-used developments recently completed or in construction along with new businesses moving in, adding both residential and commercial to its tax rolls. The town's grand list growth has returned to an average of 1.5% annually following the 2021 revaluation which increased the grand list by about 8% to \$3.1 billion. We expect the town's economy will remain solid based on historical trends and anticipated steady growth over the next few years.

Well-embedded financial policies and practices

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. The town does not maintain a formal long-term financial plan or debt management policy, but we understand the town is in the process of formalizing its debt management policy. North Haven has measures in place to mitigate cybersecurity risk and has not experienced a successful cyber intrusion.

Break-even-to-surplus financial performance expected for current and next budget year, but reserve levels that, though steady, lag behind state peers

North Haven ended fiscal 2022 with break-even results. Preliminary estimates indicate fiscal 2023 ended positively with a budgetary surplus primarily due to strong revenue collections; we expect the town with continue to produce surplus results including in the current fiscal year, which is tracking positively so far year-to-date compared with budget as building permit revenue is performing strongly coupled with additional state aid reimbursement.

The town has maintained consistent reserve levels at about 10% of expenditures over the past three years. Officials do not plan to further draw on reserves moving forward and instead are planning to add to fund balance to increase reserves above 10% of expenditures in-line with its informal target. However, the town's reserve levels have not kept pace with growth seen in similarly rated state peers. Given that reserves are more in line with the 'AA' rating category, downward pressure on the rating could be likely if fund balance levels do not improve in the near term.

Manageable debt burden with typical annual capital issuances planned, coupled with currently manageable pension costs

North Haven will have about \$110 million after this issuance inclusive of outstanding notes and capital leases. Officials expect to issue \$2 million in new-money debt annually for road paving projects, as has been its standard practice, but has no large projects on the horizon. The Sackett Point Bridge project is on-track to be completed in December, and the town has received most of the federal and state grant reimbursement (about \$5 million) for the project. We do not expect our view of the town's debt profile will materially change over the outlook period given its limited new-money debt plans.

We do not view pension and other postemployment benefits liabilities as a source of credit pressure for North Haven at this time because of its limited contributions compared with budget. North Haven made 96% of its required pension contribution in fiscal 2022, although officials had previously indicated they expected to make the full pension contribution since it had changed its budgeting practice to budget the full required nominal amount as presented in the audit rather than its previous practice of budgeting the contribution as a percentage of payroll. We understand the

town overfunded its pension plans in fiscal 2023 to correct for the prior year deferral. The persistent underfunding of the pension plans does not align with 'AAA' rated peers and is likely to pressure the rating if contribution levels slip backward.

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--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	121	123	135	133
Market value per capita (\$)	191,780	183,631	185,660	171,799
Population		24,308	23,969	24,003
County unemployment rate (%)		4.3		
Market value (\$000)	4,661,783	4,463,708	4,450,094	4,123,696
Ten largest taxpayers % of taxable value	15.0			
Strong budgetary performance				
Operating fund result % of expenditures		-1.2	-0.5	-1.0
Total governmental fund result % of expenditures		0.5	2.4	-1.0
Strong budgetary flexibility				
Available reserves % of operating expenditures		9.5	9.8	9.6
Total available reserves (\$000)		11,333	11,277	10,503
Very strong liquidity				
Total government cash % of governmental fund expenditures		18	19	17
Total government cash % of governmental fund debt service		273	264	213
Strong management				
Financial Management Assessment	Good			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.5	7.3	7.8
Net direct debt % of governmental fund revenue	84			
Overall net debt % of market value	2.4			
Direct debt 10-year amortization (%)	63			
Required pension contribution % of governmental fund expenditures		3.7		
OPEB actual contribution % of governmental fund expenditures		2.5		
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

Ratings Detail (As Of October 13, 2023)

North Haven GO bnds

Long Term Rating

AAA/Stable

Affirmed

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

Long Term Rating

AAA/Stable

Affirmed

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