

Summary:

Beacon Falls, Connecticut; General Obligation; Note

Credit Profile

US\$6.0 mil GO bnds ser 2021 due 12/15/2041

<i>Long Term Rating</i>	AA+/Stable	New
-------------------------	------------	-----

Beacon Falls Twn GO bnds iss

<i>Long Term Rating</i>	AA+/Stable	Upgraded
-------------------------	------------	----------

Beacon Falls Twn GO BANs

<i>Short Term Rating</i>	SP-1+	Affirmed
--------------------------	-------	----------

Rating Action

S&P Global Ratings raised its rating on Beacon Falls, Conn.'s general obligation (GO) pledge to 'AA+' from 'AA'. At the same time, we assigned our 'AA+' rating to the town's \$6 million series 2021 GO bonds, and affirmed our 'SP-1+' short-term rating bond anticipation note (BAN) outstanding. The outlook on the long-term rating is stable.

Beacon Falls' full-faith-and-credit pledge, payable from the levy of an unlimited ad valorem tax on all taxable property in the town, secures the bonds. Officials plan to use \$5 million of bond proceeds toward road improvements, including storm water drainage and sanitary sewer improvements, and the remainder for wastewater treatment plant upgrades.

The short-term rating reflects our high-investment-grade, long-term rating on Beacon Falls and the town's low market risk profile. In our view, and in accordance with our BAN criteria, we assessed the city's market risk as low due to its strong market access, information availability, and takeout authorization.

Credit overview

The upgrade reflects the town's growing fund balance position, which has reached very strong levels, supported by formalized policies and practices resulting in an improvement in our view of management. Beacon Falls generated positive operating results through the pandemic in part due to conservative budgeting practices. The tax base demonstrated resilience as property tax collections were unaffected, and the town's limited future debt plans and manageable retirement costs further support the rating.

The long-term rating reflects our view of the town's:

- Stable residential economy with access to various Connecticut metropolitan areas;
- Formalized policies and practices with a strong institutional framework;
- Positive performance over the last two years supporting very strong fund balance growth; and
- Limited fixed costs and long-term debt plans.

Environmental, social, and governance

We view environmental, social, and governance (ESG) risks in line with the sector. Beacon Falls suffered tornado damage in 2018, and since then, management has been proactive in addressing potential environmental disasters by undertaking a coordinated response with the regional taskforce for establishing a hazard mitigation plan, appointing a new emergency management director, and adopting an action plan protocol that addresses operational needs in the event of a disaster. It has two generators in the fire department, which has been provisioned as a shelter if needed.

Stable Outlook

Upside scenario

If the town's underlying wealth and income indicators improve to levels commensurate with those of higher rated peers, we could raise the rating.

Downside scenario

If the town's financial performance deteriorates, resulting in a sustained deterioration of fund balance, we could lower the rating.

Credit Opinion

Steady economic growth with access to neighboring cities' labor markets

Primarily residential, Beacon Falls has experienced market value growth between 2%-3% annually over the last few years, with a net taxable grand list estimated to total \$503.8 million in 2022. The town will benefit from a new residential development in the neighboring town of Seymour, which will overlap with Beacon Falls. Despite the pandemic, the town was able to secure new small local businesses. It is part of the state's enterprise corridor zone, designated to incentivize development in the Naugatuck Valley. Beacon Falls' ongoing projects include streetscaping and capital improvements as part of its participation in the Naugatuck Greenway, as well as multiphase development around the train station to improve safety and connectivity for residents. The town is also focusing on developing a business park, which is expected to include a 200,000-square-foot data center and a glass recycling company.

Major local employers include the regional school district (163 employees), followed by various construction, textile, and manufacturing companies each with less than 50 employees. Residents benefit from access to other Connecticut cities and their associated labor markets.

Formalized management policies and practices

Our view of management has improved to good from standard following the formalization of the town's debt management policy, reserve policy, and capital improvement plan (CIP) in the last year. Specifically, Beacon Falls has outlined specific thresholds and requirements with regard to its debt service whereby debt service may not exceed 10% of the general fund budget, or 50% of its statutory debt limit. Furthermore, the town increased its minimum fund balance policy to 12% of operating expenditures from 9.25%. In our view, these changes reflect management's commitment to managing finances conservatively at these improved levels on a forward-looking basis.

The town conducts comprehensive budget planning and regular budget monitoring. Management reviews at least

three years of past data and incorporates its analysis into each year's budget assumptions. In addition, it consults with outside sources for information and trends regarding the town's grand list or state aid. Beacon Falls allows updates to the budget when necessary and provides budget-to-actual reports to the Board of Selectmen monthly. It does not perform any long-term financial forecasting; however, it maintains a CIP for its future capital needs. The CIP is a rolling, five-year plan that identifies the funding sources for each project, broken down by department. In our opinion, the town has taken appropriate steps to mitigate cybersecurity risks. The institutional framework score for Connecticut municipalities is strong.

Resilient revenue base has generated positive results through the pandemic, strengthening fund balance position

Property taxes make up a majority of general fund revenues at 77%, with 20% from state aid. Fiscal 2020 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. The town benefited from conservative budgeting practices through the pandemic, which resulted in surpluses of \$640,000 in fiscal 2020 and an estimated \$1 million in fiscal 2021, both of which will be added to fund balance. Management attributes the 2021 gains to excess revenues on account of a one-time insurance claim, as well as higher-than-anticipated property tax collections.

The fiscal 2022 budget totals \$23.4 million, a 3.4% increase compared to fiscal 2021. It includes a decrease in the mill rate to 34.9 from 35.9, which is offset by organic revenue growth. The increases will be used toward salary increases as well as capital projects. Officials indicate the town does not expect to draw down significantly on reserves, which are expected to remain at very strong levels. It has already received \$900,000 of its \$1.8 million American Recovery Plan Act allocation, which it intends to spend on emergency management services, as well as for water/sewer infrastructure. Furthermore, the town's cash position continues to improve as it accesses the market for debt. Its use of its investments is not considered aggressive. We also recognize that Beacon Falls has no variable-rate or direct-purchase debt, reducing any exposure to contingent liquidity risks. Overall, we expect the town's financial profile to remain stable.

Limited debt and manageable fixed costs

With this issuance, the town will have about \$17 million in total direct debt, with \$4 million made up of short-term debt. Officials do not have any significant debt plans over the medium term.

Pension and other postemployment benefits:

- We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate credit pressure for Beacon Falls, although we expect costs will likely continue to increase.
- Because the pension plans' actuarially determined contribution is built on what we view as weak assumptions, we think it increases the risk of unexpected contribution escalations. However, we expect higher contributions will likely remain affordable, based on the strength of the town's revenue base and conservative budgeting, which continues to result in stable financial performance.
- Although it funds OPEB liabilities on a pay-as-you-go basis, which, as a result of claims volatility and medical cost and demographic trends, is likely to lead to escalating costs, the town has legal flexibility to alter OPEBs, which we view as a potential means of mitigating escalating costs.

Beacon Falls participates in:

- Connecticut Municipal Employees' Retirement System (CMERS), which is 71.2% funded, with a proportionate share of the town's net pension liability at \$2.3 million, assuming a 7% discount rate as of fiscal 2020; and
- The town's defined-benefit, OPEB health care plan, which funded on a pay-as-you-go basis, with an OPEB liability of about \$688,000 as of fiscal 2020.

The town made its full annual required pension contribution in 2020. We believe the plan's 21-year closed-amortization period, with a payroll growth assumption of 3.5% and discount rate of 7%, could pose cost-escalation risk as a result of market volatility. Therefore, although pension costs remain manageable at only 1.1% of expenditures as of fiscal 2020, we expect contributions will likely escalate.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Beacon Hills, CT -- Key Credit Metrics				
	<u>Most recent</u>	<u>Historical information</u>		
		2020	2019	2018
Very strong economy				
Projected per capita EBI % of U.S.	116			
Market value per capita (\$)	114,761			
Population		6,272	6,264	6,220
County unemployment rate(%)		8.0		
Market value (\$000)	719,781	684,266		
Ten largest taxpayers % of taxable value	9.0			
Strong budgetary performance				
Operating fund result % of expenditures		2.9	(0.3)	(1.1)
Total governmental fund result % of expenditures		5.3	7.3	5.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		17.0	13.2	13.9
Total available reserves (\$000)		3,772	2,964	3,002
Very strong liquidity				
Total government cash % of governmental fund expenditures		33	30	30
Total government cash % of governmental fund debt service		752	665	622
Strong management				
Financial Management Assessment	Good			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.3	4.5	4.8
Net direct debt % of governmental fund revenue	73			
Overall net debt % of market value	3.3			
Direct debt 10-year amortization (%)	50			
Required pension contribution % of governmental fund expenditures		0.9		

Beacon Hills, CT -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
OPEB actual contribution % of governmental fund expenditures		0.2		

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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.