Research Update:

Southington, CT Series 2026 GO Bonds Assigned ‘AA+’ Rating; Outlook Stable

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Primary Contact

Dalia Bereket
New York
1-212-438-1933
dalia.bereket
@spglobal.com

Secondary Contact

Melissa Stoloff
Boston
(1) 617-530-8030
melissa.stoloff
@spglobal.com

Overview

- S&P Global Ratings assigned its 'AA+' rating to the Town of Southington, Connecticut's approximately $6.5 million series 2026 general obligation (GO) bonds.
- At the same time, we affirmed our 'AA+' long-term rating on the town's GO debt outstanding.
- The outlook is stable.

Rationale

Security

Southington's full-faith-and-credit pledge secures the 2026 bonds and GO debt outstanding. The series 2026 proceeds will finance road and bridge improvements.

Credit highlights

The 'AA+' rating reflects our view of the city's generally positive financial performance, which is supported by well-embedded management practices and policies and a primarily residential tax base that provides a stable revenue source. Southington’s income metrics lag those of higher-rated state and national peers, constraining upward rating potential.

The town posted a negative operating result in fiscal year 2025, fueled by elevated transfers to fund capital projects. However, we expect a return to positive operations in fiscal 2026, supported by reduced general fund transfers and revenues continuing to outpace expenditures, specifically due to interest income exceeding budgeted expectations. Management reports that fiscal 2027 budget-to-actual performance remains consistent. Consequently, we foresee limited downside rating pressure over the two-year outlook horizon, as stable revenue performance is expected to sustain the town's reserve levels.

The following factors support Southington's rating profile:

- The stable, primarily residential tax base will likely grow further following the most recent full revaluation, as the last was completed in October 2020. In addition, continued economic

development, particularly in commercial and industrial sectors, will support tax base growth. Local incomes are stronger than both county and national averages, supported by access for residents to several regional employment centers in the greater Hartford and New Haven areas.

- We expect the town will maintain structural balance and reserve levels around current levels at 20% of general fund revenues. The elevated resident incomes support consistent property tax collections--annually collected at about 99% of the levy--and lending predictability to the town's primary revenue source, which accounts for more than 80% of operating revenue annually. Management is working to settle collective bargaining agreements in a way that integrates with informal long-term financial planning and maintaining financial balance. We understand there is a collaborative working environment with the school department, which, while a separate legal entity, accounts for about two-thirds of operating expenditures, and for which the town is liable for expenditure overruns and debt.
- While Southington does not annually update a long-term financial plan, we believe management is thoughtful about how budgetary decision-making affects future-year financials. Management looks to grand list values and state aid projections when determining its revenues, and officials budget full salaries and benefits and incorporate contingencies, which has resulted in positive expenditure variances. An annually updated five-year capital improvement plan informs debt plans. Management provides monthly budget updates to town council and the separately elected board of finance. A formal debt management policy requires annual debt service to be below 9.5% of general fund expenditures, along with amortization requirements of retiring at least 25% of principal within five years and 70% within 10. The town has a formal reserve policy of maintaining minimum unassigned fund balance at 11% of general fund revenue, which it is currently exceeding but there are no plans to draw down reserves closer to this minimum threshold. Council is reviewing a proposal to increase the minimum threshold to 13%.
- Following this issuance, the town will have approximately $121 million in net direct debt. The town has about $34 million in unauthorized debt that could be issued in the next few years. There is limited budgetary pressures from retirement costs given the town's participation in relatively well-funded state pension plans. Southington offers other postemployment benefits as an implicit rate subsidy, although the calculated liability of about $29 million is weaker than those of peers on a per capita basis.
- Although physical risks are relevant for the local government sector, we consider Southington's exposure to natural hazards, including flooding and extreme weather, low compared with that of national peers and in a nominal sense.
- For more information on our institutional framework assessment for Connecticut municipalities, see "Institutional Framework Assessment: Connecticut Local Governments," Sept. 9, 2024.

Outlook

The stable outlook reflects our expectation that Southington's solid financial profile and above-average economic metrics will allow the town to buffer unexpected financial pressures or an economic slowdown over our outlook horizon.

Downside scenario

Although unlikely, we could lower the rating if budgetary performance weakens, leading to persistent draws on available reserves, or if the town issues significant additional debt that materially increases debt service costs or weakens the debt per capita metric such that it outweighs offsetting strengths.

Upside scenario

All else equal, we could raise the rating if Southington's per capita income improves to levels commensurate with those of higher-rated peers while management formalizes a long-term financial plan.

Southington, Connecticut--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	1.79
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.70
Debt and liabilities	3.25

Southington, Connecticut--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	--	--	131	134
County PCPI as % of U.S.	--	--	113	112
Market value ($000s)	--	6,755,510	6,696,110	6,552,743
Market value per capita ($)	--	153,835	149,935	146,725
Top 10 taxpayers as % of taxable value	--	6.4	6.2	5.9
County unemployment rate (%)	--	4.1	3.4	3.2
Local median household EBI as % of U.S.	--	145	--	--
Local per capita EBI as % of U.S.	--	141	--	--
Local population	--	43,914	--	--
Financial performance				
Operating fund revenue ($000s)	--	200,622	194,258	183,148
Operating fund expenditures ($000s)	--	194,435	185,768	176,670
Net transfers and other adjustments ($000s)	--	(6,667)	(5,348)	(3,994)
Operating result ($000s)	--	(480)	3,142	2,484
Operating result as % of revenue	--	(0.2)	1.6	1.4
Operating result three-year average %	--	0.9	1.7	0.9
Reserves and liquidity				
Available reserves as % of operating revenue	--	19.8	20.7	20.2
Available reserves ($000s)	--	39,689	40,169	37,047
Debt and liabilities				
Debt service cost as % of revenue	--	6.2	6.5	6.6
Net direct debt per capita ($)	2,762	2,736	2,733	3,009

Southington, Connecticut--key credit metrics

Net direct debt ($000s)	121,279	120,137	122,044	134,399
Direct debt 10-year amortization (%)	72	77	77	74
Pension and OPEB cost as % of revenue	--	4.8	3.9	4.3
NPLs per capita ($)	--	1,542	1,516	1,690
Combined NPLs ($000s)	--	67,713	67,713	75,477

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$6.500 mil GO bnds, issue of 2026 due 12/1/2041	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Local Government	
Southington, CT Unlimited Tax General Obligation	AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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