

# RatingsDirect®

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## Summary:

# Perinton, New York; General Obligation

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## Summary:

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### Credit Profile

US\$2.125 mil public imp rfdg serial bnds ser 2021 dtd 09/17/2021 due 12/15/2038

*Long Term Rating* AA+/Stable New

Perinton Twn GO

*Long Term Rating* AA+/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the Town of Perinton, N.Y.'s \$2.125 million 2021 public improvement refunding general obligation (GO) bonds. At the same time, we affirmed our 'AA+' rating on the town's existing GO debt. The outlook is stable.

The town's faith-and-credit pledge secures the bonds. We understand proceeds from this issue will be used to refund existing bonds purely for present-value savings.

### Credit overview

Perinton continued to strengthen reserves following surplus results in fiscal 2020 due to continuation of conservative budgeting and a swift response on the expense side following the spread of the coronavirus. Perinton's stable local economy and access to the broader Rochester, N.Y. area employment base provide further stability to the rating. While the town has outlined additional debt plans to finance sewer-related improvements, these plans largely mirror the amount that is scheduled to roll off; therefore, we do not expect a material change in the overall debt profile, which has historically fluctuated between strong and adequate. We do not anticipate changing the rating within the next two years.

The rating reflects our opinion of the town's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.1% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 8.2% of expenditures and net direct debt that is 64.5% of total governmental fund revenue, as well as rapid amortization, with 66.8% of debt

scheduled to be retired in 10 years; and

- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

Our rating incorporates our view regarding the indirect risks posed by the health and safety response required by the COVID-19 pandemic that could lead to revenue shortfalls, particularly with regard to economically sensitive revenue such as sales taxes. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We view Perinton's governance risks as generally in line with those of peers and environmental risks as in line with the sector standard.

## **Stable Outlook**

### **Downside scenario**

If Perinton's economy were to weaken or budgetary performance were to deteriorate to a point where flexibility worsened, we would consider a negative rating action.

### **Upside scenario**

If wealth and income indicators strengthened to levels associated with those of higher-rated peers and the town were to continue to strengthen its debt profile while formalizing additional management policies and practices, we would consider a positive rating action.

## **Credit Opinion**

### **Strong economy**

We consider Perinton's economy strong. The town, with an estimated population of 46,660, is in Monroe County in the Rochester MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 128% of the national level and per capita market value of \$98,157. Overall, Perinton's market value grew by 8.2% in 2020 to \$4.6 billion in 2021. The county unemployment rate was 8.6% in 2020.

Perinton's, located 10 miles from downtown Rochester, is primarily residential and relatively mature although it continues to see residential projects, with a few larger single-family home developments nearing completion. Given access to several major roadways including the New York State Thruway, residents find employment in Rochester and throughout the broader area. Wealth and income levels remain above those of the state and nation and the labor market recovery has so far been relatively robust. Leading area employers include Fairport Central School District (1,030 employees), Wegman's Food Markets Inc. (560), Monroe No. 1 Board of Cooperative Educational Services (500), and ConServe (483).

Town officials report that Perinton's real estate market remains strong, with a low inventory of available single-family homes. Although assessed values have remained broadly flat in 2021, in the past five years they have experienced modest, yet steady, cumulative growth of 10%. Given the stability of the economy, we do not expect erosion in the tax base or the overall economy in the near term.

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Our assessment of Perinton's financial management policies and practices takes into consideration the town's informal long-term financial plan, spanning five years out, with detailed assumptions for both revenues and expenditures, that serves as a planning tool for management's discussions with the board. It also reflects the town's five-year capital improvement plan that identifies funding sources.

Other highlights include the use of historical trend analysis for budget preparation looking back five years for revenue and expenditures, coupled with monthly monitoring and reporting of budget to actuals. Perinton adjusts the budget during the year when necessary and maintains the ability to amend the budget midyear but rarely does so.

Perinton's formal investment policy, which was recently revised, continues to comply with state guidelines, listing types of permissible investments. Management informally presents investment holdings monthly to the town board. Perinton does not maintain a formal debt management policy, but management notes it informally targets principal amortization that outpaces new money debt. Management also reports it maintains an informal fund balance policy at 25% of operating expenditures, which it has done historically.

### **Strong budgetary performance**

Perinton's budgetary performance is strong in our opinion. The town had operating surpluses of 26.0% of expenditures in the general fund and 16.7% across all governmental funds in fiscal 2020. While we expect Perinton to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

In fiscal 2020, landfill revenue continues to trend significantly above budget, while mortgage taxes also show a positive variance. On the expenses side, management enacted several cost-saving measures following the spread of the coronavirus, such as deferring larger equipment purchases, constraining some part-time hiring, and furloughing a limited number of staff. These measures, along with increased landfill and mortgage tax revenue, more than offset lower fees from the town's recreation center and lower sales tax receipts. State aid is not a large revenue source for Perinton and, therefore, the town was not heavily affected by the state's decision to withhold certain state aid to municipalities.

We believe management will continue to make transfers to various funds, including capital projects and debt service. Perinton benefits from the stability of its largest revenue source, property taxes, which account for almost half of its revenue. In addition, Perinton's recent performance underlines the town's conservative budgeting practices and ability to address potential revenue shortfalls through cost-cutting measures.

The fiscal 2021 budget totals \$10.3 million, a decrease of 4.5% from the previous year. The reduced 2021 budget in particular reflects the expected reduction in recreation center fees and lower sales taxes. These shortfalls have been offset by expenditure reductions in the recreation center and lower planned expenses in the road improvement program. The town was allocated \$4.2 million in federal stimulus funds through the American Rescue Plan Act and has received the first half of that allocation. The town preliminarily plans to use these funds for one-time capital projects

and a small business relief grant program.

Considering recent positive financial operations and continued internal capital financings and very strong reserves, we do not expect budgetary performance will deteriorate in the near term.

### **Very strong budgetary flexibility**

Perinton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 25% of operating expenditures, or \$2.3 million.

Reserves recovered strongly in 2019 from a modest decline in 2018. Not included in our calculations is the town's restricted portion of reserves. Perinton has elected to reclassify funds as restricted from prior-year surpluses as a method for increasing funds available for future pay-as-you-go financing, providing additional flexibility. Total restricted reserves were \$10.3 million, or 110% of adjusted fiscal 2020 expenditures. With expectations for at least balanced results in 2021, we expect reserves will remain very strong and in line with the town's fund balance policy level of 25% of expenditures.

### **Very strong liquidity**

In our opinion, Perinton's liquidity is very strong, with total government available cash at 28.1% of total governmental fund expenditures and 3.4x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

Perinton has what we consider strong access to external liquidity having issued GO bonds and notes over the past 20 years. Management has confirmed it has no contingent liquidity risks from financial instruments, with payment provisions that change on the occurrence of certain events. In addition, the town does not have any investments in its portfolio that are deemed aggressive. We do not expect liquidity to weaken in the near term.

### **Adequate debt and contingent liability profile**

In our view, Perinton's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.2% of total governmental fund expenditures, and net direct debt is 64.5% of total governmental fund revenue. Approximately 66.8% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Following this issue, Perinton will have \$19.7 million of direct debt outstanding. The town may issue an estimated \$5.5 million for sanitary sewer infrastructure improvements during the next two years; however, debt issuance plans broadly track debt repayment plans. That said, with this issuance, debt amortization over the next 10 years has improved to 67%.

Perinton's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.4% of total governmental fund expenditures in 2021. Of that amount, 4.9% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The town made its full required pension contribution in 2021.

Pension and OPEB highlights include the following:

- We do not view pension liabilities as an immediate source of credit pressure for the town, given our opinion of its current strong plan funding status and limited escalating cost-trajectory risk.

- Currently manageable OPEB liabilities that are funded on a pay-as-you-go basis, which, given claims volatility, as well as medical cost and demographic trends, are likely to lead to escalating costs and could create budgetary pressure.
- We are monitoring the pension and OPEB burden because it could pressure the town's debt and liability score.

Perinton participates in the New York State Employees' Retirement System, which is 86.4% funded, with a proportional share of the net pension liability equal to \$7.7 million.

The town's combined required pension and actual OPEB contributions totaled 6.0% of total governmental fund expenditures in 2020. Of that amount, 4.5% represented required contributions to pension obligations, and 1.5% represented OPEB payments. Perinton made its full annual required pension contribution in 2020.

Perinton offers OPEB to eligible employees. New York State does not allow for OPEB prefunding. The town's total OPEB liability of \$24.7 million was measured as of Dec. 31, 2020. While we expect OPEB costs will grow over time, we believe future costs should be manageable.

### **Strong institutional framework**

The institutional framework score for New York towns is strong.

## **Related Research**

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

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