S&P Global
Ratings

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Summary:

Trumbull, Connecticut; General Obligation; Note

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Credit Profile		
US$9.210 mil GO BANs ser 2017 dtd 08/30/2017 due 08/29/2018		
Short Term Rating	SP-1+	New
US$9.060 mil GO bnds ser 2017 due 08/15/2037		
Long Term Rating	AA+/Stable	New
Trumbull GO		
Long Term Rating	AA+/Stable	Affirmed
Trumbull GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Trumbull, Conn.'s series 2017 general obligation (GO) bonds, and its 'SP-1+' short-term rating to the town's series 2017 GO bond anticipation notes (BANs). Additionally, we affirmed our 'AA+' rating on the town's existing GO debt. The outlook is stable.

The long-term rating reflects our view of a pledge of the town's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limit to rate or amount secures the bonds. The short-term rating reflects our view that Trumbull maintains a very strong capacity to pay principal and interest when the notes come due. It maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

We understand that proceeds from the bonds will be used to fund a number of capital projects and acquisitions for both the town and the school, as well as to permanently finance existing BANs. We further understand the 2017 BAN proceeds will be used to fund improvements to existing school and sewer infrastructure.

The rating reflects our assessment of the town's:

- Very 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 a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 11.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.2% of total governmental fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong, but an exposure to a non-remote contingent liability risk;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.1% of expenditures and net

direct debt that is 75.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 69.5% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Very strong economy

We consider Trumbull's economy very strong. The town, with an estimated population of 37,241, is a primarily residential community 65 miles northeast of New York City and 60 miles southwest of Hartford in Fairfield County. It is in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 168% of the national level and per capita market value of $176,233. Overall, market value grew by 1.6% over the past year to $6.6 billion in 2017. The county unemployment rate was 4.8% in 2016.

Although the town is primarily residential, there are a number of large employers located there. The largest taxpayer, the Westfield Shoppingtown Trumbull Mall, is also the largest employer (3,250 employees). Other major employers include Unilever Inc. (1,100 employees), Affinion Group (750), Oce Imagistics (675), and St. Joseph's Manor (500).

Additionally, town management reports several projects in various stages of development that are expected to add to the taxable property. Most notably, the building formerly occupied by Canon Solutions America is to be demolished and replaced with 200 units of luxury housing. Other projects include building a 20,000-square-foot corporate office building on the site of an unused helipad and redevelopment of the Village District property.

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.

Trumbull's management team uses three years of historical data to identify trends and develop revenue and expenditure assumptions. On the revenue side, it works with the assessor to project annual grand list growth. For expenditures, management plans for year-over-year fixed costs and adjusts for changes to salary and health care expenditures in its assumptions. Appropriations are prioritized based on departmental and capital needs. The town also conducts frequent internal monitoring of its budget-to-actual performance, and the director of finance delivers a monthly report to the board of finance to address variances and propose budget amendments when necessary. Although state statutes strictly limit the type of investments the town can use, management maintains an investment policy for short-term investments and interest income. Management presents holdings to the board of finance monthly.

The maintenance of a five-year, long-term capital improvement plan (CIP) that identifies capital project priorities and internal financing sources--through general fund appropriations and external funding through bonding and debt issuance--strengthens management. Furthermore, Trumbull actively seeks grant funding from state and federal sources, as well as energy savings performance contracting programs. Management presents the CIP to the town council, to inform annual budget discussions.

In fiscal 2016, management codified a formal general fund balance policy that sets forth a minimum unassigned fund balance target of 10% of general fund expenditures. In addition, the town's formal procedure is to restore fund balance if it falls below the minimum target. However, Trumbull does not currently maintain a long-term financial plan. It also lacks a debt management policy, but it approved a charter revision that requires all capital expenditures and debt issuances exceeding $15 million to be subject to voter referendum.

Strong budgetary performance

Trumbull's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 2.0% in fiscal 2016.

Trumbull posted a second consecutive year of positive operating results in fiscal 2016, with a $2 million surplus in the general fund, as well as a total governmental funds positive net result of $3.5 million. We adjusted for annually recurring transfers to cover administrative expenses from the enterprise funds into the general fund, which in fiscal 2016 amounted to approximately $1 million. We also adjusted total governmental performance to account for capital outlays using existing bond proceeds; this totaled approximately $11.9 million.

Management reports that fiscal 2017 budget-to-actuals tracked well and expects to report another year of balanced operating results. In fiscal 2018, the town has budgeted for the use of $1.8 million from reserves to keep the property tax rate down.

Local property taxes make up 84.3% of general fund revenues, while charges for services account for 4.2% and intergovernmental revenues (% figure missing?). Town management has been working to grow the grand list through the development and redevelopment of commercial properties, while working to keep the tax rate as low as possible. They report an average annual tax increase of 1.86%, one of the lowest in the county. Residential properties account for approximately 66.9% of the town's net taxable grand list, followed by commercial and industrial properties, which make up approximately 20.2% of taxable property. Over the past five years, this is a shift from 69.5% and 17.66%, respectively. We view Trumbull's revenue makeup as stable, given the prevalence of locally derived revenues. Management has been closely monitoring the budget process at the state level and reports having reserved $5.7 million in contingency funding, which is the estimated maximum reduction in state aid. While a reduction in state aid may reduce or eliminate Trumbull's operating surplus in fiscal 2018, given its ability to raise taxes if required to generate additional revenue, we expect that the town will continue to post approximately balanced operating results over the next two fiscal years.

Strong budgetary flexibility

Trumbull's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 11.4% of operating expenditures, or $19.8 million.

Beginning with fiscal 2016, the town adopted a fund balance policy requiring the maintenance of general fund reserves at a minimum of 10% of budgeted expenditures annually. Trumbull added to reserves in fiscal years 2015 and 2016, does not expect to report a draw on fund balance in fiscal 2017, and may add to fund balance. While it is planning to draw on reserves in fiscal 2018, totaling $1.8 million, we expect available reserves to remain strong over our two-year outlook period. The $5.7 million that the town has set aside for the potential loss of state aid is reserved outside of the available fund balance.

Very strong liquidity

In our opinion, Trumbull's liquidity is very strong, with total government available cash at 22.2% of total governmental fund expenditures and 3.1x governmental debt services in 2016. In our view, the town has strong access to external liquidity if necessary. Weakening Trumbull's liquidity position, in our assessment, is its exposure to a nonremote contingent liability that could come due within 12 months.

Trumbull is a regular market participant that has issued debt frequently over the past several years, including GO bonds, refunding bonds, and short-term BANs. Therefore, we believe this reflects its strong access to external liquidity. The town does not currently have any variable-rate or direct-purchase debt. Trumbull's school department has three lease-purchase agreements in the form of energy performance contracts with a bank. These contracts contain provisions that could cause all payments to become due within 30 days, but are small relative to total governmental cash on hand and total governmental revenues and expenditures, with initial principals of $1 million, $1.7 million and $4.1 million.

In addition, the town is not aggressive in its use of investments. Investments are subject to strict state guidelines. It invests its cash in low-risk assets, including the state's short-term investment fund, money market funds, or certificates of deposit. Furthermore, Trumbull does not have any expected significant deterioration of its cash position. Therefore, we expect its liquidity to remain very strong over the next two fiscal years.

Adequate debt and contingent liability profile

In our view, Trumbull's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.1% of total governmental fund expenditures, and net direct debt is 75.2% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, and approximately 69.5% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Including this issue, Trumbull has approximately $161.8 million of total direct debt, which includes $9.21 million in BANs from this issuance. We have adjusted out approximately $24.1 million of enterprise-related GO debt from our net direct debt calculations. The sewer system's user charges provide partial coverage for its outstanding obligations. Management reports that it expects to issue $7 million-$10 million in new debt annually to fund road upgrades and other capital project and acquisitions.

In our opinion, a credit weakness is Trumbull's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. The town's combined required pension and actual OPEB contributions totaled 4.4% of total governmental fund expenditures in 2016. It made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan was 30.7% as of the 2016 audit and 38.3% as of the most recent (July 2016) actuarial valuation.

The town administers two defined-benefit pension plans; the larger plan covers the town's eligible full-time employees other than police, firefighters, and teachers, while the smaller plan covers police department employees. Administrative personnel and certified faculty of the board of education participate in a pension plan that the state administers; the town does not contribute to this plan. Management has taken a number of steps to improve the funded ratios of Trumbull's pension plans, which as of the June 30, 2016 audit, had funded ratios of 30.69% (town plan) and 67.81% (police plan), and as of the July 1, 2017 actuarial valuation 38.2% and 73.2%, respectively. These include closing the town plan to new hires, while implementing a defined-contribution plan for all new employees. This could mitigate significant increases in future liabilities, but it also reduces the number of employees contributing to the plan. In 2015, the town council approved a revision to the town's charter to require future annual contributions to the pension plans of no less than 100% of the actuarially determined contribution (ADC) beginning in fiscal 2016. The town contributed its full ADC for both plans in 2016. Management reports the ADC was again fully paid in 2017 and will be in all future years. Additionally, Trumbull's actuary is updating actuarial assumptions. The next full valuation is not due until June 30, 2018. In 2016, the town contributed $4.144 million to the town plan and $2.907 million to the police plan. The 2017 ADC contributions were approximately $4.2 million for the town plan and $3 million for the police plan. As of June 30, 2016, the town's net pension liability was $64.6 million for the town plan and $24.7 million for the police plan. While we view the town's commitment to fully funding its ADC as a credit positive, the size of the net liability and the potential for new actuarial assumptions to further reduce the funded ratio and increase the size of the ADC are causes for concern. Given the severe underfunded status of the town pension plan and the underfunded status of the police pension plan, we view these steps as insufficient to fully address the liability.

Trumbull also provides OPEBs to its retirees in the form of health and life insurance, for which employees fully reimburse the town. In fiscal 2016, the town contributed $900,291, 51.2% of its annual required contribution. As of June 30, 2016, the net OPEB obligation was $8.9 million.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Trumbull will continue to adjust its budget to maintain structural balance while maintaining its strong reserves. The underlying wealth and income levels provide additional rating stability. We do not expect to change the rating within our two-year outlook horizon.

Upside scenario

We could raise the rating if Trumbull's pension plan funding were to improve, in conjunction with the town strengthening available reserves to levels we consider commensurate with its 'AAA' rated peers, while also maintaining at least strong budgetary performance.

Downside scenario

We could lower the rating if budgetary pressures from pension costs and/or ongoing shortfalls in expected state aid result in reduced budgetary flexibility or performance.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.