FitchRatings

Fitch Rates Trumbull, CT's $9MM GO Bonds 'AA+'; $9MM BANs 'F1+'; Outlook Stable

Fitch Ratings-New York-09 August 2017: Fitch Ratings has assigned the following ratings to the Town of Trumbull, CT:

--$9,060,000 general obligation (GO) bonds, issue of 2017, 'AA+';
--$9,210,000 GO bond anticipation notes (BANs), 'F1+'.

The bonds will permanently finance maturing BANs and fund various town and school related projects. The BAN proceeds will be used to finance various school, sewer and public improvement projects. The bonds and BANs are scheduled for competitive sale on Aug. 17.

In addition, Fitch has affirmed the following ratings for the town:

--Long-Term Issuer Default Rating (IDR) at 'AA+';
--Approximately $140 million outstanding GO bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The bonds and BANs are general obligations of the town backed by its full faith and credit and unlimited taxing power.

KEY RATING DRIVERS

The 'AA+' IDR and GO bond ratings reflect Trumbull's high gap-closing capacity, solid expenditure flexibility and expectations that management will maintain its exceptional level of financial resilience to withstand future economic downturns. A wealthy property tax base and manageable expenditure growth contribute to the town's strong financial profile. Fitch expects long-term liabilities to remain low based on manageable capital needs and a commitment to funding actuarially determined contributions to its pension plans which are closed to new hires. The 'F1+' short-term bond rating is mapped to the town's IDR.

Economic Resource Base
Trumbull spans an area of roughly 24 square miles in Fairfield County situated 20-30 miles from both Stamford and New Haven and roughly 60 miles from New York City. The town is a primarily residential community with an estimated 2015 population of 36,600, up 7% since 2000.

Revenue Framework: 'aa' factor assessment
The bulk of operating revenues are derived from property taxes levied on a mostly residential and very affluent tax base. Fitch expects that prospects for future revenue growth absent policy action will be more in line with inflation due to the potential for tax base growth from new developments planned or underway and future changes in housing values. There is no legal limit to the tax rate or levy.

Expenditure Framework: 'aa' factor assessment
The bulk of spending is associated with the town's school system. Fixed carrying costs for debt service, pension and OPEB represent a moderately low 11% of governmental spending providing solid expenditure flexibility. Management maintains moderate control over wages and benefits in labor contracts due to an advantageous conflict resolution process.

Long-Term Liability Burden: 'aaa' factor assessment
The combined burden of debt and net pension liabilities (NPL) is low compared to residents' personal income and Fitch expects the burden not to materially change based on the town's rapid debt amortization rate and improvements in managing the town's pension plans. The town's two pension plans are closed to new entrants and the town currently pays 100% of the actuarially determined contribution.

Operating Performance: 'aaa' factor assessment
Conservative budgeting practices and relatively steady, moderate tax rate increases have allowed revenues to keep pace with spending growth. Reserves have been steadily maintained at or near the town's formal fund balance policy of 10% of spending. Fitch expects the town to manage through periods of economic decline while maintaining a sound financial cushion in compliance with policy levels.

RATING SENSITIVITIES

Financial Flexibility: The ratings are sensitive to shifts in fundamental credit characteristics and Fitch's expectation that management will maintain the town's level of financial resilience through compliance with its operating policies.

CREDIT PROFILE

The town's largely residential character is complemented by its strong performing school system and proximity to somewhat larger employment centers throughout Fairfield County including Fairfield, Bridgeport, Stamford, and New Haven. The highly educated workforce contributes to the town's above-average wealth levels and unemployment rates historically averaging below state and national levels. Trumbull's estimated 2016 market value equates to a high $181,000 market value per capita. The residential component of the tax base is currently 66% of the total, a decline of 10% from 10 years ago due to efforts to diversify the tax base with more commercial and industrial tax payers which now comprise over 20% of the tax base. The top 10 taxpayers represent a moderately low 13% of the total with the Westfield Trumbull Mall the largest at 4.6% of the tax base.

Revenue Framework

Property taxes make up the bulk of the town's revenues and comprised roughly 93% of the fiscal 2018 budget. State aid represented a modest 3% of budgeted revenues for fiscal 2018, mitigating the effects of the potential variability of this source of third-party revenue. The town has historically adjusted the millage rates as needed to reflect tax base changes and expenditure needs.

Fitch expects future revenue growth absent policy actions to be in line with the level of inflation over time, based on the level of expected growth in the tax base as a result of new development underway or planned and reported slow growth in housing values. The town's grand list has experienced modest growth since fiscal 2013 which includes results of a four-year revaluation effective Oct. 1, 2015 for fiscal 2017 which reflected 1.6% growth in value.

Municipalities in Connecticut possess an independent legal ability to raise property taxes by state constitution, which grants the town the legal capacity to offset revenue pressures associated with a declining or slow growing tax base.

The town's charter allows residents to petition for referendum a 3.5% cap to an adopted budget that includes an increase above this amount. Five percent of voters must sign a petition to put the referendum on the ballot. The ballot allows voters to reject the approved budget and replace it with the previous budget plus 3.5%; the ballot requires two-thirds approval to pass. While Fitch expects this policy could potentially limit future spending growth it does not materially inhibit the legal ability to raise revenues during a downturn.

Expenditure Framework

School spending represented approximately 60% of the town's general fund budget followed by general government at 16%. Annual spending growth reflects increases in employee spending and growth in debt service spending following the completion of new high school improvements.

Fitch expects the natural pace of spending growth to match or marginally exceed the slow pace of natural revenue growth. Debt service expense has peaked in fiscal 2018 based on pro-forma debt service calculations and is projected to gradually decline beginning in fiscal 2019. The potential for required increases in spending associated with potential new spending mandates that could occur depending on the state's budget outcome could impact the spending profile, but Fitch expects management to make appropriate decisions regarding staffing levels, revenue increases and uses of reserves to meet potential new growth.

The town maintains a solid level of expenditure flexibility. Fixed carrying costs for debt service, pension and OPEB were a manageable 11% of total governmental spending and Fitch does not expect material changes in these levels over the near term as the fast debt amortization rate will help offset potential upward changes in required pension contributions. Management has the legal ability to reduce staff at any time if necessary although police employees are subject to minimum manning requirements. Union contracts are subject to arbitration but a decision may be rejected by two-thirds vote by the board of selectmen. A new arbitration panel would then be appointed by the state, and their subsequent decisions are required to take into consideration the financial capability of the employer.

Management made minor cuts to full-time positions over the previous recession by combining positions and eliminating non-filled positions and indicated that additional expenditure flexibility above this remains in order to address a potential future revenue downturn or an increased spending burden stemming from state policy actions.

Long-Term Liability Burden

The burden of debt and unfunded pension liabilities is low at 7% of residents' estimated personal income. Over half of the burden is due to the town's moderate level of outstanding debt, net of sewer assessments receivable. The town repays a high 73% of its outstanding principal within 10 years and the descending debt service structure also allows the town good flexibility to address future capital needs. The fast level of debt amortization should also help offset potential growth in pension liabilities. The fiscal 2018 to 2022 capital program totals $115 million, with an estimated $7 million to $10 million in annual issuance to help support funding of the plan. State grants and a minimal amount of pay-as-you-go funding make up the balance of the funding.

The town has two single-employer defined benefit pension plans; one for town employees and one for the police, which are now both closed to new participants. The combined NPL of the town's pension plans as of June 30, 2016, based on GASB 68 reporting, was $89 million (a 48% ratio of assets to liabilities). Using the town employees' plan's 5.6% investment rate of return (IRR) and Fitch's conservative 6% IRR for the police plan, the estimated NPL increases to $106 million (3% of personal income) and a 43% ratio of assets to liabilities.

New funding valuations were performed for both plans effective July 1, 2016 and reflect a moderate increase in unfunded actuarially accrued liabilities.

The town's council approved a new ordinance during fiscal 2016 that requires town budgets to include full pension actuarial contributions. The ordinance cannot be overridden without two-thirds vote of the council. Fiscal 2016 was the first time the town fully contributed to both plans following a multi-year plan to gradually meet full funding of annual contributions. All new hires are now enrolled into a defined contribution plan which Fitch believes should help control growth in long-term future pension liabilities.

The town's teachers participate in the State Teacher's Retirement System, a cost-sharing pension plan, for which the state is making all contributions.

The town has a very minimal other post-employment benefits (OPEB) liability as a majority of OPEB costs are employee funded. The unfunded OPEB liability as of July 1, 2014 was $32 million or approximately 1% of personal income.

Operating Performance
Fitch believes the town is exceptionally well-positioned to manage the challenges associated with a moderate economic downturn while maintaining a high degree of financial and budgetary flexibility. The town's low-to-moderate carrying costs, strong revenue raising abilities, and solid control over expenditures afford the town substantial gap-closing capacity.

Trumbull's conservative financial management has resulted in maintenance of strong gap-closing capacity as evidenced by positive operating results in six of the past seven years. However, Fitch notes that results may have been different had pension contributions been fully funded. The town ended fiscal 2016 with a net operating surplus of $2.1 million (1.2% of spending). Unrestricted general fund reserves increased to $20.7 million or a sound 12% of spending. The town has a 10% fund balance policy and has used surplus levels over and above this amount to help manage tax rate increases.

The town is projecting a $1.3 million general fund operating surplus for fiscal 2017 aided in part from better than anticipated labor costs and health insurance savings as a result of moving employees from its self-insurance plan to the state affiliated health insurance pool.

Trumbull's fiscal 2018 general fund budget totaled $169 million which was a 3.4% increase from the prior year. The increase in the budget reflects primarily a budget contingency established for potential state revenue impacts of an estimated $5.7 million. Most departments were held flat or had their budgets lowered to help offset the potential cost impact and keep the tax rate increase at only 2%. A portion of fund balance equal to $1.8 million was used to support the budget and keep the tax rate increase at a moderate level and this amount represents the balance exceeding the town's 10% policy level. Fitch considers the establishment of the budget contingency to be a prudent measure in light of the uncertainties surrounding the state's finalization of it budget and changes that may affect Connecticut local governments.

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Applicable Criteria
Rating U.S. Public Finance Short-Term Debt (pub. 08 Feb 2017) (https://www.fitchratings.com/site/re/893974)
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017) (https://www.fitchratings.com/site/re/898466)

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