

CREDIT OPINION

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 Rate this Research

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Bethany (Town of) CT

Update to credit analysis following removal of negative outlook

Summary

The Town of Bethany (Aa2), CT's tax base is moderately sized and resident wealth and incomes are very strong. The town's debt and pension burdens are low. Bethany's financial performance is strong, and is supported by conservative budgeting and formalized fund balance policies.

On July 13, 2018 Moody's removed the negative outlook it assigned in October 2017.

Credit strengths

- » Majority of revenues from stable predictable property taxes
- » Strong resident wealth and income profile
- » Multi-year trend of positive operating performance
- » Formalized fund balance policies

Credit challenges

- » Modest tax base size still below pre-recession peak
- » Exposure to fiscal uncertainties of the state

Rating outlook

The negative outlook, which was assigned in October 2017, reflected the significant increase in the town's millage rate that would have been required to offset reduced state funding under the Governor's executive order that dictated state spending prior to adoption of a biennial budget. The removal of the negative outlook reflects our expectation that the town's conservative budgeting practices and strong operating performance will continue to support its financial profile at a level sufficient for the rating category despite the state fiscal uncertainties.

Factors that could lead to an upgrade

- » Material tax base expansion
- » Significant growth in financial reserves

Factors that could lead to a downgrade

- » Material increase in debt
- » Erosion of financial reserves
- » Significant tax base contraction

Key indicators

Exhibit 1

Bethany (Town of) CT	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$820,596	\$815,132	\$784,906	\$830,046	\$835,493
Population	5,555	5,546	5,533	5,521	5,521
Full Value Per Capita	\$147,722	\$146,977	\$141,859	\$150,343	\$151,330
Median Family Income (% of USMedian)	185.0%	179.5%	175.2%	184.2%	184.2%
Finances					
Operating Revenue (\$000)	\$22,060	\$22,711	\$22,899	\$24,113	\$24,765
Fund Balance (\$000)	\$3,333	\$3,549	\$2,799	\$3,194	\$4,071
Cash Balance (\$000)	\$3,664	\$3,320	\$4,323	\$3,596	\$5,220
Fund Balance as a % of Revenues	15.1%	15.6%	12.2%	13.2%	16.4%
Cash Balance as a % of Revenues	16.6%	14.6%	18.9%	14.9%	21.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$6,550	\$5,708	\$4,672	\$3,856	\$5,338
3-Year Average of Moody's ANPL (\$000)	\$742	\$978	\$983	\$1,138	\$1,187
Net Direct Debt / Full Value (%)	0.8%	0.7%	0.6%	0.5%	0.6%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.2x	0.2x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x

As of August 1, 2018 Bethany will have \$6M in direct debt outstanding for 0.72% of FV
 Source: Moody's Investors Service and audited financial statements

Profile

The Town of Bethany is located in New Haven County, approximately 10 miles from the City of New Haven (Baa1 negative). As of 2016 the estimated population was 5,521.

Detailed credit considerations

Economy and Tax Base: Stabilizing tax base still below pre-recession peak; Strong wealth and income profile

Bethany's tax base will likely remain stable in the near term given ongoing local development and stabilizing grand list valuations. The town's fiscal 2017 Equalized Net Grand List (ENGL) was \$835 million following two consecutive years of growth. Fiscal 2018 and 2019 grand list valuations show the town's tax base remaining stable. Despite recent growth, the town's tax base remains below its \$976 million pre-recession peak and contracted at an average annual rate of -2.1% over the five years ending in fiscal 2017.

Modest new development will contribute to the town's tax base. Ongoing projects include a 30 unit condominium which the town expects to contribute \$7.5 million in grand list value and 10 new homes expected to add an additional \$3.6 million. A new soccer facility with an estimated value of \$1.5 million is also underway.

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The town's resident incomes and wealth profile is very strong. Median family income at 184% and 149% of the national and state medians, respectively. Similarly, the town's ENGL per capita of \$151,330 compares favorably to the nationwide full value per capita of \$88,913 and the statewide value of \$143,901.

Financial Operations and Reserves: Strong operating performance despite unpredictable state funding environment

The town's financial position will remain stable and sufficient for the rating category given management's conservative budgeting, formalized fund balance policies, and demonstrated ability to effectively adapt to state funding uncertainty.

In fiscal 2017 the town realized its fourth operating surplus in the past five years, growing the town's available General Fund balance to \$4 million representing 16.4% of revenues.

The town's 2018 budget was adopted using state aid estimates based on a February 2017 proposal by the Governor, which called for significantly reduced state funding. As a result, Bethany's 2018 budget reflected a budget-to-budget decrease of 0.12%, included a \$1.25 million reduction in the state funding, and increased the town's tax levy by 6.9%. Ultimately, the state's adopted 2018 budget and subsequent mid-year cuts reduced the town's total statutory formula aid by \$288 thousand relative to 2017, significantly less than budgeted for in the town's 2018 budget. As a result, town management reports that fiscal 2018 operating performance is positive, and it anticipates an operating surplus of approximately \$500 thousand, which will be added to fund balance.

The fiscal 2019 adopted budget is balanced with no increase to the mill rate and a 2% reduction in expenditures. The town has conservatively budgeted for \$2 million in state funding, \$300,000 less than what is currently appropriated for according to the state budget.

Property taxes are the town's largest revenue source at 80.1% of total revenues. State aid, including aid for education and on-behalf payments by the state for the teachers' pension plan, comprised 15.7% of 2017 revenues, below the Connecticut medians for intergovernmental aid of 20%.

LIQUIDITY

Liquidity is satisfactory in the General Fund, with net cash of approximately \$5.2 million representing 21% of revenues.

Debt and Pensions: Low debt and pension burdens

The town's debt profile will remain very manageable given its currently low debt burden and absence of plans for additional borrowing. As of August 1, 2018 the town will have \$6 million of direct debt outstanding, representing 0.7% of ENGL or 0.2 times operating revenues. The town is a participant in Regional School District 5 (Aa1) and supports approximately 20% of the district's operations, including its debt service. Even when including the town's \$5.4 million proportionate share of the school district's debt the town's debt burden is a very manageable 0.5 times operating revenues.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is slower than average, with 74% repaid within ten years. Debt service costs in fiscal 2017 comprised a manageable 3% of General Fund expenditures.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or other derivative agreements

PENSIONS AND OPEB

Bethany maintains defined contribution plans for all full-time town employees, to which it contributed \$45 thousand in 2017. The town contributes to the Connecticut Municipal Employees' Retirement System (MERS) for its Public Works employees, for which it contributed \$42 thousand in 2017. The town's three-year average Adjusted Net Pension Liability (ANPL) was a nominal 0.05 times operating revenues in fiscal 2017.

Regional School District teachers participate in the state administered teachers retirement system employer contributions to which are covered by the state. In fiscal 2017, the state made a \$1.3 million contribution on behalf of the district. Including the town's share of the TRS ANPL the town's ANPL totals \$27.8 million, representing 3% of full value.

Bethany contributed \$12 thousand for OPEB in fiscal 2017, which is funded on a pay-as-you go basis. The town's unfunded OPEB liability totals \$739 thousand.

Total fixed costs including debt service, required pension contributions, and retiree healthcare payments, represented a very low 2.9% of revenues. Including the \$1.3 million payment made by the state on-behalf of the town for teachers pensions the town's fixed costs total a still low 8% of revenues.

Management and Governance: Conservative budgeting and formal fund balance policy

Management budgets conservatively and is guided by a formalized policy to maintain 10-14% of revenues in unassigned fund balance. The town historically transfers any surplus in excess of this amount into a reserve for capital projects. Positively, in response to state funding uncertainty, the town has increased its reserve position to offset potential future reductions in state funding.

Connecticut Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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