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Ratings

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Summary:

Bethel, Connecticut; General Obligation; Note

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Credit Profile		
US$20.0 mil GO bnds ser 2018 due 11/15/2038		
Long Term Rating	AAA/Stable	New
US$13.825 mil GO BANs due 07/25/2019		
Short Term Rating	SP-1+	New
Bethel GO		
Long Term Rating	AAA/Stable	Affirmed
Bethel GO BANs due 07/25/2019		
Short Term Rating	SP-1+	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Bethel, Conn.'s series 2018 general obligation (GO) bonds. At the same time, we affirmed our 'AAA' rating on the town's GO debt. The outlook is stable.

At the same time, we assigned our 'SP-1+' short-term rating to the town's series 2018 GO bond anticipation notes (BANs).

Bethel's full faith and credit pledge, payable from the levy of an unlimited-ad valorem tax on all taxable property in the town, secures the series 2018 bonds and notes.

The short-term rating on the notes reflects our criteria for evaluating and rating BANs. In our view, Bethel maintains a very strong capacity to pay principal and interest when the notes come due. We view its market risk profile as low because the town has strong legal authority, in accordance with state law and the town's adopted resolution, to issue long-term debt to take out the notes and is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The long-term rating reflects Bethel's overall strong budget monitoring framework, which has yielded consistent and positive budgetary performance over the last three audited fiscal years. As a result, the town's overall steady operating trends and consistent adherence to comprehensive policies supports its maintenance of very strong flexibility and liquidity to guard against recent state-level fiscal pressures. However, while we expect Bethel to maintain stable finances, a manageable pension and OPEB cost profile, and steady tax base growth over the two-year outlook period, we believe more severe medium-term pressures from a less predictable state fiscal environment could compel the town to make more challenging revenue and expenditure adjustments to maintain at least balanced operations. However, we understand the town is unlikely to incur substantial bonding plans over the next two to three years, and bonds and notes are structured to retire debt at a rate equal to new debt issuances, which should support our view of the Bethel's manageable debt profile. Based on the preponderance of these rating factors, we do not expect its overall credit quality to diminish in the near term.

Bethel's GO debt is eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), Bethel has a predominantly locally derived revenue source, with approximately 75.7% of general fund revenue coming from property taxes in fiscal 2017. The town also has independent taxing authority and independent treasury management from the federal government.

We understand officials intend to use proceeds from the bonds and notes to finance various town-wide and board of education non-recurring capital projects.

The rating reflects our opinion of the following factors for Bethel, specifically its:

- 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 methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.2% of total governmental fund expenditures and 9.8x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 3.4% of expenditures and net direct debt that is 74.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Bethel's economy very strong. The town, with an estimated population of 19,397, is located in northern Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider broad and diverse. Bethel's wealth and incomes are what we consider very strong, with a projected per capita effective buying income of 138% of the national level and per capita market value of $147,773. Overall, the town's market value grew by 3.2% over the past year to $2.9 billion in 2019.

Bethel is a primarily residential community encompasses 17 square miles, approximately three miles east of Danbury and 22 miles northwest from Bridgeport. Interstate Highway 84 and other state highways traverse the town, connecting town residents with employment opportunities in surround labor markets. Bethel's overall economic and employment conditions have remained stable relative that of the state. Historically, we believe that Bethel has maintained a local unemployment rate (estimated at 4% in 2017) that trends lower relative to county (4.5%), state (4.7%), and national (4.4%) averages.

Employers in the health care, manufacturing, commercial retail sectors anchor the local economic and employment base. Bethel's leading employers include Bethel Healthcare (311 employees), Duracell (300), Memry Corp. (230), and Big Y (198). The town reports overall stability among its leading employers and taxpayers in recent years. Due to its largely residential composition, its 10 leading taxpayers account for 11.1% of total AV, representing a very diverse tax base in our opinion.

Over the past several years, the town has realized an uptick in construction activity, both for projects along its commercial corridor and new housing developments. The town conservatively projects about $600,000 to $800,000 growth in taxable value annually over the next two years. Management indicates that a local industrial park has undergone additional development following the completion of water infrastructure improvements. At the same time, several new housing and commercial sites are in various stages of permitting and development, which management believes will support building activity over the next several years.

Therefore, based on the town's expectation for continued modest grand list improvement and stable employment base, coupled with its linkage to a broad and diverse MSA, we do not expect to change our view of the town's very strong economic profile in the near term.

Strong management

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

Key budget development practices include management's use of at least three years of historical data to forecast annual revenue and expenditure assumptions, and to pinpoint outlying line items. In preparation of its annual budget, management reviews each department's annual operation requests and prioritizes operating expenditures. Management strives to maintain an internal spending accountability practice that limits annual expenditure growth to less than 2% of the prior year's expenditures. Due to uncertainty of state aid over the past several years, finance officials consult state publications to conservatively estimate revenue from this source. It also monitors grand list growth to estimate changes in local tax revenue and mill rate. During each fiscal year, Bethel monitors the budget regularly, reporting budget-to-actual results to the first selectman and the board of finance monthly. Furthermore, Bethel maintains a formal investment policy that adheres to state statutes governing investments reports earnings and holdings in its annual audit.

Bethel also maintains a strong focus on capital planning, evidenced by a comprehensive 10-year capital improvement plan (CIP) that identifies projects and costs across all departments. The town updates its CIP annually and details pay-as-you-go funding, intergovernmental grants, and bond financing of all capital projects. However, the town does not maintain a formal long-term financial forecast.

Bethel also has a formal reserve policy that calls for unassigned fund balance to be maintained at a minimum of 10% of annual operating expenditures, which the town uses to mitigate financial risk and manage cash flows in the event of a revenue shortfall and unexpected changes in expenditures. The town does not have a formal debt management plan, but it incorporates a debt service affordability analysis in its annual budget process.

Strong budgetary performance

Bethel's budgetary performance is strong in our opinion. The town had operating surpluses of 2.8% of expenditures in the general fund and of 2.9% across all governmental funds in fiscal 2017. General fund operating results of the town have been stable over the last three years, with a result of 2.7% in 2016 and a result of 2.4% in 2015. Our analysis of the town's performance adjusts for net transfers out of the general fund to other governmental funds and non-recurring expenditures paid with bond proceeds.

We expect Bethel to maintain strong budgetary performance over the next several years, largely due to its embedded budget development and monitoring framework, coupled with its manageable expenditure and fixed-cost profile. Like many municipalities in Connecticut, the school budget accounts for a significant portion of Bethel's operating budget; we understand that Bethel has a collaborative relationship between its board of education and municipal government to develop, monitor, and make timely adjustments to the budget in a less predictable state aid environment. As we note in our commentary, titled "Not Just An Academic Exercise: New England School Districts, Municipalities Benefit From Integrated Financial Reporting," published Sept. 20, 2018, we generally view active collaboration between school district and local municipalities positively.

Furthermore, the town benefits from an overall stable and strong property tax base, which generated approximately 75.7% of general fund revenue in fiscal 2017. In addition, tax collections have remained strong with collections exceeding 98.7% over the past five years. Intergovernmental (state) sources represent the second-highest share of general fund revenue at 21.8% (including pass through funds for Teachers' Retirement System (TRS) contributions), while charges for services constitute about 2.3%. Although statutory aid makes up a sizable portion of the town's general fund revenue, we believe the town has significant tax rate flexibility that insulate it from significant performance volatility relative to peers during an extended period of state fiscal uncertainty and moderate-to-severe state aid reductions.

Bethel reported positive year-end general fund performance for fiscal 2017, which management attributed to better-than-budgeted local tax receipts due to its conservative tax collection assumptions and charges for services. Increases in these locally derived revenue sources offset essentially flat statutory aid. At the same time, the town recognized expenditure savings, totaling nearly $132,000, from unexpended department appropriations from its general government, education, and other line items.

The state's budget impasse last year, which extended four months into the 2018-2019 biennium had a harmful effect on municipal finances entering fiscal 2018. While the likelihood of statutory aid cuts affects all local governments in the state, we believe Bethel demonstrated sufficient capacity within its budget in fiscal 2018 to raise local revenue and reduce expenditures to stabilize operations. Based on estimated statutory aid reductions totaling $882,000 for 2018, the town reduced spending through a combination of expenditure savings, discretionary spending cuts, and hiring freezes in the town and school budget. Due to these tight controls of spending throughout the year and conservatively budgeting of property taxes and charges for services, officials anticipate better-than-budgeted operating results. The town estimates an approximately $1.5 million surplus at fiscal year-end.

The town adopted a balanced $74.6 million fiscal 2019 budget. The town reduced its non-recurring capital budget for the current year in favor of completing a police station construction project. Based on current year performance, the town expects to capture benefit savings related to moving from a self-insured health care plan to a state administered health plan, and management identified other expenditure reductions and reported growth in the net taxable grand list. Although early in the current budget year, officials generally expect property tax revenues to outperform the budget, and the town will continue to adjust the budget as necessary to produce at least balanced results at fiscal year-end.

Despite potential state fiscal challenges entering the next biennium, which could contribute to future cuts to statutory aid to municipalities, we believe Bethel is in a position to maintain stable and strong performance over our two-year outlook period.

Very strong budgetary flexibility

Bethel's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 23% of operating expenditures, or $18.1 million.

Due to strong and positive budgetary performance over the past three fiscal years, Bethel improved its assigned and unassigned reserve position to approximately $18.1 million in fiscal 2017 from $15.3 million in fiscal 2015. Unaudited year-end results estimate that the town will maintain positive operating performance in fiscal 2018, and we understand that assigned and unassigned reserves could increase to nearly $19.6 million, or 26% of general fund expenditures, which is high relative to similarly rated peers in the state. Based on management's general expectation that Bethel will maintain at least balanced operations for fiscal 2019, with no planned draws on reserves over the next two years, we do not expect its available fund balance to fall below current levels.

Furthermore, Bethel's formal reserve policy stipulates that it maintain an unassigned fund balance of at least 10% of annual operating expenditures, a target it has historically met and sustained. Therefore, we expect the town's flexibility to remain very strong over the next two years.

Very strong liquidity

In our opinion, Bethel's liquidity is very strong, with total government available cash at 33.2% of total governmental fund expenditures and 9.8x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

With the majority of Bethel's cash invested in money market funds and certificates of deposit, we believe the town's investments are not aggressive. Furthermore, the town is a regular market participant that has issued debt periodically over the past 20 years, including GO bonds and notes.

Finance officials also confirmed that the town does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. In addition, it does not currently have any variable-rate or direct-purchase debt. For these reasons, and given the strong and stable budgetary environment, we believe the town's liquidity profile should remain very strong.

Strong debt and contingent liability profile

In our view, Bethel's debt and contingent liability profile is strong. Total governmental fund debt service is 3.4% of total governmental fund expenditures, and net direct debt is 74.7% of total governmental fund revenue. Overall net debt is low at 2.3% of market value, which is in our view a positive credit factor.

Following the current bond and note issuance, Bethel will have approximately $71.6 million in total direct debt outstanding, of which $13.8 million is in BANs. While our debt statement analysis does not factor retirement of the notes into our overall assessment of debt amortization because they will be fixed out to long-term debt in future years, we understand management has maintained the historical practice of using budget surpluses to pay down existing BANs when possible. We believe this practice slightly improves our view of the town's amortization over 10 years from 48% to approximately 58%. Like most Connecticut municipalities, the town has no overlapping or underlying debt obligations.

Aside from permanently financing its outstanding notes, Bethel currently has additional debt plans, totaling approximately $28 million over the next three to five years to complete school projects. Bethel expects to support general government projects outlined in its capital improvement plan on a pay-as-you-go basis or apply for state grants and revolving loans. Based on these limited capital needs over the medium-term and the rate at which it is retiring existing debt, we do not expect our view of the town's debt profile to change over the next two years.

Bethel's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.6% of total governmental fund expenditures in 2017. Of that amount, 1.9% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The town made 137% of its annual required pension contribution in 2017, and it has made at least 100% of it actuarially determined contribution over the last three fiscal years.

The town currently administers two defined-benefit plans: a town plan and a police plan. For each plan, the town has contributed, on average, more than 100% of its annual required contribution (ARC) in the past three fiscal years, assuming a 6.75% discount rate. As of the July 1, 2016 valuation, the town plan is 83.6% funded with a $5.8 million net pension liability and the police plan is 67.3% funded with a $5.3 million on an actuarial basis.

The town provides other postemployment benefits (OPEBs) for police, town, and board of education employees in the form of health care insurance. The plan is funded on a pay-as-you-go basis. Cumulatively, the town contributed about $565,000 in fiscal 2017, or 33.6% of its required OPEB contribution. The unfunded OPEB liability was about $17.2 million as of July 1, 2015. In our view, the town's pension and OPEB liabilities remain manageable, and we do not expect them to be a stressor on the town's debt or financial profile over the next two years.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our expectation that Bethel will likely maintain very strong economic indicators–supported by its access to Bridgeport-Stamford-Norwalk MSA–despite economic and fiscal headwinds at the state level. The outlook also reflects our expectation that the town sustains ample capacity to adjust expenditures and revenue to maintain balanced operating performance, coupled with strong financial flexibility and liquidity, should reductions in statutory aid challenge the town's operating environment. Therefore, we do not expect to change the rating within the two-year outlook period.

Downside scenario

While unlikely to occur over the two-year outlook period, we could lower the rating if the town were to experience a substantial weakening of budgetary performance, due to significant state aid reductions or otherwise, leading to a material decline of available reserves or constrained liquidity.

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

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