

RatingsDirect®

Summary:

Bloomfield, Connecticut; General Obligation; Note

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

Bloomfield, Connecticut; General Obligation; Note

Credit Profile

US\$12.0 mil GO bnds ser 2019 due 01/15/2039

Long Term Rating AA+/Stable New

US\$7.0 mil BANs due 01/28/2020

Short Term Rating SP-1+ New

Bloomfield GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Bloomfield, Conn.'s 2019 general obligation (GO) bonds. At the same time, we assigned our 'SP-1+' short-term rating to the town's 2019 GO bond anticipation notes (BANs), maturing Jan. 28, 2020. Additionally, we affirmed our 'AA+' rating on the town's GO debt outstanding. The outlook, where applicable, is stable.

Bloomfield'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 2019 bonds and notes.

The short-term rating on the notes reflects our criteria for evaluating and rating BANs. In our view, Bloomfield maintains a very strong capacity to pay principal and interest when the notes come due. We view the town's market risk profile as low because it has strong legal authority to issue long-term debt to take out the notes, although no additional authority is required, and it is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

We understand that officials intend to use proceeds from the 2019 GO bonds (approximately \$12 million) to retire outstanding GO BANs and provide new money for the town's human services facility project. We further understand that the BANs (\$7 million) will provide funding for the human services project and the town's public works complex renovation and expansion project.

Bloomfield's management is active in economic planning and development and conservative in budgeting and financial management. Consequently, the town has produced consistently positive operating results and recently had its largest assessed value (AV) growth in the past ten years. While the state's long-term economic and financial challenges remain a question mark, along with a growing debt burden, we believe the town's management team will address these challenges to continue producing at least balanced financial results and maintaining very strong reserves.

The long-term rating further reflects the following factors, including Bloomfield'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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 37.4% of total governmental fund expenditures and 7.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.3% of expenditures and net direct debt that is 53.7% of total governmental fund revenue, but significant medium-term debt plans; and
- Strong institutional framework score.

Very strong economy

We consider Bloomfield's economy very strong. The town, with an estimated population of 21,406, is in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 133% of the national level and per capita market value of \$141,067. Overall, market value grew by 4.7% over the past year to \$3.0 billion in 2019. The county unemployment rate was 4.8% in 2017.

Bloomfield is a residential community with a sizable commercial and industrial base. Management is active in economic development and planning, and works to attract development through the use of tax abatements and continually evaluating master planning and zoning. We believe Bloomfield's location near Hartford and Bradley Airport is advantageous, leading to investment in both residential and non-residential development, in addition to providing a broad range of employment opportunities.

Cigna Corp. is the town's leading employer, with approximately 5,000 employees. The company's recent acquisition of Express Scripts led to an expansion and redevelopment of the Cigna corporate campus. Other sizable development projects include the first phase of a three-phase housing development near downtown, with 212 luxury apartments open to date, as well as a \$100 million renovation of a retirement community. Other private major employers include Kaman Corp. (1,570 employees), World Class Distributions (685), Seabury retirement community (600), and Home Goods (500).

We believe that the town's location, along with management's intentional economic planning, will lead to continued incremental tax base growth. We note the town's 4.7% AV growth this past year, but also note that AV was nearly flat over the preceding four years. We expect the town's underlying wealth and income metrics to remain stable, and with access to the broad and diverse Hartford MSA the town's economy will remain very strong.

Strong management

We revised our view of the town's management to strong from adequate, following a revision of our assessment of Bloomfield's financial policies and practices under our FMA methodology to good from standard. This indicates that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a

regular basis.

Highlights include management's focus on capital planning, including Bloomfield's five-year capital improvement plan, which management reviews annually, with funding sources identified for the current fiscal year. In our opinion, the town is generally conservative when budgeting for expenditures; it uses a variation of zero-based budgeting that focuses attention on critical needs annually.

Management also regularly monitors the budget and produces in-depth reports for the town council monthly. Investments adhere to state guidelines, and management reports the results to the council quarterly. The town's formal fund balance policy formalizes procedures, uses of fund balance, reasons for the policy, and a mandatory fund balance minimum of 15% of expenditures. Most recently, Bloomfield adopted a debt management policy which sets guidelines on the types of debt the town may issue, along with limiting debt service to 8%-10% of the budget and requiring principal repayment of at least 50% in ten years.

Strong budgetary performance

Bloomfield's budgetary performance is strong, in our opinion. The town had operating surpluses of 1.8% of expenditures in the general fund and 3.8% across all governmental funds in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of 1.4% in 2017 and 1.1% in 2016.

For analytical consistency, we adjusted budgetary performance to account for recurring transfers out of the general fund into the capital projects fund. Over the past three audited fiscal years, the town has annually produced strong budgetary performance, with general fund results of 1.1%, 1.4%, and 1.8% for each recent year, respectively. Across governmental funds, Bloomfield had results of 3.9%, 2.1%, and 3.8% over the same period.

We believe the town's financial results are chiefly due to management's conservative budgeting practices, particularly its careful budget planning and in-year performance monitoring. Bloomfield adopted its fiscal 2018 budget prior to the state finalizing its budget, resulting in uncertain state aid numbers. Management instituted a hiring freeze and supplemental budgetary controls, to ensure at least balanced results at year-end. In 2018, Bloomfield realized an overall reduction in intergovernmental aid of approximately \$1.3 million, which it was able to absorb due to conservatively budgeted revenues and carefully monitored expenditures. In 2018, local property taxes were 81% of general fund revenues, while intergovernmental was approximately 16%.

For fiscal 2019, the budget is largely the same as prior fiscal years, with a \$1.4 million appropriation of fund balance, which the town has historically not used. There were no major revenue or expenditure changes in the 2019 budget. Management reports that, while still early in the year, revenues and expenditures are tracking on budget. Given recent financial performance and management's conservative financial management, we expect Bloomfield to continue to produce strong budgetary performance.

Very strong budgetary flexibility

Bloomfield's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 23% of operating expenditures, or \$21.0 million.

The town formally adopted its long-standing policy of maintaining a minimum fund balance of 15% of expenditures in early 2017. It budgeted for a fund drawdown of approximately \$1.4 million in fiscal 2019, which is consistent with prior

budgets. However, the town has historically produced approximately balanced or better results, resulting in a trend of increasing fund balance. Due to conservative budgeting and forecasting, we expect reserves to remain stable and provide very strong budgetary flexibility over the next two fiscal years.

Very strong liquidity

In our opinion, Bloomfield's liquidity is very strong, with total government available cash at 37.4% of total governmental fund expenditures and 7.1x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

We believe Bloomfield maintains strong market access, as it regularly issues GO bonds. The town has no direct-purchase or variable-rate debt, and as it adheres to state law, which limits investments to money market funds, CDs, and treasuries, we do not consider its investments aggressive. We do not expect any significant deterioration of cash balances and therefore believe the liquidity position will remain very strong.

Adequate debt and contingent liability profile

In our view, Bloomfield's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.3% of total governmental fund expenditures, and net direct debt is 53.7% of total governmental fund revenue. Negatively affecting our view of the town's debt profile are its significant medium-term debt plans.

We revised our view of the town's debt profile to adequate, given its debt plans and slowing principle amortization. We will continue to evaluate the situation as Bloomfield finalizes borrowing plans for current and upcoming projects. Following this issuance, management expects to issue up to the balance of the authorized debt for the health and human services and the public works facilities over the next several years. We expect this to total approximately \$15 million. Additionally, management is exploring funding a new library. However, as the library project has not yet gone to referendum, it is unclear how much, if any, debt could be issued for this project within the next several years. Currently, we expect Bloomfield's debt profile to remain adequate over the next two fiscal years.

Bloomfield's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 7.4% of total governmental fund expenditures in 2018. Of that amount, 4.6% represented required contributions to pension obligations, and 2.8% represented OPEB payments. The town made its full annual required pension contribution in 2018.

The town is the administrator of two single-employer, defined-benefit, public employee retirement systems: the Town of Bloomfield Retirement Income Plan and the Town of Bloomfield Police Retirement Income Plan. Bloomfield paid 100% of the annual determined contribution for both plans in fiscal 2018, as well as the two previous audited years, and expects to continue doing so. As of June 30, 2018, the Retirement Income Plan had a net pension liability of \$17.3 million, with a funded ratio of 74.63%, while the Police Retirement Plan had a net pension liability of \$17.1 million and a funded ratio of 61.95%. The town incrementally lowered the discount rate over the past several years. Currently, both plans use a 6.75% discount rate, which we consider more conservative than the average pension plan. The defined-benefit plans closed to new employees in 2003. New hires receive retirement benefits through a defined-contribution plan.

Bloomfield established an OPEB trust fund in 2014, and as a condition of the trust, it plans to phase in the fully

required annual required contribution over 10 years. To date, it has contributed assets with an actuarial value of \$5.0 million to the OPEB trust. As of June 30, 2018, the town has an OPEB unfunded liability of \$84.9 million, measured using a 7.0% discount rate. We do not expect pension or OPEB costs to significantly pressure Bloomfield's budget over the next two years.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view of Bloomfield's very strong budgetary flexibility, very strong liquidity, and strong budgetary performance. We do not expect to raise or lower our rating within the two-year outlook period.

Upside scenario

Should significant economic growth lead to underlying wealth and income metrics rising to levels commensurate with higher rated peers, we could raise the rating.

Downside scenario

If budgetary performance were to deteriorate, leading to a reduction of reserves to a level no longer comparable to peers at this rating level, we could lower the rating.

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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