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Ratings

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Summary:

Bristol, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$25mil GO bnds ser 2019 due 08/01/2039		
Long Term Rating	AA+/Stable	New
Bristol GO		
Long Term Rating	AA+/Stable	Affirmed
Bristol GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Bristol, Conn.'s series 2019 general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the city's existing GO debt.

Credit summary

The rating reflects our opinion of the city's strong and growing local economy with access to the Hartford metropolitan statistical area (MSA). In our view, Bristol's historically balanced financial performance; continued maintenance of strong reserves, which averaged about 16% during the past three fiscal years; and well-funded pension plan also support the rating.

Security and use of proceeds

The city's unlimited-tax-GO pledge, to levy ad valorem taxes without limit as to rate or amount on all taxable property within its borders, secures the bonds.

We understand officials intend to use series 2019 bond proceeds to fund various capital improvement projects.

The city's general creditworthiness reflects our opinion of its:

- Strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but breakeven operating results at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.6% of total governmental-fund expenditures and 7.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 3.7% of expenditures and

net direct debt that is 44.7% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value; and

- Strong institutional framework score.

Strong economy

We consider Bristol's economy strong. The city, with an estimated population of 59,525, is in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. The city has a projected per capita effective buying income at 104.2% of the national level and per capita market value of $94,748. Overall, market value has grown by 0.8% during the past year to $5.6 billion in fiscal 2020. County unemployment was 4.2% in 2018.

Many residents commute into Hartford for employment. Interstate 84 and Route 229, with Bradley International Airport about 30 miles away, service the city.

Bristol is home to ESPN, which is its leading employer, with more than 4,000 employees, and largest taxpayer, accounting for 6.03% of the net taxable grand list, which is Connecticut's assessed value. There is no taxpayer concentration with the 10 leading taxpayers accounting for a diverse 12.57% of the grand list. Other leading employers include Bristol government, Bristol Hospital, Faneuil Inc., and Amazon.

The city continues to experience new and ongoing development, including its leading employers. New and existing employers are moving their operations to, or expanding them at, Southeast Bristol Business Park, including AMKO and LAB Security, both of which are constructing new industrial spaces. A massive Doubletree by Hilton Hotel expansion is in the planning stages.

The city's residential base has also expanded with the construction of new single-family homes and a new senior-living community, including the Calamar Apartment Community, a new three-story, 128-rental-unit, active-adult community and the conversion of two former school buildings to roughly 100 new senior-housing units at Bingham Place and O'Connell Place. Finally, investments and further development in the downtown area are ongoing as management implements its master plan, coupled with Southeast Bristol Business Park's expansion. New construction of an 18,000-square-foot, mixed-use building and 15,000-square-foot retail-office building in the city's Downtown Central Square are among some projects underway. Therefore, we expect the city's economy will likely remain strong.

Strong management

We view the city's financial management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Bristol currently maintains financial projections for debt service and its potential effect on future budgets and mill rates, but management does not formally forecast future revenue and expenditures. However, officials will seek to project operating revenue and expenditures formally from now on, incorporating projections into capital improvement and debt plans as part of a new initiative with its 10-year capital-improvement-and-strategic-planning committee.

Bristol maintains a number of best practices critical to supporting credit quality, and these practices are highly embedded in daily operations. Key policies and practices include management's:

- Conservative budget process where it uses three years to five years of historical trends--It only includes intergovernmental revenue when it cannot confirm amounts; and
- Monthly budgetary performance reports to the board.

The city also maintains a formal 10-year capital improvement plan it updates annually that identifies funding sources. In addition, it has a formal debt-management policy; investment policy with monthly holdings-and-earnings reports to the board; and reserve policy that limits unassigned fund balance to 10%-15% of expenditures and total fund balance to 15%-20%, which it has adhered to historically.

Strong budgetary performance

Bristol's budgetary performance is strong, in our opinion. The city had slight deficit operating results in the general fund at 0.5% of expenditures but balanced results across all governmental funds at 0.5% in fiscal 2018.

Fiscal 2018 results include adjustments for one-time capital expenditures and recurring transfers. Officials primarily attribute the slight fiscal 2018 general fund drawdown to higher-than-budgeted school department and special-education costs, coupled with lower-than-expected state revenue. Due to the state budget impasse in fiscal 2018, which ultimately led to state aid reductions for all Connecticut municipalities, the city realized lower-than-budgeted state aid, including state-revenue and education-cost-sharing grants. However, management mitigates some of this effect on the city through budget savings in different areas and positive budget-to-actual revenue variances.

Officials estimate ending fiscal 2019 with a $505,000 general fund surplus. While school costs were slightly overbudget, management realized a revenue increase during fiscal 2019 compared to the budget, which supported positive operations. In addition, Bristol could have achieved a higher general fund surplus of more than $4 million if officials did not use about $3.6 million of this expected surplus to help fund capital reserves and set up a mill-rate stabilization fund.

The fiscal 2020, $200.6 million budget does not include any fund balance use. The budget includes a 3.87% increase in the mill rate and additional education-and-salary increases. Management indicates budget-to-actual results are tracking well, and it does not currently expect negative financial operations by fiscal year-end. Due to historically positive financial operations and projections, coupled with conservative budgeting, we expect budgetary performance will likely remain strong.

Property taxes generate 62% of general fund revenue, followed by intergovernmental revenue at 35%, including on-behalf state payments for teacher retirement contributions. Collections have been strong, averaging 99% during the past three years.

Very strong budgetary flexibility

Bristol's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 15% of operating expenditures, or $34.7 million.

The city has steadily improved reserves during the past three fiscal years. Officials estimate ending fiscal 2019 with a slight increase of $505,000 due to balanced operations. The fiscal 2020 budget does not include any reserve use, and management does not expect to draw down reserves by fiscal year-end 2020. Therefore, we expect budgetary flexibility will likely remain very strong. The city's formal reserve policy calls for maintaining unassigned fund balance at 10%-15% of expenditures and total fund balance at 15%-20%, which it adheres to historically.

Very strong liquidity

In our opinion, Bristol's liquidity is very strong, with total government available cash at 27.6% of total governmental-fund expenditures and 7.4x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

Bristol's GO and bond anticipation note issuance during the past 10 years demonstrates strong market access. The city does not engage in aggressive investments that could lead to significant liquidity volatility. In addition, it does not have any variable-rate or privately placed debt exposure that could result in undue contingent liabilities through acceleration events or interest-rate risk.

Very strong debt-and-contingent-liability profile

In our view, Bristol's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is 3.7% of total governmental-fund expenditures, and net direct debt is 44.7% of total governmental-fund revenue. Overall net debt is low at 2% of market value, which is, in our view, a positive credit factor.

With this issuance, the city will have about $116.5 million of total direct debt. It plans to issue about $18 million of additional debt during the next two years to three years for various capital purposes. However, we do not expect these medium-term debt plans to have a material effect on ratios.

Bristol's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 3.3% of total governmental-fund expenditures in fiscal 2018: 1% represented required contributions to pension obligations and 2.3% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2018.

Bristol previously maintained three separate pension plans: the firefighters' and police officers' benefit funds and the Bristol Retirement Fund. However, effective June 29, 2018, the city consolidated all three plans, which were all extremely well-funded, into the Bristol General Retirement System. The new plan remains very well-funded at 148.22% with a net pension asset of $210.5 million at June 30, 2018, and an assumed rate of return of 7.3%. The city contributed $2.6 million toward the plan in fiscal 2018, which equaled its full actuarially determined contribution. The city does not have any required contribution in fiscal 2019 due to the plan's overfunded status. The city's adopted formal policy calls for maintaining pension plan funding at no less than 125%.

Teachers and other certified personnel are eligible to participate in the Connecticut State Teachers' Retirement System, a cost-sharing, multiple-employer plan; the state contributes to the plan on behalf of the city.

Bristol also provides retiree health care to employees. The unfunded OPEB liability was $56.2 million in fiscal 2018. The city has been contributing toward this OPEB obligation; it currently maintains roughly $9.9 million in an OPEB trust fund as of fiscal 2018, or 15% funded. It budgets for about a $1.45 million contribution toward the OPEB fund in fiscal 2019. Although we expect OPEB contributions will likely continue to increase due to low funding, we expect overall retirement expenses will likely remain manageable due to very high pension plan funding.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Bristol's strong economy, supported by access to the Hartford and New Haven MSAs. The outlook further reflects our view of strong budgetary performance and very strong budgetary flexibility, bolstered by strong management conditions. We attribute Bristol's lack of budgetary pressure typically to the risk of accelerating pension contributions. Due to these factors, we do not expect to change the rating during the two-year outlook period.

Upside scenario

If the economic profile were to continue to strengthen compared to higher-rated municipalities and management were to continue to produce balanced-to-positive operating results and maintain very strong budgetary flexibility, coupled with the adoption of a stronger long-term financial plan, we could raise the rating.

Downside scenario

If the city were to experiences consecutive operating deficits, resulting in weakened budgetary performance or flexibility, 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
- 2018 Update Of Institutional Framework For U.S. Local Governments