18 Oct 2019 | New Issue

Fitch Rates Bristol, CT's $25MM Series 2019 GO Bonds 'AAA'; Outlook Stable

Fitch Ratings-New York-18 October 2019: Fitch Ratings has assigned a 'AAA' rating to the following city of Bristol, CT general obligation (GO) bonds:

--$25,000,000 GO bonds, issue of 2019.

In addition, Fitch has affirmed the city's ratings as follows:

--Outstanding GO bonds at 'AAA';
--Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

The series 2019 bonds are being issued to finance various city and school projects. The bonds are scheduled for a competitive sale on Oct. 29.

SECURITY
The bonds are backed by the city's full faith and credit and unlimited taxing authority.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO bond rating reflect the city's unlimited revenue raising ability, solid expenditure flexibility and low long-term liability burden. The city has sustained strong operating performance during both times of economic downturn and economic recovery.

Economic Resource Base
Bristol is a suburban city located 20 miles southwest of the state capital city of Hartford. The city's population has been stable, numbering between 60,000 and 61,000 since 2010. The broad-based economy includes healthcare and manufacturing and the city is home to the headquarters of ESPN.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Property taxes make up approximately three quarters of the general fund revenue budget and the city has high revenue raising capacity due to its unlimited legal taxing authority. Fitch expects future natural revenue growth to be generally in line with inflation due to the potential for moderate new growth in the tax base based on economic development projects planned or underway.

Expenditure Framework: 'aa'
The city's fixed carrying costs associated with debt service, pension and other post-employment benefits (OPEB) contributions were a low 7% of fiscal 2018 total governmental spending. Fitch expects fixed costs as a percentage of spending to remain low even with the issuance of the 2019 bonds. Management has adequate control over headcount and wages and has shown spending flexibility during economic downturns.

Long-Term Liability Burden: 'aaa'
Bristol's long-term liability burden for debt and Fitch adjusted net pension liabilities is low at an estimated 4% of residents' personal income. Fitch expects the burden to remain low as a result of manageable future borrowing plans, pensions with a positive net asset position and above-average principal amortization.

Operating Performance: 'aaa'
Fitch expects the city to manage through periods of economic decline while maintaining a sound financial cushion on the basis of its solid level of budgetary flexibility, prudent fiscal policies and history of careful financial management.

RATING SENSITIVITIES
Strong Fiscal Management: Fitch expects management will continue to manage spending in line with changes in revenues and continue to maintain its very high level of operating and financial flexibility.

CREDIT PROFILE
Wealth levels exceed national levels but are below that of the wealthy state. Top 10 taxpayers within the city comprise nearly 12% of taxable assessed value with ESPN having the largest share by far at nearly 6%. ESPN is the largest employer in the city with roughly 4,200 employees. While ESPN has made reductions in staff in the past couple of years, Fitch's rating assumes that the company will remain a prominent presence in the city. The remainder of the top 10 taxpayers is spread amongst a major developer, retail, utilities and a theme park. The city also benefits from recent investments in manufacturing and the recent completion of a 60,000 square foot downtown

medical facility by Bristol Hospital, currently the city's second largest employer.

Revenue Framework

The city's primary source of revenue is property tax, which accounts for roughly three-quarters of the general fund operating budget (exclusive of state pass-throughs for teacher pensions) and supports stability in operating revenues. State aid, primarily associated with education, is the next largest source of revenue and is subject to more variability, but has experienced modest increases in recent years.

General fund revenue growth has exceeded the rate of inflation based on the 10-year compound annual growth rate through 2018. However, tax base growth has been more modest over the last five fiscal years.

The city's tax base was flat after the most recent five-year revaluation effective Oct. 1, 2017 for the fiscal 2019 tax year, following significant growth of 39% based on the Oct. 1, 2007 revaluation and a decline of 13% based on the Oct. 1, 2012 revaluation. Fitch expects future revenue growth to be more in line with inflation, absent policy action, as a result of economic development currently underway in the city. Fitch expects that state aid payments will continue to exhibit variability in future years.

The strength of the city's revenue framework lies in its revenue raising authority as the city has independent legal ability to raise taxes without limit under Connecticut law.

Expenditure Framework

Education and public safety represent the largest shares of expenditures, at roughly 57% and 13% of the fiscal 2020 budget, respectively. Steady population trends have allowed the city to keep up with service demands without considerable budgetary pressures, although education costs have increased in recent years due to certain state mandates and the city's desire to continue to fund services and programs to promote student academic achievement.

Fitch expects the natural pace of spending growth to be in line with to slightly above expected inflationary revenue growth. At the end of fiscal 2018, the city consolidated the three pension plans into one system, which due to its overfunding requires no city contributions. The city has a policy to increase its pension contributions if the funding ratio for the consolidated system falls below 125%. As of the fiscal 2018 audit, the ratio of assets to liabilities was 148%.

Carrying costs for annual debt service, pension contributions and OPEB are low at about 7% of fiscal 2018 governmental spending. Fitch expects such levels to remain low based on debt plans and expectations for the limited demands of pension and OPEB obligations.

The city has the ability to reduce expenses tied to its services, namely through the reduction of staff or imposition of furloughs; however, a reduction in fire department staffing levels is limited due to minimum manning requirements. Union contracts are subject to arbitration which is ultimately required to take into consideration the financial capability of the city. Similar to most Connecticut municipalities, education expenses make up the majority of the budget for the city. A minimum budgeting rule restricts the city's ability to cut education funding from the year prior, limiting budgetary flexibility in this area.

Debt service levels are projected to rise moderately over the next three fiscal years due to the issuance of the series 2019 bonds but then debt service descends quickly providing flexibility to issue additional debt in its place. Principal amortizes at a rate of roughly 64% over 10 years.

Long-Term Liability Burden
Bristol's long-term liability burden is very low at around 4% of residents' estimated personal income. Pensions do not present a pressure, as the city's pension system is overfunded. The city's capital improvement plan totals about $157 million, but only the first year of bonding in the plan has been approved. Projects are primarily anticipated to be funded through bond financing at a level which should not materially impact the long-term liability assessment.

The city's overfunded pension system has an estimated net asset to liability ratio of about 148% as of June 30, 2018, based on the city's 7.3% investment rate of return. The ratio declines to about 128% using a Fitch adjusted 6% investment rate of return. The city's net unfunded OPEB liability was $56 million as of June 30, 2018 (in accordance with GASB 75 reporting requirements) representing a moderate 2% of personal income. Management has been making contributions annually in excess of pay-as-you-go since 2008 and has accumulated assets in its OPEB trust fund totaling approximately $10 million as of June 30, 2018. In addition, the city has made changes in its health insurance plans available to retirees and certain of its employee groups which should control growth in this liability.

Operating Performance
Fitch expects the city will maintain its high level of financial flexibility throughout an economic cycle given its very strong level of inherent budget flexibility on the basis of its unlimited taxing authority and sound spending flexibility. In addition, management has demonstrated its commitment to maintaining high reserve levels in compliance with its policy of unassigned general fund reserves of at least 12% of spending.

The city has managed its operations prudently through a combination of moderate annual tax levy increases and conservative budgeting practices resulting in strong operating results in recent years. Management took actions to control costs during the downturn and maintained a steady level of general fund reserves within policy levels. Excess surpluses above policy levels are typically used to support capital, fleet and maintenance spending through the city's capital fund.

Fiscal 2018 general fund operations reflected a small net operating deficit of $973,000 after transfers, which was partially due to transfers out to the capital projects fund. The unrestricted fund balance at fiscal end 2018 was $38 million or a high 17% of spending. Unaudited results for fiscal 2019 reflect a surplus of about $505,000 after transfers to other funds. The fiscal 2020 approved general fund budget of $200.6 million is up 3.2% over the prior year's budget and includes modest increases to education and public safety. The budget includes a 1.2 mill tax increase and budgets for flat state aid revenues.

Contact:

Primary Analyst
Patrick Goggins
Analyst
+1-646-582-4695
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Kevin Dolan
Director
+1-212-908-0538

Committee Chairperson
Karen Ribble
Senior Director
+1-415-732-5611

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Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)

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