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Ratings

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Summary:

Bethel, Connecticut; General Obligation; Note

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Table Of Contents

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Credit Profile		
US$20.0 mil GO BANs dtd 07/24/2020 due 07/23/2021		
Short Term Rating	SP-1+	New
US$20.0 mil GO bnds ser 2020 due 07/15/2045		
Long Term Rating	AAA/Stable	New
Bethel GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Bethel, Conn.'s series 2020 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO debt. The outlook is stable.

At the same time, we assigned our 'SP-1+' short-term rating to the town's 2020 GO bond anticipation notes (BANs). The short-term rating reflects our view that the town maintains a very strong capacity to pay principal and interest when the notes come due. Bethel has a low market risk profile because of its strong legal authority to issue long-term debt to take out the notes. In addition, it is a frequent issuer that regularly provides disclosure to market participants.

Bethel's GO bonds and BANs are secured by the town's full-faith-and-credit pledge, and are payable from revenues of an unlimited ad valorem tax. The series 2020 GO bonds (approximately $20 million) will fund general capital improvements. The 2020 BANs (approximately $20 million) will fund school renovations. The town's direct debt totals about $93.7 million.

Credit overview

Bethel's management team has a demonstrated history of adjusting to revenue shortfalls and maintaining fiscal balance. We expect the primarily residential community to sustain strong underlying economic indicators, with its credit profile bolstered by significant reserves and cash and investments on hand. Our outlook is generally for two years, but we see some risks due to the COVID-19 pandemic and U.S. recession over the next six-to-12 months. There broadly remains significant uncertainty stemming from the potential effects of the COVID-19 pandemic and the related economic recession, which we incorporated into our view of the town's budgetary performance and overall creditworthiness. We will continue to monitor any material adverse effects throughout the outlook period.

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 "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" criteria (published Nov. 19, 2013 on RatingsDirect), Bethel has a predominantly locally derived revenue source, with approximately 78.5% of general fund revenue coming from property taxes. The town also has independent taxing authority and treasury management from the federal government.

The long-term rating reflects our view of the following factors for the town:

- 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;
- Adequate budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 40.5% of total governmental fund expenditures and 9.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 4.5% of expenditures and net direct debt that is 94.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance risks

We also analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. Our rating incorporates our view regarding the indirect risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We believe the town's environmental and governance risks are in line with our view of the sector standard.

Stable Outlook

The stable outlook reflects our expectation that Bethel will likely maintain strong economic indicators, supported by its access to Bridgeport-Stamford-Norwalk MSA. The outlook also reflects our expectation that the town has capacity to adjust expenditures and revenue to maintain balanced operating performance, coupled with very strong financial flexibility and liquidity.

Downside scenario

We could lower the rating if the town experiences a substantial weakening of budgetary performance, leading to a material decline of available reserves or constrained liquidity, or if there is significant tax base contraction or sustained elevated county unemployment.

Credit Opinion

Very strong economy

We consider Bethel's economy very strong. The town, with a population of 19,386, is encompasses 17 square miles in Fairfield County in western Connecticut, approximately three miles east of Danbury and 22 miles northwest of Bridgeport. It is in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 136% of the national level and per capita market value of $152,518. Overall, market value grew by 1.4% over the past year to $3.0 billion in 2021. The county unemployment rate was 3.6% in 2019.

Bethel is a primarily residential community. Its tax base has steadily grown over the past several years, averaging about 1.8% growth over the past few years, including 3.24% growth in fiscal 2019, following a 2017 revaluation. However, the town's total assessed value (AV; known as "the grand list" in Connecticut) contracted nearly 21% for fiscal 2014, following the great recession and a 2012 revaluation. Bethel has not yet gotten back to pre-recession total AV, with fiscal 2021 total AV equaling about 88% the pre-recession height of $2.34 billion in fiscal 2013.

S&P Global Economics is projecting a slow economic recovery from the COVID-19 recession. Please see the article, titled "The U.S. Faces A Longer And Slower Climb From The Bottom" (published June 25, 2020). While management reports significant activity continues in its permitting offices, we believe a prolonged recession could result in tax base growth below recent averages, potentially crossing into negative growth. We do not expect tax base deterioration similar to the revaluation after the great recession.

Interstate Highway 84 and other state highways traverse the town, connecting residents with employment opportunities in surrounding labor markets. Due to its access to nearby employment centers, and recent activity in both residential and commercial and industrial sectors, we do not expect material change in the underlying wealth and income metrics. However, our view of the town's economy could change if county unemployment were to increase and remain elevated.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA 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. It strives to maintain an internal spending accountability practice that limits annual expenditure growth to less than 2% of the prior year's expenditures and monitors grand list growth to estimate changes in local tax revenue and the 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. The board can amend the budget midyear, consistent with state statute. Furthermore, it has a formal investment policy that adheres to state statutes, outlines objectives, and requires quarterly reporting on performance.

Bethel also annually updates a six-year capital improvement plan (CIP) that identifies projects and costs across all departments, although it does not readily identify funding sources. The town does not maintain a formal long-term financial forecast. Its formal reserve policy 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 flow in the event of a revenue shortfall and unexpected changes in expenditures. The town does not have a formal debt management plan.

Adequate budgetary performance

Bethel's budgetary performance is adequate, in our opinion. The town had slight deficit operating results in the general fund of negative 0.8% of expenditures, but a surplus result across all governmental funds of 4.4% in fiscal 2019.

The town produced approximately balanced operating results over the past three years, with a small deficit result in fiscal 2019 after transfers out for its capital program. We understand management projects a small surplus operating result, on a GAAP basis, in fiscal 2020. However, due to the sudden rapid economic deterioration, our assessment incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures. Bethel's budgetary performance assessment as it enters fiscal 2021 is adequate, in our opinion, adjusting for potential revenue and expenditure pressures in an uncertain economic environment.

The fiscal 2021 budget is balanced, without an appropriation of reserves. It totals nearly $79.8 million, with the school department's budget increasing 3.35% and the town's budget growing 0.69%, from fiscal 2020. Local property taxes in fiscal 2019 accounted for about 78.5% of audited general fund revenue. Intergovernmental aid was about 17.8%, including pass-through contributions from the state to the teachers' retirement system. Charges for services was about 2.5% of revenue. The revenue mix is consistent year to year, varying only slightly. We believe the town's property tax collection rate could decline slightly, along with potential variability in charges for services--although officials note permit activity has seemingly not slowed during the COVID health crisis or ensuing recession. The town lost approximately $1 million in state aid entering fiscal 2018, when the state adopted a budget late and had to cut expenditures to balance its own budget. Bethel successfully managed those cuts, and we expect the management team will continue to monitor local receipts and make adjustments accordingly. However, given the uncertainty of the operating environment over the next one-to-two years, we believe significant uncertainty exists in both revenue and expenditures and have factored that into our view of performance.

Very strong budgetary flexibility

Bethel's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 21% of operating expenditures, or $18.0 million.

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. Over the past several years, the town maintained reserves well in excess of its fund balance requirement. Despite potential revenue and expenditure volatility, we do not expect deterioration of reserves to a level we no longer consider very strong. Holding 2019 adjusted general fund expenditure constant, the town would need to draw approximately $5.2 million over the next two years to fall below 15% available fund balance; we do not expect this to occur, as we expect management will make budgetary adjustments to limit reserve drawdowns.

Very strong liquidity

In our opinion, Bethel's liquidity is very strong, with total government available cash at 40.5% of total governmental fund expenditures and 9.1x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We adjusted the town's cash ratios to include general fund investments, which we believe are highly liquid and accessible. The town is a regular market participant that issued debt periodically over the past 20 years, including GO bonds and notes, supporting our view of its strong market access. It does not 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. All municipalities in the state were required to adopt one of two tax deferral collection programs. At this time, we do not believe this will pressure liquidity, given historically high collection rates that we expect will generally continue.

Strong debt and contingent liability profile

In our view, Bethel's debt and contingent liability profile is strong. Total governmental fund debt service is 4.5% of total governmental fund expenditures, and net direct debt is 94.5% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, which is, in our view, a positive credit factor.

Following the current bond and note issuance, Bethel will have approximately $93.7 million in total direct debt outstanding. We understand management expects to permanently finance the outstanding BANs next year. We elected to amortize the $20 million BAN evenly over 20 years, resulting in principal amortization of about 56% in the first ten. Aside from permanently financing its outstanding notes, Bethel currently has no additional debt plans in the next several years.

Bethel's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.7% of total governmental fund expenditures in 2019. Of that amount, 2.1% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The town made 123% of its annual required pension contribution in 2019.

Pension and other postemployment benefits

- We do not view retirement liabilities or costs as a budget pressure for Bethel.
- The town is not prefunding its OPEB liability, but total costs remain low.

The town participates in the following retirement plans:

- Town Plan: 83.6% funded, $6.4 million net pension liability (NPL)
- Police Plan: 73.9% funded, $4.7 million NPL
- Teachers' Retirement System (TRS): 52% funded, no liability attributable to the town
- Single-employer defined-benefit health care plan (OPEBs): 0% funded, $15.5 million net OPEB liability

The town and police plans both use a 6.75% discount rate with generational mortality tables. While the level percent basis is likely to lead to increasing costs, we view the closed amortization schedules positively. Both plans exceeded our static and minimum funding progress metrics, indicating the plans are making progress in addressing current costs and accrued but unfunded liabilities. Over the past few years, the town contributed more than the actuarially determined contribution (ADC) to each plan, after underfunding the plans between 2010-2016. At this time, we expect the town to contribute at least the ADC for each plan annually.

TRS is a retirement system for eligible school department employees. It has a special funding situation, where the state recognizes the full liability for Bethel's school department and makes all payments on behalf of the town. Budget conversations on the state level over the past several years have included pushing a portion of the cost to local employers, which would increase Bethel's retirement costs. At this time, we do not expect a change in the funding situation in the near term.

We understand the town may reduce the pension discount rates, which, while increasing costs and lowering the funded ratios, would likely decrease contribution volatility. We do not expect retirement costs to pressure the town's budget over the next several years.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019