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Ratings

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Summary:

Bloomfield, Connecticut; General Obligation; Note

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Credit Profile		
US$9.73 mil GO bnds, iss of 2021 due 01/15/2041		
Long Term Rating	AA+/Stable	New
Bloomfield GO		
Long Term Rating	AA+/Stable	Affirmed
Bloomfield Twn BANs		
Short Term Rating	SP-1+	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating to Bloomfield, Conn.'s series 2021 general obligation (GO) bonds and affirmed its 'AA+' rating on the town's existing GO debt. We also affirmed our 'SP-1+' short-term rating on the town's bond anticipation notes (BANs) outstanding, maturing Jan. 27, 2021. The outlook, where applicable, is stable.

The town'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 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. Officials will use bond proceeds to permanently finance outstanding notes issued to fund renovations of the town's public works complex and provide new-money financing for the same.

Credit overview

The rating reflects our opinion of the town's consistent operating results over the past few fiscal years, leading to maintenance of very strong reserve levels. The majority of its operating revenue is derived from local property taxes, which have been further supported by growth in assessed values (AVs). However, as management works to limit growth in its reserve levels, along with stabilizing its tax rate, it significantly increased its budgeted use of reserves in fiscal 2021. While the town has limited exposure to fluctuations in intergovernmental aid and local receipts, we believe the uncertain economic environment and budgeted use of reserves could pressure operating performance in the short term. We do not anticipate revising the rating or outlook over the next two years, despite potential short-term risk from the COVID-19 pandemic and slowing economic recovery, as we expect management to continue making budgetary adjustments to maintain its reserve levels.

The long-term rating further 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 surplus in the general fund and 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 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 42.2% of total governmental fund expenditures and 8.0x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.3% of expenditures and net direct debt that is 57.3% of total governmental fund revenue, as well as rapid amortization, with 73.5% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety 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 analyzed the town's environmental factors and determined that they are in line with our view of the sector standard. We believe its governance risks relative to its economy, management, financial measures, and debt and liability profile are all in line with our view of the sector standard.

Stable Outlook

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.

Upside scenario

Should significant economic growth lead to underlying wealth and income metrics rising to levels commensurate with those of higher rated peers, along with a reduction in unfunded retirement liabilities, we could raise the rating.

Credit Opinion

Very strong economy

We consider Bloomfield's economy very strong. The town, with a population of 20,694, 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 125% of the national level and per capita market value of $164,123. Overall, market value grew by 10.3% over the past year to $3.4 billion in 2021. The county unemployment rate was 3.9% in 2019.

Bloomfield is a residential community with a sizable commercial and industrial component. Management is active in economic development and planning, and works to attract development through 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.

Following a revaluation for fiscal 2021, the town's AV grew 10.3%. We understand that tax appeals are minimal with no material effects anticipated on the tax base or budgeted revenue. Management reports that building permit revenue continues to outperform the budget, as it has in recent years and despite the pandemic, suggesting that the town's tax base is likely to continue growing. Major projects include an expansion at Cigna Corp., the town's leading employer. Cigna and the town entered into a new tax abatement agreement, which should result in a $90 million investment over ten years. Additional development includes a solar project, expansion at an aerospace supplier, and continued residential development.

The effects of COVID-19 could have a negative effect on the local and regional economy, especially as we forecast a notable decline in regional and national GDP for much of the remainder of the year (for more information, please see "Staying Home for the Holidays," published Dec. 2, 2020, on RatingsDirect). However, recent collections suggest stability in the local tax base, and we believe that the town's location, along with management's intentional economic planning, will lead to continued incremental tax base growth. We expect the town's underlying wealth and income metrics to remain stable, and with access to the broad and diverse Hartford MSA, the economy will remain very strong. We will continue to monitor the economic effects on the town's financial profile, but do not expect to revise our view of its economic profile.

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.

Bloomfield's management team has had several changes in personnel over the past year, resulting in an interim town manager and finance director. Despite the personnel changes, we believe the town continues to adhere to its financial policies and practices with little interruption in its budgetary planning.

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 and performs historical trend analysis when developing the budget of both revenues and expenditures. Bloomfield's five-year capital improvement plan (CIP), which management reviews annually, identifies funding sources for the current fiscal year. We understand that the town is working to develop a more robust CIP and capital planning process.

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. The adopted debt management policy 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.

Adequate budgetary performance

Bloomfield's budgetary performance is adequate, in our opinion. The town had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 2.5% in fiscal 2019. General fund operating results of the town have been stable over the last three years, with results of 1.8% in 2018 and 1.4% in 2017.

For analytical consistency, we adjusted budgetary performance to account for recurring transfers out of the general fund into the capital projects and nonmajor funds, as well as for the expenditure of bond proceeds. We also incorporated the uncertainty in the current economic environment into our view of budgetary performance.

We believe the town's positive operating results over the past several years--in an at-times uncertain intergovernmental aid environment--are chiefly due to management's conservative budgeting practices, particularly its careful budget planning and in-year performance monitoring. As demonstrated through its fiscal 2018 supplemental budgetary controls and hiring freeze, management makes in-year budgetary adjustments to ensure fiscal balance. The town made similar adjustments entering fiscal 2021, given the uncertainty in local economic conditions and potential budgetary pressures stemming from the pandemic.

The town has consistently budgeted the use of reserves to balance its budget, but the adopted 2021 budget includes a $3.7 million reserve appropriation, an increase of more than $2 million from the prior fiscal year. While we believe it is likely that the town will again outperform the budget, given the uncertainty, we believe Bloomfield could produce slight deficits, leading to adequate performance in fiscal 2021 and potentially 2022, depending on the economic recovery and its effect on local and state revenues. We incorporated the uncertainty in the revenue and expenditure environment into our view of the town's budgetary performance, leading us to view performance on a forward-looking basis as adequate despite recent strong results.

Management expects to report an approximately $2.7 million GAAP operating surplus for fiscal 2020, reflecting both revenues exceeding budget and expenditures under budget. In 2019, local property taxes were about 86% of general fund audited revenues, while intergovernmental was approximately 9.8% and charges for services 3.2%. We expect this revenue mix to remain relatively stable. Additionally, given the high reliance on property taxes, the town's revenues should remain predictable. Management reports that it permitted residents to defer property tax payments or pay reduced interest on late payments, in light of the pandemic. However, few individuals entered the program and the town has collected all but $15,000 of the deferred revenue in the current fiscal year.

Very strong budgetary flexibility

Bloomfield's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 24% of operating expenditures, or $22.7 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 $3.7 million, which is an increase from the $1.4 million budgeted use of reserves in fiscal 2020. The town has historically produced approximately balanced or better results, resulting in a trend of increasing fund balance. While reserves could decline at the end of fiscal 2021 relative to 2020, we expect that due to conservative budgeting and forecasting, reserves will remain relatively 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 42.2% of total governmental fund expenditures and 8.0x governmental debt service in 2019. 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, which 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.

Strong debt and contingent liability profile

In our view, Bloomfield's debt and contingent liability profile is strong. Total governmental fund debt service is 5.3% of total governmental fund expenditures, and net direct debt is 57.3% of total governmental fund revenue. Approximately 73.5% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor. Negatively affecting our view of the town's debt profile are its significant medium-term debt plans.

Following this issuance, the town has $63 million in GO debt, including capital leases. It is exploring building a new library, with an estimated cost of approximately $25 million. We incorporated this potential future debt into our view of the town's debt profile. We do not expect its future debt needs to materially pressure its finances or overall credit profile.

Bloomfield's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 8.4% of total governmental fund expenditures in 2019. Of that amount, 4.8% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town made its full annual required pension contribution in 2019.

Pension and other postemployment liabilities

We do not believe pension and OPEB costs or liabilities present a credit pressure at this time despite the low funded ratio of the Police Plan, due to generally sound actuarial assumptions.

The town adopted a policy to fully fund the OPEB required contribution over a ten-year period, beginning in 2014. The OPEB trust is 10.7% funded, with a net OPEB liability of $82.5 million, as of June 30, 2019.

Bloomfield participates in the following defined-benefit plans:

- The Town of Bloomfield Retirement Income Plan (Retirement Plan), 71.8% funded, $21.0 million net pension liability (NPL)
- The Town of Bloomfield Police Retirement Income Plan (Police Plan), 59.0% funded, $18.1 million NPL

Bloomfield's combined required pension and actual OPEB contributions totaled 8.4% of total governmental fund expenditures in 2019. Of that amount, 4.8% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town made its full annual required pension contribution in 2019. Its total contribution increased nearly a full percentage point over the last year, due primarily to the OPEB contribution phase-in. The above pension funded ratios and liabilities reflect the town's 2020 GASB statements; we will update the required contribution ratios on receipt of the town's 2020 audit.

The Retirement Plan closed to new hires in 2003, while the Police Plan closed in 2002. The town incrementally lowered the discount rate over the past several years. Currently, both plans use a 6.75% discount rate, which, given the closed status of the plans, may be somewhat aggressive. In 2020, both plans exceed our static and minimum funding progress calculations, indicating the plans made progress in funding the unfunded liability. We believe the plan's amortization periods of more than 20-years are long and could slow progress in funding liabilities. The town has historically fully funded the required contribution and we expect it will continue to do so. While the town's total pension and OPEB carrying charge as a percentage of expenditures has grown over the past year, we believe costs remain manageable; however, should costs significantly increase, we could revise our view of the town's pension and OPEB profile.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020