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New Issue

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Bristol (City of) CT

New Issue - Moody's Assigns Aa2 to Bristol, CT's GO Bonds; Assigns MIG 1 to GO BANs

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 to the City of Bristol, Connecticut's $21.1 million General Obligation Bonds, Issue of 2017. We have also assigned a MIG 1 to the $3.4 million General Obligation Bond Anticipation Notes (BANs, dated May 30, 2017; due May 29, 2018). Concurrently, we have affirmed the Aa2 rating on approximately $60 million in outstanding general obligation bonds.

The Aa2 rating reflects the city's stable financial position, exceptionally well-funded pension plans, large tax base, and strong management. The rating also factors in the city's manageable debt and OPEB liabilities.

The MIG 1 rating incorporates the city's strong long-term fundamental credit characteristics, strong liquidity relative to the amount of the short-term notes, and history of favorable market access.

Credit Strengths

» Stable financial position and operating performance

» Exceptionally well-funded pension plans

» Strong management characterized by conservative budgeting and long-term planning

» Large tax base with favorable economic development prospects

Credit Challenges

» Reliance on state aid

» Below average wealth and income metrics for the rating category

Rating Outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» A stabilization of the outlook for the city's second largest revenue source, state aid, combined with maintenance of satisfactory reserve levels

» Further growth in tax base and improvement in wealth and income levels

Factors that Could Lead to a Downgrade

» Erosion of reserves and liquidity

» Material decline in tax base

» Large increase in debt reducing the city's financial flexibility

Key Indicators

Exhibit 1

Bristol (City of) CT	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 5,587,418	$ 5,459,212	$ 5,400,792	$ 5,747,913	$ 5,414,806
Full Value Per Capita	$ 92,351	$ 90,181	$ 89,187	$ 94,922	$ 89,374
Median Family Income (% of US Median)	114.9%	107.9%	113.1%	112.0%	112.0%
Finances					
Operating Revenue ($000)	$ 190,307	$ 195,361	$ 198,262	$ 207,767	$ 207,342
Fund Balance as a % of Revenues	16.3%	15.7%	16.1%	15.9%	17.7%
Cash Balance as a % of Revenues	21.3%	20.3%	21.9%	21.2%	23.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 91,249	$ 87,028	$ 79,367	$ 69,164	$ 64,709
Net Direct Debt / Operating Revenues (x)	0.5x	0.4x	0.4x	0.3x	0.3x
Net Direct Debt / Full Value (%)	1.6%	1.6%	1.5%	1.2%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	-0.7x	-0.5x	-0.4x	-0.2x	-0.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	-2.6%	-1.8%	-1.3%	-0.8%	-0.4%

June 30th fiscal year end. Data presented in Finances section pertains to the General Fund and Debt Service Fund. Fund balance as a % of revenues incorporates only available (assigned, unassigned, committed) fund balance.
Source: City's audited financial statements, Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Favorable Location; Largest Taxpayer Benefits City; Weak Wealth and Income Levels

Bristol (population: 60,554), located in Hartford County, is centrally located with Hartford and New Haven approximately 17 miles and 28 miles away, respectively. The city also benefits from its proximity and access to major transportation routes such as Interstate-84 and Interstate-91 and Bradley International Airport which is 30 miles from the city.

The city's tax base is large with a full value of $5.4 billion. Similar to many other Connecticut municipalities full value trends have been weak with a five year compounded average growth rate of -2.4%. Development prospects in the city are favorable. The value of building permit activity was $54 million in fiscal 2016, the highest in the last decade. The city aggressively uses tax incentives and economic development grants to bring in new businesses and has room for growth with approximately 10% of its acreage vacant. The city has been successful growing and attracting businesses to its industrial park, 229 Technology Park, and the surrounding area. One of the city's most recent development projects that is expected to break ground later this year is Bristol Hospital's 60,000 square foot medical office complex in Centre Square. Management reports other commercial projects in various stages of development including in the Route 6 and Route 29 retail areas as well as downtown.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

The world headquarters of ESPN, the city's largest employer and taxpayer, is located across from the park, and accounts for 5.7% of assessed value. Recently announced layoffs of 100 sportscasters minimally affected the Bristol location with over 4,000 employees. ESPN's presence and growth since 1980 has positively impacted the city, contributing to growth in assessed value and spurring on ancillary economic activity and development.

Wealth, as measured by full value per capita, at $89,374 is below both the Connecticut and US Aa2 medians for cities and towns. The medians for similarly rated municipalities are in the state and nation are $147,000 and $115,000. Similarly, income indices, with median family income at 112% of the US, is weak compared to similarly rated municipalities both in Connecticut (140%) and nationally (120%). Unemployment in the city has typically trended higher than the regional Hartford labor market, state and US. The city's jobless rate was 5.9% (as of March 2017), above the state and Hartford's region (both 5.1%) and US (4.5%).

Financial Operations, Reserves and Coverage: Growing Reserves; State Aid Exposure Poses Challenges

Bristol's financial position will likely remain satisfactory for the rating category due to conservative budgeting practices, proactive management of fund balance levels, the presence of a formal fund balance policy and a long track record of growing reserves. Favorably, the city has bolstered available General Fund reserves for eight consecutive years through fiscal 2016 with another surplus forecasted in fiscal 2017. Available Operating Fund (General Fund and Debt Service Funds) balance at the end of fiscal 2016 was $36.8 million or a healthy 17.7% of revenues. The city's fund balance policy stipulates unasssigned General Fund reserves as a percentage of budget to remain in the 10% to 15% range and total General Fund balance to be in the 15% to 20% band. The city's reliance on state aid, comprising nearly one third of revenues, however, may pose challenges in the near to intermediate term as the state is grappling with large projected budget deficits. Future reviews will focus both on the state funding environment as well as how the city addresses state level uncertainty.

Fiscal 2016 results were strong with the city generating a $4.4 million surplus in the General Fund. The sizeable surplus was driven by the city not fully expending appropriations across most departments and functions including carryover appropriations from 2015. Results benefited from $2.5 million in road improvement projects that were anticipated to be paid out of the General Fund but subsequently received grant funding. Also, nearly $400,000 of the $1 million contingency appropriation was not needed, contributing to the surplus. Notably, the city's surplus would have been even larger however the Joint Board (comprised of the Board of Finance and City Council) authorized transfers to other funds for economic development, capital, and to pre-fund the OPEB liability.

The adopted fiscal 2017 budget (General Fund grew 2.2% and included a 3.8% increase in the property tax levy and no appropriation of General Fund balance. Management reports operations are trending favorably in the current fiscal year and estimate a General Fund surplus of approximately $1 million (after transfers). Factors driving these positive projections are stronger than expected property tax collections and higher than anticipated building permit fees and real estate conveyance tax fees combined with savings for budgeted but unfilled positions.

The proposed fiscal 2018 Board of Finances budget increases 2.81% and includes a 7.8% increase in the mill rate but does not include the planned use of fund balance. With the state's fiscal challenges, there is a lack of clarity on what the state aid funding levels will ultimately be. The city has fully incorporated the loss of $7.1 million in funding for its Education Cost Sharing grant, the largest state grant. This cut was included in the Governor's budget proposal and the proposal also included a shift of a portion of the costs for the teachers' pension system from the state to municipalities. The city has factored in half of potential additional cost or approximately $3 million and is one of the main drivers of the budgetary growth. This transferring of some of the teachers' pension plan costs to local governments has very little support in the legislature and many other Connecticut municipalities are not including any of the potential incremental costs in their proposed local budgets.

Property tax revenues account for 64% of the city's General Fund revenues with collections remaining above 98% over the last 5 years. The second largest revenue source is intergovernmental aid at 32% of revenues, which is predominantly state aid. This exposure is above average for Connecticut municipalities and will likely be a source of fiscal uncertainty and pressure for the city in the near to intermediate term. The city's largest spending category is education at 52% of expenditures.

LIQUIDITY

Net cash at fiscal 2016 year end in the Operating Funds was $48.8 million or a healthy 23.5% of revenues.

Favorably this level of cash represents over 14 times the par amount of the BANs maturing in May of 2018. Further, the MIG 1 rating is supported by the town's history of market access over many decades.

Debt, Pensions and Legal Covenants: Strong Pension Funding; Low Fixed Costs Provide Flexibility

The town's proforma debt burden is 1.5%. Debt levels will continue to remain manageable due to affordable future borrowing plans, the moderate paydown of existing debt, use of pay-as-you-go spending for projects, focus by management on maintaining debt ratios consistent with the rating category and currently low level of debt service expenditures relative to total spending. The town's capital improvement plan projects $69.4 million of bonding from fiscal 2018 to 2022. Debt service as a percentage expenditures was a low 4.2% for fiscal 2016.

Fixed costs (comprised of pension and OPEB contributions and debt service) are very low at 6% of revenues in fiscal 2016. This low level of fixed charges highlights the city's financial flexibility and positions them well to address unanticipated expenditures. While these costs will increase in the coming years due to higher debt service and pension contributions for the city employees' pension plan, we still expect them still to be below average and at manageable levels.

DEBT STRUCTURE

The city's debt is all fixed rate. Amortization of principal at 75% over 10 years is slightly slower than the US median of 84%.

DEBT-RELATED DERIVATIVES

The city is not party to any debt-related derivative.

PENSIONS AND OPEB

The city's strong funding levels of its pension plans are a noteworthy credit strength. The city's three local defined benefit pension plans and associated funding levels (as of July 1, 2016) are as follows: Police (169%), Fire (272%), General City (102%). Due to the exceptionally high funded ratios for the Police and Fire plans, the city has not needed to make contributions into these plans in years. For the General City Plan, the funding level while still healthy, has been steadily dropping since 2008 (when it was 145% funded). In fiscal 2017 and fiscal 2018 (budgeted) the city has returned to full funding of the actuarial determined contribution with only partial funding of the contribution in the prior three years. The 2016 valuation forecasts the reported ratio will decline below 100% over the coming years. This is attributed to poor investment returns and the phase-in of new assumptions. The 2016 valuation report indicates large increases in the required contributions will be needed in the next five years to return to full funding of the plan, ramping up from $2.8 million in fiscal 2018 to over $7 million in fiscal 2022.

The fiscal 2016 three-year average adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data is negative in the amount $24 million, indicating the pension plans in aggregate are overfunded with a net pension asset of $24 million or 0.1 times operating revenues. This is unusual and a notable credit strength. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

The city's unfunded other post-employment benefit obligation (as of July 1, 2014) was $56 million or a manageable 0.27 times operating revenues. In fiscal 2012, favorably the city set up a trust to prefund this liability and the plan is 7% funded as of fiscal 2016 year end. The fiscal 2016 annual required contribution was $7.3 million with the city contributing 54% of the required contribution or just under 2% of revenues. The city is gradually ramp up OPEB funding until it reaches the full required contribution. The city's prefunding of the OPEB liability is a credit strength and further evidences management's focus on planning for and addressing its long-term obligations.

Management and Governance: Strong Management; Long-Term Planning; Prudent Budgeting

Management employs conservative budgeting practices and long-term planning and is guided by various financial and debt policies and practices to ensure a stable fiscal position. The city is prudent in its budgeting practices, using conservative assumptions and including appropriations for contingencies. Management focuses on maintaining key financial and debt metrics at optimal and affordable levels. This is a credit strength and demonstrates the city's commitment to maintaining a stable operations and a sound fiscal position.

Connecticut cities, towns and boroughs have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations typically tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The bonds and BANs are secured by the city' general obligation unlimited tax pledge.

Use of Proceeds

The $21.1 million of bond proceeds will be used for various capital projects including $5.7 million for fire station renovations and $3.2 million for synthetic athletic fields. The $3.4 million proceeds of the notes will be used to finance various capital projects including a radio system replacement system comprising $1.8 million of the issuance.

Obligor Profile

The city of Bristol is located in Hartford County about 17 miles southwest of Hartford. The population is estimated at 60,554.

Methodology

The principal methodology used in the long term rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the short term rating was US Bond Anticipation Notes published in April 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Bristol (City of) CT

Issue	Rating
General Obligation Bonds, Issue of 2017	Aa2
Rating Type	Underlying LT
Sale Amount	$21,130,000
Expected Sale Date	05/18/2017
Rating Description	General Obligation
General Obligation Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	$3,400,000
Expected Sale Date	05/18/2017
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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