

RatingsDirect®

Summary:

Bristol, Connecticut; General Obligation

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Credit Profile

US\$22.5 mil Tax-Exempt GO bnds , iss of 2018 ser A dtd 10/15/2018 due 10/15/2038

Long Term Rating AA+/Stable New

US\$7.9 mil taxable GO bnds , iss of 2018 ser B due 10/15/2038

Long Term Rating AA+/Stable New

Bristol GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating to Bristol, Conn.'s series 2018A and B general obligation (GO) bonds and affirmed its 'AA+' rating on the city's existing GO debt. The outlook is stable.

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 bond proceeds toward various capital improvement projects.

Factors supporting the rating include our opinion of Bristol's:

- 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;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 30.1% of total governmental fund expenditures and 8.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.6% of expenditures and net direct debt that is 39.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Bristol's economy strong. The city, with an estimated population of 59,938, is in Hartford County in central Connecticut, about 16 miles east of Hartford. It is in the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 109.4% of the national level and per capita market value of \$93,373. Overall, market value was stable over the past year at \$5.6 billion in 2019. The

county unemployment rate was 4.8% in 2017.

Many residents commute to Hartford for employment opportunities. The city is serviced by Interstate 84 and Route 229 with Bradley International Airport about 30 miles away.

The city is home to the sports broadcaster and media firm ESPN, which is its largest employer, with more than 4,000 employees, and its largest taxpayer, accounting for 5.6% of the net taxable grand list (assessed value in Connecticut). There is no taxpayer concentration as the ten leading payers account for a diverse 12.1% of the grand list. Other major employers include the city, Bristol Hospital, Faneuil Inc., and Amazon.

The city's grand list continues to increase following some declines between 2012 and 2014. The increase over the past few years has primarily reflected ongoing developments and a stable real estate market. Although currently not finalized, officials estimate the grand list will once again see a modest increase as of Oct. 1, 2018.

The city continues to experience new and ongoing development, including by some from its top employers. Amazon has completed renovations of a 60,000-square-foot distribution facility and has begun operations in the city. ESPN continues to invest in its headquarters facilities, including renovating a 400,000-square-foot former factory building now known as "ESPN North" and has acquired 20 adjoining acres across Birch Street. Faneuil Inc. recently renovated a large call center, which has created more than 400 jobs in the downtown area. PODS has completed construction of a large distribution facility and GMN USA has developed an advance manufacturing facility. Bristol Hospital is also in the process of building a 60,000-square-foot medical office building downtown. The city has also seen expansion of its residential base with the construction of new single-family homes and a new senior-living community. Finally, it sees ongoing investment and further development downtown as it continues to implement its Master Plan, coupled with new and existing employers moving or expanding their operations in the Southeast Bristol Business Park. As a result, we expect the city's economy to remain strong.

Strong management

We view the city'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.

We revised the city's financial management assessment from strong to good due to the lack of a comprehensive long-term financial forecast that encompasses all of the city's revenue and expenditure line items. Bristol currently maintains financial projections on debt service and its potential effects on future budgets and mill rates but does not forecast future revenues and expenditures on a formal basis. However, officials indicate the city will seek to formally project its operating revenues and expenditures from now on and incorporate these projections into its capital improvement and debt plans as part of a new initiative with the city's 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 the government's daily operations. Key policies and practices include a conservative budget process (whereby three-to-five years of historical trends are used and intergovernmental revenue is included only when amounts have been confirmed) as well as monthly budgetary performance reporting to the board. The city also

maintains a formal ten-year capital improvement plan that identifies funding sources and is updated annually. In addition, it has a formal debt management policy, an investment policy with monthly reporting of holdings and earnings, and a reserve policy that limits unassigned fund balance at 10%-15% of expenditures and total fund balance at 15%-20% of expenditures, to which it has historically adhered.

Strong budgetary performance

Bristol's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 3.3% in fiscal 2017. General fund operating results of the city have been stable over the last three years, with results of 2.2% in 2016 and 0.4% in 2015.

Fiscal 2017 results include adjustments for one-time capital expenditures and recurring transfers. According to officials, the fiscal 2017 general fund surplus was primarily due to revenues exceeding the budget (including motor vehicle excise taxes and intergovernmental revenue). Although the city had some higher-than-expected school department costs for the year, it was able to mitigate this through savings in other areas of the budget and increased revenues.

For fiscal 2018, the city estimates to have ended with a \$130,00 general fund surplus. Although its financial performance was balanced by fiscal year-end, the city had revenue shortfalls associated with several state grants that it had originally budgeted for but were not ultimately fully realized due to the state budget impasse and late state budget adoption during the fiscal year. In addition, it had higher-than-expected special education costs during the year. Management, however, indicates it was able to offset the costs and revenue shortfalls through tighter control of its budget which netted some savings in other parts of the budget, and higher-than-anticipated revenues.

The fiscal 2019 budget totals \$194.4 million, which represents a 1.34% increase over the prior year and does not include any use of fund balance. The budget includes a \$4.8 million decrease in revenues, including lower intergovernmental revenue as a result of reduced prior-year state budget adoption and changes in the legislative mill-rate cap for vehicle taxes. These reductions were offset by increases in taxes and assessment revenues, which the city adopted as a conservative approach to budgeting. Therefore, given its historically positive financial operations and projections, coupled with its conservative budgeting practices, we expect budgetary performance to remain strong.

Property taxes account for 63% of general fund revenues, followed by intergovernmental revenue at 33%. Collections have been strong, averaging 99% over the past three years.

Very strong budgetary flexibility

Bristol's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 16% of operating expenditures, or \$35.7 million.

The city has steadily improved reserves over the past three years. For fiscal 2018, it estimates to have ended the year with a slight increase of \$130,000 as a result of balanced operations. The fiscal 2019 budget does not include any use of reserves and management does not expect any drawdowns in reserves by fiscal year-end. Therefore, we expect budgetary flexibility to remain very strong. The city also has a formal reserve policy of maintaining unassigned fund balance at 10%-15% of expenditures and total fund balance at 15%-20% of expenditures, which it adheres to.

Very strong liquidity

In our opinion, Bristol's liquidity is very strong, with total government available cash at 30.1% of total governmental fund expenditures and 8.4x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Bristol has demonstrated strong market access through a number of GO and bond anticipation note (BAN) issuances during the past 10 years. The city does not engage in the aggressive use of investments that could add significant volatility to its liquidity position. In addition, it is not exposed to variable-rate or privately placed debt 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 3.6% of total governmental fund expenditures, and net direct debt is 39.6% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which is, in our view, a positive credit factor.

With this issuance, the city will have about \$98.9 million in total direct debt outstanding. It plans to issue about \$37 million over the next two-to-three years for various capital purposes.

Bristol's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.1% of total governmental fund expenditures in 2017. Of that amount, 0.4% represented required contributions to pension obligations, and 2.7% represented OPEB payments. The city made 124% of its annual required pension contribution in 2017.

The city maintains three single-employer pension plans, each of which is extremely well funded. Teachers and other certified personnel are eligible to participate in the Connecticut State Teachers' Retirement, a cost-sharing multiple-employer system, toward which the state makes contributions on behalf of the city. The City of Bristol Retirement fund has a 2017 net pension liability of \$8.9 million, and net positions of 95.8%. The Firefighters Benefit and the Police Benefit funds each have net pension assets of \$119.9 million and \$77.8 million, respectively. The 2017 net position of those plans are 261% and 160%, respectively. The city has consolidated these funds into one for reporting purposes as of fiscal 2018, although they will each maintain their own individual valuations of liabilities, assumptions, and benefits. On a consolidated reporting basis, the city estimates the pension funds will have a net asset position of \$206.9 million as of fiscal 2018 with a combined funded ratio of 149%. The city also plans to implement a policy that will seek to maintain its pension plans funded at no less than 125%.

Bristol also provides retiree health care benefits to its employees. The unfunded liability as of the last actuarial evaluation dated of July 1, 2016 was \$64.8 million. The city has been contributing funds toward this obligation and currently maintains roughly \$5.6 million in assets in its trust fund as of fiscal 2019, which equates to an 8.6% funded ratio. It has budgeted to contribute about \$1.45 million towards the fund in fiscal 2019.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our opinion of Bristol's strong economy that is supported by access to the Hartford and New Haven MSAs. The outlook further reflects our view of the city's strong budgetary performance and very strong flexibility that are bolstered by its very strong management practices. We also note the city's lack of budgetary pressure typically arising from the risk of accelerating pension contributions. Given these factors, we do not anticipate changing the rating over the outlook horizon.

Upside scenario

Should the city's economic profile continue to rise relative to those of higher rated municipalities in the region, and should the state funding environment stabilize and Bristol continue to produce balanced-to-positive operating results and maintain very strong budgetary flexibility, coupled with the adoption of stronger long-term financial plan, we could raise the rating.

Downside scenario

If the city experiences consecutive years of 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
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 9, 2018)

Bristol GO

Unenhanced Rating

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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