FitchRatings

Fitch Rates Bristol CT's $21MM GO Bonds 'AAA' and $3.4MM BANs 'F1+'; Outlook Stable

Fitch Ratings-New York-09 May 2017: Fitch Ratings has assigned the following ratings to the city of Bristol, CT obligations:

--$21,130,000 general obligation (GO) bonds, issue of 2017 at 'AAA';
--$3,400,000 GO bond anticipation notes (BANs), series 2017 at 'F1+'.

In addition, Fitch has affirmed the following ratings:

--$29.8 million outstanding series 2011 GO bonds at 'AAA';
--$15.5 million outstanding series 2011 GO refunding bonds at 'AAA';
--The city's Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

The series 2017 bonds and BANs are being issued to finance various city and school projects. The bonds and BANs are scheduled for a competitive sale on May 18.

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

KEY RATING DRIVERS

The 'AAA' IDR and GO bond rating reflects the city's high independent legal ability to raise revenues, ample expenditure flexibility and very low long-term liability burden. The city has sustained strong operating performance during both times of an economic downturn and economic recovery. The 'F1+' short-term bond rating is mapped to the city's long-term bond rating.

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 2008. The broad-based economy includes healthcare, manufacturing and is home to the headquarters of ESPN.

Revenue Framework: 'aaa' factor assessment
Property taxes make up just under two-thirds of general fund revenues and the city has ample revenue raising capacity due to its unlimited legal taxing authority. General fund revenue growth has typically exceeded inflation and been in line with GDP as a result of tax rate increases and moderate tax base growth. Fitch expects future natural revenue growth to slightly lag GDP levels but exceed inflation due to the potential for new growth in the tax base based on economic development projects planned or underway.

Expenditure Framework: 'aa' factor assessment
The city's fixed carrying costs associated with debt service, pension and other post-employment benefits (OPEB) contributions are a low 5% of total governmental spending. Management has adequate control over headcount and wages and has shown spending flexibility during economic downturns. A history of pay-as-you-go financing for capital needs also provides for expenditure flexibility.

Long-Term Liability Burden: 'aaa' factor assessment
Bristol's long-term liability burden is low at an estimated 3% of residents' personal income. Fitch expects the burden to remain low as a result of manageable future borrowing plans, very strong funded pensions and above-average principal amortization.

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

RATING SENSITIVITIES

Revenue Performance: Fitch expects future tax base growth will be in line with stated expectations and that Bristol will manage future potential reductions in state aid while maintaining similar levels 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 16% of taxable assessed value with ESPN having the largest share by far at nearly 6%. ESPN has expanded its facility considerably in recent years and is the largest employer in the city with approximately 4,200 employees. While ESPN has made reductions in staff in recent years, it still remains a leader in national sports broadcasting and Fitch expects it to 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 upcoming construction of a planned 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 70% of the general fund operating budget 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.

General fund revenue growth has exceeded the rate of inflation and was in line with U.S. GDP levels based on the 10-year compound annual growth rate from fiscal 2006 through 2016. Such growth was achieved through a combination of tax rate increases and moderate tax base growth. The city tax base experienced 52% growth based on the Oct. 1, 2007 revaluation and then experienced an 11% decline based on the Oct. 1, 2012 revaluation. Fitch expects natural growth prospects for revenues to lag GDP but slightly exceed inflation as a result of new economic development plans in place, recent growth in building permit values and expected moderate increases in tax base valuations from the upcoming five year tax base revaluation to be effective Oct. 1, 2017.

The state governor's preliminary budget proposal reflects a reduction in state aid to local governments throughout the state but the actual levels of decline are still to be determined when the final budget is expected to be approved next month. Fitch expects cuts in state assistance for the city and its schools to be manageable due to the city's strong financial credit profile which includes solid revenue and expenditure flexibility.

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 2017 budget, respectively. Steady population trends have allowed the city to keep up with service demands without considerable budgetary pressures.

Fitch expects the pace of natural spending growth to be in line with revenue growth, reflecting historical trends and ongoing revenue expectations. Debt service levels are not expected to change materially based on issuance of the series 2017 bonds, future debt plans and principal amortization of 70% over ten years. Pension contributions have historically been very low due to the strong funded levels of the city's plans but contributions for the city's general employees plan will increase moderately due to a gradual reduction in the investment rate of return from 7.5% to 7% spread evenly over five years beginning in fiscal 2018.

Carrying costs for annual debt service, pension contributions and OPEB represent a low 5% of fiscal 2016 total governmental spending. Fitch expects such levels to remain low based on debt plans, a moderate rise in future pension contributions and manageable OPEB obligations.

The city has the ability to reduce expenses tied to its services, namely through the reduction of staff or imposition of furloughs, if necessary. A reduction in fire department staffing levels is limited due to minimum manning requirements. Union contracts are subject to arbitration but a decision may be rejected by a two-thirds vote by city council. A new arbitration panel would then be appointed by the state and their subsequent decisions are 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, somewhat restricting budgetary flexibility in this area.

Long-Term Liability Burden

Bristol's long-term liability burden is very low at 3% of personal income and is made up almost entirely of the city's rapidly amortizing debt. Pensions do not present a pressure, as the city maintains three pension plans for general employees, police and fire with estimated asset-to-liability ratios of 90%, 155% and 234%, respectively, as of June 30, 2016 in accordance with GASB 67 and based on a Fitch adjusted 7% investment rate of return.

The city's unfunded OPEB liability was $56 million as of June 30, 2016 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 $6 million as of June 30, 2016.

Operating Performance
Fitch expects the city will continue to maintain financial flexibility throughout an economic cycle given its historically stable revenue performance, superior level of inherent budget flexibility on the basis of its unlimited taxing authority and ample spending flexibility. In addition, management has demonstrated its commitment to maintaining sound reserve levels in compliance with its policy of at least 15% of spending.

The city has managed its operations prudently through a combination of moderate annual tax levy increases and conservative budgeting practices resulting in surplus net operating results for the last seven fiscal years. Management took actions to control costs during the downturn and maintained a steady level of general fund reserves within policy levels. Excess surplus over and above the 15% policy level are typically used to support capital, fleet and maintenance spending through its capital fund. The unrestricted fund balance at fiscal end 2016 was $36 million or a solid 18% of spending.

Fiscal 2016 general fund operations were positive and the general fund had a net operating surplus of $4.4 million or roughly 2% of spending. The year-end results incorporate additional transfers out of $2.5 million for economic development, capital investment and prefunding OPEB obligations in addition to amounts included in the original budget for such purposes. The fiscal 2017 general fund budget totaled $189 million and is up about 2% from the prior year's original budget. Management is projecting positive results again based on operations to date.

The fiscal 2018 budget is in preliminary stages, but management expects a moderate increase in the tax rate and conservative assumptions around decreases in potential state funding. No use of unassigned general fund balance is planned.

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Applicable Criteria
Rating U.S. Public Finance Short-Term Debt (pub. 08 Feb 2017) (https://www.fitchratings.com/site/re/893974)
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016) (https://www.fitchratings.com/site/re/879478)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1023397)
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