FitchRatings

Fitch Rates Bristol, CT's $30MM Series 2018 GO Bonds 'AAA'; Outlook Stable

Fitch Ratings-New York-05 October 2018: Fitch Ratings has assigned a 'AAA' rating to the following city of Bristol, CT general obligation (GO) bonds:

--$22,500,000 GO bonds, series A, issue of 2018;
--$7,900,000 taxable GO bonds, series B, issue of 2018.

In addition, Fitch has affirmed the following ratings:

--Outstanding series 2011 and 2017 GO bonds at 'AAA';
--The city's Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

The series 2018 bonds are being issued to finance various city and school projects. The bonds are scheduled for a competitive sale on Oct. 11.

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

ANALYTICAL CONCLUSION

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

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 and manufacturing and the city is home to the headquarters of ESPN.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Property taxes make up approximately three quarters of the general fund revenue budget and the city has ample revenue raising capacity due to its unlimited legal taxing authority. Fitch expects future natural revenue growth to be generally in line with inflation due to the potential for moderate new growth in the tax base based on economic development projects planned or underway.

Expenditure Framework: 'aa'
The city's fixed carrying costs associated with debt service, pension and other post-employment benefits (OPEB) contributions were a low 6% of fiscal 2017 total governmental spending. Fitch expects fixed

costs as a percentage of spending to remain low even with the issuance of the 2018 bonds. Management has adequate control over headcount and wages and has shown spending flexibility during economic downturns.

Long-Term Liability Burden: 'aaa'
Bristol's long-term liability burden for debt and Fitch adjusted net pension liabilities is low at an estimated 4% 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'
Fitch expects the city to manage through periods of economic decline while maintaining a sound financial cushion on the basis of its very strong level of budgetary flexibility, prudent fiscal policies and history of careful financial management.

RATING SENSITIVITIES
Strong Fiscal Management: Fitch expects management will continue to manage spending in line with changes in revenues and continue to maintain its high level 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 12% of taxable assessed value with ESPN having the largest share by far at nearly 6%. ESPN is the largest employer in the city with roughly 4,000 employees. While ESPN has made reductions in staff in the past couple of years, Fitch's rating assumes that the company will 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 ongoing construction of a 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 three-quarters 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 generally in line with U.S. GDP levels based on the 10-year compound annual growth rate through 2017. Such growth was achieved through a combination of tax rate increases and changes in the tax base.

The city's tax base experienced significant growth of 39% based on the Oct. 1, 2007 revaluation but has since experienced a decline of 13% based on the Oct. 1, 2012 revaluation and flat results for the most recent five-year revaluation effective Oct. 1, 2017 for the fiscal 2019 tax year. Fitch expects natural growth prospects for revenues to be more in line with inflation as a result of new economic development plans both in place and planned and a moderate outlook for changes in housing prices over the next year according to Zillow.com.

The city did experience a decline in state aid during fiscal 2018 of approximately 1% to 2% of general fund revenues and Fitch expects variability in future levels of state aid.

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 2019 budget, respectively. Steady population trends have allowed the city to keep up with service demands without considerable budgetary pressures, although education costs have seen increases in recent years due to certain state mandates and the city's desire to continue to fund services and programs to promote student academic achievement.

Fitch expects the pace of natural spending growth to be in line with to slightly above revenue growth, reflecting historical trends and ongoing revenue expectations. Debt service levels are projected to rise moderately over the next three fiscal years due to the issuance of the series 2018 bonds but then debt service descends quickly providing flexibility to issue additional debt in its place. Principal amortizes at a rate of roughly 62% over 10 years. Pension contributions have historically only been required for one of the city's three pension plans, the city's general employees plan, but these contributions have been very low due to the strong funded level of the plan. The city's fire employees plan and police employees plan are over funded.

Carrying costs for annual debt service, pension contributions and OPEB represent a low 6% of fiscal 2017 total governmental spending. Fitch expects such levels to remain low based on debt plans and expectations for the limited demands of pension and 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, limiting budgetary flexibility in this area.

Long-Term Liability Burden

Bristol's long-term liability burden is very low at around 4% of residents' estimated personal income. Pensions do not present a pressure, as the city maintains three pension plans for general employees, police and fire with an estimated combined net asset to liability ratio reported at 145%, as of June 30, 2017, based on the city's 7.4% investment rate of return. The ratio declines to 124% using a Fitch adjusted 6% investment rate of return. Future debt plans are currently manageable and not expected to materially impact the long term liability metric.

The city's net unfunded OPEB liability was $55 million as of June 30, 2017 (in accordance with GASB 75 reporting requirements) 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 $8 million as of June 30, 2017. In addition, the city has made changes in its health insurance plans available to retirees and certain of its employee groups which should control growth in this liability.

Operating Performance

Fitch expects the city will continue to maintain a high level of financial flexibility throughout an economic cycle given its very strong level of inherent budget flexibility on the basis of its unlimited taxing authority and sound spending flexibility. In addition, management has demonstrated its commitment to maintaining strong reserve levels in compliance with its policy of unassigned general fund reserves of at least 12% 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 past eight fiscal years. Management took actions to control costs during the downturn and maintained a steady level of general fund reserves within policy levels. Excess surpluses above policy levels are typically used to support capital, fleet and maintenance spending through the city's capital fund.

Fiscal 2017 general fund operations reflected a net operating surplus of $2.6 million due to positive variances in both revenues and expenses. The unrestricted fund balance at fiscal end 2017 was $39 million or a solid 18% of spending.

Fiscal 2018 original budget was $191.8 and the tax rate was held flat at 36.03 mills. The city had to manage through an unbudgeted mid-fiscal year decline in state aid of approximately $3 million. In addition, the school department experienced increased costs due to a higher than anticipated number of special needs students. Management has indicated that through cost control efforts and better than anticipated tax and building permit revenues it is projecting a modest general fund surplus for fiscal end 2018.

The fiscal 2019 general fund budget is $194.4 million and includes a tax rate increase to 36.88 mills. No use of unassigned general fund balance was included in the budget. Budget drivers prior to enactment of the budget included making up for the decline in state revenues that occurred in fiscal 2018, an increase in the required pension contribution to the city general employee plan of approximately $3.9 million, and an increase in education costs.

To eliminate the pension contribution, the city worked with its police and fire employee groups and actuaries and came to an agreement to now combine the actuarial and financial reporting of the three pension funds as one to determine funding requirements. According to management, the consolidation of the funds resulted in a net asset to liability ratio of 149% as of July 1, 2017, using the city's reduced 7.3% investment rate of return. As a result, this eliminated the required pension contribution in fiscal 2019.

As part of its negotiation with fire and police employee groups, the city has agreed to develop a funding plan at such point where the net pension liability to asset ratio falls below 125%. The city also plans to begin to gradually reduce its investment rate of return assumptions by 0.1% over the next three years down to 7.0%. Lastly, pension plan changes were made for new hires as of July 1, 2018 including a new base pay calculation cap and higher employee required contributions. Fitch expects management will take appropriate action to ensure continued soundness of its pension plans and notes that the city has a sound degree of expenditure flexibility based on its current low level of fixed carrying costs.

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Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018) (https://www.fitchratings.com/site/re/10024656)

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