FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Bristol, CT's $26MM Series 2022 GO Bonds 'AAA'; Outlook Stable

Wed 09 Mar, 2022 - 5:08 PM ET

Fitch Ratings - New York - 09 Mar 2022: Fitch Ratings has assigned a 'AAA' rating to the following city of Bristol, CT general obligation (GO) bonds:

--$25,500,000 GO bonds, series 2022.

The bonds are expected to sell competitively on March 16. Proceeds will be utilized to finance various city and school capital improvements.

In addition, Fitch has affirmed the city's Issuer Default Rating (IDR) and outstanding GO bonds at 'AAA'. The Rating Outlook is Stable.

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 of Bristol's capacity to sustain a high level of fundamental financial flexibility throughout the economic cycle. The city's high gap-closing capacity is supported by its unlimited legal ability to raise revenues and its solid expenditure flexibility. The city benefits from a well-funded pension system with a positive net asset position, which supports the city's low long-term liability burden relative to its economic resource base.

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, with a 2020 census population of about 61,000, roughly flat with 2010 levels. The broad-based economy includes healthcare and manufacturing, and the city is home to the headquarters of ESPN.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Fitch expects long-term growth prospects for revenues absent tax rate increases to remain slow reflecting historical long-term trends in tax base values and population. There are no limits on the city's independent revenue-raising power, which enhances its ability to manage fiscal challenges and offset slow revenue growth.

Expenditure Framework: 'aa'

The city's fixed carrying costs associated with debt service, pension and other post-employment benefits (OPEB) contributions were a low 7% of fiscal 2021 total governmental spending. However, overall expenditure flexibility is solid when considering management's adequate ability to control headcount and wages.

Long-Term Liability Burden: 'aaa'

Bristol's long-term liability burden for debt and Fitch adjusted net pension liabilities is low at an estimated 3% of residents' personal income including this issuance. Fitch expects the burden to remain low as a result of manageable future borrowing plans, pensions with a positive net asset position and above-average principal amortization.

Operating Performance: 'aaa'

Fitch expects the city to manage through periods of economic decline while maintaining a high degree of fundamental financial flexibility. Conservative budget management practices have contributed to the maintenance of solid reserve levels.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Upgrades are not applicable for 'AAA' ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Fitch's expectations for a prolonged weakening of natural revenue growth prospects to a level that lags the rate of long-term inflation;

--A material erosion in gap closing capacity due to sustained fund balance declines.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

The city ended fiscal 2021 with a general fund net operating surplus of about $1.8 million, which increased unrestricted reserve levels to $42.9 million (18.6% of spending). Revenues exceeded budgeted expectations, driven by property tax collections above budget and strong permit and fee revenues that were supported by robust residential sales and construction activity. Expenditures benefited from vacancy savings that further helped solidify positive operating results.

The fiscal 2022 adopted general fund budget totaled about $209.6 million, up about 2% from the prior year's budget. The budget left the property tax rate flat, and included higher spending on wages with cost of living increases ranging from 2.25%-2.75%. Year-to-date results have been favorable, with spending trending roughly in line with budget, and with revenues continuing to trend above budget. Positive revenue results thus far reflect strong conveyance fee activity, as well as an additional $400,000 in intergovernmental revenues above budget via an increased payment in lieu of taxes from the state of Connecticut.

The city has been allocated about $27 million in funding through the American Rescue Plan Act (ARPA), and the schools are slated to receive $19 million. While the city's plan for how to use the funding is still being finalized, a substantial portion of ARPA funding is likely to go toward eligible capital projects and economic development initiatives.

CREDIT PROFILE

Wealth levels exceed national levels but are below that of the wealthy state. Top 10 taxpayers within the city comprise nearly 13% 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 4,200 employees. While ESPN has made reductions in staff in recent 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.

Revenue Framework

The city's primary source of revenue is property tax, which accounts for roughly three-quarters of the general fund operating budget (exclusive of state pass-throughs for teacher pensions) and supports stability in operating revenues. State aid, primarily associated with education, is the next largest source of revenue.

Fitch expects future natural revenue growth prospects to track long-term inflation over time. This assumption reflects a combination of slow long-term property value appreciation, an essentially flat population, and moderate new development contributing to modest tax base expansion. The city's tax base was flat after the most recent five-year revaluation effective Oct. 1, 2017 for the fiscal 2019 tax year. The next five-year revaluation will be effective October 2022 for the fiscal 2024 budget year. This revaluation is currently expected to show significant growth due to appreciation in property values and the robust sales activity that is occurring in the region.

The city has an unlimited independent legal ability to raise property taxes.

Expenditure Framework

Education constitutes the largest general fund expenditure item at roughly half of the fiscal 2022 budget, with public safety representing the next largest item. Steady population trends have allowed the city to keep up with service demands without considerable budgetary pressures, although education costs have increased 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 natural pace of spending growth to be in line with to slightly above expected inflationary revenue growth. At the end of fiscal 2018, the city consolidated the three pension plans into one system, which due to its overfunding requires no city contributions. The city has a policy to increase its pension contributions if the funding ratio for the consolidated system falls below 125%. The city's reported funding ratio remains above this threshold, and no contribution is expected to be required through at least fiscal 2023.

Carrying costs for annual debt service, pension contributions and OPEB are low at about 7% of fiscal 2021 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; however, a reduction in fire department staffing levels is limited due to minimum manning requirements. Union contracts are subject to arbitration, which is ultimately 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 and are subject statutory annual maintenance requirements, somewhat limiting the city's overall expenditure flexibility.

Long-Term Liability Burden

Bristol's long-term liability burden is low at around 3% of residents' estimated personal income including this issuance, and consists solely of direct debt. Pensions do not present a pressure, as the city's pension system is overfunded. The city's capital improvement plan (CIP) totals about $252 million, funded primarily through a mix of bonding and state aid for school construction. Although not all bonding in the CIP has been authorized yet, if planned issuance of $157 million through fiscal 2026 is realized, the liability burden would remain below 10% of personal income, consistent with the current 'aaa' assessment.

The city's overfunded pension system has an estimated net asset to liability ratio of about 156% as of June 30, 2021, based on a 7.0% investment rate of return (IRR). The ratio declines to about 139% using a Fitch adjusted 6% investment rate of return. The city has prudently reduced its IRR assumptions over time, with the most recent valuation (which will be reflected in fiscal 2022 audited results) reducing the IRR to 6.5% from 7.0%.

The city's net unfunded OPEB liability was $63 million as of June 30, 2021, about 2% of personal income. Management has been making contributions annually in excess of pay-asyou-go since 2008 and has accumulated assets in its OPEB trust fund totaling approximately $19 million as of June 30, 2021.

Operating Performance

Fitch expects the city will maintain a high degree of fundamental financial flexibility throughout an economic cycle given its solid reserve levels, unlimited taxing authority, and sound spending flexibility. In addition, management has demonstrated its commitment to maintaining high 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 strong operating results in recent 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.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Bristol (CT) [General Government]	LT IDR	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
Bristol (CT) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bristol (CT)	EU Endorsed, UK Endorsed

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