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Summary:

Branford, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$19.6 mil GO RFDG ISS (Variable Proj) ser 2015 due 08/15/2022		
Long Term Rating	AAA/Stable	New
Branford GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Branford, Conn.'s series 2015 general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds. We understand officials intend to use series 2015 bond proceeds to fund various capital projects and refund portions of the town's series 2010, 2011A, and 2011B bonds for a present value savings of roughly $1.1 million.

The rating reflects our opinion of the following factors for the town, specifically its:

- Very strong economy, which benefits from participation in the broad and diverse New Haven-Milford metropolitan statistical area (MSA);
- Very strong budgetary flexibility with fiscal 2014 audited reserves at 21.9% of adjusted general fund expenditures;
- Strong budgetary performance with break-even results projected for fiscal 2015;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Strong management with "good" financial management policies under our Financial Management Assessment (FMA) methodology;
- Very strong debt and contingent liability position due mostly to low overall net debt as a percent of market value and rapid amortization; and
- Very strong institutional framework.

Very strong economy

We consider Branford's economy very strong with access to the broad and diverse economies of New Haven and Milford. Branford -- about eight miles east of New Haven, 90 miles east of New York City, and 40 miles south of Hartford -- is an established suburban residential community with access to diverse employment opportunities via Interstate 95. Therefore, projected per capita effective buying income is very strong, in our view, at 156.3% of the national level. Market value is $180,000 per capita for fiscal 2016. New Haven County unemployment averaged 8.5% in 2013; preliminary county unemployment averaged 7.3% in 2014.

The net taxable grand list totals $3.4 billion in fiscal 2016, a slight 0.7% year-over-year decrease from fiscal 2015 values. Management attributes this slight decrease to a revaluation. The slight decrease is in-line with the broader trends in the state. The 10 leading taxpayers account for a diverse 4.8% of assessed value.

Management indicates new construction activity, both residential and commercial, continues to increase. We understand there is growth, specifically in the health care and biotechnology industries, which should result in new employment opportunities in the town. This is consistent with our forecast for Connecticut, which projects the economy will begin to improve after several years of less-than-stellar GDP growth due largely to the resurgence of jobs. (Please see the article, titled "U.S. State And Local Government Credit Conditions Forecast: The Economy Looks To Pick Up Steam In 2015 After A Slow Start," published April 2, 2015, on RatingsDirect.)

Very strong budgetary flexibility

In our opinion, budgetary flexibility remains very strong, primarily due to management's conservative budgeting practices. Available reserves increased in audited fiscal 2014 to $22.8 million, or 21.9% of expenditures, from $20.8 million in fiscal 2013. Management estimates reserves for fiscal 2015 will remain roughly the same with no expected use of fund balance. We believe budgetary flexibility will remain very strong due to management's estimates for fiscal 2015. We understand management does not currently plan to spend down reserves. In addition, town officials maintain a target of sustaining an unassigned fund balance of more than 9% of budgeted expenditures.

Strong budgetary performance

In our view, overall budgetary performance has been strong with audited fiscal 2014 surpluses in the general fund of 0.8% of expenditures and total governmental funds of 5.6% of expenditures, adjusted for transfers and one-time capital expenditures. Management attributes the surpluses to strong property tax revenue collections and departmental savings. Management is projecting fiscal 2015 will close with at least break-even operations. In fiscal 2014, property taxes generated 85% of general fund revenue and intergovernmental revenue generated 9.7%. Tax collections have historically been strong, averaging more than 98% of the current levy.

Very strong liquidity

Supporting Branford's finances is liquidity we consider very strong with available cash, net of restricted cash and investments, at 42% of total governmental fund expenditures and more than 6x debt service coverage. We believe Branford has strong access to external liquidity since it has issued GO bonds and bond anticipation notes over the past 15 years. Management invests the majority of the town's cash in money market funds and certificates of deposits that mature in less than one year.

Strong management conditions

We view Branford's management conditions as strong with "good" financial management practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. We understand management bases annual budgets on historical trends and the most recent audited budget-to-actuals; we note that over the past three fiscal years, revenue and expenditures have experienced favorable variances. Management monitors Branford's budget performance monthly and makes formal reports to the town board. Management maintains a reserve and liquidity policy of sustaining unassigned fund balance at 9% of operating expenditures. The capital improvement plan runs through fiscal 2021, and the board annually updates the plan. In fiscal 2013, officials created a 10-year general fund budget projection. Branford does not currently maintain a formal debt management policy.

Very strong debt and contingent liability profile

In our opinion, Branford's debt and contingent liability profile is very strong with debt service at 6.6% of total governmental fund expenditures and net direct debt at 42.1% of total governmental fund revenue. We consider principal debt amortization rapid with officials planning to retire about 97% over the next 10 years. Debt is low at just 1% of market value. Branford has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

Branford administers one defined-benefit pension plan, the public employees' retirement plan, which provides benefits to town police officers. All town nonuniform employees participate in the Connecticut Municipal Employees' Retirement Fund B, a state-administered, cost-sharing, multiemployer, public-employee retirement system. The town funded annual required contributions (ARCs) in fiscal 2014 at $3.1 million, or 2.8% of expenditures. As of July 1, 2013, the employees' plan was 74% funded; the town closed this system in 2011, and all employees now participate in a defined-contribution plan.

The unfunded other postemployment benefits (OPEB) liability totaled $22.7 million as of July 1, 2014. Branford has established an OPEB trust that currently has a balance of roughly $9 million, or a 41.7% funded ratio. Management has increased the contribution in each of the past four fiscal years; it contributed $1.9 million in fiscal 2014, or about 109% of the ARC and 1.8% of expenditures. The combined pension ARC and OPEB cost for fiscal 2014 was $5 million, or 4.6% of expenditures. We believe management is proactive in its approach to funding these liabilities; in our opinion, the associated fixed costs will remain manageable over the next few fiscal years.

Very strong institutional framework

We consider the institutional framework score for Connecticut towns very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Branford's participation in the broad and diverse New Haven-Milford MSA, which provides very strong economic fundamentals. The outlook further reflects our expectation that the town's budgetary performance will likely remain, at least, adequate due to the stability and performance of property taxes. We do not expect to change the rating within our two-year outlook period because we believe Branford's strong management will likely maintain its budgetary flexibility at levels we consider very strong. While not likely to occur, we could lower the rating if budgetary performance were to decrease due to structural imbalance, leading to a significant deterioration in reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

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Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- Institutional Framework Overview: Connecticut Local Governments

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