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Ratings

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Summary:

Branford, Connecticut; General Obligation

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Credit Profile		
US$14.15 mil GO rfdg bnds ser 2021 due 08/01/2031		
Long Term Rating	AAA/Stable	New
Branford GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Branford, Conn.'s approximately $14.15 million series 2021 general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on Branford's previously issued GO debt.

Branford's full-faith-and-credit pledge, payable from the levy of an unlimited ad valorem tax on all taxable property within the town, secures the bonds.

Officials intend to use series 2021 bond proceeds to refund certain maturities outstanding. We note the town is accelerating the payment of bonds outstanding, which underscores the town's financial flexibility and strength.

Credit overview

Branford's forward-looking financial-management practices continue to lead to positive budgetary variances while making meaningful strides addressing capital needs and retirement liabilities. The affirmation reflects our view that management will likely continue to modify its budget to incorporate lost revenue and any infrastructure-related long-term pressure, coupled with addressing retirement liabilities. In our opinion, the town's participation in the broad and diverse New Haven-Milford metropolitan statistical area (MSA) provides further rating stability.

We rate Branford higher than the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario due to its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. (For further information, see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

The rating reflects our opinion of the town's:

- Very strong local economy with growth in the local property tax base and broader MSA;
- Historically strong budget performance despite recent economic challenges, resulting in very strong fund balance and overall liquidity; and
- Limited overall debt with well-positioned retirement liabilities.

Environmental, social, and governance (ESG) factors

We view social and governance risks as generally in-line with Branford's peers. Branford is a coastal community, and we expect changing weather patterns and rising sea levels will likely pose a long-term threat for drainage and coastal properties; however, we do not think a material portion of the property tax base is under imminent threat. Furthermore, we understand the town is working as part of a regional effort to identify and address coastal-resiliency-related infrastructure needs; it has also set up a shoreline-resiliency fund. We do not think environmental risks are likely to pressure finances meaningfully or tax base in the short term, and we will continue to monitor its progress in addressing long-term exposure.

Stable Outlook

Downside scenario

While not likely, we could lower the rating or revise the outlook to negative if budgeted revenue were to underperform significantly during the next few fiscal years, leading to significantly reduced reserves.

Credit Opinion

Very strong economy, with a significant number of economic projects, which should provide additional tax base growth

Branford's management is actively shaping economic development across residential, commercial, and industrial sectors. It leverages location and assets, such as ocean access along Long Island Sound, access to Yale University and New Haven, and sewer and train infrastructure to market the town and generate new investment.

A transit-oriented-development plan is Branford's recent effort to redevelop properties around the train station. Connecticut Department of Transportation services the Shore Line East commuter line. There are several approved or in-the-pipeline projects near the station on former industrial sites within the transit-oriented development's boundaries, including several mixed-use developments with different-size residential and commercial space. These should help grow the tax base when complete.

In addition, Branford continues to work to leverage its coastal location and tourist assets. The town finished an update of its master plan in 2019, including policies and recommendations to address coastal vulnerability and rising sea levels, to help sustain the tax base and maintain existing assets, including the coastline. With the master plan changes, the town can better respond to interested developers, resulting in improved overall development timing.

Branford also has a history of advanced manufacturing, health care, and biotech. Management's collaboration with development organizations--notably BioCt, the state's biotech association; University of Connecticut's TIP, a biotech incubator; ABCT, a biotech startup program; and regional chamber of commerce and councils--promotes investment. Several longstanding employers are expanding existing operations, further cementing our view the local economy is going to maintain very strong characteristics.

Good financial-management policies and practices, focusing on multiyear budget and capital forecasting

The budget process incorporates several years of budget-to-actual results to identify and adjust revenue and expenditure trends when developing the budget. In addition, an outside consultant assists in forecasting health-care costs. Management continuously monitors budget-to-actual performance but only makes formal reports to the board as needed. Individual department heads are responsible for budget reports to respective oversight commissions.

The annual budget incorporates a five-year capital-improvement plan that identifies funding; separately, management keeps a debt-service schedule to account specifically for annual debt service. While commentary in the town's annual budget notes management's informal goal of funding as many pay-as-you-go capital expenditures as possible, limiting debt, there is no formal debt-management policy.

Management's five-year budgetary projection incorporates potential revenue and expenditure changes. It maintains informal reserve and liquidity policies of sustaining unassigned fund balance at 9% of operating expenditures. Finally, the town's investment-management policy mirrors state statute.

We note Branford will likely continue to monitor ongoing cyber risks with robust plans and procedures.

Consistently positive budgetary results support the continuance of very strong reserves and liquidity, reflecting strong management

For the fiscal 2021 budget, the town revised budgeted tax collections to 95%, down from 98%, in all recent budgets. It also adjusted expected state aid, building permit fees, and interest income downward. However, due to contractual expense growth, increasing pension costs, and higher debt service, the overall fiscal 2021 budget grew by about 2% to $118.8 million. Expected fiscal year-end 2021 results are positive with revenue outpacing expenses, continuing the trend of robust positive performance. Management attributes this to stronger revenue collections due to property tax collections and additional revenue. Expenses remained within budgeted levels, if not below, because Branford conservatively budgets for expenses.

The fiscal 2022, $120.5 million budget, a 2.1% increase, returns assumed tax collections to previous levels, decreasing appropriated fund balance. Overall contractual changes support expenditure increases while the town slightly reduced its contingency budget and capital-project transfers out. We note the town's American Rescue Plan Act of 2021 allocation is roughly $8.2 million, but it has not firmed up plans on how to spend those federal funds.

The fiscal 2020 surplus reflects a predictable revenue stream, along with careful expenditure budgeting. Property taxes generated 84% of audited fiscal 2020 general fund revenue and intergovernmental revenue accounted for 9.8%.

With consistent positive operations, reserves, and available cash on hand--even after excluding bond proceeds and other special revenue we think is generally not available to support debt service--restricted cash remains, in our view, very strong. Reserves exceed the informal policy, and management plans to maintain healthy reserves during the two-year outlook. With the expected fiscal 2021 surplus, reserves will likely grow to levels of more than 30% of expenditures. In addition, based on coastal exposure, we view current reserves as sufficient to help mitigate acute physical risks, for now. We expect strong policies and practices will likely allow for robust reserves and cash during the two-year outlook.

Manageable debt despite accelerating debt repayment

After this issuance, Branford will have roughly $84.4 million in debt outstanding. With the refunding and accelerated repayment, the repayment schedule is one we view as a credit positive. Management is continually re-evaluating capital plans and balancing infrastructure needs against budgetary realities while weighing interest against projections. If debt service as a percent of revenue was to increase following current or future debt during the next several years, or if amortization were to decrease below 66%, we could negatively revise our view of the debt profile.

Pension and other postemployment benefit (OPEB) highlights

We do not view pension and OPEB liabilities as an immediate credit pressure for Branford. While the use of an actuarially determined contribution is positive, we posit some assumptions used to build the actuarially determined pension contribution, specifically the state plan, reflect, what we view as, somewhat weak assumptions and methodologies, which, in our opinion, increase unexpected contribution-escalation risk.

With a large transfer into the OPEB trust, plan funding improves to 99.09% of outstanding liabilities. We note pension and OPEB contributions are elevated because the town overfunds pension and OPEB contributions.

As of June 30, 2020, the town participates in:

- Connecticut Municipal Employees' Retirement System (CMERS), which was 72.69% funded, with a $30.3 million net pension liability;
- Branford Police Employees' Retirement Plan, which was 80.19% funded, as of June 30, 2021, with a $7.1 million net pension liability; and
- Branford Volunteer Fire Department Pension Plan, which was 75.34% funded, with a $379,633 net pension liability.

We think CMERS' 7% discount remains somewhat elevated; due to the change in assumptions costs, it is likely to increase. However, we expect the town has the ability to absorb increased costs into its budget. CMERS also uses a level-dollar amortization method, which should limit cost growth, along with 21 years remaining on the amortization period.

The local plans use a 6.5% discount, which we imagine will likely limit cost fluctuation; level-percent amortization could increase costs, in our view. Amortization schedules for the police plan have 16 years remaining and the fire plan 10 years remaining, which we think will lead to progress in addressing liabilities. We note Branford closed the police plan to new entrants as of Jan. 1, 2012. However, in 2019, the town created a second tier within the police pension plan to improve hiring and retention. As previously noted, we will continue to monitor what effect this will have on carrying costs and financial results.

Strong Institutional Framework

The Institutional Framework score for Connecticut municipalities is strong.

Branford, Connecticut Select Key Credit Metrics				
	Most recent	**--Historical information--**		
		2020	**2019**	**2018**
Very strong economy				
Projected per capita effective buying income as a % of U.S.	142.9			
Market value per capita ($)		188,467		
Population		27,160	27,396	27,182
County unemployment rate (%)		8.0		
Market value ($000)		5,118,751	5,099,987	5,054,104
Top 10 taxpayers as a % of taxable value	5.5			
Strong budgetary performance				
Operating fund result as a % of expenditures		3.0	1.6	1.6
Total governmental fund result as a % of expenditures		6.4	6.7	6.1
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		30.4	27.7	25.4
Total available reserves ($000)		36,875	32,303	30,515
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		54.2	42.6	44.3
Total government cash as a % of governmental fund debt service		792.9	673.2	694.8
Strong management				
Financial Management Assessment	Good			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		6.8	6.3	6.4
Net direct debt as a % of governmental fund revenue	57.8			
Overall net debt as a % of market value	1.6			
Direct debt 10-year amortization (%)	66.0			
Required pension contribution as a % of governmental fund expenditures		3.1		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		7.0		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020