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Ratings

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Summary:

Branford, Connecticut; General Obligation

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Credit Profile		
US$45.0 mil GO bnds iss 2019 dtd 10/24/2019 due 10/15/2039		
Long Term Rating	AAA/Stable	New
Branford GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Branford, Conn.'s issue of 2019 general obligation (GO) bonds. In addition, we affirmed our 'AAA' long-term rating on Branford's previously issued GO bonds. The outlook is stable.

Credit summary

Branford's forward looking financial management practices continue to lead to positive budgetary variances, while making meaningful strides in address capital needs and retirement liabilities. While growth in the grand list (assessed value) is generally annually less than 1%, continued investment and redevelopment, along with significant town planning and investment, should lead to incremental growth and maintenance of a very strong economy.

Security and use of bond proceeds

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

We rate Branford higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, due to its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2018, local property taxes generated 83% of general fund revenue, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

We understand that proceeds will be used to fund renovations at a community center and a school, and provide funds for a library.

The long-term rating further reflects our view of the following factors for Branford:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (MSA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level

in fiscal 2018;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.3% of total governmental fund expenditures and 6.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 6.4% of expenditures and net direct debt that is 66.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Branford's economy very strong. The town, with an estimated population of 27,182, is in New Haven County in the New Haven-Milford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 143% of the national level and per capita market value of $188,314. Overall, market value was stable over the past year at $5.1 billion in 2020. The county unemployment rate was 4.4% in 2018.

Branford's management continues to take an active role in shaping economic development in town. It recently completed a new town plan, which includes its transit-oriented development (TOD) and coastal resiliency plans. Recent economic development has centered on the town's train station, which is serviced by the Shore Line East commuter line. Management reports that a mixed-use development with 200 units of residential, and a separate 100-unit residential development, are underway on former industrial sites within the TOD boundary. Additionally, the town continues to work to leverage its coastal location and tourist assets, including three breweries, through hotel development; a boutique hotel is under construction and a larger chain hotel is moving through the approval process.

Recent development in Branford also includes investments in advanced manufacturing, health care, and biotech. Management's collaboration with development organizations, notably BioCt (the state's biotech association); the University of Connecticut's TIP, a biotech incubator; ABCT, a biotech start-up program; and regional chamber of commerce and councils, promotes investment. Its location helps to draw private investment and attract workers due to access to recreational opportunities; additionally, Interstate 95 and a commuter rail line are in town and provide access to the MSA and broader regional economy. As a result, several of the town's biotech firms, such as sema4 and Ancera, have recently expanded existing operations.

Other advantages helping draw investment include a relatively low mill rate and sewer access in approximately 75% of the town, which management reports is relatively uncommon in the area, including all of the commercial zoned land.

The largest private employers remain steady, and include a mix of health care, manufacturing, and retail. Connecticut Hospice is the largest employer in town (365 employees), followed by Branford Hills Health Care (285); Wal-Mart (260); and Blakeslee Prestress, a pre-fabricated concrete-manufacturing company (250). We expect that the town will continue to attract and retain businesses, given management's forward-looking and active role in developing and shaping the local economy. It is unclear if the new businesses will raise the underlying wealth and income metrics significantly, but the grand list has grown incrementally in each of the past few years. Given the town's historic economic stability, we expect Branford, with access to a diverse MSA, to maintain a very strong economy over the next two fiscal years.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management uses several years of budget-to-actuals to identify and adjust to trends in both revenues and expenditures when developing future budgets. As evidenced by the incorporation of anticipated state budget cuts into previous budgets, management is forward-looking and adapts to changes in the financial environment. Additionally, an outside consultant assists in forecasting health care costs. Management continuously monitors Branford's budget-to-actual performance, but only makes formal reports to the board on an as-needed basis. Individual department heads are responsible for budget reports to their respective oversight commissions. The annual budget incorporates a five-year capital improvement plan, which identifies funding for all future years; separately, a debt service schedule is kept to account specifically for future annual debt service. While the commentary in the town's annual budget notes management's informal goal of funding as many capital expenditures as possible on a pay-as-you-go basis, thus limiting debt, there is no formal debt management policy. Management has a five-year budgetary projection which incorporates potential changes to revenues and expenditures. It maintains an informal reserve and liquidity policy of sustaining unassigned fund balance at 9% of operating expenditures. Finally, the town has an investment management policy that mirrors state statute.

Strong budgetary performance

Branford's budgetary performance is strong, in our opinion. The town had operating surpluses of 1.6% of expenditures in the general fund and 6.1% across all governmental funds in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of 2.4% in 2017 and negative 0.1% in 2016. We adjusted budgetary performance to account for recurring transfers and expenditure of bond proceeds.

Management reports that the fiscal 2018 positive results were primarily due to its budgeting process, which includes conservatively estimating revenues and expenditures. For example, the town fully budgets for all positions, creating savings if and when positions are vacant due to turnover. Entering fiscal 2018, Branford took a conservative approach to projecting state aid, as the state had not yet adopted a budget and was debating sizable cuts in direct and indirect aid to municipalities. Management planned for a worst-case scenario and budgeted for no intergovernmental revenue transfers from the state. The town's adopted budget included the use of fund balance, although given the predominance of locally derived revenues in the budget and its recent trend of producing better-than-budgeted results, the town, as expected, did not draw on reserves at year-end.

While the audit process is underway, management reports that it expects fiscal 2019 will close similarly to fiscal 2018. With strong tax collections and departmental revenues, the town reports it was able to again overfund the police pension contribution and address a significant sewer project identified in the coastal resiliency plan. The fiscal 2020 budgeted expenditures increase 2.9% from 2019, to $115.3 million. The budget includes absorbing previously grant-funded firefighter positions, continues to make pay-as-you-go capital investment–including in school security–and fully funding pensions. Additionally, and perhaps most notably, the town opened a climate resiliency fund with an initial transfer of $1 million. Management expects to continue adding to this fund, with an additional $300,000 budgeted in fiscal 2020, to address long-term climate-related infrastructure needs. We note that the town may be the first to act under the new state legislation permitting such a fund.

Intergovernmental aid reductions will continue to play an important credit factor for municipalities across Connecticut; however, we believe that Branford's management has shown it will use conservative budgeting assumptions that result in at least balanced operations at year-end. Additional stability is provided by the predominance of local source revenues, as property taxes accounted for 83% of general fund revenues in fiscal 2018, while intergovernmental was 12%. The intergovernmental aid total of $14.3 million includes $10 million as a pass-through from the state to fund the teacher's retirement system; consequently, approximately 70% of the town's intergovernmental aid was non-operational pass-through funding. The town's third-largest revenue source is charges for service, accounting for approximately 3% of 2018 general fund revenue. Given the predominance of locally derived revenue, along with demonstrated ability to adjust its budget to reflect the changing state environment, we expect performance to remain strong throughout the outlook period.

Very strong budgetary flexibility

Branford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 25% of operating expenditures, or $30.5 million.

Due to conservative financial management, the town has not had to use its annual budgeted reserve appropriation within the past three fiscal years, and does not anticipate reporting fund balance usage in fiscal year 2019 or 2020. Given the town's history of not using appropriated fund balance, along with our expectation of continued strong budgetary performance, we do not anticipate that Branford will draw on reserves within the next several years, consequently maintaining a very strong available fund balance over the outlook period.

Very strong liquidity

In our opinion, Branford's liquidity is very strong, with total government available cash at 44.3% of total governmental fund expenditures and 6.9x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

Branford is a regular market participant that has issued GO debt frequently over the past several years. The town does not have any variable-rate or direct-purchase debt, nor does it have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The town maintains an investment policy that limits its investments to U.S. government securities, state short-term investment funds, and other short-term investments such as CDs and money market funds. The policy expressly prohibits investment in derivative securities and other riskier investments.

Strong debt and contingent liability profile

In our view, Branford's debt and contingent liability profile is strong. Total governmental fund debt service is 6.4% of total governmental fund expenditures, and net direct debt is 66.5% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which is, in our view, a positive credit factor.

Management is continually re-evaluating its capital plans and balancing infrastructure needs against budgetary realities, while weighing interest rates against future projections. Currently, management may issue up to $14 million over the next several year to address capital needs. Due to the size and term of this issuance, we have revised our view of the town's amortization profile, resulting in a change in our view of the debt and liabilities profile to adequate from strong. If debt service as a percentage of revenues were to significantly increase following this or future debt over the next several years, we could again revise our view of the debt profile.

Branford's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.5% of total governmental fund expenditures in 2018. Of that amount, 2.7% represented required contributions to pension obligations, and 1.7% represented OPEB payments. The town made 129% of its annual required pension contribution in 2018.

The town is a participant in the Municipal Employees' Retirement System (MERS). MERS is a cost-sharing multiple-employer public employee retirement system established and administered by the State of Connecticut, to provide benefits to full-time employees except police department employees, elected officials, and certified teachers and administrators. The town reports a MERS proportionate net liability of $8.3 million. The plan has a funded ratio of 92%, measured using an 8.0% discount rate, which we believe is higher than average.

Branford also administers two single-employer public employee retirement systems, one for the town's police officers and one for volunteer firefighters. The police plan is the town's largest plan by liability. Branford's police plan has a net pension liability of $10.8 million, and a funded ration of 68.75%; the firefighters plan has a net pension liability of $335,000 and a funded ratio of 75%. The police plan lowered its discount rate to 6.5% from 7.0% for the most recent valuation, while the fire plan used a 6.75% rate. We previously noted that we anticipated the police plan's lowered discount rate would lower the funded ratio and potentially raise the required contribution; however, in 2018, the town continued to fund the plan in excess of the required contribution. It has a policy requiring it to fully fund the required contribution annually, which it adheres to. The police plan was closed to new entrants as of Jan. 1, 2012. However, the town in the past year created a second tier within the police pension plan to improve hiring and retention. Management acknowledges the increased risk, but expects to be able to manage the increased cost (estimated at approximately $25,000 annually) and risk, while improving service delivery. Management reports this change partly reflects changes to MERS police plan participants, which created a disincentive to work in Branford. As it implements its plan, we will continue to re-evaluate its effects, but do not currently expect a material change in the liabilities or cost to the town.

The town also provides OPEBs in the form of health insurance to eligible retirees. Branford established an OPEB trust in 2009, to prefund benefits. The OPEB funded ratio is 52.7%, with an unfunded liability of $14.4 million, as June 30, 2018, measured using a 6.75% discount rate. Branford's total retirement costs remain low and we do not expect material change over the next several years.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view that Branford's management will continue to modify its budget to incorporate any changes to debt and retirement costs or reductions in state aid, leading to continued strong budgetary performance and maintenance of very strong budgetary flexibility and liquidity. Further rating stability is provided by the town's participation in the broad and diverse New Haven-Milford MSA, and our belief that its economy will continue to grow. While not likely, a decline in budgetary performance due to declining state aid or from increased fixed costs, leading to a significant deterioration in reserves, could result in a rating change. As a result, we do not expect to revise the rating in our two-year outlook horizon.

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