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Summary:

Branford, Connecticut; General Obligation

Primary Credit Analyst:
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

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Credit Profile		
US$15.0 mil GO bnds ser 2017 due 09/15/2032		
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 2017 general obligation (GO) bonds. In addition, we affirmed our 'AAA' long-term rating on Branford's previously issued GO bonds. The outlook is stable.

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 2016, local property taxes generated 87% 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.)

A pledge of the town's full faith credit secures the bonds. We understand that proceeds will be used to finance various capital improvement projects.

In our opinion, the rating reflects a:

- 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 (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 40.5% of total governmental fund expenditures and 5.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.8% of expenditures and net direct debt that is 36.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 90.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Branford's economy very strong. The town, with an estimated population of 27,303, is an established suburban residential community approximately eight miles due east of New Haven, 90 miles east of New York City, and 40 miles south of Hartford. It 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 140% of the national level and per capita market value of $185,112. Overall, market value grew by 0.9% over the past year to $5.1 billion in 2018. The county unemployment rate was 5.5% in 2016.

Branford is situated directly on Interstate 95 and a commuter rail line. Management reports continued economic activity centered on the town's train station, which is serviced by the Shore Line East commuter line. Town management is actively studying and promoting transit-oriented development around the station, to make Branford a destination for both tourists and commuters. A second platform was recently completed at the station, enabling increased passenger traffic.

Town management is active in working with partners to promote the town, and has seen success in attracting biotech and health sciences businesses. Core Informatics, a company providing lab data management solutions, and Mt. Sinai Genetic Testing Lab recently completed moves to Branford. The town has also seen developments in human services, with Artis Senior Living constructing a 64-bed assisted-living facility there. Management also reports having four breweries, the largest of which attracts upwards of 320,000 visitors annually. A boutique hotel is being planned to help accommodate new visitors. The largest employers have remained steady, however, with the town itself being the largest with 759 employees, followed by Connecticut Hospice (365); 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 the economy. It is unclear if the new businesses will raise the underlying wealth and income metrics, but 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.

We understand that management uses several years of budget-to-actuals to recognize trends in both revenues and expenditures when developing future budgets. As evidenced by the incorporation of anticipated state budget cuts into the budget, management is forward looking and adapts to changes in the financial environment. Additionally, an outside consultant is used to assist 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 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. Management plans to revise the town's long-term financial plan, which has not been updated since the 2016 fiscal year.

Strong budgetary performance

Branford's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of negative 0.1% of expenditures, and surplus results across all governmental funds of 3.7% in fiscal 2016. General fund operating results of the town have been stable over the last three years, with results of 1.2% in 2015 and 0.8% in 2014.

Management attributes the fiscal 2016 negative result primarily to health care and personnel related costs. In fiscal 2016, the town transferred $1.7 million out of reserves, with $1.3 million being restricted for workers' compensation claims. The town is self-insured for health care, which is accounted for in the internal service fund. The remainder of the $1.7 million was divided between the internal service fund, specifically to fund heart and hypertension-related claims, and the town's volunteer firefighter pension plan. In fiscal 2017, management is expecting to report another year of positive general fund and total governmental funds results. In fiscal 2018, the town planned for a worst-case scenario and budgeted for no intergovernmental revenue transfers from the state. The budgeted drawdown of fund balance may cause a decrease in budgetary performance in fiscal 2018. However, given the strength of locally derived revenues, with local property taxes accounting for 86.8% of general fund revenues in fiscal 2016, while intergovernmental was 8.1%, along with the town's willingness and ability to make mid-year budget adjustments, we anticipate that Branford should be able to adjust for any loss in state aid in the long term. We expect performance to remain at least adequate in fiscal years 2018 and 2019.

Very strong budgetary flexibility

Branford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 22% of operating expenditures, or $24.5 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 23% of expenditures in 2015 and 22% in 2014.

Branford has budgeted for the use of fund balance, in the amount of $2.8 million, in each of the last several fiscal years. Due to conservative financial management, the town has not had to use this appropriation within the past three fiscal years, and does not anticipate reporting fund balance usage in fiscal 2017. In fiscal 2018, in anticipation of reduced state aid, the town budgeted for the use of $6.4 million in fund balance, effectively budgeting for no state aid. Given the town's history of not using appropriated fund balance, we expect that not all of the 2018 budgeted fund balance will be expended; however, given the state budget uncertainty, we do anticipate that management will need to spend fund balance in fiscal 2018. Given Branford's available fund balance relative to the worst-case scenario reduction in state aid, and the ability to raise additional revenue through adjustments to property tax rates, if necessary, we anticipate that even in a worst-case scenario, Branford will retain a very strong fund balance in fiscal years 2018 and fiscal 2019.

Very strong liquidity

In our opinion, Branford's liquidity is very strong, with total government available cash at 40.5% of total governmental fund expenditures and 5.9x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

Branford is a regular market participant that has issued 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 the town's 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.

Very strong debt and contingent liability profile

In our view, Branford's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.8% of total governmental fund expenditures, and net direct debt is 36.9% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, and approximately 90.8% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issuance, the town will have approximately $45 million in outstanding net debt. Management expects to issue an additional $8.3 million within the next year to fund the balance of the community center project.

Branford's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.1% of total governmental fund expenditures in 2016. Of that amount, 2.7% represented required contributions to pension obligations, and 1.3% represented OPEB payments. The town made 109% of its annual required pension contribution in 2016.

The town is a participant in the Municipal Employees' Retirement System (MERS). MERS is a cost-sharing multiemployer 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 proportionate net liability of $6.3 million for MERS, which assumes an 8% discount rate. The plan has a funded ratio of 92.7%.

Branford also administers two single-employer public employee retirement systems, one for the town's police officers and one for volunteer firefighters. There are 84 total participants in the police plan, with 38 active members, and 220 total participants in the firefighters plan, with 203 active members. The police plan is larger, however, when measuring liability, both total and net. Branford's police plan has a net pension liability of $8.4 million, and a funded ration of 71.77%; the firefighters plan has a net pension liability of $377,489 and a funded ratio of 68.4%. Both plans use a 7.0% discount rate, which will be lowered to 6.75% for the next valuation. The police plan was closed to new entrants as of Jan. 1, 2012; new hires are in a defined-contribution plan.

The town also provides OPEBs in the form of health insurance to eligible retirees. Branford established an OPEB trust in 2009, to prefund benefits. As a result, the OPEB funded ratio is 41.72%, or an unfunded OPEB liability of $13.3 million, as of the July 1, 2014 valuation. Management reports that the discount rate used to calculate OPEB liability for future valuations will be 6.75%, lowered from 7.0% for the July 2014 valuation.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view of Branford's participation in the broad and diverse New Haven-Milford MSA, supported by strong underlying wealth and income metrics. The outlook also reflects our expectation that the town's budgetary performance will remain at least adequate given the stability and performance of its primary revenue source--property taxes--and that the town will maintain very strong budgetary flexibility, liquidity, and debt profile. While not likely, a decline in budgetary performance due to declining state aid or from increased pressure elsewhere in the budget, 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