S&P Global Ratings

RatingsDirect®

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

Table Of Contents

Summary:

Branford, Connecticut; General Obligation

Credit Profile		
US$18.0 mil GO bnds ser 2018 due 08/01/2038		
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 2018 general obligation (GO) bonds. In addition, we affirmed our 'AAA' long-term rating on Branford's previously issued GO bonds. The outlook is stable.

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 2017, 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 finance various capital improvement projects, as well as renovations at the community center and intermediate school.

The long-term rating reflects our assessment of the following factors for the town, specifically its:

- 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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 43.3% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.7% of expenditures and net direct debt that is 43.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of

market value and rapid amortization, with 75.9% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and

- Strong institutional framework score.

Very strong economy

We consider Branford's economy very strong. The town, with an estimated population of 27,409, 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 143% of the national level and per capita market value of $186,070. Overall, market value grew by 0.9% over the past year to $5.1 billion in 2019. The county unemployment rate was 5.0% in 2017.

Continued development in Branford includes investments in advanced manufacturing, health care, and biotech, along with increased tourism, due to its breweries and location on the Connecticut coastline. 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, promote investment in the town. 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 undertaken expansions of existing operations, while the town's three breweries continue to boost tourism, with one continuing development of a hotel to support the growing number of visitors.

Other advantages helping to 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. Economic activity centered on the town's train station, which is serviced by the Shore Line East commuter line, continues, with town management continuing its study and promotion of transit-oriented development around the station, to further enhance Branford as a destination for both tourists and commuters.

The largest employers have remained steady, with the town itself being the largest with 755 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 developing and shaping the local 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.

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.

Strong budgetary performance

Branford's budgetary performance is strong, in our opinion. The town had operating surpluses of 2.4% of expenditures in the general fund and 5.8% across all governmental funds in fiscal 2017.

Management reports that the fiscal 2017 positive results were primarily due to an aggregation of positive variances across revenue and expenditure categories. The town returned better-than-budgeted results based on conservative budgeting practices. 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, we anticipated it would not significantly draw on reserves at year-end. Management reports that due to state aid coming in over budget, as well as continued growth in local revenue sources, at worst, Branford will report break-even results in its fiscal 2018 audit; management does not expect to draw down fund balance.

While the state continues to face revenue shortfalls, its biennial budget provides increased certainty, relative to fiscal 2018, for Connecticut municipalities. Branford's fiscal 2019 budget does not assume no state aid, as it did in 2018, but management used increasingly conservative estimates when budgeting direct governmental grants. The 2019 budget does include an increase in solid waste costs, due to a new contract, but there are no major structural changes. It totals approximately $109.3 million in pre-transfer general fund expenditures, or about a 2.5% increase from 2018.

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 2017, while intergovernmental was 12%. We further note that management expects to report in the fiscal 2018 audit that intergovernmental aid dropped to 2.4% of general fund revenues, and has budgeted for 2.1% in fiscal 2019, a reduction from $14 million in fiscal 2017 to $2.4 million in the 2019 budget. Management is proactively working to reduce the town's reliance on state aid. We expect performance to remain at 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 2017 of 24% of operating expenditures, or $27.2 million.

Branford's fiscal 2019 budget includes the use of $2.8 million from reserves, a level consistent with the past several fiscal years with the exception of fiscal 2018, in which the town budgeted for $6.4 million from reserves due to state-aid uncertainty. 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 2018. Given the town's history of not using appropriated fund balance, along with updated projections for fiscal 2018 results, 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 43.3% of total governmental fund expenditures and 6.5x governmental debt service in 2017. 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 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 6.7% of total governmental fund expenditures, and net direct debt is 43.9% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, and approximately 75.9% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

Management is continually re-evaluating its capital plans and balancing infrastructure needs against budgetary realities, particularly with regard to anticipated reductions in state aid. Currently, management may issue as much as $44 million over the next several year to address capital needs at the library, middle school, and various other projects. Given the positive offsetting factors of rapid amortization and low debt to market value, these issuances may not change our view of the town's debt profile. However, should the new issuances slow principal repayment below 65% in ten years, we could 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 2017. Of that amount, 2.7% represented required contributions to pension obligations, and 1.8% represented OPEB payments. The town made 100% of its annual required pension contribution in 2017 and has for each of the past three fiscal years.

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 $10.7 million. The plan has a funded ratio of 92%, measured using an 8.0% discount rate.

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 226 total participants in the firefighters plan, with 208 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 $8.3 million, and a funded ration of 73%; the firefighters plan has a net pension liability of $350,000 and a funded ratio of 73%. The police plan used a 7.0% discount rate, while the fire plan used a 6.75% rate, as of the June 30, 2017 audit. The police plan lowered its discount rate to 6.5% for the most recent valuation. While we expect this may lower the funded ratio and potentially raise the required contribution, we note that the plans' discount rates are below average and may more accurately reflect the accrued liabilities. The town has a policy requiring it to fully fund the required contribution annually. 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 49%, with an unfunded liability of $14.6 million, as June 30, 2017, measured using a 6.75% discount rate.

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 adapt budgetary assumptions to incorporate changes in state aid. 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, along with consistently very strong budgetary flexibility and liquidity. 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.