

15 MAR 2023

## Fitch Rates Bristol, CT's \$30MM Series 2023 GO Bonds 'AAA'; Outlook Stable

Fitch Ratings - New York - 15 Mar 2023: Fitch Ratings has assigned a 'AAA' rating to the following city of Bristol, CT general obligation (GO) bonds:

--\$30,000,000 GO bonds, series 2023.

The bonds are expected to sell competitively on March 22. Proceeds will be utilized to finance various city capital improvements.

In addition, Fitch has affirmed the city's Issuer Default Rating (IDR) and outstanding GO bonds at 'AAA'.

The Rating Outlook is Stable.

### SECURITY

The bonds are backed by the city's full faith and credit and unlimited taxing authority.

### ANALYTICAL CONCLUSION

The 'AAA' IDR and GO bond rating reflect the city of Bristol's capacity to sustain a high level of fundamental financial flexibility throughout the economic cycle. The city's high gap-closing capacity and solid reserve position is supported by its unlimited legal ability to raise revenues and its solid expenditure flexibility. The city benefits from a well-funded pension system with a positive net asset position, which supports the city's low long-term liability burden relative to its economic resource base.

### Economic Resource Base

Bristol is a suburban city located 20 miles southwest of the state capital city of Hartford. The city's population has been stable, with an estimated 2021 census population of about 61,000, roughly flat with 2010 levels. The broad-based economy includes healthcare and manufacturing, and the city is home to the headquarters of ESPN.

### KEY RATING DRIVERS

#### Revenue Framework: 'aa'

Fitch expects growth prospects for revenues absent tax rate increases to trend in line with long-term national rates of inflation notwithstanding recent strong growth in assessed values based on a recent five-year revaluation. Prior to the revaluation, long-term trends in tax base values were more moderate

and population growth has been relatively flat. There are no limits on the city's independent revenue-raising power, which enhances its ability to manage fiscal challenges and offset slow revenue growth.

### **Expenditure Framework: 'aa'**

Overall expenditure flexibility is solid when considering management's adequate ability to control headcount and wages. The city's fixed carrying costs associated with debt service, pension and other post-employment benefits (OPEB) contributions were 7% of fiscal 2022 total governmental spending. Fixed costs are expected to grow moderately in the near term with new debt issuance but remain low as a percentage of spending.

### **Long-Term Liability Burden: 'aaa'**

Bristol's long-term liability burden for debt and Fitch adjusted net pension liabilities is low at an estimated 4% of residents' personal income including this issuance. Fitch expects the burden to remain low as a result of manageable future borrowing plans, pensions with a positive net asset position and above-average principal amortization.

### **Operating Performance: 'aaa'**

Fitch expects the city to manage through periods of economic decline while maintaining a high degree of fundamental financial flexibility. Conservative budget management practices have contributed to the maintenance of solid reserve levels.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Upgrades are not applicable for 'AAA' ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Fitch's expectations for a prolonged weakening of natural revenue growth prospects to a level that lags the rate of long-term inflation;

--A material erosion in gap closing capacity due to sustained fund balance declines.

### **Best/Worst Case Rating Scenario**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/>

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## **CURRENT DEVELOPMENTS**

The city ended fiscal 2022 with a general fund net operating surplus of about \$300,000, which increased unrestricted reserve levels to \$43 million (18% of spending). Revenues exceeded budgeted expectations, driven by property tax collections above budget and strong permit and fee revenues that were supported by robust residential sales and construction activity. Expenditures benefited from vacancy savings that further helped solidify positive operating results.

The fiscal 2023 adopted general fund budget totaled about \$215 million, up about 3% from the prior year's budget. The budget left the property tax rate flat, with spending growth primarily related to contractual salary increases. Year-to-date results for both revenues and expenditures have been favorable relative to budget. Positive revenue results thus far reflect continued strong permit and conveyance fee activity, while vacancy savings have supported favorable expenditure variances.

## **CREDIT PROFILE**

Wealth levels exceed national levels but are below that of the wealthy state. Top 10 taxpayers within the city comprise about 11% of taxable assessed value, with ESPN having the largest share at about 4%. ESPN is the largest employer in the city with roughly 4,100 employees. While ESPN has made reductions in staff in recent years, Fitch's rating assumes that the company will remain a prominent presence in the city. The remainder of the top 10 taxpayers is spread amongst a major developer, retail, and utilities.

The city reports several expected investments in its downtown core including medical offices, an assisting living facility, and mixed-use developments. In aggregate, planned investments are expected to be valued around \$75 million to \$100 million. Outside of the downtown, planned developments include a hotel and conference center and adult housing. The ongoing pipeline of development in the city remains supportive of ongoing growth in the grand list.

## **Revenue Framework**

The city's primary source of revenue is property tax, which accounts for roughly three-quarters of the general fund operating budget (exclusive of state pass-throughs for teacher pensions) and supports stability in operating revenues. State aid, primarily associated with education, is the next largest source of revenue.

The city recently completed a five-year revaluation effective Oct. 1, 2022 for the fiscal 2024 tax year. The grand list experienced material growth, increasing 28% yoy to a total value of about \$5.4 billion. The increases reflected significant appreciation in residential housing values, similar to many other municipalities in Connecticut in recent years. Notwithstanding recent strong valuations, Fitch expects future natural revenue growth prospects to track long-term inflation over time as housing value growth subsides combined with moderate new development contributing to tax base expansion

The city has an unlimited independent legal ability to raise property taxes.

## Expenditure Framework

Education constitutes the largest general fund expenditure item at roughly half of the fiscal 2023 budget, with public safety representing the next largest item. Steady population trends have allowed the city to keep up with service demands without considerable budgetary pressures, although education costs have increased in recent years due to certain state mandates and the city's desire to continue to fund services and programs to promote student academic achievement.

Fitch expects the natural pace of spending growth to be in line with to slightly above expected inflationary revenue growth. At the end of fiscal 2018, the city consolidated its three pension plans into one system, which due to its overfunding requires no city contributions. The city has a policy to increase its pension contributions if the funding ratio for the consolidated system falls below 125%. The city's reported actuarial funding ratio remains above this threshold, and no contribution is expected to be required in the near term.

Carrying costs for annual debt service, pension contributions and OPEB are low at about 7% of fiscal 2022 total governmental spending. Fitch expects such levels to remain low, or below 10% of governmental spending, based on debt plans and expectations for the limited demands of pension and OPEB obligations.

The city has the ability to reduce expenses tied to its services, namely through the reduction of staff or imposition of furloughs; however, a reduction in fire department staffing levels is limited due to minimum manning requirements. Union contracts are subject to arbitration, which is ultimately required to take into consideration the financial capability of the city. Similar to most Connecticut municipalities, education expenses make up the majority of the budget for the city and are subject to statutory annual maintenance requirements, somewhat limiting the city's overall expenditure flexibility.

## Long-Term Liability Burden

Bristol's long-term liability burden is low at around 4% of residents' estimated personal income, including this issuance, and consists solely of direct debt. Pensions do not present a pressure, as the city's pension system assets exceed its liabilities. The city's capital improvement plan (CIP) totals about \$215 million, funded primarily through a mix of bonding and state aid for school construction. Although not all bonding in the CIP has been authorized yet, if planned issuance of \$92 million through fiscal 2028 is realized, the liability burden would remain below 10% of personal income, consistent with the current 'aaa' assessment.

Under the accounting valuation, the city's pension system has an estimated net asset to liability ratio of about 123% as of June 30, 2022, based on a 6.5% investment rate of return (IRR). The ratio declines to about 117% using a Fitch adjusted 6% investment rate of return. The city has prudently reduced its IRR assumptions over time, with its most recent reduction in the IRR to 6.5% from 7.0% for fiscal 2022.

The city's net unfunded OPEB liability was \$64 million as of June 30, 2022, about 2% of personal income. Management has been making contributions annually in excess of pay-as-you-go since 2008

and has accumulated assets in its OPEB trust fund totaling approximately \$19 million as of June 30, 2022.

## **Operating Performance**

Fitch expects the city will maintain a high degree of fundamental financial flexibility throughout an economic cycle given its solid reserve levels, unlimited taxing authority, and sound spending flexibility. In addition, management has demonstrated its commitment to maintaining high reserve levels in compliance with its policy of unassigned general fund reserves of at least 12% of spending.

The city has managed its operations prudently through a combination of moderate annual tax levy increases and conservative budgeting practices resulting in strong operating results in recent years. Management has taken actions to control costs during downturns and maintains a steady level of general fund reserves within policy levels. Excess surpluses above policy levels are typically used to support capital, fleet and maintenance spending through the city's capital fund.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Bristol (CT) [General Government]	LT IDR	AAA	Affirmed	AAA
• Bristol (CT) /General Obligation - Unlimited Tax/ 1 LT	LT	AAA	Affirmed	AAA

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Bristol (CT) EU Endorsed, UK Endorsed

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