

RatingsDirect®

Summary:

Bethel, Connecticut; General Obligation; Note

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Credit Profile

US\$17.0 mil GO bnds ser 2021 due 07/15/2041

<i>Long Term Rating</i>	AAA/Stable	New
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Bethel GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Bethel GO BANs dtd 07/24/2020 due 07/23/2021

<i>Short Term Rating</i>	SP-1+	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Bethel, Conn.'s series 2021 general obligation (GO) bonds. At the same time, we affirmed our 'AAA' long-term rating on the town's existing GO debt and our 'SP-1+' short-term rating on its 2020 GO bond anticipation notes (BANs). The outlook, where applicable, is stable.

The short-term rating reflects our view that the town maintains a very strong capacity to pay principal and interest when the notes come due. Bethel has a low market risk profile because of its strong legal authority to issue long-term debt to take out the notes. In addition, it is a frequent issuer that regularly provides disclosure to market participants.

Bethel's GO bonds and BANs are secured by the town's full-faith-and-credit pledge, and are payable from revenues of an unlimited ad valorem tax. The series 2021 GO bonds (approximately \$17 million), along with \$3 million in premium, will permanently finance the 2020 BANs issued to fund school renovations.

Credit overview

Bethel's management team has a demonstrated history of adjusting to revenue shortfalls and maintaining fiscal balance. We expect the primarily residential community to sustain strong underlying economic indicators, with its economic profile further supported by participation in a broad and diverse metropolitan statistical area (MSA). Its credit profile and rating are supported by significant reserves and cash and investments on hand, along with limited retirement liabilities and low costs. We do not expect to change the rating during the outlook period

Bethel's GO debt is eligible to be rated above the sovereign, because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" criteria (published Nov. 19, 2013, on RatingsDirect), Bethel has a predominantly locally derived revenue source, with property taxes accounting for the majority of the town's general fund revenue. The town also has independent taxing authority and treasury management from the federal government.

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

- Very strong economy, with access to a broad and diverse MSA;

- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 46.1% of total governmental fund expenditures and 8.8x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 77.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance risks

We also analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. We believe its ESG risks align with the sector standard, although we note that the town's population is slowly growing in a state with generally downward population trends, likely helping support future economic growth.

Stable Outlook

Downside scenario

While unlikely over the two-year outlook period, we could lower the rating if the town were to experience a substantial weakening of budgetary performance due to significant state aid reductions or otherwise, leading to a material decline of available reserves or constrained liquidity.

Credit Opinion

Very strong economy

We consider Bethel's economy very strong. The town, with a population of 19,666, is in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 129% of the national level and per capita market value of \$152,551. Overall, market value grew by 1.5% over the past year to \$3.0 billion in 2022. The county unemployment rate was 7.9% in 2020.

Bethel is a primarily residential community. Interstate Highway 84 and other state highways traverse the town, connecting residents with employment opportunities in surrounding labor markets. Due to its access to nearby employment centers, we expect continued development in Bethel, particularly in the residential sector, that will support continued growth in the tax base and maintenance of its very strong economic profile.

Management reports that throughout the pandemic and recession, the town continued to issue building permits and it continues to receive applications for them. The town-owned business park has four open lots, with management

reporting it has received letters of intent for two this year. Two large residential projects are nearing completion as well. Given the demonstrated ongoing development in town, coupled with our most recent regional economic conditions report, we expect Bethel will likely experience continued economic development, leading to growth in its tax base. (For more information, see "Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs," published April 16, 2021.)

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.

Key budget development practices include management's use of at least three years of historical data to forecast annual revenue and expenditure assumptions, and to pinpoint outlying line items. In preparation of its annual budget, management reviews each department's annual operation requests and prioritizes operating expenditures. It strives to maintain an internal spending accountability practice that limits annual expenditure growth to less than 2% of the prior year's expenditures and monitors grand list growth to estimate changes in local tax revenue and the mill rate. During each fiscal year, Bethel monitors the budget regularly, reporting budget-to-actual results to the first selectman and the board of finance monthly. The board can amend the budget midyear, consistent with state statute. Furthermore, it has a formal investment policy that adheres to state statutes, outlines objectives, and requires quarterly reporting on performance.

Bethel also annually updates a six-year capital improvement plan that identifies projects and costs across all departments, although it does not readily identify funding sources. The town does not maintain a formal long-term financial forecast. Its formal reserve policy calls for unassigned fund balance to be maintained at a minimum of 10% of annual operating expenditures, which the town uses to mitigate financial risk and manage cash flow in the event of a revenue shortfall and unexpected changes in expenditures. It does not have a formal debt management plan.

Strong budgetary performance

Bethel's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds 3.6% in fiscal 2020. General fund operating results have been stable, at negative 0.8% in 2019 and 0.3% in 2018.

The town continued its trend of positive operating results through 2020, with management's projections indicating at least balanced results at the close of fiscal 2021 despite revenue losses due to the pandemic. This reflects the town's financial management environment and general conservative budgeting practices that are likely to lead to continued strong budgetary performance. Our assessment for fiscal 2020 includes data adjustments for recurring transfers and one-time revenue and expenditures for large capital projects.

The town closed fiscal 2020 without making major budget adjustments due to the pandemic and recession. Management monitored expenditures closely during the fourth quarter and deferred some minor nonrecurring capital project expenditures that we do not believe materially affected total governmental financial performance.

Entering fiscal 2021, the town had largely completed its budget with the public hearing in March 2020, prior to

pandemic restrictions and the economic downturn. Management did not make major adjustments within the year. It projects overall revenue over budget due to building permit fees and the conveyance and recording taxes outperforming the budget. Certain departmental revenues in parks and recreation and the senior center underperformed, but were mostly offset by the lack of programming and expenditures consequently outperforming the budget. Management reports that the town's collection rate is estimated at 99.46%, one of the highest in its history. Property taxes are consistently the largest operating revenue source, accounting for more than 75% of general fund revenue. We believe the town's revenue predictability and conservative nature with other revenue sources will likely lead it to continue to outperform the budget, given its careful monitoring of expenditures as well.

Fiscal 2022 budgeted appropriations grows about 2.6%, to \$81.9 million. Expenditure growth largely reflects increases in debt service, public safety, and education. However, there is literally no material change in the town's programming or staffing levels, and we generally do not anticipate significant changes in Bethel's budgets relative to the year prior.

Very strong budgetary flexibility

Bethel's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 22% of operating expenditures, or \$18.6 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 21% of expenditures in 2019 and 22% in 2018.

Bethel's formal reserve policy stipulates that it maintain an unassigned fund balance of at least 10% of annual operating expenditures, a target it has historically met and sustained. Over the past several years, it maintained reserves well in excess of its fund balance requirement, which we expect to continue, leading to maintenance of very strong available reserves.

Very strong liquidity

In our opinion, Bethel's liquidity is very strong, with total government available cash at 46.1% of total governmental fund expenditures and 8.8x governmental debt service in 2020.

We adjusted the town's cash ratios to include general fund investments, which we believe are highly liquid and accessible. The town is a regular market participant that has issued debt periodically over the past 20 years, including GO bonds and notes, supporting our view of its strong access to external liquidity if necessary. It does not have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Nor does it currently have any variable-rate or direct-purchase debt. We expect the town to maintain a very strong liquidity profile.

Strong debt and contingent liability profile

In our view, Bethel's debt and contingent liability profile is strong. Total governmental fund debt service is 5.2% of total governmental fund expenditures, and net direct debt is 77.4% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is, in our view, a positive credit factor.

Following the current bond issuance, Bethel will have approximately \$87.2 million in total direct debt outstanding, including capital leases. We consider about \$9 million of its total debt partially self-supporting enterprise debt. Bethel currently has no new-money debt plans in the next several years and we do not expect to revise our view of its debt profile at this time.

Pension and other postemployment benefits:

- We do not view retirement liabilities or costs as a budget pressure for Bethel.
- Bethel's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.0% of total governmental fund expenditures in 2020. Of that amount, 2.4% represented required contributions to pension obligations, and 0.6% represented OPEB payments.
- The town is not prefunding its OPEB liability, but pay-as-you-go costs remain low. The total OPEB liability is about \$20 million.

The town participates in the following retirement plans:

- Town Plan: 77.9% funded, \$9.2 million net pension liability (NPL).
- Police Plan: 73.2 funded, \$5.1 million NPL.

The town made 115% of its required pension contribution in 2020 and both plans exceeded our minimum funding progress metric, indicating the town is making material progress in funding the outstanding liability. The plans' discount rates were recently lowered to 6.625% from 6.75%. While we believe this is somewhat elevated, given the high funded ratio and low current costs, we do not expect material volatility in the town's carrying charge, particularly given its demonstrated ability to overfund the contribution. We do not expect retirement liabilities or costs to pressure Bethel's credit profile.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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

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