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Summary:

Ansonia, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$4.97 mil GO bnds ser 2016 due 03/15/2036		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Ansonia, Conn.'s series 2016 general obligation (GO) bonds.

The city's full-faith-and-credit pledge secures the bonds. Officials plan to use series 2016 bond proceeds to finance a portion of the city's bond anticipation notes (BANs) permanently.

The rating reflects our opinion of the following factors for the city, specifically its:

- Adequate 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 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 40.4% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 12.1% of expenditures and net direct debt that is 15.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but significant medium-term debt plans; and
- Very strong institutional framework score.

Adequate economy

We consider Ansonia's economy adequate. The city, with an estimated population of 19,375, is located in New Haven County in the New Haven-Milford MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 95.1% of the national level and per capita market value of $66,180. Overall, the city's market value was stable over the past year at $1.3 billion in 2017. The county unemployment rate was 6.1% in 2015.

Ansonia is about 10 miles west of New Haven, which provides employment opportunities for city residents. The primarily residential city maintains a small, but important, industrial and commercial tax base that has been part of its heritage. The city's property tax base includes several manufacturing companies, such as Farrell-Pomini Corp. and Ansonia Copper & Brass Inc. As part of its economic development, the city has been proactively working with employers and developers to attract new businesses and expand current businesses. The city recently opened a new industrial park for Farrell, headquartered in the city, and other manufacturers to expand their operations and create new job opportunities.

The city is currently revitalizing its downtown area and negotiating two large municipally owned buildings in its downtown area that should develop into mixed-use residential and commercial complexes. Ansonia's downtown area contains several restaurants and small businesses that continue to grow and expand. Leading area employers include Ansonia, Ansonia Copper & Brass Inc., Birmingham Group Health Services, and Farrell-Pomini Corp. There is no taxpayer concentration as the 10 leading taxpayers account for a very diverse 7.4% of the grand list.

Strong management

We view the city'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.

What we consider conservative budgeting and a history of better-than-budgeted results support finances. The budgeting process is comprehensive, involving discussions with department heads, the finance committee, and board of aldermen. Management also performs a five-year historical trend analysis. Management reports budgetary performance monthly to the city's governing body. The city also maintains formal five-year revenue and expenditure forecast, as well as a six-year capital improvement plan that identifies funding sources. Management updates both plans annually. A formal investment policy exists with monthly reports on holdings and earnings to the board, coupled with a formal reserve policy of maintaining total reserves between 8%-17% of expenditures.

Strong budgetary performance

Ansonia's budgetary performance is strong in our opinion. The city had operating surpluses of 6.5% of expenditures in the general fund and 6.5% of expenditures across all governmental funds in fiscal 2015.

Fiscal 2015 results include adjustments for one-time capital expenditures paid for with bond proceeds. Management mainly attributes its fiscal 2015 performance to overall conservative budgeting and good expenditure control. In addition, the city implemented changes in health benefits, which helped realize savings in health costs. The city also sold a municipal-owned cell tower in 2014. Over the past few fiscal years, it has budgeted more conservatively on revenue. Prior to this, the city saw a $3 million general fund surplus.

For fiscal 2016, officials are projecting the city will end with, at least, a $400,000 surplus. Therefore, due to current projections, while we estimate budgetary performance will likely remain strong in fiscal 2016 and beyond, we believe the surplus will not be greater than 5% of operating expenditures.

The fiscal 2017 budget totals $64.1 million, an increase of 2.8%, with a $2.5 million fund balance appropriation, which the city has done historically as part of its conservative budgeting. Property taxes make up 51% of general fund revenue and intergovernmental aid accounts for 42%.

Very strong budgetary flexibility

Ansonia's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 25% of operating expenditures, or $15.9 million.

The fiscal 2015 available fund balance includes about $2.7 million in committed fund balance, which the city can make available with the approval of the board of aldermen, according to the city. Management expects reserves to increase by about $500,000 for fiscal 2016 due to strong operating performance.

For fiscal 2017, Ansonia appropriated about $2.5 million into the budget, which it has done historically. Therefore, due to the city's history of producing better-than-budgeted results at fiscal year-end and management's plan to maintain reserves above 15% of expenditures, we expect the city will likely maintain its very strong budgetary flexibility.

Very strong liquidity

In our opinion, Ansonia's liquidity is very strong, with total government available cash at 40.4% of total governmental fund expenditures and 3.3x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We believe Ansonia's frequent debt issuance, including GO bonds and short-term BANs, support its strong access to external liquidity. The city does not currently have any direct-purchase debt. In addition, management has confirmed it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Its investments mainly include cash deposits, money market funds, and the Connecticut Short-Term Investment Fund. Therefore, we expect the city's liquidity profile to remain very strong; we do not expect the city's liquidity metrics to change within the next two fiscal years.

Strong debt and contingent liability profile

In our view, Ansonia's debt and contingent liability profile is strong. Total governmental fund debt service is 12.1% of total governmental fund expenditures, and net direct debt is 15.1% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, which is, in our view, a positive credit factor. Negatively affecting our view of the city's debt profile is its significant medium-term debt plans.

With this issuance, Ansonia will have about $16.5 million in total direct debt, of which we view $2.8 million as self-supporting enterprise debt. This does not include about $29.5 million in enterprise debt, secured solely by revenue and assessments of the Ansonia Water Pollution Control Authority. Management currently plans to issue about $9 million over the next two years for various capital improvement projects. It potentially plans to issue about $12.3 million in new debt for a new police station, but the final amount could change as the city continues to pursue other funding.

Ansonia's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 3.2% of total governmental fund expenditures in fiscal 2015. Of that amount, 2% represented required contributions to pension obligations, and 1.2% represented OPEB payments. The city made its full actuarially determined contribution in fiscal 2015.

Ansonia contributes to the Connecticut Municipal Employees' Retirement System for pensions. The system is 90.5% funded. The city also contributes to two locally administered pension plans--the police retirement plan and the city employees' retirement plan--for employees hired prior to July 1, 2000. The police plan, the larger of the two plans, currently has a net pension liability of $3.3 million with a funded ratio of 26%, which we view as below average. The city employees' retirement plan was 45% funded as of fiscal 2015. While the city's retirement plans are currently underfunded, we view its pension costs and liabilities as manageable. Management plans to continue to increase annual contributions to the retirement plans. Ansonia provides OPEB to employees through an implicit rate subsidy.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Ansonia's very strong budgetary flexibility; strong debt; and very strong liquidity profiles, supported by strong management. We expect Ansonia will likely maintain its very strong reserves through conservative budgeting and positive financial performance. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

While not expected, if wealth and income were to improve to what we consider stronger levels, while management maintains very strong reserves through strong budgetary performance and a strong debt profile, we could raise the rating.

Downside scenario

If economic indicators were to decrease or if budgetary flexibility were to weaken due to deteriorated financial performance, we could lower the rating.

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
- 2015 Update Of Institutional Framework For U.S. Local Governments

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.