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Summary:

Ansonia, Connecticut; General Obligation

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Credit Profile

US\$5.0 mil GO bnds iss 2019 due 08/15/2039

<i>Long Term Rating</i>	AA-/Stable	New
Ansonia GO bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded

Rationale

S&P Global Ratings lowered its long-term rating on Ansonia, Conn.'s outstanding general obligation (GO) debt to 'AA-' from 'AA'. At the same time, we assigned our 'AA-' long-term rating to the city's issue of 2019 GO bonds. The outlook is stable.

The rating action reflects multiple years of reserve drawdowns, resulting in a decline in the city's available fund balance position from 25% to 11% over four years. While the drawdowns were planned as part of management's efforts to encourage development and revitalize downtown, we believe the reduction in flexibility due to a lowered reserve position is not offset by growth in the tax base. Additionally, we do not believe management is undertaking significant forward-looking financial planning beyond the next budget year, leading to a revision in our view of the financial management environment. We believe the underlying credit qualities are stable and do not anticipate further movement in the rating.

The city's full-faith-and-credit pledge secures the bonds. Officials plan to use series 2019 bond proceeds to permanently finance outstanding bond anticipation notes (BANs), which provided funding for a variety of capital projects.

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

- Adequate economy, with projected per capita effective buying income (EBI) at 79.3% and market value per capita of \$74,353, that benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 11.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 26.7% of total governmental fund expenditures and 2.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 9.5% of expenditures and

net direct debt that is 24.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 71.4% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Adequate economy

We consider Ansonia's economy adequate. The city, with an estimated population of 19,046, 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 EBI of 79.3% of the national level and per capita market value of \$74,353. Overall, market value grew by 0.9% over the past year to \$1.4 billion in 2020. The county unemployment rate was 4.4% in 2018.

Over the past several years, management has worked to revitalize its downtown and expand its industrial and manufacturing base, historically the basis for the city's nonresidential tax base. Following a revaluation effective for fiscal 2019, the total assessed value increased more than 9%, reflecting recent redevelopment efforts.

Through the use of grant funding, reserves, and tax abatements, management has worked to facilitate private development in the commercial downtown, commercial and industrial parks, and a number of individual parcels throughout Ansonia. Officials note that several manufacturers, including Farrel-Pomini, Spectrum Plastics Molding Resources, NPI Manufacturers, and Homa Pump, continue to invest in their properties, and that others, such as Better Packages, have elected to relocate to Ansonia.

We expect that the city will continue to have incremental tax base growth in line with the approximately 1% for fiscal 2020, and that the city's economy will remain adequate.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

We revised our view of the city's financial management environment, due to a change in our view of its long-term capital planning. We understand the capital plan is updated every few years and is focused on mayoral priorities. Despite several years of drawdowns, we believe the city planned for and implemented them and continues to build budgets with generally conservative and accurate assumptions. The budgeting process includes discussions with department heads, the finance committee, and board of aldermen, and management uses a five-year historical trend analysis when examining both revenue and expenditure trends.

Management reports budgetary performance monthly to the city council. A formal investment policy exists with monthly reports on holdings and earnings to the council, coupled with a formal reserve policy of maintaining total reserves between 8%-17% of expenditures. According to the policy and the city, this level is appropriate to maintain strong reserves during temporary revenue shortfalls and unanticipated one-time expenditures without reducing service levels. We understand that management intends to target the lower bound of the reserve policy. The city does not perform a long term financial plan.

Adequate budgetary performance

Ansonia's budgetary performance is adequate, in our opinion. The city had operating deficits of negative 6.1% of

expenditures in the general fund and negative 4.2% across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could improve from 2018 results in the near term.

In each of the past three years, Ansonia's budget included a multimillion-dollar reserve appropriation for capital expenditures and tax rate stabilization, which largely generated the year-end results. In fiscal 2018, the state reduced the city's intergovernmental aid, with final operational and education grants totaling nearly \$1 million less than the budget. Other revenues, along with the majority of the budgeted expenditure categories outperformed the budget, resulting in a positive result on a budgetary basis. However, the loss of state aid, coupled with the budgeted use of reserves, resulted in a negative GAAP result. We have adjusted performance to reflect recurring transfers and the expenditure of bond proceeds. In fiscal 2018, property taxes accounted for 52% of unadjusted general fund revenue. Intergovernmental grants were 44%, and other current charges were 1.1%, rounding out the top three revenue sources.

In the fiscal year 2019 and 2020 budget, the city significantly reduced the use of reserves to balance the budget. Management's projection for fiscal 2019 is a general fund result of negative \$1 million, better than the budgeted nearly \$1.8 million drawdown, which includes an initial \$475,000 and a supplemental emergency appropriation of \$1.3 million. This would result in a general fund result of approximately negative 1%-1.5% of expenditures. The fiscal 2020 budget includes a budgeted use of \$250,000 in reserves. Management is looking for expenditure savings through regionalization efforts, as well as streamlining current operations and reducing redundancies. We believe that the city's underlying and recurring revenues and expenditures are in approximate balance, with recent negative results reflecting a planned use of reserves. We expect that budgetary performance will remain weak to adequate over the next few years.

Strong budgetary flexibility

Ansonia's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 11.2% of operating expenditures, or \$7.7 million.

Over the past several years, management elected to annual expend reserves to make targeted capital investments. As of June 30, 2015, available reserves were 25% of general fund operating expenditures, falling each year to current levels. We understand that budgets subsequent to fiscal 2018 have reduced appropriated reserves from multimillion-dollar appropriations to less than \$500,000, notwithstanding the fiscal 2019 emergency appropriation. While we believe the city will use the annual reserve appropriations, we do not expect reserves to decline materially from current levels over the next several years. Consequently, we expect our view of budgetary flexibility to remain strong.

Very strong liquidity

In our opinion, Ansonia's liquidity is very strong, with total government available cash at 26.7% of total governmental fund expenditures and 2.8x governmental debt service in 2018. 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 our view of its strong access to external liquidity. The city does not currently have any direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on 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 liquidity metrics to change within the next two fiscal years.

Very strong debt and contingent liability profile

In our view, Ansonia's debt and contingent liability profile is very strong. Total governmental fund debt service is 9.5% of total governmental fund expenditures, and net direct debt is 24.4% of total governmental fund revenue. Overall net debt is low at 1.3% of market value, and approximately 71.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issuance, Ansonia will have approximately \$42.7 million in total direct debt, which includes nearly \$25 million in revenue-supported debt. The city has approximately \$17.8 million in net direct debt. Management currently plans to issue about \$5 million over the next two years for infrastructure improvements. We do not expect this to change our view of the debt profile.

Ansonia's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.5% of total governmental fund expenditures in 2018. Of that amount, 2.3% represented required contributions to pension obligations, and 1.2% represented OPEB payments. The city made its full annual required pension contribution in 2018.

Ansonia participates in the Connecticut Municipal Employees' Retirement System (CMERS), a multiple-employer system administered by the state. The city has four sub plans, covering general employees, police and firemen. The total net pension liability across all the plans is about \$904,000, with an average weighted funded ratio of 98.5%. All of the sub plans have funded ratios above 90%. Although CMERS uses an 8.0% discount rate, which we consider higher than average, given the size of the liability and the funded status, we do not expect the city to have pressure from its CMERS liabilities.

The city also administers two single-employer defined-benefit pension plans--the police retirement plan and the city employees' retirement plan. Both of the locally administered plans are closed to new entrants, with all active participants transferred to CMERS. The police plan has a net pension liability of \$3.6 million and is 19.25% funded, with 20 retirees receiving benefits. The city employees' plan is 45% funded, with a \$2.8 million net pension liability; it also has 20 retirees receiving benefits. While total retirement costs remain low, we expect the locally administered plans' costs will rise, given aggressive actuarial assumptions and the low funded ratio.

The city also provides OPEBs in the form of health insurance to eligible retirees. As of June 30, 2018, the city's net OPEB liability was \$29.7 million. Management is examining changes to eligibility, terms, and benefits to limit growth of the outstanding liability. At this time, OPEB costs also remain low.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' belief that Ansonia's reserve level will remain stable, supported by

generally balanced recurring revenues and expenditures and our expectation that management will continue to look for ways to contain expenditure growth. The stable tax base and access to a broad and diverse MSA provide additional stability. We do not expect to change the rating within the two-year outlook horizon.

Downside scenario

Should the city budgetary performance decline, resulting in further deterioration of reserves or a decline to economic indicators, we could lower the rating.

Upside scenario

While unlikely, should the city's wealth and income indicators improve to levels of higher rated peers, while increasing reserves through strong budgetary performance to levels commensurate with higher rated peers, along with maintaining a very strong debt and liabilities profile, we could raise 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

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