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Ratings

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Summary:
Plainville, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$10.0 mil GO bnds issue of 2018 due 09/01/2038		
Long Term Rating	AA+/Stable	New
Plainville GO rfdg bnds iss ser 2015 due 04/15/2027		
Long Term Rating	AA+/Stable	Affirmed
Plainville GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings assigned its 'AA+' rating to Plainville, Conn.'s series 2018 general obligation (GO) bonds. S&P Global Ratings also affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the town's outstanding GO debt. The outlook is stable.

The town's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limit to rate or amount secure the bonds. We understand officials intend to use proceeds from the planned $10 million series 2018 bonds to permanently finance all outstanding bond anticipation notes (BANs), as well as for school renovations, road improvements, and fire truck acquisitions.

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

- Strong economy, with 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;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.5% of total governmental fund expenditures and 1.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 8.3% of expenditures and net direct debt that is 57.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 80.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Plainville's economy strong. The town, with an estimated population of 17,598, is in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 109.3% of the national level and per capita market value of $112,748. Overall, market value grew by 0.6% over the past year to $2.0 billion in 2019. The county unemployment rate was 4.8% in 2017.

Plainville is a predominantly residential community, although it has a diverse commercial and industrial base. The town is midway between Bristol and New Britain, and residents benefit from access to regional employment centers via Interstate Highway 84, state routes 72 and 372, and regional bus rapid transit. In addition to education, health care, and social service sector employment, Plainville is home to several sizable manufacturers as well as construction and quarrying firms. The town's leading employers include the Wheeler Clinic (560 employees), Manafort Brothers Inc. (420), Gems Sensors (335), Tilcon Connecticut Inc. (300), and General Electric (240).

We consider the tax base diverse, with the top 10 taxpayers accounting for about 10.2% of the aggregate valuation of taxable property, or the grand list. Residential property constitutes 66.5% of the town's net taxable grand list, followed by commercial and industrial property, which generate 13.8%. Management has indicated it expects significant development over the next few years. Highlights include two new logistic facilities, a now-operational regional U-Haul facility, 35 new establishments in existing core downtown space, and multiple mixed-use developments. The town also received a $200,000 environmental remediation grant that could allow it to redevelop a long-vacant downtown construction yard.

Adequate management

We view the town'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.

Plainville's key budgeting practices include management's use of three-to-five years of historical trends to formulate its revenue and expenditure assumptions. Historically, the town develops conservative property tax and nontax revenue projections, and uses the governor's proposed biennial budget to estimate state aid. On the expenditure side, Plainville adjusts for changes to contracted town services, payroll and benefits, and annual debt service to establish baseline appropriations, and then determines variable costs for line items such as fuel and utilities. Throughout each fiscal year, management monitors budget-to-actual results at least monthly and reports to the council monthly to address budgetary trends and variances.

Currently, Plainville does not perform formal financial forecasting, but it does maintain a formal rolling five-year capital improvement plan that is updated annually and includes funding sources, which is presented to the council annually. Aside from adhering to state laws, the town does not have a formally adopted investment policy but does report investment earnings and holdings to the council monthly. Although it does not have a formal debt management policy, it strives to keep debt service at or below 2014 levels and contributes any amount under those levels into a debt management fund. Management does not have a written fund balance policy, but its target is to maintain reserves around 5%-15% of expenditures. Plainville has historically grown and sustained reserve levels at or above this target.

Strong budgetary performance

Plainville's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of negative 0.3% of expenditures, and surplus results across all governmental funds of 4.9% in fiscal 2017. General fund operating results of the town have been stable over the last three years, with results of negative 0.4% in 2016 and negative 0.8% in 2015. For analytical consistency, we adjusted operating performance for recurring net transfers and debt- or grant-financed capital projects.

Plainville estimates that it had a negative $500,000 operating result in fiscal year 2018 due to an unexpected $1.9 million reduction in state aid. The town instituted a midyear supplemental property tax that provided an additional $990,000 in revenue and relied on overall expense reduction to bring down operating expenditures. Additionally, it recorded an estimated $1.1 million deficit in its internal services fund through which it accounts for the self-insurance activities related to health benefits and deductibles on commercial insurance policies. Management attributes this deficit to a much larger-than-expected number of severe health insurance claims. Starting on July 1, 2018, the town switched to the State of Connecticut Partnership Plan, which provides a greater pool of diversification and so far, has helped mitigate the town's medical costs.

Plainville's balanced 2019 adopted budget totals $58.5 million, representing a 2.6% increase from 2018. The budget includes a 0.42-mill rate increase and a 3.5% tax levy increase, the result of grand list growth and the mill rate increase. It also includes a $200,000 appropriation of reserves, which is in line with historical practice. The town received finalized state aid in line with the state's initial proposal. Furthermore, all of its collective bargaining-unit contracts are current until the end of 2019.

Property taxes make up the majority of the town's revenues at 69.0%, followed by intergovernmental revenues at 29.5%. Collection rates are very strong with an average of 97.8% over the last five years.

Very strong budgetary flexibility

Plainville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 16% of operating expenditures, or $10.4 million.

The town maintains an informal practice to grow and maintain unassigned and assigned fund balance at a 5%-15% of general fund expenditures. In recent years, Plainville has annually appropriated about $200,000 of reserves as a revenue source to support its general fund budget. However, the town typically makes up these funds through conservative budgeting and revenue forecasts that have contributed to better-than-budgeted performance.

In fiscal year 2018, the town used fund available reserves to offset lower-than-expected state aid and higher-than-expected health care costs. We expect the available fund balance to decline on an absolute basis, to around $9.8 million at fiscal year-end 2018. We further expect the town will maintain or expand fund balance from these levels. We could reconsider how we view Plainville's budgetary flexibility if reserves were to decline to levels lower than we expected or if reserves were pressured because of uncertainty related to potential reductions in state aid.

Very strong liquidity

In our opinion, Plainville's liquidity is very strong, with total government available cash at 15.3% of total governmental fund expenditures and 1.9x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

Plainville is a regular market participant that has issued debt frequently over the past several years, including GO bonds, refunding bonds, and short-term BANs. Therefore, we believe this reflects the town's strong access to external liquidity. In addition, it does not currently have any variable-rate or direct-purchase debt, and management has confirmed it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

In addition, management is not aggressive in its use of investments. Town investments are subject to strict state guidelines and the town invests its cash in low-risk assets, including the state's short-term investment fund, the State Tax Exempt Proceeds Fund, money-market funds, or certificates of deposit. Furthermore, Plainville does not have any expected significant deterioration of its cash position, and we expect its liquidity to remain very strong over the next two fiscal years.

Very strong debt and contingent liability profile

In our view, Plainville's debt and contingent liability profile is very strong. Total governmental fund debt service is 8.2% of total governmental fund expenditures, and net direct debt is 57.1% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, and approximately 80.0% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this bond issue, Plainville's total direct debt is approximately $43.8 million. This issuance will also permanently finance all outstanding BANs. The town has no overlapping debt. Plainville plans to issue an additional $7 million-$9 million in debt over the next two-to-three years but will repay more than this amount over the same period.

As previously mentioned, the town aims to sustain debt service in line with fiscal 2014 levels and contributes anything under this amount into a debt management fund. We do not believe the town's current issuance will affect its overall debt profile given its low overall net debt as a percentage of market value, in conjunction with its rapid amortization of debt within the next 10 years.

Plainville's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 1.2% of total governmental fund expenditures in 2017. The town made its full annual required pension contribution in 2017. It is the administrator of two single-employer, defined-benefit public employee retirement systems: the Municipal Employees Pension and the Police Pension. Aside from police, all current employees are eligible for the town's defined-contribution plan and are no longer eligible for the defined-benefit pension plan.

The town's net pension liability was approximately $5.63 million as of the most recent actuarial valuation, July 1, 2017. Both of Plainville's plans are well funded, with the plan fiduciary net position as a percentage of the total pension liability for its town employee pension plan at 82.2%, as well as 83.9% for its police benefit plan. The combined total pension liability is roughly $33.27 million, the largest of which is the police pension plan with a net pension liability of about $2.83 million.

The town also offers an implicit subsidy of postemployment health care benefits to eligible employees that are funded on a pay-as-you-go basis. Management plans to begin pre-funding its OPEB obligation starting with the fiscal year 2020 budget.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong. In 2017, we lowered our predictability subfactor twice based on our view that local governments are operating in a less-predictable environment when budgeting and forecasting state revenue. This action resulted from delayed passage of the state's biennial budget in 2017, which slowed payments to local governments, led to a period of significant budgetary stress, and forced municipalities to adopt 2018 budgets amid significant uncertainty. While we view the state's creation of the Municipal Accountability Review Board (MARB) in 2017 as a formal system support mechanism for identifying fiscal distress and providing assistance to municipalities, we continue to monitor MARB's efficacy and its potential effect on the legal and practical environment in which local governments operate in Connecticut. (For more information, please see the article, titled "Connecticut Rating Actions Do Not Affect Strong Institutional Framework Score On Local Governments," published April 19, 2018, on RatingsDirect.)

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Plainville's broad and diverse local economy, which benefits from its participation in the Hartford-West Hartford-East Hartford MSA. The rating also reflects our opinion that Plainville will likely maintain at least adequate budgetary performance, complemented by strong liquidity. We expect reserves to remain at levels we consider supporting very strong flexibility. For these reasons, we are unlikely to change the rating during our two-year outlook period.

Upside scenario

All else being equal, we could raise the rating if the town's wealth and income conditions were to improve to levels commensurate with higher-rated peers, coupled with management instituting and sustaining more comprehensive long-term financial practices and policies.

Downside scenario

We could lower the rating if the town were to experience a sustained or substantial weakening of budgetary performance or an unexpected and significant decrease in available fund balance due to operating pressures or reduced state aid.

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.