

Fitch Rates Manchester, CT's GOs 'AAA'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has assigned ratings to the following Manchester, Connecticut (the town) bonds:

--\$10.1 million general obligation (GO) bonds, series 2014A rated 'AAA';

--\$2.5 million GO bonds (taxable), series 2014B rated 'AAA'.

The bonds will sell competitively on June 18. Proceeds will finance various public works projects within the town.

In addition, Fitch affirms its 'AAA' rating on the approximately \$79.1 million of outstanding GO bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the town backed by its full faith and credit and unlimited taxing power.

KEY RATING DRIVERS

STRONG FINANCIAL MANAGEMENT: General fund operating results have been stable over an extended period, and reserve levels maintained at a satisfactory level. Keys to the town's financial performance have been its ability and willingness to increase property taxes, the dominant general fund revenue source, and careful expenditure

management.

FAVORABLE DEBT PROFILE: Debt levels are low, outstanding debt is repaid rapidly, annual debt servicing costs represent a very reasonable portion of spending, and future capital needs and issuance plans are manageable.

REGIONAL RETAIL DESTINATION: The success of several sizable commercial developments over the prior decade has helped transform the town into a regional retail destination. Economic diversity is enhanced by the town's location outside of Hartford, the state capital and a regional employment center.

RATING SENSITIVITIES

In Fitch's view, the town's exemplary 'AAA' rating is most vulnerable to changes in its financial performance and position. The Stable Outlook reflects Fitch's opinion that such changes are unlikely.

CREDIT PROFILE

Manchester comprises an area of 27.2 square miles in the Connecticut River Valley, approximately nine miles east of Hartford at the intersection of interstates 84 and 384. The town has an estimated 2012 population of 58,289.

HISTORY OF POSITIVE OPERATIONS

The consistency of general fund operating results over time is a key factor in Fitch's assessment of the town's finances. From fiscal years 1997-2013 the town has incurred a general fund deficit in only four years, each the equivalent of no more than 1.4% of annual spending. Most of the deficits have been recent, but are primarily due to increased pay-as-you-go capital spending.

Preliminary results for fiscal 2014 indicate a roughly \$700,000 general fund surplus. The fiscal 2014 budget was adopted assuming that there would be cuts to state aid which did not occur, improving the town's operating position. The recommended fiscal 2015 budget is projecting a 6.4% revenue increase from the prior year's budget, primarily from property tax increases. The budget was balanced without an appropriation of fund balance.

TIMELY TAX INCREASES

The town's demonstrated willingness to increase taxes to support increased spending and fiscal stability in recent years is an important rating factor. Property tax receipts, which account for approximately 70% of general fund sources, had a cumulative increase of 8.5% from fiscal years 2009-2013 and total operating revenue climbed 7.1% compared to a 6.2% rise in spending over the same period. The property tax rate was increased 3.3% in fiscal 2014 to 34.13 mills following a 4.6% increase in fiscal 2013.

Fitch believes additional tax rate increases will likely be necessary to preserve the town's financial position over the next several years, as tax base gains are not expected (the fiscal 2015 grand list decreased by 0.4%). The town's tax rate remains regionally competitive despite recent increases, and property tax levies are not subject to statutory cap or restriction on annual growth.

SATISFACTORY RESERVE LEVELS

The town has a general fund reserve policy equal to 5%-7% of revenues. While Fitch considers the reserve policy modest, credit is given to the steady maintenance of reserves over time as well as the fairly predictable and stable nature of the town's revenue stream. Entering fiscal 2014, the general fund unrestricted fund balance totaled \$14.6 million, or 8.4% of spending (Fitch measures reserves against spending as opposed to revenues).

LONG-TERM LIABILITIES GENERALLY WELL-POSITIONED

Overall debt equals a modest \$1,582 per capita, or 1.3% of estimated market value. Fitch does not expect a material change in the town's debt position based on manageable future issuance plans and a fairly rapid pay-out of existing debt (64% within 10 years).

Carrying costs related to the town's long-term liabilities comprise an affordable share of spending at 12.7%.

The town administers a single employer defined benefit pension plan that covers substantially all town employees except for certified teachers and firefighters. The most recent reported funded ratio (as of July 1, 2012) was 77.2%, adjusted by Fitch to a slightly lower 71.3% assuming a 7% investment rate of return. This plan was closed to all new employees with the exception of police in 2004. Town employees hired after 2004 participate in a defined contribution plan.

Other post-employment benefits (OPEB) liabilities are somewhat high, with the most recent unfunded actuarial liability (July 1, 2012) of \$177 million representing 2.5% of market value. The town has taken positive steps by reducing benefits for new hires and establishing a trust for OPEB in 2009 with a modest balance of approximately \$738,000 as of June 30, 2013.

GOOD COMMERCIAL BASE AND CLOSE PROXIMITY TO HARTFORD

Manchester is a suburb of Hartford with a fairly sizable and diverse commercial core. Less than half of the tax base consists of residential property. Housing prices have struggled to rebound from the recession.

The town benefits from its close proximity to Hartford and its favorable positioning along I-84. A sizable retail presence is anchored by the Buckland Hills shopping area, featuring The Shoppes at Buckland Hills regional mall, Sam's Club, Wal-Mart, and Home Depot.

Other commercial operations within the town include the aviation industry (GE manufactures structural parts for the Boeing 787 engines), healthcare (Manchester Memorial Hospital, the second largest employer behind the town with 1,500 employees), distribution (J.C. Penney operates a regional catalog distribution center with 750 employees), printing (Allied Printing Services and R.R. Donnelly Printing), and media (Cox Communications).

The town's March 2014 unemployment rate of 6.8% essentially mirrors that of the nation. Recent improvements to the unemployment rate have primarily been the result of the town's decreasing labor force, as employment trends have been flat to declining. The town's population exhibits educational attainment above the national standard. Resident income levels are about 20% above the U.S. average but approximately 10% lower than those of the state.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, Zillow.com, IHS Global Insight, National Association of Realtors, Underwriter, and Bond Counsel.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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