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Summary:

Bridgeport, Connecticut; General Obligation; Note

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Credit Profile

US\$20.0 mil GO TANs ser 2014 A dtd 04/16/2014 due 08/15/2014

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Bridgeport, Conn.'s series 2014A GO tax anticipation notes (TANs). We also affirmed the 'A' long-term rating, with a stable outlook, on the city's general obligation (GO) bonds. The short-term rating is based on a stable revenue profile and projected 2.5x debt service coverage at maturity.

The notes are general obligations of the city, for which it has pledged its full faith and credit. Proceeds will be used to fund certain cash flow needs of the city.

The 'A' long-term rating reflects our assessment of the following factors for the city:

- A weak economy that is part of the broad and diverse metropolitan area of Bridgeport-Stamford-Norwalk;
- Weak budgetary flexibility, with 2013 audited available reserves at 2.3% of general fund expenditures;
- Adequate budgetary performance with a projected operating surplus for fiscal 2014;
- Strong liquidity given the city's strong access to external liquidity sources as evidenced by a history of issuing TANs and fixed-rate GO bonds;
- Strong management conditions with good financial policies; and
- Very weak debt and contingent liabilities position due mainly to the city's large pension and other postemployment benefit (OEPB) liabilities.

Weak economy

We consider Bridgeport's economy weak, with its projected per capita effective buying income at 69.1% of the U.S. and per capita market value of \$69,197. The city is part of the broad and diverse economy of the Bridgeport-Stamford-Norwalk metropolitan area and is the state's largest city. Its substantial waterfront and deepwater port and access to larger employment centers via a commuter rail and Interstate 95, which runs through the city, have factored into the city's steady redevelopment. Officials are focused on five key areas of development: the revitalization of the downtown district, the Eco-Technology Park in which the city is partnering with the private sector for green industries and energy infrastructure development, the Steel Point Project for the redevelopment of over 800 acres, a focus on education including the construction of a \$100 million high school, and a waterfront recapture project to link more neighborhoods to the waterfront. We consider the top 10 taxpayer concentration diverse at 13.7% of assessed value (AV). Unemployment in Fairfield County averaged 7.6% in 2012.

Weak budgetary flexibility

The city's budgetary flexibility remains weak with 2013 audited available reserves of \$12.57 million (assigned and unassigned funds) equal to 2.3% of expenditures. The city hopes to build reserves to stronger levels in the coming years, but we believe a material improvement in operating flexibility will be challenging given the current budgetary environment. Management has demonstrated its willingness to raise additional revenue through tax levy increases to avoid financial stress.

Adequate budgetary performance

The city's budgetary performance has been adequate overall, in our view. Audited 2013 ended with a deficit of \$190,000, or negative 0.04%, net of bond financing and associated costs for the general fund, and a slight operating surplus of 0.5% of total governmental funds after adjusting for one-time capital expenditures supported by bond proceeds. We note the city was allowed by the state to defer pension costs in 2013, which, if funded to 100%, would have resulted in a greater general fund decline. For 2014, based on the city's projected budget-to-actual results, there were no other sizable operating variances through the year, and officials expect to end the year with small operating surplus. The 2014 budget is structurally balanced at \$517 million.

Strong liquidity

We consider Bridgeport's liquidity strong. Total government available cash was at 7.6% of total governmental fund expenditures and at 80.2% of debt service. We note in our calculations that we excluded restricted cash in both total governmental funds and the city's enterprise fund. We believe the city has strong access to external liquidity as it regularly issues TANs and is a regular issuer of bond anticipation notes and GO bonds. We expect liquidity to remain strong given management's projection of an operating surplus for 2014 and the projected decrease in TAN issuance.

Strong management conditions

We consider the management environment strong with good financial practices and policies and an experienced and capable management team. We understand management provides elected officials with monthly budget updates and investment reports. Under the city's charter, management also maintains and updates a formal five-year capital improvement plan that is annually approved by the council. The city maintains a formal long-term financial plan but not a formal debt policy aside from state guidelines. Although Bridgeport lacks a formal fund balance policy, officials conducted a formal analysis to target available reserves at a maximum of 8% of expenditures.

Very weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is very weak, with total governmental fund debt service at 9.5% of total governmental fund expenditures, and direct debt at 94.6% of total governmental fund revenue. Bolstering the city's debt profile is that amortization of principal debt is aggressive at 72.7% over 10 years.

As for long-term liabilities, pension and OPEB costs account for about 8% of the general fund expenditures. Bridgeport administers four single-employer defined-benefit pension plans that cover substantially all of its employees. All plans combined for a funded ratio of 74.8% as of July 1, 2012, although the city's largest plan, Public Safety Plan A, was just 43.8% funded. Bridgeport funded about 91% of its annual required contribution (ARC) for Public Safety Plan A as it was permitted by the state legislature to limit its pension contribution. Police Retirement Plan B was also only funded at 75.7%. Combined, the total ARC for all plans was roughly \$20.2 million (about 3.1% of budget). Total contributions were about \$17.3 million, about 85.8% of the ARC. The city has provided the state with a plan to fully fund the ARC,

and the scenarios submitted suggest an increase to the contribution could prove a budgetary challenge for the near term. For fiscal 2014, the city has budgeted full payment of the ARC for the Public Safety Plan A.

An additional long-term credit consideration is Bridgeport's OPEB unfunded actuarial accrued liability (UAAL). The UAAL was estimated at \$723.7 million as of July 1, 2012, a 21% decrease since the previous revaluation. In 2013, the ARC was \$47.7 million, of which the city contributed \$25.7 million, roughly 54% of the ARC.

Very strong Institutional Framework

We consider the Institutional Framework score for Connecticut cities as very strong.

Tax anticipation notes

The notes are a GO of Bridgeport, secured by its full faith and credit pledge. We understand that officials plan to use TAN proceeds to fund a portion of the city's general fund cash flow needs from April until the collection of property taxes in July. The city levies property taxes semiannually, and the taxes are payable on July 1 and Jan. 1, with the majority of collections received and processed at the midpoint of both July and February. These notes will mature on Aug. 15, 2014, and we project pro forma coverage of this TAN borrowing to be 2.5x at maturity.

Bridgeport bases its 2014 cash projections on actual results from previous years. In the past year, the city has issued TANs in October of the fiscal year and again in May. Bridgeport issued \$95 million of TANs in fiscal 2012 and \$100 million in fiscal 2013. Management projects a decrease in issuance for 2014 to approximately \$81 million. While the city is authorized to issue up to \$110 million, management has never needed to issue up to that amount.

The city's tax collections have remained strong despite slow growth and high unemployment. Property taxes generate 60% of total general fund revenues, while state aid contributes roughly 39%. Bridgeport has been consistent in making the needed budgetary adjustments to offset decreased revenue from local receipts and state aid. Management's efforts have led to a general fund surplus in two of the past four years. A surplus projected for 2014 should bolster cash balances.

Outlook

The outlook on the long-term rating is stable. We do not expect the rating will change within our two-year outlook horizon because we expect management to maintain balanced operating results and at least adequate budgetary performance. While the city's economic indicators remain weak, a number of economic initiatives may prove beneficial over the longer term. Despite increased pension contributions, the city's pension and OPEB liability remains a credit weakness. Credit factors that could lead to a negative rating action would include declines in reserves that result in very weak budgetary flexibility. While liquidity has improved, a positive rating action would require the city to achieve operating surpluses that enhance operating flexibility and liquidity measures.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Short-Term Debt, June 15, 2007

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of March 27, 2014)		
Bridgeport GO bnds		
<i>Long Term Rating</i>	A/Stable	Affirmed
Bridgeport GO & GO (Wrap of insured) (MBIA/National) (BAM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Bridgeport GO (wrap of insured) (FGIC, National & AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Bridgeport GO (wrap of insured) (MBIA & AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Bridgeport GO (BAM) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Bridgeport GO		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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