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Ratings

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Summary:

Berlin, Connecticut; General Obligation

Primary Credit Analyst:
Dylan Lindow, Boston +1 6175308033; dylan.lindow@spglobal.com

Secondary Contact:
Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

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Summary:

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Credit Profile		
US$19.725 mil GO rfdg bnds, issue of 2024 ser 2024 due 10/01/2035		
Long Term Rating	AAA/Stable	New
US$4.56 mil GO bnds, issue of 2024 due 10/01/2034		
Long Term Rating	AAA/Stable	New
Berlin GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Berlin, Conn.'s $4.560 million series 2024 general obligation (GO) bonds and $19.725 million series 2024 GO refunding bonds, based on the application of our "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.

- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's GO debt outstanding.

- The outlook is stable.

Security

The town's full faith and credit secures the bonds.

Proceeds from the bonds will finance HVAC upgrades to Griswold and Hubbard Elementary Schools, along with police state renovations and police radio upgrades. In addition, the GO refunding bonds will refund several of the town's bond series for net present value savings.

Credit overview

The rating reflects our view of Berlin's history of healthy operating performance, as reflected in its available fund balance and tax base growth, supporting its general creditworthiness. The GO rating also incorporates our view of the strong regional economic activity and our forward-looking view of the town's finances and additional debt plans.

Underpinned by a growing local economy outside of Hartford, we expect limited downside rating pressure through the two-year outlook horizon. Berlin has been able to attract new young professional residents, in part due to its location along the Amtrak train route that goes to Springfield and New Haven, as well as its campaigns focused on expanding the town's culture and diversity. The town has seen strong revenue growth as revenue-raising flexibility and expenditures savings continue to exceed expectations. We attribute this growth to management's grasp on tight controls while budgeting and managing its debt and liabilities profile to the policies in place, as well as strong planning.

Credit fundamentals supporting the 'AAA' rating include the town's:

- Well-diversified regional economy, which has seen investment interest in recent years, and local economic metrics,

including per capita market value and town incomes, that are in line with those of similarly rated peers while per capita gross county product and per capita personal income are above those of national and county levels, which we view as a credit strength;

- Historically positive budgetary performance, as reflected in surplus results in nine of the last 10 fiscal years, and we expect that the town will continue to realize balanced-to-positive results given management's tight expenditure controls and predictable revenue growth--reserves are supported by a 11% formal fund balance policy, and we expect they will remain above the policy requirement; and

- Additional debt plans, which we do not believe will materially affect Berlin's credit fundamentals.

For more information on our institutional framework assessment for Connecticut municipalities, see "Institutional Framework Assessment: Connecticut Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We analyzed the town's environmental, social, and governance (ESG) factors relative to its economy, management, budgetary and financial measures, and debt and long-term liability profile, and consider them in line with the sector. In addition, we understand the town maintains adequate IT safety protocols.

Ratings above the sovereign

We rate the town above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.

Outlook

The stable outlook reflects our view of the town's conservative management, leading to consistent general fund operations and maintenance of reserves above the policy limit. The town's strong economic presence further supports the rating.

Downside scenario

Although not expected at this time, if the town's debt burden were to grow significantly or if the town's finances become imbalanced, leading to a draw on reserves with no plan to replenish, we could lower the rating.

Credit Opinion

Economy

Berlin has seen an uptick in new growth since the onset of COVID-19 in early 2020. Since the pandemic, the town's grand list (total assessed value) has grown by 5.2%, to just over $2.4 billion. This growth has supported revenue increases from the additional taxable values. One of the larger projects was the state-funded Amtrak train service, which implemented new lines for easy access in and out of the town. The project has brought in mixed-use developments with commercial and residential space. As a result, the primarily residential community has experienced

diversification in the nonresidential sectors, with promotions through the economic development department. The town has received several grants, including an arts grant, toward getting more people out in the community supporting local businesses. Officials have also been working to market the town through a brand awareness campaign focused on attracting residents and new employers.

Unemployment within the county remains low, with residents working jobs in finance and insurance, service industry, and manufacturing. Berlin has seen an increase in business that has partially been derived from economic activity in the area in which Berlin has greatly benefited from. This is demonstrated in the gross county product, in which Berlin is above-average compared with both the county and the U.S. overall.

Management

The town benefits from conservative budgeting techniques that have supported recent operating results. Highlights include:

- Management follows tight budget controls in order to maintain structural balance and determine revenue and expenditures assumptions. The town uses historical trend analysis when developing its budget to incorporate emerging trends and to identify tax collection and growth trends, and uses the governor's proposed budget as a general guide to determine state aid revenue. The town also monitors budget-to-actual performance, reporting to the board of finance monthly to address variances and propose budget amendments when necessary.
- Officials maintain a rolling 10-year, long-term capital improvement plan (CIP) that identifies capital projects priorities and internal and external funding sources. They also keep a five-year financial plan that details assumptions and feeds into the annual budget.
- Berlin maintains formal debt management and reserve policies. The former outlines uses for debt, along with setting debt limits (relative to the grand list and operating budget) and amortization requirements. The reserve policy calls for maintenance of unassigned general fund reserves at no less than 11% of budgeted expenditures and includes the acceptable use of reserves to cover expenditures, as well as a replenishment clause. Although state statutes strictly limit which investment instruments the town can use, management maintains an investment policy for short-term holdings and interest income, mirroring state law.

Financial performance, reserves, and liquidity

Despite a slight operating deficit posted in fiscal 2022, mainly for transfers out of the general fund for capital projects and larger-than-normal lump-sum pension payments to retirees, the town has a long history of posting balanced-to-positive results each year. The town has demonstrated good cash flow management by taking advantage of a higher interest rate environment, earning $1.9 million more than what was budgeted for fiscal 2023. Current year and back taxes, along with higher extra-duty police services, also contributed to revenues exceeding the budget. For fiscal year 2024, the town was able to maintain expenditure controls, realizing about $3 million in savings largely due to public works and parks and recreation line items, and is expecting another surplus of approximately $600,000, about less than 1% of general fund expenditures. The budget is funded mostly by property taxes (80% of general fund revenue) and intergovernmental revenues (13%).

The $102.8 million fiscal 2025 budget includes building permits that are expected to outpace the five-year average because of a few large commercial developments that are underway. The town continues to see strong growth in property taxes as it attracts new residents, with new developments and accessibility along the state-funded Amtrak

train service project. Berlin continues to add to available reserves, supported by overall performance in the general fund.

Debt and liabilities

Subsequent to this issuance, the town will have $45.8 million in total direct debt. This includes $7.9 million remaining from a roughly $10.4 million, 20-year capital lease for a multifaceted energy saving program. Officials plan to issue up to $10.7 million over the next two years, in accordance with its CIP, to fund infrastructure improvements. With preliminary numbers, we expect fixed costs to stay relatively flat at 7.4% or increase slightly.

We do not view pension and other postemployment benefits (OPEB) liabilities as a credit pressure for the town. While the funded ratio of the town's single-employer plan is low, the plan was closed to all employees in 2000, and the town has made additional contributions to the plan from its unassigned fund balance to reduce pension exposure. Additionally, the town developed a new defined-benefit plan in 2023 that became effective in fiscal 2024 to recruit and retain police employees. The town has passed an ordinance requiring full funding of the actuarially determined employer contribution for each active defined-benefit pension plan. Teachers and other certified personnel are eligible to participate in Connecticut State Teachers' Retirement, a cost-sharing, multiple employer system. The state makes contributions to the plan.

Berlin participates in the following plans as of June 30, 2023:

- Berlin Employees Retirement System, which is 62.7% funded, with a $1.1 million net pension liability; and
- Berlin's single-employer health care OPEB plan, which has a $8.4 million net OPEB liability.

As of the July 1, 2024, valuation date, the funded ratio for the police plan was 86.7% and the closed pension plan had increased to 88.6%.

Table 1

Berlin Town, Connecticut--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.43
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Financial performance	2
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Debt and liabilities	1.50
Management	1.65

Table 2

Berlin Town, Connecticut--Key credit metrics				
	Most recent	**2023**	**2022**	**2021**
Economy				
GCP per capita % of U.S.	147	--	147	145
County PCPI % of U.S.	108	--	108	108
Market value ($000s)	3,510,927	3,510,927	3,404,807	3,387,354
Market value per capita ($)	174,465	174,465	162,606	163,941

Table 2

Berlin Town, Connecticut--Key credit metrics (cont.)				
	Most recent	**2023**	**2022**	**2021**
Top 10 taxpayers % of taxable value	14	14	15	14
County unemployment rate (%)	3.8	3.8	4.2	6.6
Local median household EBI % of U.S.	139	139	135	139
Local per capita EBI % of U.S.	137	137	130	139
Local population	20,124	20,124	20,939	20,662
Financial performance				
Operating fund revenues ($000s)	--	107,763	100,466	98,819
Operating fund expenditures ($000s)	--	104,087	102,173	95,692
Net transfers and other adjustments ($000s)	--	--	-2,972	-2,203
Operating result ($000s)	--	3,676	-4,679	924
Operating result % of revenues	--	3.4	(4.7)	0.9
Operating result three-year average %	--	-0.1	-0.8	1.3
Reserves and liquidity				
Available reserves % of operating revenues	--	16.5	13.8	19.0
Available reserves ($000s)	--	17,780	13,894	18,785
Debt and liabilities				
Debt service cost % of revenues	7.0	7.0	7.7	7.9
Net direct debt per capita ($)	2,281	2,827	3,000	3,349
Net direct debt ($000s)	45,893	56,881	62,827	69,200
Direct debt 10-year amortization (%)	82.0	--	--	--
Pension and OPEB cost % of revenues	--	--	5	2
Net pension liabilities per capita ($)	59	59	83	393
Combined net pension liabilities ($000s)	1,184	1,184	1,742	8,118

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022