Summary:

Newington, Connecticut; General Obligation; Note

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Credit Profile		
US$9.0 mil GO bnds iss of 2019 due 04/01/2039		
Long Term Rating	AA+/Stable	New
US$6.0 mil GO BANs dtd 04/02/2019 due 04/01/2020		
Short Term Rating	SP-1+	New
Newington Twn GO		
Long Term Rating	AA+/Stable	Affirmed
Newington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the town of Newington, Conn.'s issue of 2019 general obligation (GO) bonds and affirmed its 'AA+' long-term rating on the town's outstanding GO debt. The outlook is stable.

At the same time, we assigned our 'SP-1+' short-term rating to the town's $6 million GO bond anticipation notes (BANs) and affirmed our 'SP-1+' short-term rating on its existing notes. The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Newington maintains a very strong capacity to pay principal and interest when the notes come due. The town has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The town's full-faith-and-credit pledge secures the bonds. Proceeds of the long-term bonds and BANs are to provide funds toward construction of a town hall project. The total bonding authorization for the project is $28.9 million.

The town's steady operating results and consistent budget reserves, along with its very low debt burden, support the 'AA+' rating. Despite weak growth in the region, and ongoing pressures related to state funding, management has done well, budgeting conservatively and producing several years of general fund surpluses. Prudent financial management and adherence to its capital policies and reserve targets underpin this. Moreover, the town's debt profile remains stable with this bond issue, and is not likely to cause any pressure on its financial position or pose any budgeting challenges. Moreover, pension and other postemployment benefits (OPEB) costs are manageable, and its overall liability is modest, despite low funded ratios.

The long-term rating further reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.6% of total governmental fund expenditures and 30.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 1.1% of expenditures and net direct debt that is 15.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Newington's economy very strong. The town, with an estimated population of 30,823, is five miles southwest of Hartford in Hartford County. It is in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 125% of the national level and per capita market value of $122,384. Overall, market value grew by 0.6% over the past year to $3.8 billion in 2020. The county unemployment rate was 4.8% in 2017.

Newington maintains a steady economy as residents benefit from employment opportunities throughout the MSA. The town's unemployment has consistently tracked below state averages, and remains well below the national average. The town's leading employers remain stable and include a mix of government and health services. The Connecticut Department of Transportation maintains a heavy presence in the town with over 1,000 employee. In addition, Hartford Hospital, the Veterans Administration Hospital, and Newington Health Care Center combined account for 1,435 jobs.

Newington itself is primarily residential, but the town maintains a good mix of commercial and industrial property. Residential properties account for roughly 60% of the tax base, while commercial and industrial concerns account for approximately 21%.

The town has focused its economic development on commercial and industrial diversification. It continues to see modest growth in its grand list, which management attributes to ongoing nonresidential property development and growth. Building permit activity remains consistent with years past, valuing $21 million in construction value in 2018, which would suggest grand-list growth over the next few years should remain in line with current trends.

The town has recently focused on new development along two recently opened CT fastrak Bus Rapid stations. Recently completed, the CT fastrak system has ten stations along a nine-mile route from Hartford to New Britain. Through the acquisition of properties, the town is poised to see additional development through the creation of Transit Oriented Development Overlay zoning. Given its proximity to Hartford and residents' access to the Hartford MSA, we anticipate that the town's economy assessment will remain very strong throughout the two-year outlook period. Notably, the regional MSA, while we consider it broad and diverse, has seen little employment growth when measured against the national level. Nevertheless, the economy and grand-list growth both remain steady, and we expect tax base growth over the next few years to provide new revenues to the community.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Newington adopted a council-manager form of government, with the town council having the budget-making authority. The council appoints the town manager, who is both CEO and administrative officer.

In our opinion, the town maintains several policies in the key areas that support credit stability. Revenue and expenditure assumptions are conservative as management factors recent performance in its budget estimate. Further, the town maintains a five-year capital improvement plan that it reviews, along with the annual operating budget formation process, and is included in the annual budget. For investments, the town invests cash principally in the Connecticut State Treasurer's Short Term Investment Fund (STIF) and municipal money market funds at local financial institutions, in accordance with Connecticut General Statutes, with monitoring and reporting done frequently. Newington also maintains an informal target for how it manages it reserves. The town generally manages its reserve position at minimum to 10% of general fund expenditures. It also maintains a formal debt management policy that is widely communicated and followed, and factors in thresholds for affordability and bond structure. The town does not do formal budget forecasting, but is generally aware of what its challenges are as management prepares its annual budget.

Strong budgetary performance

Newington's budgetary performance is strong, in our opinion. The town had balanced operating results of 0.2% of expenditures in the general fund and negative 0.2% across all governmental funds in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of negative 0.6% in 2017 and 0.5% in 2016.

Budgetary performance remains balanced as officials are generally prudent in their budgeting. The town has been able to produce a surplus in three of the last four years on a generally accepted accounting principles basis, which is notable given the uncertainty that management faced regarding state aid. In 2018, similar to previous years, the town produced a surplus due mainly to curtailing expenses midyear. While it realized a decline in state aid, through careful tracking of expenditures, several departments' expenditures came in under budget, which helped generate an overall surplus.

Property taxes are the town's largest revenue source at 76% of general fund revenues and collections have remained steady at 98%. In addition, state aid, which has proven volatile in years past, stood at 22%. For fiscal 2019, the adopted budget totaled $116.8 million, and management anticipates balanced operations at year-end.

The fiscal 2020 budget is not complete, but management expects the budget to continue its prudent practices, particularly as it budgets for state aid. The town is preparing for the proposed shifting of a portion of the costs of the Connecticut State Teachers' Retirement System (TRS) from the state to municipalities, but it remains uncertain as to whether the legislature will adopt the measure, and if it were to come into fruition, the town's exposure would be negligible. Moreover, management, in concert with the Board of Education, continues to find ways to manage costs in light of a tepid revenue environment. The town is carefully limiting service-level growth, which we believe illustrate management's goal of achieving fiscal balance annually, while maintaining existing services for residents. Management also recognizes the need to maintain its infrastructure; notably, the town has typically budgeted revenues for capital expenditures annually.

Given management's conservative budgeting and the stable revenue mix, along with management's proactive budgetary and expenditure monitoring, we believe that the town will successfully navigate the current challenges and continue to produce strong budgetary performance. This will be particularly important given the tepid revenue environment, and as labor and fixed costs related to pension and health care increase over the medium term.

Very strong budgetary flexibility

Newington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 17% of operating expenditures, or $21.2 million.

In our opinion, the town's budgetary flexibility remains very strong with available reserves remaining at this level over the last several years. The town adopted a balanced budget for fiscal 2019 and officials have indicated that revenues and expenditures are currently better than budget and they expect to add to their available reserves at year-end, thereby maintaining very strong flexibility.

Very strong liquidity

In our opinion, Newington's liquidity is very strong, with total government available cash at 32.6% of total governmental fund expenditures and 30.4x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

The town's cash balances have remained stable. In addition, while the community is an infrequent issuer of debt, we believe that Newington maintains strong access to external liquidity. Moreover, we understand it does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Therefore, we expect the liquidity profile will remain very strong over the next two fiscal years.

Very strong debt and contingent liability profile

In our view, Newington's debt and contingent liability profile is very strong. Total governmental fund debt service is 1.1% of total governmental fund expenditures, and net direct debt is 15.0% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, which is, in our view, a positive credit factor.

As noted, the town is an infrequent issuer of debt, mainly investing in its capital stock through the budgetary process. Including this issue, we estimate its total direct debt at roughly $20.2 million. Of that amount, about $6 million consists of BANs outstanding. Our ratios also include roughly $1.0 million in outstanding capital leases.

In our opinion, pension and OPEB are manageable. Newington's combined required pension and actual OPEB contributions totaled 5.7% of total governmental fund expenditures in 2018. Of that amount, 4.4% represented required contributions to pension obligations, and 1.3% represented OPEB payments. The town made its full annual required pension contribution in 2018, and 100% of its required OPEB contribution.

The town provides pension benefits through four self-administered single-employer defined-benefit pension plans. The largest plan, the Police Officer's pension plan, was just 55.5% funded as of June 30, 2018. The lowest funded plans were the Firefighters and Administrative plans at just 42% and 46%, respectively. While these levels are below average, the town has been proactive and has typically contributed more than what is annually required. In aggregate, the overall net pension liability was $48.9 million. Underlying assumptions are also conservative at 7.125% for all plans except for firefighters. The discount rate for firefighters is lower at 6%.

The town meets its OPEB obligations on an actuarial basis. It has generally contributed 100% of its annual OPEB cost. Its OPEB trust fund currently maintains an accrued liability of approximately $24.9 million with a plan fiduciary net position of $6.8 million. The town maintained a 27% plan fiduciary net position as a percentage of the total OPEB liability, which is, in our view, a credit positive.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Newington's strong budgetary performance and flexibility, supported by very strong liquidity. Reserves have increased over the last several years, partly reflecting conservative budgeting and prudent planning. Further supporting the rating is the town's participation in the broad and diverse Hartford MSA, which provides stability to the local economy, along with management's good policies under our FMA and limited debt profile. We do not expect to revise our rating during the two-year outlook horizon.

Downside scenario

While unlikely, we could lower the rating if the town were to experience a sustained decline in budgetary performance, partially reflecting a decline in revenues or an increase in costs, leading to a material weakening of budgetary flexibility.

Upside scenario

We do not expect to change the rating within the two-year outlook period. However, if local economic indicators were to improve to levels we consider commensurate with those of higher rated peers, 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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017
- 2018 Update Of Institutional Framework For U.S. Local Governments

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.