

RatingsDirect®

Summary:

New Milford, Connecticut; General Obligation; Note

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Credit Profile

US\$11.0 mil GO BANs dtd 07/25/2019 due 07/24/2020

Short Term Rating SP-1+ New

US\$8.835 mil GO bnds ser 2019 A due 07/15/2039

Long Term Rating AA+/Stable New

US\$2.5 mil GO rfdg bnds ser 2019 B due 07/15/2030

Long Term Rating AA+/Stable New

New Milford Twn go bnds

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to New Milford, Conn.'s series 2019A general obligation (GO) bonds and series 2019B GO refunding bonds. We also assigned our 'SP-1+' short-term rating to the town's 2019 GO bond anticipation notes (BANs). Finally, we affirmed our 'AA+' rating on the town's existing GO debt. The outlook on the long-term rating is stable.

The short-term rating reflects our view that New Milford maintains a very strong ability to pay principal and interest when the notes come due. In our opinion, the town has a low market-risk profile as it maintains strong legal authority to issue long-term debt to take out the BANs; in addition, it provides ongoing disclosure to market participants.

The long-term rating reflects our view of the town's strong budgetary flexibility with available reserves averaging 28% over the past three years supported by balanced budgetary performance and strong management conditions. The rating is further supported by a favorable debt and contingent liability profile with low retirement costs and a strong, growing tax base.

The bonds and notes are secured by the town's unlimited GO pledge to levy ad valorem taxes without limit as to rate or amount on all taxable property within its borders. We understand series 2019A bond proceeds will be used to permanently finance the town's existing BANs and provide funding for a road improvement project and note proceeds will be used for road improvement and roof repair project. Series 2019B proceeds will be used to refund the town's series 2008 and 2010 GO bonds for present value savings.

The rating reflects our view of the town's:

- Strong economy, with projected per capita effective buying income (EBI) at 112% of the national level and market value per capita of \$154,926;

- 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 an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 40.4% of total governmental fund expenditures and 9.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.4% of expenditures and net direct debt that is 34.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and 59% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider New Milford's economy strong. The town, with an estimated population of 26,863, is in Litchfield County in western Connecticut, about 16 miles north of Danbury. It has a projected per capita EBI of 112% of the national level and per capita market value of \$154,926. Overall, market value grew by 0.6% over the past year to \$4.2 billion in 2020. The county unemployment rate was 3.8% in 2018.

New Milford is also home to a seasonal economy and officials note the town's population swells in summer. The preservation of historical sites downtown, along with scenic rivers and lakes, support the local tourism industry. Although the town is primarily residential, it maintains a notable industrial and commercial presence with the area of Route 7 designated as a regional retail corridor. Litchfield Crossing, the town's main retail center, contains many national brand retailers, small businesses, and office space. The town's grand list has consistently grown over the past few years, albeit at a modest pace, of less than 1% on average annually, which is on par with the state average. There is no taxpayer concentration as the largest taxpayers account for a 6.3% of the grand list.

The town expects to see further growth in its tax base given some recently completed projects and others that are either under construction or in the planning stages. Recent completed developments include a TJ Maxx at Litchfield Crossing, a brewery, a commercial development at 1 Executive Center Drive with retail and office space, and new small businesses and expansions to current ones in the downtown area. There are also new residential projects underway, including affordable housing units, a 28-unit active adult community development, and a mixed-use development on Danbury Road currently in planning stages and expected to have five apartment buildings and more than 16,000 square feet of commercial space. A pharmaceutical facility is also being planned and officials continue to work with private and public partners to expand and grow the business park into a bioscience campus currently anchored by Medinstill. Finally, the town is also marketing two former school sites for commercial and private purposes. As a result, due to these ongoing developments and continued growth in its tax base, we expect the town's economy to remain strong.

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.

The town prepares its budget using at least five years of trends, resulting in conservative revenue and expenditure projections. Management also makes use of projections offered by the Connecticut Conference of Municipalities. Town council maintains the ability to adjust, and if necessary, amend the budget during the fiscal year. Monthly reports to the town council and town's board of finance include budget-to-actuals. The town uses the Munis software system to manage administrative activities, including financial oversight.

The town does not maintain a formal long-term financial plan, although it plans to do so in the future, but it does maintain a rolling long-term five-year capital plan which outlines sources and uses of funds. It also maintains formal debt management, reserves, and investment policies. The town's debt management policy outlines targets for average maturity, direct debt per capita, direct debt as a share of assessed value, carrying charges, and net present value savings. The reserve policy targets unassigned fund balance to exceed 45 days of operating expenditures, or about 12.3%. Investments are reported publicly on at least an annual basis.

Strong budgetary performance

New Milford'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 1.7% in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of negative 0.1% in 2017 and 0.0% in 2016.

Fiscal 2018 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Our assessment of the town's general fund results also does not include capital lease financing and note premiums. Including those factors, the town ended fiscal 2018 with a slight general fund surplus of \$376,724.

According to officials, the town was able to achieve balanced operations in fiscal 2018 amid an uncertain state budgetary environment during the year. During fiscal 2018, Connecticut experienced a budget impasse which resulted in unanticipated state aid cuts, as well as the state adopting its budget several months into the fiscal year. As a result, the town experienced an unexpected \$2.3 million cut in state aid months after it adopted its own budget. It subsequently instituted hiring freezes and enacted expenditure cuts to help offset this reduction. New Milford also used about \$500,000 in reserves to offset the reduction in state aid during the year. Officials also indicate they restructured staff levels and needs during the year, so they don't expect to have to re-hire or replace any employees that may have been laid off in fiscal 2018.

For fiscal 2019, management indicates tax collections and interest income have come in higher than expected and is seeing savings in expenditures, including workers compensation. As a result, the town expects to end fiscal 2019 with a general fund surplus of approximately \$250,000 to \$500,000. Its fiscal 2020 budget totals \$103.8 million and contains a 1.78% tax increase. According to officials, the town budgeted conservatively on education cost-sharing grants when it finalized its budget. Therefore, with the state budget recently signed by the governor, the town expects to receive about \$433,000 in additional in ECS funds than it had budgeted for. It also expects some savings in its fiscal 2020 budget as it included additional costs in relation to the proposed shifting of teacher pension costs to municipalities from the state, which ultimately did not materialize in the state's biennium budget. As a result, given the town's historically balanced operations, projected surplus, and conservative budgeting approach, we expect its budgetary

performance to remain strong.

Property taxes account for 76% of general fund revenues followed by intergovernmental at 19%. Tax collections have been strong, averaging 99% over the past three years.

Very strong budgetary flexibility

New Milford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 29% of operating expenditures, or \$30.8 million.

Our assessment of the town's available reserves include \$10.4 million in its waste management settlement fund, which can be made available subject to approval by town council. The town reached a \$43.1 million settlement in 1998 with a solid waste facility for zoning violations. The balance on the settlement was \$10.8 million as of June 30, 2018, and the town expects to receive payments of \$2.7 million per year through 2023. These funds are set aside in the waste management ordinance fund, 10% of which can be used annually for tax relief. Given our expectation for the town to maintain balanced operations over the near term, we do not anticipate changing our view of its budgetary flexibility.

Very strong liquidity

In our opinion, New Milford's liquidity is very strong, with total government available cash at 40.4% of total governmental fund expenditures and 9.2x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

New Milford has issued GO debt regularly over the past ten years, which supports our view of its strong access to external liquidity. We note the town has historically not made use of cash-flow borrowing for liquidity purposes and has no plan to do so. It does not have investments we view as aggressive as it holds funds in mutual funds and demand deposits. The town does not have any variable-rate or privately placed debt with events which could trigger acceleration of debt service payments. Given these factors, we do not anticipate changing our view of the liquidity profile over the near term.

Very strong debt and contingent liability profile

In our view, New Milford's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.4% of total governmental fund expenditures, and net direct debt is 37.3% of total governmental fund revenue.

Overall net debt is low at 1.0% of market value which are, in our view, positive credit factors, and approximately 59% of the direct debt is scheduled to be repaid within 10 years,

With these issuances, the town will have about \$53 million in total direct debt, including \$11 million in short-term debt. Officials indicate the town currently plans to issue about \$12.5 million in additional debt over the next two-to-three years for road improvements and a library project.

New Milford's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.9% of total governmental fund expenditures in 2018. The town made 100% of its annual required pension contribution in 2018.

The town administers a single-employer defined-benefit pension plan. It covers most full-time town and board of education employees, except certified teachers, who are covered by the state teachers' retirement system. The funded

ratio of the plan was approximately 80.15% as of June 30, 2018, with a net pension liability of \$14.3 million. The town has also reduced the discount rate, currently at 7.35%, over the past few years and will seek to lower it further to about 6.5%, according to management.

The town also administers an OPEB Plan. The plan, as of June 30, 2018 had an actuarial accrued liability of about \$14.8 million. The town has set up trust fund and has a balance of \$779,541 as of fiscal 2018, which represents a 5% funded ratio. Overall, although the town maintains a low funded OPEB ratio, we expect its retirement costs to remain manageable given its above-average funded retirement plan and historically low pension and OPEB costs.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view of New Milford's very strong flexibility and debt profile and contingent liability profile. In addition, we believe the town's good management conditions and historically balanced operating performance further support the rating. Therefore, we do not expect to change the rating within the two-year outlook horizon.

Upside scenario

If the town were to experience continued improvement in its economic indicators, including its incomes, so they became comparable to those of higher rated peers, while maintaining reserves at very strong levels through positive financial performance, we could raise the rating.

Downside scenario

If the town's financial performance were to deteriorate, requiring large or sustained use of reserves to balance operations, we could lower 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

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