

RatingsDirect®

Summary:

New Fairfield, Connecticut; General Obligation

Primary Credit Analyst:

Kaiti Vartholomaios, New York + 1(212) 438 0866; kaiti.vartholomaios@spglobal.com

Secondary Contact:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

Table Of Contents

Rationale

Stable Two-Year Outlook

Credit Opinion

Summary:

New Fairfield, Connecticut; General Obligation

Credit Profile

US\$8.0 mil GO bnds ser 2020 due 03/15/2040

Long Term Rating AAA/Stable New

New Fairfield GO

Long Term Rating AAA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to New Fairfield, Conn.'s series 2020 general obligation (GO) bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

New Fairfield's unlimited-tax GO pledge to levy ad valorem taxes without limit as to rate or amount on all taxable property within its borders secures the bonds. Officials intend to use series 2020 bond proceeds to finance various school projects.

Credit overview

New Fairfield's strong credit quality reflects the stability of the local economy and its strong financial management, supported by high wealth and income indicators, which has, despite a slow growing tax base, allowed for consistent positive budgetary performance over time. In May 2018, the town suffered a natural disaster in the form of a macroburst, which caused significant damages of approximately \$2.5 million, for which FEMA has since reimbursed it. New Fairfield's very strong fund balance position provided sufficient flexibility to cover these costs initially, and management's prepared and proactive stance ensured that emergency management protocols were followed and subsequently updated. The town's current focus is expanding and improving its schools, which will likely result in significant medium-term debt, which the town is willing to finance through tax rate adjustments as needed. We note pension and other postemployment benefit (OPEB) costs are low and will not present a budgetary challenge. Good policies and practices have led to strong performance and growing reserves, which we believe supports stability in the rating. However, while we do not anticipate this to occur in our outlook period, should the debt profile substantially deteriorate and operating flexibility diminish, the rating could come under pressure.

New Fairfield's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the town has a predominately local revenue source with 76% of general fund revenue coming from property taxes. It also has taxing authority and treasury management independent from the federal government.

Additional factors in the rating include our opinion of the town's:

- Very strong economy, with access to a broad and diverse 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 but a slight operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.7% of total governmental fund expenditures and 8.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.6% of expenditures and net direct debt that is 34.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 72.4% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Stable Two-Year Outlook

Downside scenario

While we are unlikely to lower the rating within the next two years, should budgetary performance unexpectedly deteriorate and reserves diminish, we could lower the rating.

Credit Opinion

Very strong economy

We consider New Fairfield's economy very strong. The town, with an estimated population of 14,457, is an affluent and primarily residential community in Fairfield County on the New York State border, north of and adjacent to Danbury. It is in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 136% of the national level and per capita market value of \$161,847. Overall, market value grew by 2.1% over the past year to \$2.3 billion in 2021. The county unemployment rate was 4.0% in 2018.

Besides commuting into Danbury for work, residents commute into Bridgeport, Stamford, and Norwalk for job opportunities. To spur commercial activity, the town has established an economic development corporation, which is overseeing the construction of a new medical facility. The 10 leading taxpayers remain consistent with prior years and account for a very diverse 3% of assessed value, the majority of which are either utility or real estate development companies.

The town also serves as a recreational destination since roughly 60% of Candlewood Lake's shoreline is within its borders. Notably, the lake's man-made structure can be controlled for flooding, but the town was exposed to an unusual and severe macroburst arising from four tornadoes in May 2018. Despite significant infrastructure damage and a one-week power cut, it does not appear to have affected market values, which have shown steady, if modest, growth.

Despite some ongoing economic initiatives, we believe tax base growth will remain slow as is the case statewide. The town's grand list has grown on average 0.8% annually since 2015, which is below average compared nationally. Nevertheless, management has been able to incorporate this into its budgeting, and budgetary performance has been steady over many years.

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.

We view New Fairfield's budgeting assumptions conservatively because actual results typically outperform the budget. Officials also analyze five years of historical data when drafting the budget, presented monthly to the board of selectmen. Although management has not adopted a long-term financial plan, New Fairfield adopted a debt management policy in late 2019 that includes affordability targets which management adheres to and reviews regularly. The town also maintains a five-year capital plan it updates annually, and reflects the debt requirements to finance the new school system. The town's fund balance policy sets a goal of maintaining a minimum of no less than two months', or 16.67%, operating expenditures, to which it adheres; specifically, officials try to maintain a reasonable buffer in the event of emergencies. Management maintains a formal investment policy and reports investment performance and holdings to the board monthly.

Following the macroburst, management reviewed its tried-and-tested emergency planning program and increased the hours for the emergency management director; staff training occurs regularly. Furthermore, the plan includes business continuity planning in the event of a cyber-attack.

Strong budgetary performance

New Fairfield's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of 0.1% of expenditures, but a slight deficit across all governmental funds of negative 0.7% in fiscal 2019 reflecting increased capital spending in the capital nonrecurring fund. General fund operating results of the town have been stable over the last three years, with results of 0.2% in 2018 and 0.6% in 2017, boosting reserves in that time.

Financial performance remains stable and officials project similar results in fiscal 2020 to that of previous years.

Management is conservative in budgeting for state revenues given past uncertainty and continues to review ways to minimize growth in costs. Notably, the town has been willing to increase the mill rate to support growth in operations, and will continue to do so to support growth in its debt costs as they embark on the school projects. The fiscal 2021 proposed budget includes a modest tax increase but not a fund balance appropriation, in line with historical practices.

We believe New Fairfield maintains a stable and predictable revenue profile that is largely independent of state or federal funds. Overall revenues has been steady with more than 76% of total revenue coming from property taxes. Tax collections have historically remained strong with current collections exceeding 99.4% during the past four years. Intergovernmental sources represent the second-highest share of general fund revenue at 19.1%.

Very strong budgetary flexibility

New Fairfield's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 16% of operating expenditures, or \$10.3 million.

Total available fund balance has exceeded 16% in fiscal years 2018 and 2019. In 2018, the town used \$2.5 million toward damages related to a macroburst, which led to the loss of 430 telephone poles and 125 transformers, and a one-week power cut. The town subsequently received a reimbursement from FEMA in the same year. In our view, due to its record of consecutive operating surpluses, coupled with positive results projected for fiscal 2020, we expect management to continue to build fund balance modestly, which is consistent with our view of its strong performance.

Very strong liquidity

In our opinion, New Fairfield's liquidity is very strong, with total government available cash at 29.7% of total governmental fund expenditures and 8.3x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

New Fairfield's maintenance of strong access to external liquidity further enhances our view of the town's liquidity. The town is a regular market participant, issuing GO bonds frequently during the past several years. We understand management has not entered into any bank loans or direct-purchase debt. In addition, we recognize the town does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

We do not view the town's investments as aggressive because they are entirely in certificates of deposit and mutual funds. The town has consistently had very strong liquidity, and we do not expect a change to these ratios; this is consistent with our view of its strong performance.

Very strong debt and contingent liability profile

In our view, New Fairfield's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.6% of total governmental fund expenditures, and net direct debt is 34.5% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 72.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The town's total direct debt is \$23.5 million. The town has significant medium-term debt plans relating to school system improvements and renovations, totaling \$80 million, including this issuance. Officials have stated that they have received voter support and are prepared to raise taxes as needed to cover debt service payments. While we believe that the debt profile will likely weaken once this additional debt is issued, we do not anticipate it will pressure the rating given the voter support for the projects and the town's commitment to supporting higher costs. Overall, we believe the costs associated with these projects to be affordable and manageable.

Pensions

- We do not view pension and OPEB liabilities as an immediate credit pressure for New Fairfield.
- New Fairfield's combined required pension and actual OPEB contributions totaled 1.6% of total governmental fund expenditures in 2019. The town made its full annual required pension contribution in 2019.

At June 30, 2019, New Fairfield participates in:

- Connecticut Municipal Employees' Retirement System, which is 73.6% funded, with a proportionate share of the town's net pension liability at \$11.8 million, assuming a 7% discount rate;
- Connecticut Public Employee Retirement System, which is 93.3% funded, with a proportionate share of the town's net pension liability at \$672,000, assuming a 6.75% discount rate; and
- New Fairfield's defined-benefit, OPEB health care plan, which is less than 53.55% funded, with an OPEB liability of about \$3 million.

In our opinion, the plan's 21-year closed-amortization period, with a payroll growth assumption of 3.5% and discount rate of 7%, could pose cost-escalation risk due to market volatility. Therefore, although pension costs remain manageable at only 2.5% of expenditures as of fiscal 2019, we expect contributions will likely escalate.

The town also provides a retiree health care plan that had, as of June 30, 2019, an unfunded actuarial accrued OPEB liability of \$2.9 million. In fiscal 2019, it contributed 100% of its annual required contribution to the OPEB plan. Management does not expect retirement costs to increase substantially or pressure the budget over the next few fiscal years.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

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