

RatingsDirect®

Summary:

New Milford, Connecticut; General Obligation; Note

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Credit Profile

US\$12.69 mil GO rfdg bnds ser 2020B due 12/01/2032

<i>Long Term Rating</i>	AA+/Stable	New
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US\$10.0 mil GO bnds ser 2020A due 07/15/2040

<i>Long Term Rating</i>	AA+/Stable	New
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US\$9.0 mil GO BANs ser 2020 dtd 07/24/2020 due 07/23/2021

<i>Short Term Rating</i>	SP-1+	New
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Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to New Milford, Conn.'s series 2020A general obligation (GO) bonds and series 2020B GO refunding bonds. We also assigned our 'SP-1+' short-term rating to the town's 2020 GO bond anticipation notes (BANs). Finally, we affirmed our 'AA+' rating on the town's existing GO debt. The outlook, where applicable, 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 2020A bond proceeds will be used to permanently finance the town's existing BANs and provide funding for a road improvements and roof repairs, and note proceeds will be used for road improvements, roof repairs, and library renovation projects. Series 2020B proceeds will be used to refund the town's series 2013 clean water fund loan for present value savings.

Credit overview

New Milford's strong economic profile and proactive management practices have resulted in positive results and the maintenance of very strong reserves. We would generally expect the town to continue producing strong operating results; however, the scope of economic and financial challenges posed by the COVID-19 pandemic remains unknown, and a prolonged downturn could weaken growth in the local economy. Generally, our rating outlook timeframe is up to two years. However, given the current uncertainty around the pandemic, our view is centered on the more

immediate budget effects over the next six-to-12 months. (For more information, please see our "U.S. Economic Forecast: The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020 on RatingsDirect.) We do not expect to change the rating within the outlook period, having accounted for the revenue and expenditure uncertainty in the current economic environment in our view of the town's budgetary performance. We expect management will remain vigilant and continue to seek opportunities for efficiency to generate long-term cost savings for the town.

The long-term rating further reflects our view of the following factors for the town:

- Strong economy, with market value per capita of \$156,702 and projected per capita effective buying income (EBI) at 116% of the national level;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2019, which factors in revenue and expenditure uncertainty due to the economic environment;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 39.9% of total governmental fund expenditures and 9.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.2% of expenditures and net direct debt that is 35.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

The rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We analyzed New Milford's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

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

If local economic indicators were to improve to levels we consider commensurate with those of higher rated peers, while the town maintains balanced operations and very strong reserves, we could raise the rating.

Credit Opinion

Strong economy

We consider New Milford's economy strong. The town, with an estimated population of 26,863, is in Litchfield County. It has a projected per capita EBI of 116% of the national level and per capita market value of \$156,702. Overall, market value grew by 1.1% over the past year and is expected to reach to \$4.2 billion in 2021.

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, supports 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 6.8% of the grand list.

Building permit activity in 2020 remains strong, in line with prior years. 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. Projects completed in 2019 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.

While the town has experienced some economic growth over the last few years, evolving economic conditions as a result of COVID-19 have already affected the labor market (see "U.S. Jobs Market Buckles Under The Coronavirus Pandemic," published April 2, 2020). The county unemployment rate averaged at 3.5% in 2019, below corresponding state and national levels. During the Great Recession, it approached 10.0%. Furthermore, the effects of social distancing and other decisions made to safeguard the community from COVID-19 spread support our view of an economic contraction in 2020. As a result, we will monitor the longer-term effects of the current downturn on the labor market and the economy overall.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

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 adopted a long-term financial forecast with a five-year budget horizon in 2020 that includes mill rate adjustments, which will be reviewed annually and used for planning purposes. It also maintains 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.

The town restructured its management team in 2019 and hired an economic development director to harness the ongoing development through strategic growth in the following five sectors: retail, health care, scientific and technical services, utilities and construction, and manufacturing. Furthermore, it has been proactive in identifying opportunities for efficiency improvements through the use of technology to reduce costs and improve citizen engagement through the department of public works and services. Notably, the town reports savings due to the automation of pothole repair requests. Finally, it has a comprehensive cyber security strategy, which includes insurance coverage as well as a fraud risk policy that reflects ongoing training for staff.

Adequate budgetary performance

New Milford's budgetary performance is adequate, in our opinion, which incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures. The town had balanced operating results in the general fund of 0.4% of expenditures, and surplus results across all governmental funds of 3.0% in fiscal 2019. General fund operating results of the town have been stable over the last three years, with results of negative 0.3% in 2018 and negative 0.1% in 2017.

Fiscal 2019 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 does not include capital lease financing and note premiums. Including those factors, the town ended fiscal 2019 with a slight general fund surplus of approximately \$430,000. Management stated that tax collections and interest income came in higher than expected, offset in part by expenditure savings mostly derived from a reduction in employee fringe benefits.

Due to savings generated because of a halt on supply-chain services due to COVID-19-related restrictions, as well as an additional \$1.9 million increase in intergovernmental revenue, the town expects a \$4 million surplus in fiscal 2020, a portion of which will be used for capital projects in subsequent years. Its fiscal 2021 budget will be flat, reflecting staff and operational reductions, as well as pre-emptive deferrals of capital expenditure in light of the uncertain economic environment. As a result, given the town's historically balanced operations, projected surplus, and conservative budgeting approach, we expect its budgetary performance to remain stable.

Property taxes account for 74% of general fund revenues followed by intergovernmental at 21%. Tax collections have been strong, averaging at 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 2019 of 31% of operating expenditures, or \$34.3 million.

Our assessment of the town's available reserves includes \$12.3 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, 2019, 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 39.9% of total governmental fund expenditures and 9.5x governmental debt service in 2019. 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. It 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 4.2% of total governmental fund expenditures, and net direct debt is 35.7% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, which is, in our view, a positive credit factor.

With these issuances, the town will have about \$54.2 million in total direct debt, including \$9 million in short-term debt. Officials indicate the town currently plans to issue about \$4.3 million in additional debt over the next two-to-three years for road improvements and a library project.

Pension and other postemployment benefits

- We do not view pension and other postemployment benefit (OPEB) liabilities as a source of credit pressure for New Milford.
- The use of an actuarially determined contribution (ADC) is positive, and although some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, we believe the risk of unexpected contribution escalations is low.
- Although OPEB liabilities are funded on a pay-as-you-go basis, costs remain low despite the large liability, and we expect the town will continue adding to its OPEB trust fund.

As of June 30, 2019, the town participated in the following pension plans:

- New Milford Pension Plan: 80.3% funded, \$14.9 million net pension liability

- Teachers' Retirement System (TRS): 52% funded, no liability attributable to the town

New Milford's combined required pension and actual OPEB contributions totaled 2.7% of total governmental fund expenditures in 2019. The town made its full annual required pension contribution in 2019. It administers a single-employer defined-benefit pension plan, which covers most full-time town and board of education employees, except certified teachers, who are covered by the state teachers' retirement system. The town is currently exceeding its minimum and static funding progress calculations. It has also been reducing its discount rate, currently at 7.20%, 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, 2019 had an actuarial accrued liability of about \$17.9 million. The town has set up trust fund and has a balance of \$791,244 as of fiscal 2019, 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.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of July 2, 2020)		
New Milford Twn go bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
New Milford Twn GO BANs dtd 07/25/2019 due 07/24/2020		
<i>Short Term Rating</i>	NR	Affirmed

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