S&P Global Ratings

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Summary:

New Fairfield, Connecticut; General Obligation

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Credit Profile		
US$25.0 mil GO bnds ser 2021 due 05/01/2041		
Long Term Rating	AAA/Stable	New
New Fairfield GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to New Fairfield, Conn.'s series 2021 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 2021 bond proceeds to finance the construction of a new high school and a new consolidated early learning academy.

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, has allowed for consistent positive budgetary performance over time. The town's current focus is on expanding and improving its schools, which will likely result in significant medium-term debt, but which it 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. For more information, see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," and "State, Local Government, School District, And Charter School Sector Views Revised Back To Stable," both published March 24, 2021, on RatingsDirect.

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" (Nov. 19, 2013), 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.

The rating reflects our view 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 an operating surplus in the general fund and break-even operating results at the

total governmental fund level in fiscal 2020;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 41.1% of total governmental fund expenditures and 12.0x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 3.4% of expenditures and net direct debt that is 69.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.0% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Environmental, social, governance factors

Our rating incorporates our view regarding the indirect risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, which could pressure the town's economically sensitive revenue, we consider the town's social risks in line with those of the sector. We view its environmental and governance risks as being in line with the sector standard overall.

Stable 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 Connecticut's economy very strong. The town, with a population of 14,597, is in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 131% of the national level and per capita market value of $160,294. Overall, market value grew by 2.1% over the past year to $2.3 billion in 2021. The county unemployment rate was 3.6% in 2019.

Besides commuting into Danbury for work, residents commute into Bridgeport, Stamford, and Norwalk. 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 those of 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 with the nation. 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. 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 that it updates annually and reflects the debt requirements to finance the new school system. It is in the process of a developing a five year financial plan, which it anticipates adopting in the fiscal 2023 budget planning. 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.

The town has an emergency management system in place for weather events, which include business continuity planning in the event of a cyber breach.

Strong budgetary performance

New Fairfield's budgetary performance is strong, in our opinion. The town had surplus operating results in the general fund of 1.7% of expenditures, and balanced results across all governmental funds 0.3% in fiscal 2020. General fund operating results have been stable, at 0.1% in 2019 and 0.2% in 2018.

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 town generated savings in fiscal 2020 as a result of the school closures, which reduced the associated operational expenditures, coupled with an increase in anticipated state aid. It received approximately $39,000 reimbursement through the FEMA and CARES Act to cover costs associated with personal protection equipment (PPE) and vaccination clinic supplies. Following three years of break-even results, the town expects similar results for fiscal 2021. The fiscal 2022 budget is currently pending review and is expected to increase by 3.83% to cover debt service costs. Furthermore the town is expecting a $1.37 million allocation from the American Rescue Plan, although it is not using this amount to balance its fiscal 2022 budget.

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 Connecticut's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 18% of operating expenditures, or $11.3 million.

Total available fund balance continues to grow for the fifth consecutive year in a row. Given the town's record of consecutive operating surpluses, coupled with positive results which are expected to continue in fiscal 2021, 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 Connecticut's liquidity is very strong, with total government available cash at 41.1% of total governmental fund expenditures and 12.0x governmental debt service in 2020. 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 its 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 its 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 strong. Total governmental fund debt service is 3.4% of total governmental fund expenditures, and net direct debt is 69.0% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, and approximately 65.0% 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 $46.3 million. The remaining amount required to complete the new schools which will be financed by this issuance will require additional bonding of approximately $47 million. Officials have stated that they have received voter support and are prepared to raise taxes as needed to cover debt service payments. As a result, given the town's commitment to supporting higher costs, we believe the costs associated with these projects to be affordable and manageable. At the same time, if amortization slows following the upcoming issuance, it could weaken our view of the town's debt profile.

Pensions

- We do not view pension and OPEB liabilities as an immediate credit pressure for New Fairfield.
- New Fairfield Connecticut's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 1.7% of total governmental fund expenditures in 2020. Of that amount, 1.1% represented required contributions to pension obligations, and 0.5% represented OPEB payments.
- The town made its full required pension contribution in 2020.

At June 30, 2019, New Fairfield participated in:

- Connecticut Municipal Employees' Retirement System, which is 72.7% funded, with a proportionate share of the town's net pension liability (NPL) at $11.6 million, assuming a 7% discount rate;
- Connecticut Public Employee Retirement System, which is 86.4% funded, with a proportionate share of the town's NPL at $1.5 million, assuming a 6.75% discount rate; and
- New Fairfield's defined-benefit, OPEB health care plan, which is 66.7% funded, with an OPEB liability of about $1.8 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 1.1% of expenditures as of fiscal 2020, we expect contributions will likely escalate. In fiscal 2019, the town 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.

Related Research

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