RatingsDirect®

Summary:
New Fairfield, Connecticut; General Obligation

Primary Credit Analyst:
Timothy W Little, New York (212) 438-7999; timothy.little@standardandpoors.com

Secondary Contact:
Travis L McGahey, New York 212-438-7994; travis.mcgahey@standardandpoors.com

Table Of Contents

Summary:

New Fairfield, Connecticut; General Obligation

Credit Profile		
US$8.875 mil GO rfdg bnds iss (Bnk Qual) ser 2016 due 08/01/2029		
Long Term Rating	AAA/Stable	New
New Fairfield GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to New Fairfield, Conn.'s issue of 2016 general obligation (GO) refunding bonds and affirmed its 'AAA' rating on the city's outstanding GO debt. The outlook on all the ratings is stable.

The bonds are secured by the full-faith-and-credit pledge of the town. We understand that bond proceeds will be used to refund the 2009 and 2011 bonds for present value savings. There is no extension of maturity.

We rate the town higher than the nation because we believe New Fairfield can maintain better credit characteristics than the nation in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In fiscal 2015, local property taxes generated 79% of town revenue, which demonstrated a lack of dependence on central government revenue.

The rating reflects our assessment of the following factors for the town, including its:

- 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 break-even operating results in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 at 12.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 9.9% of total governmental fund expenditures and 2.1x governmental debt service, as well as access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures, net direct debt at 38.8% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization, with 66.2% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider New Fairfield's economy very strong. The affluent and primarily residential town, with an estimated population of 14,218, is in Fairfield County on the New York State border, north of and adjacent to the city of 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 141% of the national level and per capita market value of $158,889. Overall, the town's market value grew by 0.5% over the past year to $2.3 billion in 2015. The county unemployment rate was 6.2% in 2014.

Besides commuting to Danbury for work, residents also commute to job opportunities in Bridgeport, Stamford, and Norwalk. The town serves as a recreational destination as well since roughly 60% of Candlewood Lake's shoreline is its town borders.

The town's tax base has been stable besides a 7.1% decline over fiscal 2014 due to a revaluation. Building permits, which have been rising, are projected to contribute to modest, yet consistent, tax base growth in the future. The 10 leading taxpayers account for a very diverse 2.5% of assessed value (AV).

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 to be conservative as actuals typically outperform the budget. Officials also analyze five years of historical data when drafting the budget, which is presented monthly to the board of selectmen. Although management has not adopted a debt management policy or long term financial plan, it does maintain a five- to ten-year capital improvement plan that is funded through operations and is annually updated. The town has an informal unassigned reserve target of 10%-15% of expenditures, as well as a formal investment policy and reports investment performance and holdings to the board of selectmen monthly.

Strong budgetary performance

New Fairfield's budgetary performance is strong, in our opinion. The town had break-even operating results in the general fund, but a slight deficit result across all governmental funds of 0.5% in fiscal 2015. General fund operating results of the town have been stable over the last three years, with results of 0.2% in 2014 and 0.6% in 2013.

Financial performance is stable as the town achieved three small operating surpluses consecutively over the last three audited years and a fourth is projected for fiscal 2016. The 2015 budget included a tax increase of 1.72% but not a fund balance appropriation, in line with historical practice. Officials attribute the town's positive results that year, after accounting for recurring yearly transfers for capital maintenance, to small positive variances across the board on the expenditure side, in addition to property taxes and construction permits coming in better than budgeted on the revenue side. We believe the town has a stable and predictable operating profile as property taxes contributed 78.9% of 2015 general fund revenue and intergovernmental aid contributed 16%. Property tax collections are also strong and stable, averaging 99.5% over the last three audited years.

Officials are expecting another small surplus in 2016 due primarily to conservative budgeting resulting in slight surpluses across the board. The 2016 budget included a 1.97% tax increase but again, did not include a fund balance appropriation. Given the stable nature of the town's operating profile and its track record of three consecutive surpluses with a fourth projected for fiscal 2016, we expect budgetary performance, guided by sound management practices and policies, to remain stable and strong in the future.

Strong budgetary flexibility

New Fairfield's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 at 12.9% of operating expenditures, or $7.3 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 12.9% of expenditures in 2014 and 13.3% in 2013.

Reserves have been stable as available fund balance averaged between 12.9% and 13.3% of expenditures in the past three fiscal years. The town raised taxes 1.72% in fiscal 2015 and 1.97% in fiscal 2016. Given its track record of three consecutive operating surpluses, coupled with positive results projected for 2016, we expect it to continue modestly building on fund balance in the future, 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 9.9% of total governmental fund expenditures and 2.1x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Further enhancing our view of the town's liquidity position is that New Fairfield maintains strong access to external liquidity. It is a regular market participant, having issued GO bonds frequently in the past several years. We understand it has not entered into any bank loans, direct-purchase debt, or 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 aggressive as they are entirely comprised of certificates of deposit and mutual funds. The town has consistently had very strong liquidity and we do not anticipate a change to these ratios, 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 4.8% of total governmental fund expenditures, and net direct debt is 38.8% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 66.2% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The town has no capital needs or additional debt plans over next few years and has been funding capital maintenance through operations. It plans to retire all current debt outstanding by 2030.

New Fairfield's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.2% of total governmental fund expenditures in 2015. Of that amount, 1.2% represented required contributions to pension obligations, and 1.0% represented OPEB payments. The town made its full annual required pension contribution in 2015.

The town administers two defined-benefit pension plans: the Town of New Fairfield Retirement Income Plan and the New Fairfield Board of Education Retirement Plan. We view both plans as being well-funded, with a fiduciary net position for the town plan at 91% and 103% for the Board of Education plan, as of June 30, 2015, based on Governmental Accounting Standards Board Statement No. 68. In 2012, the town changed its pension plan advisor, who recommended that it use its $400,000 pension surplus. As such, the town did not meet its actuarially determined contribution for two years to pay down that pension surplus. However, from now on, management indicates it plans to meet 100% of its annual required contribution (ARC) now that the pension surplus has been used. The town also provides a retiree health care plan, and had, as of July 1, 2013, an unfunded actuarial accrued OPEB liability of $6.82 million. In 2015, the town contributed 106% of its ARC to the OPEB plan. Management does not anticipate retirement costs to increase substantially or pressure the budget in the near term.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects our view of New Fairfield's very strong underlying economy, as well as our opinion that the town will likely maintain what we consider its predictable operating profile contributing to strong financial performance, guided by strong management practices and policies, supporting very strong flexibility and liquidity. Debt service costs, as well as pension and OPEB costs, should remain manageable and not pose an immediate budgetary challenge over our two-year outlook horizon. As such, we do not expect to change the rating within the outlook's two-year period.

Although unlikely, we could lower the rating should budgetary pressures arise that force the town to draw down on reserves to weaker levels in line with peers at a lower rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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
- Institutional Framework Overview: Connecticut 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.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.