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Ratings

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Summary:

New Fairfield, Connecticut; General Obligation

Primary Credit Analyst:
Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

Secondary Contact:
Rahul Jain, New York 212-438-1202; rahul.jain@spglobal.com

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Credit Profile		
US$7.76 mil GO rfdg bnds ser 2017 due 07/15/2030		
Long Term Rating	AAA/Stable	New
New Fairfield GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to New Fairfield, Conn.'s series 2017 general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

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 2017 bond proceeds to refinance series 2009 and 2011 bonds for cost savings with no extension to maturities.

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 79% 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 opinion 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 balanced operating results in the general fund and a slight operating surplus at the total-governmental-fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 12.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 12% of total-governmental-fund expenditures and 2.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 34.1% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 76.1% of debt scheduled to be retired within 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider New Fairfield's economy very strong. The town, with an estimated population of 14,619, is located in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 146% of the national level and per capita market value of $155,724. Overall, the town's market value grew by 0.8% over the past year to $2.3 billion in fiscal 2018. The county unemployment rate was 4.8% in 2016.

New Fairfield is an affluent and primarily residential community in Fairfield County on the New York State border, north of, and adjacent to, Danbury. Besides commuting into Danbury for work, residents commute into Bridgeport, Stamford, and Norwalk for job opportunities. The town serves as a recreational destination since roughly 60% of Candlewood Lake's shoreline is within its borders.

The town's property tax base has been stable despite a 7.1% decline in fiscal 2014 due to a revaluation. Town projections have building permits, which have been rising, contributing to modest, yet consistent, tax base growth. The 10 leading taxpayers account for a very diverse 2.6% of assessed value.

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 debt-management policy or long-term financial plan, it maintains a five-year capital plan it updates annually.

The town's board recently approved a fund balance policy with a goal of maintaining a minimum of no less than two months', or 16.67%, operating expenditures. Management maintains a formal investment policy and reports investment performance and holdings to the board monthly.

Strong budgetary performance

New Fairfield's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of negative 0.4% of expenditures and slight surplus results across all governmental funds of 0.8% of expenditures in fiscal 2016. General fund operating results of the town have been stable over the past three fiscal years, with a result of 0% in fiscal 2015 and 0.2% of expenditures in fiscal 2014.

Financial performance is stable. The town achieved surpluses during three of the past four fiscal years. Officials are projecting another surplus for fiscal 2017. The fiscal 2016 budget included a tax increase of 1.97% but not a fund balance appropriation, in-line with historical practices. Officials attribute the town's small general fund deficit to the timing of revenue recognized after fiscal year-end. The town produced a surplus across all governmental funds due to recurring yearly transfers for capital maintenance and small across-the-board positive variances for expenditures, coupled with better-than-budgeted property taxes.

Officials are projecting another small surplus in fiscal 2017 due primarily to conservative budgeting resulting in slight across-the-board surpluses and expenditures coming in underbudget. While the fiscal 2017 budget includes an increase, once again, it did not include a fund balance appropriation. Due to the stable nature of the town's operating profile and its record with a projected surplus for fiscal 2017, we expect budgetary performance, guided by sound management practices and policies, to remain stable and strong.

Management notes there is some uncertainty regarding the state's proposed budget, and we note that there are potential decreases in education cost-sharing grants and that the potential decrease in state aid might be less than initially expected. Management is looking at various actions to reduce expenditures, including increasing the mill rate.

Furthermore, we believe New Fairfield maintains a stable and predictable revenue profile that is largely independent of state or federal funds. The town benefits from its high property tax base, which makes up more than 79% of total revenue. 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%. Therefore, we expect budgetary performance, guided by sound management practices and policies, to remain stable and strong.

Strong budgetary flexibility

New Fairfield's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 12.4% of operating expenditures, or $7.1 million. Over the past three fiscal years, total available fund balance has remained at a consistent level overall, totaling 12.9% of expenditures in both fiscal years 2015 and 2014.

Reserves have been stable. Available fund balance averaged between 12.4% of expenditures and 12.9% of expenditures during the past three fiscal years. The town raised taxes by 1.72% in fiscal 2015 and 1.97% in fiscal 2016. Due to its record of consecutive operating surpluses, coupled with positive results projected for fiscal 2017, we expect management to continue to build fund balance modestly, which is consistent with our view of its strong performance. The town recently adopted a fund balance policy with a goal of maintaining a minimum of no less than two months', or 16.67%, operating expenditures. Over time, we understand the town could grow reserves to levels we consider very strong.

Very strong liquidity

In our opinion, New Fairfield's liquidity is very strong, with total government available cash at 12% of total-governmental-fund expenditures and 2.5x governmental debt service in fiscal 2016. In our view, the town has strong access to external liquidity if necessary.

New Fairfield maintaining 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 upon 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 4.8% of total-governmental-fund expenditures, and net direct debt is 34.1% of total-governmental-fund revenue. Overall net debt is low at 0.9% of market value and approximately 76.1% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The town does not currently have any capital needs or additional debt plans over the next few years, and it has been funding capital maintenance through operations. Management plans to retire all current debt outstanding by 2030.

New Fairfield's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 1.6% of total-governmental-fund expenditures in fiscal 2016. Of that amount, 0.7% represented required contributions to pension obligations and 1% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2016.

New Fairfield administers two defined-benefit pension plans: the retirement-income plan and the board-of-education-retirement plan. We view both plans as well-funded with a fiduciary net position for the town plan at 85% and the board-of-education plan at 99%, as of June 30, 2016, based on Governmental Accounting Standards Board Statement No. 68. The town's proportionate share of net pension plan liabilities was approximately $1.3 million as of the most recent actuarial valuation, June 30, 2016. The town contributed $392,000, or 100% of its actuarially determined contribution, in fiscal 2016.

The town also provides a retiree-health-care plan that had, as of June 30, 2016, an unfunded actuarial accrued OPEB liability of $5.64 million. In fiscal 2016, 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.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that New Fairfield will likely maintain its strong budgetary flexibility due to its historically strong budget performance and strong management. We believe the town's location and access to the Bridgeport-Stamford-Norwalk MSA and very strong underlying economy further support the rating. In addition, we expect New Fairfield will likely maintain its very strong debt-and-contingent-liability profile. For these reasons, we are unlikely to lower the rating within the next two years. However, if the town cannot adjust to budgetary pressure and if budgetary performance were to deteriorate, leading to weakened reserves, 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
- 2016 Update Of Institutional Framework For U.S. 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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.