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Summary:

New Fairfield, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$35.0 mil GO bnds, issue of 2022 due 03/01/2042		
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 2022 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 2022 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 very strong financial management. The town is predominantly residential with high wealth and household income indicators. Its participation in a broad and diverse regional economy also provides economic support. The town's strong policies and practices have produced strong operating results, and reserves have grown over several years. The town's current focus is on expanding and improving its schools. While the debt burden stands to increase, the bonded projects have received community support and the town will actively manage the tax rate to maintain structural balance. We note pension and other postemployment benefits (OPEB) costs are low and manageable, and are not likely to pose budgetary pressures in the outyears.

The rating and outlook factors in the town's steady operations and its proactive management team, which has been able to navigate the challenges related to the pandemic and address long-term challenges in a proactive manner. Despite a higher debt burden, we expect management will continue making budgetary adjustments to preserve its current reserve position.

We rate New Fairfield's GO debt above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), New Fairfield has a predominantly locally derived revenue source, with approximately 76% of general fund revenue coming from property taxes. The town also has taxing authority and treasury management that are independent from the federal government.

The rating reflects our view of the town's:

- Very strong economy in Fairfield County, characterized by strong per capita taxable market values, higher-than-average residential incomes, and participation in the broad and diverse metropolitan statistical area (MSA) economy;
- Very strong financial policies and practices under our Financial Management Assessment (FMA) methodology, and strong institutional framework score;
- Strong budgetary performance exhibited over several years, with strong and steady reserves and liquidity that should provide it flexibility to manage long-term liabilities; and
- Weak debt and contingent liability profile following this issuance, with a net direct debt that is 115% of total governmental fund revenue, primarily reflecting the recent bond issuance. Pension and OPEB remain a long-term credit consideration, but costs are manageable.

Environmental, social, and governance

We have analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, and have determined that all are in line with our view of the sector standard. We do note the town is prone to nuisance flooding, since Candlewood Lake's shoreline is within its borders. The lake's manmade 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 did not affect property values, which have shown steady, if modest, growth.

Stable Outlook

Downside scenario

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

Credit Opinion

Very strong local economic base benefiting from the broader regional economy within the broader Bridgeport-Stamford-Norwalk MSA

New Fairfield is a predominantly residential community in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse.

Residential properties account for 86% of the $2.3 billion estimated full value of the tax base, while commercial properties are a modest 2.2%. The taxpayer base is very diverse, with the 10 largest taxpayers making up only 3% of assessed value. The town's residents have high per capita effective buying incomes, and per capita market values are also very strong relative to U.S. levels, at $164,341.

We believe the town's desirability will provide for stable tax base growth. The town serves as a recreational destination, as roughly 60% of Candlewood Lake's shoreline is within its town borders. Besides commuting to Danbury for work, residents also commute to job opportunities in Bridgeport, Stamford, and Norwalk. 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 1.2% annually since 2015, which is below-average compared with peers in the northeast. More recently, due to an increase in new homes and subdivisions, the tax base grew by a much stronger 2.7%. The real estate environment is strong, which should contribute to additional growth going forward.

The regional economy in Fairfield County is well-diversified and wealthy. The county unemployment rate was 7.9% in 2020, increasing because of stay-at-home orders. Unemployment remains above its average, but we note it has come down over the past few months as the economic recovery has taken hold. Strengthening of the macroeconomic environment is likely to further support continued growth in the tax base. (For more information on our view of the national economy, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021.)

Strong budgetary assumptions, monitoring, and capital planning highlight managements strengths

We have revised our financial management assessment to very strong, following the adoption of a long-range multiyear plan, along with adherence to its many financial policies and practices that we believe are strong, well-embedded, and likely sustainable.

We view New Fairfield's budgeting assumptions are conservative because actual results typically outperform the budget. Officials analyze five years of historical data when drafting the budget. Management performs monthly budget-to-actual reporting to the board of selectmen, making budgetary amendments early and when needed.

In late 2019, New Fairfield passed a new debt management policy that includes affordability targets, It also maintains a five-year capital plan that it updates annually, with funding sources identified.

Management has also produced a new five-year financial plan that it anticipates continuing to use well past the completion of the new schools.

The town's fund balance policy sets a goal of maintaining a minimum of no less than two months', or 16.67%, operating expenditures. The intent of the policy is to maintain a reasonable buffer in the event of emergencies and not affect service delivery. Management also maintains a formal investment policy and reports investment performance and holdings to the board monthly.

Conservative budgeting practices, very strong reserve balances, and stable revenues support strong budgetary performance over the next few years despite growing costs

New Fairfield has maintained consistent positive financial operations during the past several years, which we attribute to conservative and prudent budgeting. The town has produced five consecutive years of operating surpluses, which has led to a very strong unencumbered fund balance in fiscal 2021 of 19.5% of operating expenditures, or $11.9 million. This is an overall improvement from $7.2 million, or approximately 12% of expenditures, that it had in reserves during fiscal 2015, illustrating good improvement in its financial position.

New Fairfield maintains a stable and predictable revenue profile that is largely independent of state or federal funds. Overall revenues have 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 five years. Intergovernmental sources represent the second-highest share of general fund revenue, at 19.1%.

Management remains 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 while endeavoring on the school projects.

The fiscal 2022 budget totals $64.2 million, a 5.4% increase compared with fiscal 2021. The town increased the property tax levy by 4.4%, to approximately $52.6 million. It also anticipates level state aid and lower charges for services than in 2021. The budget does not assume any unscheduled draws on reserves, and overall remains consistent with previous years. Management indicates budget-to-actual results are currently on target, and that it will continue to monitor key revenue items throughout the year, including local receipts and conveyance taxes.

The town is receiving upward of $4 million in funds from the American Rescue Plan, and the schools are also benefiting from Elementary and Secondary School Emergency Relief Funds (ESSER), which should provide support to operations over our outlook period. New Fairfield anticipates earmarking the stimulus funds for eligible infrastructure and economic development initiatives.

Weak debt and contingent liability profile, although debt service costs are affordable and pension and OPEB liabilities are manageable

Following this bond issue, New Fairfield has about $79.8 million of total direct debt outstanding. Most of the outstanding bonds relate to the town's school construction projects, which we note received strong community support.

Over the next year, the town is likely to fully exhaust its school bond authorization, which amounts to approximately $12 million. With this issuance, total governmental fund debt service will increase from its current levels and eventually exceed 8% of expenditures, which is moderate, in our view. Net direct debt is 115% of total governmental fund revenue, but once we factor future debt, net direct debt will rise to approximately 124%. While the debt burden is higher, we believe overall costs are manageable and affordable. Overall net debt as a percent of market value is 3.4%.

Pension and other postemployment benefits:

We do not view pension and OPEB liabilities as an immediate credit pressure for New Fairfield. Its combined required pension and actual OPEB contributions totaled 1.8% of total governmental fund expenditures in 2021. Of that amount, 1.3% represented required contributions to pension obligations and 0.5% represented OPEB payments. The town continues to show strong funding discipline in managing these long-term liabilities.

New Fairfield participates in the following pension and OPEB plans:

- The town plan: a single-employer, noncontributory, defined-benefit plan, which is 99% funded with a net pension liability of $87,900;
- The board of education plan: a single-employer, noncontributory, defined-benefit plan, which is 97% funded with a net pension liability of $281,680;
- Connecticut municipal employees' retirement system (MERS) plan: a cost-sharing, defined-benefit plan administered by the state, which is 71.2% funded, with a proportional net liability of $10.9 million; and
- New Fairfield's defined-benefit, OPEB health care plan, which is 80.3% funded, with an OPEB liability of about $1.0 million.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

New Fairfield--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	134			
Market value per capita ($)	164,341			
Population			14,396	14,597
County unemployment rate(%)			7.9	
Market value ($000)	2,365,857	2,339,817	2,292,362	
Ten largest taxpayers % of taxable value	3.1			
Strong budgetary performance				
Operating fund result % of expenditures		0.8	1.7	0.1
Total governmental fund result % of expenditures		3.7	0.3	(0.7)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		19.0	18.4	16.1
Total available reserves ($000)		11,909	11,270	10,252
Very strong liquidity				
Total government cash % of governmental fund expenditures		82	41	30
Total government cash % of governmental fund debt service		982	1204	830
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.7	3.4	3.6
Net direct debt % of governmental fund revenue	116			
Overall net debt % of market value	3.4			
Direct debt 10-year amortization (%)	56			
Required pension contribution % of governmental fund expenditures		1.3		
OPEB actual contribution % of governmental fund expenditures		0.5		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

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