

RatingsDirect®

Summary:

Newtown, Connecticut; General Obligation

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Credit Profile

US\$10.4 mil GO bnds iss of 2019 due 03/01/2039

<i>Long Term Rating</i>	AAA/Stable	New
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US\$6.745 mil GO rfdg bnds iss of 2019 ser B due 08/15/2031

<i>Long Term Rating</i>	AAA/Stable	New
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Newtown GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Newtown GO rfdg

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Newtown, Conn.'s series 2019 general obligation (GO) bonds and series 2019B GO refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

We rate Newtown higher than the nation because we believe the town 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. (For further information, please see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.) In 2017, local property taxes generated 84.2% of general fund revenue, demonstrating a lack of dependence on central government funding.

Newtown's full-faith-and-credit pledge and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the bonds.

Officials intend to use series 2019 bond proceeds to fund various capital and infrastructure projects in-line with the town's capital improvement plan and series 2019B bond proceeds to refund existing debt.

The rating reflects the town's high income levels, as well as the economic stability of the nearby Bridgeport-Stamford MSA and conservative financial practices that have led to consistently strong financial performance, despite recent uncertainty in state aid.

We believe that limited fixed costs provide operating flexibility and that management will likely continue to adjust the budget to remain balanced while seeking to expand the local property tax base.

The rating reflects our opinion of Newtown's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with breakeven operating results in the general fund but an operating surplus at the total governmental-fund level in fiscal 2018;
- Strong budgetary flexibility, with available fund balance in fiscal 2018 of 10.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.1% of total governmental-fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 6.8% of expenditures and net direct debt that is 57.2% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 69.1% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Newtown's economy very strong. The town, with an estimated population of 27,990, is 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 178% of the national level and per capita market value of \$161,179. Overall, market value has grown by 1.5% during the past year to \$4.5 billion in fiscal 2019. County unemployment was 4.5% in 2017.

Interstate 84 and U.S. routes 6 and 302 traverse Newtown, providing residents access to employment centers in the county and New York City. Most residents commute into other parts of the county and neighboring Westchester County, N.Y. for employment. While the town is largely residential, management is working actively to expand the commercial base. To that end, infrastructure investments, including sewer and road improvements, allow Newtown to support development in its seven business districts. Recently completed projects include Hawleyville Business District, including infrastructure improvements to generate residential and commercial development.

The town also expects additional commercial development in its borough business district, including several medical offices. An assisted-living facility is another residential project currently underway; management expects this facility will grow the tax base and provide additional employment opportunities. Overall, numerous ongoing economic developmental projects continue to spur growth and expand an already very strong economic base.

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.

Specifically, management uses 10 years of historical data to inform conservative revenue and expenditure assumptions and conducts regular budget forecasting to determine whether revenue or expenditures will deviate from long-term trends. In addition, management regularly monitors budgetary performance, ensuring timely adjustments. Management provides monthly reports on budget-to-actual results to the town council. Newtown maintains a comprehensive, 10-year financial plan and a rolling five-year capital plan with all funding sources identified.

The town has its own formally adopted investment policy, and it makes monthly reports on holdings and returns to the first selectman and quarterly to the council. Newtown recently reviewed and updated its debt-management policy and

reduced its debt-service limit to 9% of general fund expenditures from 9.8%. The policy also sets affordability and refunding targets. Finally, the reserve policy calls for an unassigned fund balance of 8%-12% of total general fund expenditures based on cash-flow needs. Historically, management adheres to its debt-management and reserve policies.

Strong budgetary performance

Newtown's budgetary performance is strong, in our opinion. The town had breakeven operating results in the general fund but surplus results across all governmental funds of 4% of expenditures in fiscal 2018. General fund operating results have been stable during the past three fiscal years with results of 0.8% of expenditures in fiscal years 2017 and 2016.

Newtown has a long history of surplus results due partially to its very strong financial management and ability to adapt to fiscal issues. Management attributed the fiscal 2018 surplus to positive variances in building permits and conservative educational-revenue budgeting. In addition, salary and wage savings helped generate another surplus. Management notes it generated a surplus despite unexpected storm-cleanup-related costs, for which Federal Emergency Management Agency will reimburse the town. We adjust for net transfers out of the general fund, capital outlays, and other nonrecurring expenses when calculating results.

With fiscal 2019 more than halfway over, management reports the budget, up 2.4% from the prior year, is trending well with projections showing an overall surplus. The effective tax increase was 1.64%. The town continues to increase the roads budget to reach its goal of a \$3 million line item; currently, funding is \$1.75 million. The town continues its conservative budgeting for educational support. Currently, the town is projecting breakeven-to-positive fiscal year-end 2019 results.

The fiscal 2020 budget process is underway, and management plans to hold state aid estimates below current state projections once again. The first selectman's proposed budget includes a modest 2.71% increase over the fiscal 2019 budget. Due to Newtown's strong financial management and balanced operations, we expect the town will likely maintain stable operations despite ongoing state funding uncertainty. Property taxes, which we consider a stable revenue source, support this view. Property taxes generated 84.2% of general fund revenue in fiscal 2018 while intergovernmental revenue accounted for 13.3%.

Strong budgetary flexibility

Newtown's budgetary flexibility is strong, in our view, with available fund balance in fiscal 2018 of 10.6% of operating expenditures, or \$13.2 million. During the past three fiscal years, total available fund balance remained consistent overall: It totaled 10.9% of expenditures in fiscal 2017 and 10.3% in fiscal 2016.

The town does not use reserves to balance the budget. With at least balanced results projected for fiscal 2019, we expect reserves will likely remain strong. Newtown's formal reserve policy, which seeks to maintain general fund balance at no less than 8% of total operating general fund expenditures, further strengthens flexibility. Due to this, we expect budgetary flexibility will likely remain strong.

Very strong liquidity

In our opinion, Newtown's liquidity is very strong, with total government available cash at 23.1% of total governmental-fund expenditures and 3.4x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

Newtown has demonstrated strong access to external liquidity through frequent GO debt and note issuance. The town has investments maturing in less than a year in its reported cash and cash-equivalents fund. The town largely invests cash in highly rated money-market funds and certificates of deposit. Newtown does not have any exposure to variable-rate or privately placed debt.

Very strong debt-and-contingent-liability profile

In our view, Newtown's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is 6.8% of total governmental-fund expenditures, and net direct debt is 57.2% of total governmental-fund revenue. Overall net debt is low at 1.8% of market value and approximately 69.1% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

During the next two years, the capital plan identifies \$28.7 million of debt for the proposed funding of various capital improvements. Due to debt policies the town follows, we do not expect debt will significantly weaken its debt profile. Currently, the town has \$79.9 million of debt outstanding after this issuance.

Newtown's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 1.6% of total governmental-fund expenditures in fiscal 2018. The town made its full annual required pension contribution in fiscal 2018.

Newtown administers two single-employer, defined-benefit pension plans: Newtown Employees' Pension Plan and Newtown Police Officers' Pension Plan, referred to collectively as the town plan. The plan's fiduciary net position, as a percent of total pension liability, was 73.35% at June 30, 2018. Newtown's net pension liability was approximately \$16.5 million at June 30, 2017. The town contributes 100% of its actuarial determined contribution; it has updated plan assumptions to, what we view as, more-conservative assumptions, including lowering the discount rate to 7% from 7.5% and changing the calculation method to entry age normal from a projected unit of credit.

Newtown also offers OPEB to some retirees in the form of a health-care plan. Eligible retirees receive benefits until Medicare age. The town contributes \$200,000 to its OPEB trust, as well as annual retiree medical costs. At June 30, 2018, Newtown's net OPEB liability was \$6.7 million with a funded ratio of 26.81%. Due to management's commitment to funding long-term liabilities, we do not view these obligations as a credit stress.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Newtown's very strong underlying economy and management should ensure continued strong budgetary performance and operating flexibility. In addition, we expect

Newtown will likely weather any fiscal pressure state budget decisions cause. For these reasons, we do not expect to change the rating during the next two years.

However, if Newtown were to experience budgetary pressure, resulting in negative operations, leading to significantly deteriorated available 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
- 2018 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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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