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Summary:

Newtown, Connecticut; General Obligation

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Credit Profile		
US$13.0 mil GO bnds ser 2018 due 02/15/2038		
Long Term Rating	AAA/Stable	New
Newtown GO		
Long Term Rating	AAA/Stable	Affirmed
Newtown GO rfdg		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to Newtown, Conn.'s series 2018 general obligation (GO) bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

We rate Newtown higher than the U.S. because we believe the town can maintain better credit characteristics than the U.S. 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 more information, see "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 its agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds. Officials intend to use bond proceeds to fund various capital and infrastructure projects in line with the town's capital improvement plan.

The rating reflects our opinion of the following factors for Newtown, specifically its:

- 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 methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 10.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.6% 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 7.2% of expenditures and net direct debt that is 54.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 70.9% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Very strong economy

We consider Newtown's economy very strong. The town, with an estimated population of 28,950, is located in Fairfield County in the Bridgeport-Stamford-Norwalk, CT, MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 170% of the national level and per capita market value of $153,536. Overall, the town's market value grew by 1.0% over the past year to $4.4 billion in 2018. The county unemployment rate was 4.8% in 2016.

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 a tractor supply company and several new small businesses and restaurants. In addition, the town has two projects that will provide 240 units of housing approved for development. In the Fairfield Hills business district, officials believe the community and senior center, which they expect to be complete in 2019, will spur additional development. The property tax base is very diverse, with the 10 leading taxpayers accounting for just 3.5% of the total. We understand that there are currently no significant tax appeals management believes will negatively affect the town's finances. We expect federal tax reform could weaken property values in the region somewhat in the near term (see "U.S. Tax Reform: Local Government Issuers In The New York Tristate Region Could Be Stressed," published Dec. 5, 2017, on RatingsDirect for more information). However, given the strength of Newtown's tax base and continued growth, we expect our view of the local economy to remain very strong.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

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

The town has its own formally adopted investment policy and reports holdings and returns to the First Selectman monthly and town council quarterly. Newtown recently reviewed and updated its debt management policy, reducing its debt service limit to 9.0% from 9.8% of general fund expenditure. The policy also sets affordability and refunding targets. Finally, the town's reserve policy calls for an unassigned fund balance of 8%-12% of total general fund expenditures and based on cash flow needs. Management has historically adhered to its debt management and reserve policies.

Strong budgetary performance

Newtown's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 0.8% of expenditures, and surplus results across all governmental funds of 6.1% in fiscal 2017. General fund operating results have been stable over the past three years, with a result of 0.8% in 2016 and 0.1% in 2015.

Newtown has a long history of surplus results, in part due to its very strong financial management and ability to adapt to fiscal issues. Management attributed the fiscal 2017 results in part to positive variances in tax collections and investment incomes, as well as underspending of expenditures by $742,000. This helped offset the loss of a portion of Newtown's state aid. We adjust for net transfers out of the general fund, capital outlays, and other nonrecurring expenses in calculating these results.

With fiscal 2018 more than halfway over, management reports the budget is trending well and projections show an overall surplus. This is despite midyear revenue reductions in state aid. Overall, Newtown is managing the forecasting uncertainty from Connecticut's continued fiscal problems by holding estimates below amounts set in the state's biennial budget. Furthermore, during the fiscal 2018 budget process, officials identified up to $3 million in expenditures that could have been reduced had the cuts been more significant.

The fiscal 2019 budget process is underway and management plans once again to hold state aid estimates below current state projections. The First Selectman's proposed budget includes a modest 2.5% increase over the fiscal 2018 budget. Given Newtown's record of strong financial management and balanced operations, we expect the town will maintain stable operations in the face of ongoing state funding uncertainty. Bolstering this view is that property taxes, which we consider a stable source of revenue, remain the town's primary source of revenue, at 84.2% of general fund revenues in fiscal 2017, whereas intergovernmental revenues accounted for 13.5%. Current tax collection rates are very strong, at 99.2%.

Strong budgetary flexibility

Newtown's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 10.9% of operating expenditures, or $13.3 million.

The town does not use reserves to balance the budget. With a surplus projected for fiscal 2018, we expect reserves to 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. Given this, we expect the town's flexibility to remain strong.

Very strong liquidity

In our opinion, Newtown's liquidity is very strong, with total government available cash at 17.6% of total governmental fund expenditures and 2.5x governmental debt service in 2017. 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. It includes investments maturing in less than a year in its reported cash and cash equivalents. The town largely invests cash in highly rated money market funds and certificates of deposit. It is not exposed to any 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 7.2% of total governmental fund expenditures, and net direct debt is 54.9% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, and approximately 70.9% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. We adjusted our view of the town's debt profile to include its significant medium-term debt plans.

Over the next two years, management plans to issue approximately $25 million of debt for various capital improvements. Given the debt policies the town follows, we do not anticipate debt plans will significantly weaken Newtown's debt profile.

The town's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 1.5% of total governmental fund expenditures in 2017. Newtown made its full annual required pension contribution in 2017.

The town administers two single-employer defined benefit pension plans--the Town of Newtown Employees' Pension Plan and the Town of Newtown Police Officers Pension Plan, referred to collectively as the town plan. The plan fiduciary net position as a percentage of the total pension liability was 70.48% as of June 30, 2017. Newtown's net pension liability was approximately $16.5 million as of June 30, 2016. The town contributes 100% of its actuarial determined contribution, and has updated plan assumptions to what we view as more conservative assumptions including lowering the discount rate to 7.0% from 7.5% and changing the calculation method from projected unit of credit to entry age normal.

Newtown also offers other postemployment benefits (OPEB) to some of its 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 in addition to its annual retiree medical costs. As of June 30, 2017, Newtown had a net OPEB liability of $6.6 million and a funded ratio of 24.05%. Given the town's demonstrated commitment to funding these long-term liabilities, we do not view these obligations as a source of credit stress.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view that Newtown's very strong underlying economy and management should ensure continued strong budgetary performance and operating flexibility. In addition, we anticipate the town will be able to weather any fiscal pressures that state budget decisions cause. For these reasons, we do not expect to lower the rating in the next two years. However, if Newtown were to experience budgetary pressure that resulted in negative operations and significantly deteriorated available reserves, we could lower the rating.

Related Research

- 2017 Update Of Institutional Framework For U.S. Local Governments

- 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

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.