

**TOWN OF NEWTOWN
STANDARD & POOR'S - NEW ISSUE REVIEW QUESTIONS
JANUARY 7, 2015**

LOCAL ECONOMY

1. *Apart from the projects indicated in the POS, does the town plan to issue additional debt within the next two years in accordance to its five-year capital improvement plan?*

The Town uses the CIP as a planning tool. All approved projects on the CIP fit within our debt service policy (annual debt service should be no more than 10% of total budget – current informal policy is 9%). Projects in the first year of the CIP need a special appropriation request to authorize spending on the project. Using the latest CIP the Town plans to bond around \$12,000,000 in February 2016 (has some small projects from prior year not bonded) and 17,000,000 in February 2017. These amounts, when added to current debt service, fit within our debt service policy (actually is 9%).

2. *Please highlight any major changes in the local economy since last year. Please highlight any major real estate or business development within the town.*

Our Economic Development Administrator will go over our economic development report.

3. *Has the town incurred any variable rate debt, direct purchase debt, or interest rate swap?*

No, the town does not do any variable rate debt, direct purchase debt or interest rate swaps.

FINANCE

4. *Please discuss the reasons for the general fund operating surpluses in fiscal year 2014. General fund has about \$22.9 million in investment at the end of fiscal 2014. How much of the total has a maturity date of less than one year?*

The reason for the general fund operating surplus is mainly using conservative numbers in coming up with the revenue estimates. For example in the property tax account – motor vehicle supplemental I used the prior year estimate amount even though the mill rate was higher due to revaluation (so the estimate should be larger). To be conservative I kept the same estimate (estimate was \$600,000; actual was \$841,982). In the property tax account – interest & liens I used the prior year estimate amount of \$425,000. The actual was \$581,696 due to the improving economic climate (improved collections on delinquent accounts). I also do not budget an estimated amount for misc. grants. Actual amount for misc. grants was \$92,105.

5. *Please discuss the year-to-date fiscal 2015 general fund results. Does the town plan to use any of its general fund reserve?*

Revenues will have a favorable balance of around \$400,000 mainly due to governmental revenues followed by favorable building permits revenue and town clerk conveyance fees. Governmental revenues have a favorable balance because I budgeted the lower estimates received from state budget reports. There will be a small favorable balance in expenditures due to staff vacancies.

6. *Please discuss the status of labor contracts in negotiation and any other expiring contracts that might impact the town's financial position in the next two years.*

Nurse contract is in arbitration. 1.75% has been set aside in a contingency account. Police contract is still in negotiation. Things are moving along. 1.9% is set aside. Contracts that are being negotiated for next fiscal year 2015-16; amounts have been reserved in the contingency account for COLA's.

FINANCIAL MANAGEMENT POLICIES/PRACTICES:

7. *Please highlight any major changes in the town's financial management policies and practices.*

There have been no major changes in the town's financial management policies and practices. The following written policies are still in force:

- Debt Management Policy
- Fund Balance Policy
- Investment Policy
- Capital Improvement Plan Policy

TOWN OF NEWTOWN
MOODY'S - NEW ISSUE REVIEW QUESTIONS
JANUARY 7, 2015

DEBT PROFILE:

1. *Please discuss the reasons for the refunding – restructuring to provide budgetary savings?*

Newtown's Debt Management Policy states that the Finance Director should periodically determine if there are any opportunities for refinancing current debt. It also states The Town must achieve a Net Present Value Savings of at least 2 percent over the life of an existing bond issue in order for it to be considered for refunding.

2. *Authorized but unissued debt – please discuss the town's plans for the \$4.141M in authorized projects.*

More than 84% of the \$4.141M in authorized projects will be de-authorized. These are "left over" authorizations of finished projects (High School project; Middle School Roof project; Hawley School Boiler/HVAC project; Dickinson Playground project). The school projects remain open until the State Education Construction Department audits the projects. The Hawleyville Sewer extension is starting in the spring. The unissued amount is not expected to be used.

3. *CIP – Please discuss any material changes /updates since our last review. Has construction commenced on the new elementary school?*

Newtown's CIP plan has been relatively consistent each year. Each year's approved plan complies with the Town's - Debt Management Policy whereby annual debt service is no more than 10% of the total general fund budget. The Town has an informal policy of getting debt service to 9% (we are currently there). The biggest change in the 2015-16 CIP is the addition of additional monies for the demolition of building at the Fairfield Hills Campus. The CIP has \$3,500,000 in each of the first three years of the plan and \$1,000,000 in year five. Our First Selectman and our Economic Development Administrator can talk a bit about the importance of the Fairfield Hills Campus and our plans for it.

Demolition and site improvement has been accomplished for the new elementary school. Bids have been received, in January 2015, for the construction phase which is due to start March 2015.

ECONOMY / TAX BASE:

4. *Has the ENGL started to stabilize?*

Newtown's net taxable grand list has increased close to ½% each year over the last four years. Two years before that (2009/10 & 2010/11) we experienced slight decreases due to the economic down turn. We expect at least a ½% increase for the next fiscal year (2015/16) and expect it to grow even more in the future as expected projects come on line (discussed in #5 below).

5. *Since our last review, have there been any new significant commercial or residential developments?*

There have been. Our Economic Development Administrator has a report on our economic development.

6. Any material tax appeals outstanding?

There are no material tax appeals outstanding.

7. Please discuss the projected decline in enrollment.

In November 2014 the Town received an enrollment report, the "Newtown Comprehensive School Enrollment Analysis & Projections" report. This was performed by the consultants, Milone & MacBroom. The Newtown Public Schools contracted with Milone & MacBroom, Inc. to conduct a comprehensive school enrollment analysis and to develop enrollment projections for the entire school district. The district wide and school specific projections in this report are meant to serve as a planning tool for the future. The report states that the K-12 enrollment has declined 16.5% from its peak of 5,609. Current enrollments are at the historic (30 year) median level of just under 4,700. While high school enrollments have remained steady, the smaller grade cohorts currently in the elementary, intermediate and middle schools have not yet matriculated up to the high school level. The largest grade cohorts are the four high school grades, each of which consists of more than 400 students. The youngest grade cohorts currently in the system have fewer than 300 students per grade.

The consultants prepared a ten year enrollment projection. They recommended using the medium growth scenario, which anticipates a strengthening housing market and economy. In the medium growth scenario the K-12 enrollments change -16.4% in the first five years; -3.8% in the second five years and -22.7% in the ten years.

In relationship to the enrollment study the Newtown Public Schools are also doing a facility use study. This is in process. If it is determined that a school should be closed this will most likely be in fiscal year 2016-17 (the same year the new elementary school comes on line).

Declining enrollment has already started to affect the Education budget. Staffing levels have been reduced (mainly thru attrition). This has greatly helped in keeping the tax rate increase low (in these economic times).

FINANCES:

8. Fiscal 2014 audited results. I don't have any specific questions related to the 2014 audit, but are there any comments you would like to make.

- Newtown continues to increase its general fund, fund balance. We have done this with conservative budgeting (not overestimating revenue estimates and underestimating expenditures).
- Newtown enterprise funds (sewer & water) continue to have a good financial position.
- Our medical self-insurance fund has maintained its good net position (20% of claims).
- Our pension funding ratio is 99% for the Town plan and 87% for the Police plan; the Town funds its ARC 100%.
- Our debt service is now closer to 9% of total budget (down from close to 10%).
- Tax collection rate continues to be above 99%.

9. Fiscal 2015 budget and YTD

a. The budget increased 0.91% over the 2014 budget, correct?

That is correct. The education budget increase of 0.42% was a big help. All programs and services continued. It was the declining enrollment and resulting staff reductions.

b. *Please discuss the assumed increase in governmental revenue.*

Estimated governmental revenues are based on various State of Connecticut budget reports (as they go thru their budget process). Connecticut towns and cities never know the actual amount until after our budget process. I chose the lower of the governor's budget request and the state appropriations committee budget recommendation from a state report dated March 27, 2014. It turns out that the actual amounts are higher than my estimates. Budgeted governmental estimates totaled \$8,136,394. Actual governmental amounts will be \$8,444,366.

c. *Any fund balance appropriation?*

No, there was no appropriation of fund balance. Newtown has not appropriated fund balance since 2010/11.

d. *How are revenues and expenditures trending compared to budget so far?*

Revenues will have a favorable balance of around \$400,000 mainly due to governmental revenues followed by favorable building permits revenue and town clerk conveyance fees. There will be a small favorable balance in expenditures due to staff vacancies.

MANAGEMENT:

10. *What will be the key budget drivers over the near term?*

- Student enrollment – this has a positive effect on the budget and Town finances.
- Employee medical benefits – this represents around 10% of the total budget. The medical claims experience has been very positive. The medical self insurance fund, fund balance continues to increase. It will be at around 25% of medical claims at the end of this fiscal year. Increased employee contributions and medical plan changes have helped keep town costs down.
- Pension costs are around 1.3% of budget. The Town has begun to switch employees (new employees) to a defined contribution plan. So far, this includes non union employees and Parks & Recreation union employees. Contracts currently in negotiation include this item in discussion. We are confident that all new employees will be on the defined contribution plan in the near future.
- Taxable grand list growth – the town has been experiencing a ½% growth over the last few years. We are expecting an increase in grand list growth over the near future due to forecasted economic development.

11. *Are the Police and Nurses unions still out of contract (6/30/2014)? If so, please provide an update on contract negotiations.*

The Police & Nurses unions are still out of contracts since 6/30/2014. The Police are in negotiations with the Town and things are moving along. 1.9% is set aside for 2014-15. This percentage is similar to other contracts. The Nurses union is in arbitration. 1.75% has been set aside. This percentage is similar to other contracts.

12. *Is there any significant litigation outstanding that could materially impact the town's financial condition?*

No, there is no significant litigation outstanding that could materially impact the town's financial condition.

13. *Are there any issues or topics that need to be addressed that could have a material impact on the town's credit rating?*

No, there are no items that need to be addressed that could have a material impact on the town's credit rating.

