

RatingsDirect®

Summary:

Newtown, Connecticut; General Obligation

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Credit Profile

US\$17.09 mil GO rfdg bn ds ser 2015 A due 08/15/2030

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

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' rating and stable outlook to the Town of Newtown, Conn.'s series 2015A general obligation (GO) refunding bonds. At the same, Standard & Poor's affirmed the 'AAA' rating, with a stable outlook, on the town's GO debt outstanding.

The town's full faith and credit pledge secures the bonds. We understand that officials will use bond proceeds to refund a portion of its debt.

The rating reflects our assessment of the following factors for the town:

- Very strong economy, which benefits from participation in the broad and diverse economy of Danbury;
- Strong budgetary flexibility, with available reserves at or above 15% of general fund expenditures for the most recent three audited years;
- Strong budgetary performance, with consistent operating surpluses in the general fund and total governmental funds;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions, with formal policy and consistent ability maintain balanced budgets; and
- Very strong debt and contingent liability position, driven mostly by the town's low net direct debt.

Very strong economy

We consider Newtown's economy to be very strong, with access to the broad and diverse economy of Danbury in Fairfield County. Traditionally, county unemployment has tracked on par with that of the state and the nation and averaged 7.1% in 2013. Newtown has projected per capita effective buying income of 176% of that of the U.S., as reflected by residents accessing jobs in the neighboring areas. Per capita market value for the town was \$158,000 for fiscal 2015. The net taxable grand list has declined by about 23% to \$3 billion in fiscal 2014 due to revaluation. The grand list has improved by about 0.5% in fiscal 2015.

Strong budgetary performance

Newtown's budgetary performance has been strong overall, in our view, with an operating surplus in both its general fund (0.3% of expenditures) and total governmental funds (1.1% of expenditures) in fiscal 2014. About 84% of the

town's revenues are from property tax, and collection has been strong, averaging more than 99% for the most recent five years. Year-to-date, management reported a positive variance of \$400,000 in its general fund for fiscal 2015. The town receives less than 5% in federal revenue.

Strong budget flexibility

In our opinion, the town's budgetary flexibility remains strong, with available reserves above 8% of expenditures for the most recent two years, and Newtown has no plans to significantly spend down the reserves. This has been in compliance with the town's reserve policy of 8%-12%. Management reported that the Newtown will end fiscal 2015 with an operating surplus. For audited fiscal 2014, available reserves were \$11.2 million or 9.5% of general fund expenditures.

Very strong liquidity

Supporting the town's finances is what we consider to be very strong liquidity, with total government available cash as a percent of total governmental fund expenditures and as a percent of debt service are 17% and 221%, respectively. We believe Newtown has good access to external liquidity. It has issued GO bonds frequently in the past 15 years.

Very strong management

We view the town's management conditions as very strong with formalized, well embedded, and sustainable financial practices and policies. Newtown maintains an internal practice of forecasting revenues and expenditures five years out. Assumptions are conservative, and management updates them annually; management is seeking to formalize this practice, which will consist of formal annual written reports to the board of selectmen. The town also has a formal fund balance policy to maintain an unassigned fund balance at 8%-12%. Finally, Newtown has a comprehensive debt management plan to amortize at least 50% of its debt in 10 years; the plan also calls for the town to maintain debt service at less than 10% of general fund budget.

Very strong debt and contingent liability profile

In our opinion, Newtown's debt and contingent liability profile is very strong, with total governmental funds debt service as a percent of total governmental funds expenditures at 8% and with net direct debt as a percent of total governmental funds revenue at 53%. Meanwhile, overall net debt, after taking into account state aid reimbursement on school-related debt, is low in our opinion at 1.7% of market value. Amortization of debt is also rapid, with 77% of principal to be retired in 10 years. Newtown maintains a long-term capital plan through 2019 with bonding needs of about \$29 million in the next two years.

The town contributes to three pension plans: the selectmen and board of education personnel (99% funded as of July 1, 2014), police personnel (87% funded as of July 1, 2014), and elected officials (defined contribution plan). The town also offers other postemployment benefits (OPEB) to some of its retirees in the form of a health care plan. The combined pension annual required contribution and OPEB pay-as-you-go cost totaled \$1.4 million in fiscal 2014, or about 1% of total governmental expenditures. Based on an actuarial valuation, Newtown had an accrued liability of \$6.3 million for OPEB as of July 1, 2012.

Very strong Institutional Framework

We consider the Institutional Framework score for Connecticut municipalities as very strong.

Outlook

The stable outlook reflects our view of Newtown's strong budgetary performance and flexibility, coupled with a very strong underlying economy. We do not expect to change the rating in our two-year outlook horizon due to our expectation that management will continue to adhere to its formal and sustainable policies and practices in managing its finances and any fluctuation in the local economy.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Connecticut Local Governments

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