New Issue: Moody's assigns Aa1 to Newtown CT's $17.1M GO Bonds

Global Credit Research - 16 Jan 2015

Affirms Aa1 affecting $80M of GO debt outstanding

NEWTOWN (TOWN OF) CT
Cities (including Towns, Villages and Townships)
CT

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, 2015 Series A	Aa1

Sale Amount	$17,100,000
Expected Sale Date	01/27/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, January 16, 2015 --Moody's Investors Service has assigned a Aa1 rating to the Town of Newtown's (CT) $17.1 million General Obligation Refunding Bonds, 2015 Series A. Concurrently, Moody's has affirmed the Aa1 rating on $80 million of outstanding general obligation debt. The bonds are secured by an unlimited general obligation tax pledge. Bond proceeds will be used to refund the Series 2010 and 2011 bonds currently outstanding for an estimated net present value savings of $754,000, equal to 4% of refunded principal, with no extension of final maturity.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the town's stable financial position with adequate reserve levels that are supported by formal fiscal policies. The rating also incorporates the sizeable equalized net grand list with favorable socioeconomic indices and manageable debt profile.

STRENGTHS

- Sizeable and affluent tax base

- Stable financial position supported by formal policies

- Well funded pension plans and pro-active OPEB funding

CHALLENGES

- Managing expenditure pressures in an environment of constrained revenue growth

DETAILED CREDIT DISCUSSION

STABLE FINANCIAL POSITION WITH ADEQUATE RESERVE LEVELS EXPECTED TO CONTINUE

Newtown's financial position will remain stable given sound financial management and adequate reserve levels guided by formal financial policies. Following surplus operations in fiscal years 2012 through 2014, the town has increased total General Fund balance to $11.2 million (9.4% of revenues) in fiscal 2014 from $8.2 million (7.6% of revenues) in fiscal 2011. Positively, the majority of fund balance is unassigned ($10.2 million or 8.6% of revenues in fiscal 2014). The town adopted a formal policy to maintain unassigned fund balance between 8% and 12% of budgeted expenditures, which is consistent with current reserve levels.

The fiscal 2015 budget increased just 0.91% over 2014, as school department expenses were relatively flat due to a continued decline in enrollment. As expected, the mill rate did not increase, though the tax levy increased 0.2% due to a modest increase in taxable values. Since 2011, the town has not appropriated reserves to balance operating budgets, indicating a commitment to building General Fund balance. Six months into the year, management reports that revenues are trending positively and the town expects to add to fund balance for a fourth straight year.

Newtown is not reliant on economically sensitive revenues, as property taxes consistently account for more than 84% of annual revenues. Collections are strong and have remained above 99% for the past several years. The largest expenditure is education (67% of 2014 expenditures), followed by public works (8.4%), public safety (7.6%), and general government (3.7%).

SIZEABLE TAX BASE WITH AFFLUENT RESIDENTIAL POPULATION

Newtown's sizeable $4.3 billion equalized net grand list (ENGL) should stabilize following several years of declines given modest new development. The town, located in Fairfield County along Interstate 84, is in close proximity to major employment centers including New York City (Aa2 stable), Stamford (Aa1 stable), and Norwalk (Aaa stable). The town is primarily residential (78% of taxable grand list) and ENGL has decreased at a five-year compound annual rate of 5%, inclusive of five consecutive years of declines reflective of statewide trends. Further declines are expected to be mitigated in part by modest ongoing development in the town. New projects include both residential and commercial construction, expected to add significant office space and housing units to the town's stock.

The town's socioeconomic indices are above average, with a median family income that is 143.2% and 191.3% of the state and nation, respectively. Notably, the town has a non-taxable 600 inmate correctional facility within its boundaries. Even when including the inmate population (approximately 520), the town's per capita income remains healthy at $45,308 (165.8% of the U.S.). Further, the ENGL per capita of $157,466 is strong and remains consistent with similarly rated communities. The town's unemployment rate (4.4% in November 2014) remains below the state (6.2%) and nation (5.8%), and the poverty rate is low at 3.3%.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE DESPITE FUTURE BORROWING PLANS

Newtown's debt position will remain above average yet manageable given planned future borrowing to finance various capital projects. The current direct debt burden is 1.8% of ENGL (full value), which is slightly above the state median of 1.3%. The town does not have any overlapping debt obligations. Principal amortization is average with 79% retired within 10 years. The town maintains a comprehensive five-year $83.3 million capital improvement plan (CIP), of which $62.5 million is expected to be funded through borrowing, $11.1 million will be funded with grants, and $9.3 million through pay-as-you-go funding. The plan calls for $10.5 million of bond funded projects in fiscal 2016 followed by $17.1 million the subsequent fiscal year. The former Sandy Hook elementary school has been demolished and the construction of a new facility, which will be funded entirely with a $50 million state grant, is currently underway. Debt service accounted for 8.5% of fiscal 2014 expenditures, and the town remains compliant with its formal debt policy which calls for debt service not to exceed 10% of budget. All debt is fixed rate and the town is not party to any derivative agreements.

MODEST LIABILITIES FOR PENSION AND OPEB

Newtown operates two single-employer pension plans - the Employees' Pension Plan and the Police Officers Pension Plan - both of which remain well funded at 99.1% and 86.8%, respectively. The town has consistently contributed its entire actuarial required contribution (ARC) for both plans. The combined fiscal 2014 ARC for both plans was $1.2 million, representing a manageable 1% of expenditures. The combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $16.3 million, or 0.14 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The OPEB liability is funded on a pay-as-you-go basis, and the town contributed $246,000 (less than 1% of expenditures) in fiscal 2014, representing 34% of its ARC. The total unfunded liability is $5.6 million as of July 1, 2012, the most recent valuation report. Total fixed costs for fiscal 2014, including pension, OPEB and debt service, represented $11.5 million, or 9.7% of expenditures.

WHAT COULD MAKE THE RATING GO UP

- Significant growth of the underlying tax base and improvement in the demographic profile

- Sizeable fund balance growth

- Material decline in the debt burden

WHAT COULD MAKE THE RATING GO DOWN

- Trend of operating deficits resulting in a decline in reserves

- Significant growth in debt burden

- Significant declines in the tax base or deterioration of the demographic profile

KEY STATISTICS:

2012 (FY 2014) Equalized Net Grand List: $4.3 billion

2012 (FY 2014) Full Value Per Capita: $157,466

Median Family Income as % of US: 191.3%

Fiscal 2014 Available Fund balance as a % of Revenues: 9.4%

5-Year Dollar Change in Fund Balance as % of Revenues: 1.3%

Fiscal 2013 Cash Balance as % of Revenues: 20%

5-Year Dollar Change in Cash Balance as % of Revenues: 2.3%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.0x

Net Direct Debt as % of Full Value: 1.8%

Net Direct Debt / Operating Revenues: 0.7x

3-Year Average of Moody's ANPL as % of Full Value: 0.4%

3-Year Average of Moody's ANPL / Operating Revenues: 0.1x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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