

RatingsDirect®

Summary:

Brookfield, Connecticut; General Obligation

Primary Credit Analyst:

Ruth S Ducret, New York (1) 212-438-1410; ruth.ducret@standardandpoors.com

Secondary Contact:

Danielle A Messler, Boston (617) 530-8322; danielle.messler@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Brookfield, Connecticut; General Obligation

Credit Profile

US\$5.59 mil GO rfdg bnds ser 2015 due 11/15/2033

Long Term Rating AAA/Stable New

Brookfield Twn GO

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to the town of Brookfield, Conn.'s 2015 general obligation (GO) refunding bonds, and affirmed the 'AAA' long-term rating on the town's parity debt. The outlook is stable.

A pledge of the town's full faith and credit secures the bonds. Proceeds will be used to advance refund the town's 2010 GO bonds, 2011 drinking water fund loan and 2013 GO bonds in order to convert from tax-exempt securities to federally taxable bonds. We understand the town's most recent analysis projects \$500,000 in additional interest costs over the life of the bonds as a result of the refunding.

The rating reflects our assessment of the following factors:

- Very strong economy, which benefits from participation in the broad and diverse Bridgeport-Stamford-Norwalk metropolitan statistical area (MSA) and proximity to the Westchester County and New York City employment bases;
- Adequate budgetary flexibility with 2013 audited reserves at 6% of general fund expenditures, which management expects to increase to at least 7.5% by 2016.;
- Strong budgetary performance, which takes into account a revenue stream we consider stable and predictable;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions with good financial policies; and
- Very strong debt and contingent liabilities position.

Very strong economy

We consider Brookfield's economy to be very strong, with its projected per capita effective buying income of 175% of the U.S. and its fiscal 2015 per capita market value of \$132,000. The town is located in Fairfield County, approximately 70 miles north of New York City and borders Candlewood Lake, Connecticut's largest lake. The town participates in the broad and diverse Bridgeport-Stamford-Norwalk MSA and residents have access to the New York City and Westchester County labor markets. Unemployment in Fairfield County was 7.1% in 2013 and continues to trend down.

The town's fiscal 2013 net taxable grand list declined 17% year-over-year, reflecting the implementation of a revaluation, but then rose 0.4% in 2014 and 1.2% in 2015 to \$2.2 billion. We understand the town is an active participant in a number of economic development initiatives in Brookfield, including the Brookfield Four Corners

Revitalization project. The development focuses on the construction of residential and commercial units with the ultimate goal of creating a new town center. The tax base is very diverse, with the top 10 taxpayers accounting for just 6.8% of the grand list.

Strong budgetary performance

The town's budgetary performance is strong, in our view, with general fund break-even results for audited 2014 and a 0.4% total governmental fund operating surplus after adjusting for transfers and capital expenditures paid from bond proceeds. These positive results follow two years of operating deficits due to the overspending of the board of education's budget in 2012 and 2013, which is a material noncompliance with state statutes but for which no financial penalty resulted. For 2015, management projects ending the year with a small operating deficit due to unbudgeted expenditures related to the removal of the school district's superintendent as well as higher-than-budgeted snow removal costs. Property taxes accounted for 86% of total general fund revenue in fiscal 2014, which we consider a credit strength because of its stability and predictability.

Adequate budgetary flexibility

In our opinion, the town's budgetary flexibility is adequate. Fiscal 2014 year ended with \$4.4 million in available reserves or 6.7% of expenditures. The town's formal reserve policy calls for the maintenance of a minimum of 7.5% in unassigned reserves. In 2012 and 2013, due the aforementioned overspending of the board of education's budget, the town's reserves fell below the policy level. Management expects to be back in compliance by fiscal 2016 through a combination of growth in the grand list and expenditure savings related to health care following the implementation of a self-insurance plan in fiscal 2015. Management estimates two-year savings of approximately \$1.8 million from the new health care plan. The 2015 budget does not include an appropriation of reserves but management projects that due to unbudgeted expenditures, fund balance will drop by about \$300,000. However, management projects building reserves by 2016 as a result of savings from the health care plan and bond refunding.

Very strong liquidity

Supporting the town's finances is liquidity we consider very strong, with total government available cash at 10% of total governmental fund expenditures and 1.7x debt service. We believe the town has strong access to external liquidity given its frequent issuance of GO bonds during the past 15 years.

Strong management conditions

We view the town's management conditions as strong with "good" financial practices under our Financial Management Assessment. The town is conservative in its revenue and expenditure assumptions and makes regular efforts to determine whether revenues or expenditures will deviate from their long-term trends. Officials regularly monitor budgetary performance, ensuring adjustments are made in a timely manner. The town maintains a formal five-year capital improvement plan that is updated annually but does not maintain a formal long-term financial plan. Brookfield follows the state's investment policy and reports holdings and returns to the council monthly. Adopted in 2009, the general fund reserve policy requires an unassigned balance of 7.5% of expenditures. We understand the philosophy behind the 7.5% level centers on the town's dependence on property taxes as well its strong collection rate. Reserves are currently below this level for the first time since fiscal 2010, but management expects to return to compliance by 2016. We understand that management is currently reviewing the town's fund balance policy and may update it to set the unassigned minimum at 10% of expenditures. Should management be unsuccessful in restoring reserves to levels

commensurate with its current formal policy by 2016, we could revise the town's management conditions to adequate.

Very strong debt and contingent liability profile

In our opinion, the town's debt and contingent liability profile is very strong, with total governmental fund debt service at 6.2% of total governmental fund expenditures and net direct debt at 66.2% of total governmental fund revenue. The ratios incorporate self-support for a portion of the town's sewer bonds and clean water fund notes as well as a small amount of state aid related to school bonds. The town is scheduled to retire more than 65% of principal over the next 10 years and the overall net debt burden is 2.1% of market value. Over the next two to three years, management plans to issue about \$7 million in debt for various capital projects.

The town administers its own defined-benefit pension plan. Despite several years of contributing below 50% of the annual required contribution (ARC), the plan is well funded at 88% as of Jan. 1, 2014. The town adopted a resolution in 2012 requiring the full funding of its ARC. It contributed 98% in fiscal 2013, 103% in 2014, and expects to contribute 100% in 2015. The combined ARC pension and other postemployment benefit (OPEB) pay-as you-go costs for fiscal 2014 were 3.2% of expenditures. The OPEB unfunded actuarial accrued liability (UAAL) as of July 1, 2012, was \$34 million and entirely unfunded. Management expects the town's OPEB UAAL to decline at the next valuation following significant adjustments in postemployment benefits for retirees. All union contracts with the exception of the police are now settled and include a 25% cost-share of OPEB benefits for current employees. New employees are not eligible for OPEBs. Finally, the town established an OPEB trust in 2015 to fund future liabilities and expects to increase contributions to the trust by \$200,000 every year.

Very strong Institutional Framework

We consider the Institutional Framework score for Connecticut towns very strong.

Outlook

The stable outlook reflects our view of Brookfield's very strong economic base as well as strong operating performance, which is supported by strong management. We believe that the town's very strong debt profile enhances stability. While the town's reserve levels are currently not commensurate with other 'AAA' rated credits, we do not expect to change the rating in the next two years due to management's plan to rebuild reserves and maintain the unassigned fund balance at what we consider a strong level. However, should management be unsuccessful in growing reserves to its formal policy level by 2016 or should there be another material decline in reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- 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

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.