

## CREDIT OPINION

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### Update

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## Town of Brookfield, CT

Update - Moody's Downgrades Brookfield, CT's GO Bonds to Aa2 and Revises Outlook to Negative

### Summary Rating Rationale

Moody's Investors Service has downgraded the Town of Brookfield, CT's general obligation debt to Aa2 from Aa1 and revised the outlook to negative from stable, affecting \$35 million in rated debt.

The downgrade to Aa2 reflects a weakening of the town's reserves, partially attributable to weak financial and accounting controls that management is actively addressing. The Aa2 also takes into account the town's moderately-sized residential tax base with above average wealth levels and manageable debt, pension, and OPEB liabilities.

### Credit Strengths

- » Affluent tax base
- » Manageable long-term liabilities for debt, pension and OPEB

### Credit Challenges

- » Weak reserve position
- » Weak accounting and financial controls

### Rating Outlook

The revision of the outlook to negative from stable reflects the challenges related to both restoring fund balance to satisfactory levels and in improving financial and accounting controls, practices and processes.

### Factors that Could Lead to an Upgrade

- » Increased reserve levels combined with improved financial controls
- » Significant tax base expansion

### Factors that Could Lead to a Downgrade

- » Failure to improve financial position
- » Material declines in tax base
- » Large increase in debt

## Key Indicators

Exhibit 1

Brookfield (Town of) CT	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 3,315,269	\$ 3,119,480	\$ 3,101,026	\$ 3,191,617	\$ 3,197,488
Full Value Per Capita	\$ 200,804	\$ 189,611	\$ 185,913	\$ 192,069	\$ 190,519
Median Family Income (% of US Median)	N/A	198.1%	198.1%	198.1%	198.1%
Finances					
Operating Revenue (\$000)	\$ 56,171	\$ 57,137	\$ 62,180	\$ 64,169	\$ 65,039
Fund Balance as a % of Revenues	9.4%	10.6%	9.3%	9.6%	7.9%
Cash Balance as a % of Revenues	8.3%	13.6%	5.7%	4.7%	7.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 38,766	\$ 45,516	\$ 42,016	\$ 40,360	\$ 44,728
Net Direct Debt / Operating Revenues (x)	0.7x	0.8x	0.7x	0.6x	0.7x
Net Direct Debt / Full Value (%)	1.2%	1.5%	1.4%	1.3%	1.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.3x	0.3x	0.3x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.5%	0.6%	0.7%	0.6%

Source: Moody's Investors Service and town financial statements

## Recent Developments

In April, the town released its audited fiscal 2015 financials. The results reflected a decline in the General Fund balance to \$5.1 million (7.8% of revenues) from \$6.2 million (9.6% of revenues).

## Detailed Rating Considerations

### Economy and Tax Base: Wealthy Residential Community in Fairfield County

Brookfield's \$3.2 billion equalized net grand list (ENGL) remains well positioned for future tax base growth given its favorable location in Fairfield County within easy access to I-84 and multi-use development opportunities created by the completion of the Route 7 bypass. The ENGL, which reflects market value, declined an average of 0.7% from 2010 to 2015, including a 5.9% reduction in 2012. Favorably, the ENGL grew in fiscal 2014 (2.9%) and 2015 (0.2%). The taxable grand list has declined at an average annual rate of 2.9% over the past five years, primarily due to a 17% decrease in 2013 following a town-wide revaluation. Grand list growth in the subsequent non-revaluation years has been modest, averaging nearly 1.0%. The tax base is not concentrated, with the top ten taxpayers representing 6.9% of assessed value, heavily represented by utilities and shopping centers.

Looking ahead, the continued development of the Four Corners mixed use area is expected to foster additional tax base growth. Additional growth is expected over the long-term from the portion of Federal Road from Route 133 north to Route 7, which currently consists of ample space well poised for development. The town reports a number of other projects in various stages of development.

Brookfield's strong socioeconomic profile is evident in income levels that are well above average, with median family income at 141% and 198% of the state and nation, respectively. The full value per capita is a strong \$190,519.

### Financial Operations and Reserves: Below Average Fund Balance and Liquidity; Weak Financial Controls

The town released its fiscal year 2015 audit in April. The release was delayed as there were questions regarding the fund balance, specifically a \$3.3 million receivable in the General Fund for the reimbursement for long-term capital projects. About \$1.8 million of projects were paid with BANs and eventually taken out with cash from the General Fund rather than long-term financing. The town believes it can bond for this \$1.8 million portion and repay the General Fund. The bond authorization was approved and issuance is planned for November. Town officials believe they are not able to bond out for the remaining \$1.5 million of the receivable due to

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poor documentation. Therefore, the town transferred \$1.5 million back to a bonded projects fund as reflected in the fiscal 2015 audit. Prior to all transfers, the town had a budgetary surplus of \$717,000. General Fund balance fell to \$5.1 million, or 7.8% of revenues in fiscal 2015, from \$6.2 million, or 9.6% of revenues in fiscal 2014. The downgrade reflects not only diminished reserve levels that are below the medians for the rating category, but weak accounting and financial practices and controls as evidenced by the lack of information pertaining to the \$1.5 million receivable. Favorably, the town recently engaged a consulting firm which reviewed the town's internal controls and procedures. The firm identified several areas of weakness and made recommendations. The town, in the proposed fiscal 2017 budget, is already implementing one of the recommendations by allocating funds to hire a purchasing agent and benefits coordinator. Additionally, the town is also implementing staffing changes. Future reviews will assess the town's progress in strengthening its overall financial and accounting practices.

The fiscal 2016 budget reflected growth of 1.3% over the fiscal 2015 budget and did not include any mill rate increase or appropriation of reserves. Management is forecasting a modest surplus reflecting small positive variances for both revenues and expenditures.

The town has proposed a plan to replenish the General Fund's balance in fiscal 2017. This plan includes transferring surplus monies from unrestricted reserves from other funds (outside of the General Fund), appropriating funds in fiscal 2017, and closing out of the Self-Insured Reserve fund due to migration to a new state plan, which management projects would yield \$1.1 million to \$1.4 million. This would be in addition to the planned November bond issuance.

The proposed fiscal 2017 budget increases 3.6% and includes a 2.7% mill rate increase and does not contemplate a use of reserves. Favorably, the town budgeted nearly \$450,000 for contingencies.

#### **LIQUIDITY**

General Fund net cash at the end of fiscal 2015 was \$4.9 million, or 7.4% of revenues. While this represents an improvement over the fiscal 2014 level of 4.7%, it remains somewhat weak for the rating category.

#### **Debt and Pensions**

The town's debt levels will remain affordable given the town's average amortization of existing debt, manageable future borrowing plans, and commitment to funding certain projects on a cash basis. The overall debt burden is an average 1.4% of ENGL and debt is retired at a rate of 79.6% within 10 years. Debt service represents a manageable 6.1% of fiscal 2015 expenditures. The town maintains a five-year, \$60 million Capital Improvement Plan through fiscal 2023 and possible future debt issuances include a \$20 million elementary school replacement project, which will be partially offset by state school building aid if the project moves forward. Additionally, the town has \$17.6 million of BANs outstanding maturing in November of 2016. The town has indicated most of the BANs will be rolled over this November, although these notes will eventually be taken out with long-term debt over the next few years.

Fixed costs comprised of debt service, OPEB payments and required pensions contributions are a manageable 9.2% of expenditures in fiscal 2015.

#### **DEBT STRUCTURE**

All of Brookfield's debt is fixed rate.

#### **DEBT-RELATED DERIVATIVES**

The town has no derivatives.

#### **PENSIONS AND OPEB**

The town maintains a single-employer defined benefit pension plan, the Town of Brookfield Pension Plan. The town's reported funding ratio as of January 1, 2015 was a strong 93.6%. Favorably, since fiscal 2014, the town has had a formal policy of fully funding the actuarially determined contribution (ADC). The town's 3-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$18.3 million, or a low 0.3 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 town's OPEB obligation as of July 1, 2014 is \$26.5 million. The town funds the benefits on a pay-as-you go basis with a contribution of \$280,000 in fiscal 2015 representing 7.4% of the \$3.8 million annual required contribution. An estimated \$11 million

of the liability however is due to an implicit rate subsidy which allows retirees to remain covered under the town's health insurance plans but the town does not contribute towards the retired employees' premiums.

### Management and Governance

Connecticut cities and towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable and stable, due to a large reliance on property taxes. Municipalities additionally benefit from high revenue-raising ability due to the absence of a statewide property tax cap. Expenditures primarily consist of personnel costs as well as education costs for those cities that manage school operations, and are highly predictable due to state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate as it is somewhat constrained by union presence.

### Legal Security

The town's bonds are secured by the town's unlimited property tax pledge.

### Use of Proceeds

Not applicable.

### Obligor Profile

Brookfield is located in Fairfield County in western Connecticut, approximately 70 miles from New York City. The town has an estimated population of 16,783.

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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