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Ratings

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Summary:

Brookfield, Connecticut; General Obligation

Primary Credit Analyst:
Anthony Polanco, Boston + 1 (617) 530 8234; anthony.polanco@spglobal.com

Secondary Contact:
Thomas J Zemetis, New York + 1 (212) 438 1172; thomas.zemetis@spglobal.com

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Summary:

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Credit Profile		
US$18.89 mil GO bnds ser 2018 A due 11/15/2038		
Long Term Rating	AAA/Stable	New
US$4.72 mil GO bnds (Federal Taxable) ser 2018 B due 11/15/2038		
Long Term Rating	AAA/Stable	New
Brookfield Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Brookfield, Conn.' series 2018A and 2018B general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds. Officials plan to use bond proceeds for various capital improvement projects and to permanently finance the town's bond anticipation notes (BANs) outstanding. The town will also issue $1.9 million in GO BANs, which we will not rate, concurrently with the bonds.

Brookfield's GO bonds are eligible for a rating above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, the town has a predominantly locally derived revenue source, with 87% of general fund revenue from property taxes; it also has independent taxing authority and treasury management from the federal government.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 8.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 8.5% of total governmental fund expenditures and 129.6% of governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 6.6% of expenditures and net direct debt that is 68.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 71.7% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Very strong economy

We consider Brookfield's economy very strong. The town, with an estimated population of 17,243, is located in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 163% of the national level and per capita market value of $185,133. Overall, the town's market value fell by 1.5% over the past year to $3.2 billion in 2018. The county unemployment rate was 4.5% in 2017.

Brookfield is 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 New York City and Westchester County for employment. Although the town is mainly residential, it does maintain a notable commercial presence that makes up about 15% of the total tax base. Major employers include Eastern Account System, Inc., the town, Costco Corp., ShopRite Supermarkets, and United Parcel Service Inc.

The local economy remains very strong, supported by a vibrant real estate market and continued developments. The town indicates waterfront properties on either Candlewood Lake or Lake Lillinonah range from $450,000-$1.8 million in value. Various commercial and residential properties are also being developed. These include the Brookfield Village, a 120-unit development that has been approved for construction and is about 50% completed, and Barnbeck at 398 Federal Road, a 165-unit multi-family complex, which has been completed and fully rented. More than 6,000 square feet of commercial space has been completed along Federal Road, the town's commercial corridor, with another 36,000 square feet under construction. The town's portion of the Berkshire Corporate Park continues to increase. In addition, a division of a Fortune 500 company will be moving into the park and building its new world headquarters consisting of offices, as well as research and development and manufacturing facilities. Eastern Financial Service, a national cell and service center for major cable service providers, moved into the park in the past few years and employs more than 850 people. Finally, the town is also undertaking revitalization efforts in its Town Center District, which are being supported by state, federal, and town resources, according to officials.

Due to the town's ongoing developments and continued tax base expansion, supported by its access to the Bridgeport and New York City MSAs, we expect its economy to remain very strong.

Strong management

We view Brookfield's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The town's assumptions are generally conservative, involving a zero-based budgeting approach for each department's budget and a minimum three-year historical trend analysis, although officials indicate they can go back as far as 20 years if necessary. Management also reports budget to actuals to the board monthly, including investment holdings and earnings, as well as school-related budget to actuals. Brookfield maintains a formal 10-year capital improvement plan that identifies funding sources and is updated annually. It also has a formal investment policy that mirrors state guidelines. Officials do not maintain a formal long-term financial plan, although they are adopting one. The town also has an informal debt policy of maintaining debt service at no more than 10% of expenditures and an informal reserve policy of maintaining available reserves at a minimum of 10% of expenditures, which it currently adheres to as of fiscal 2018. The town is working toward formally adopting its debt and reserve policy within the next two years.

Strong budgetary performance

Brookfield's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 3.6% in fiscal 2017.

Fiscal 2017 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. According to management, the fiscal 2017 general fund surplus was primarily due to savings in expenditures, including areas such as human resources, public safety, education, and debt service, while revenues came in slightly above budget. Property taxes account for 87% of general fund revenues, followed by intergovernmental revenue at 11%.

For fiscal 2018, the town estimates to have ended with another general fund surplus of about $1.2 million. Officials attribute the surplus to savings in expenditures of more than $1.1 million and a slight increase in revenues. These results also include about $2.8 million in additional one-time expenses Brookfield incurred in May 2018 as a result of a large storm. The town has applied for and received approval for reimbursement from the Federal Emergency Management Agency for these costs, which it expects to receive during fiscal 2019. As a result of the state's late budget earlier in fiscal 2018, the town also had prepared for a loss of approximately $1.9 million in state funding revenue, which made up about 3% of total revenues. According to officials, the town was able to make up the loss of these revenues and cover the storm-related expenses through an expenditure freeze, which included postponing several smaller capital items and implementing a hiring freeze, in order to keep its budget balanced.

The fiscal 2019 budget totals $66.6 million, which represents a 2.8% increase over the fiscal 2018 budget and does not include any use of fund balance toward operations. The town has budgeted for a continued decrease in state aid and includes a 3.85% increase in the mill rate over the previous year, while continuing to fund more than $1.3 million in small capital projects with cash. Officials indicate budget to actuals are on target and they do not expect negative financial operations by fiscal year-end. As a result, due to the town's positive historical performance over the past three fiscal years and management's ability and willingness to make the necessary budgetary adjustments in order to maintain balanced operations, we expect Brookfield's budgetary performance to remain strong.

Strong budgetary flexibility

Brookfield's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 8.1% of operating expenditures, or $5.5 million.

The town has steadily increased reserves over the past three years and expects to have improved them by an additional $1.2 million in fiscal 2018 as a result of positive financial operations. The town estimates its unassigned fund balance totals $6.7 million as of fiscal 2018, which equates to about 10.5% of budget. The fiscal 2019 budget does not include any use of fund balance and management does not anticipate any drawdowns by fiscal year-end. Therefore, we expect the town's budgetary flexibility to remain strong.

Very strong liquidity

In our opinion, Brookfield's liquidity is very strong, with total government available cash at 8.5% of total governmental fund expenditures and 129.6% of governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

The town has issued GO bonds in the past 20 years, supporting its access to external liquidity. We do not expect any deterioration in the town's cash levels, so we believe liquidity will remain very strong. The town confirmed it does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

Very strong debt and contingent liability profile

In our view, Brookfield's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.6% of total governmental fund expenditures, and net direct debt is 68.2% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 71.7% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, the town will have about $51.3 million in total direct debt. Officials plan to issues $2 million-$4 million annually over the next two years for various capital projects, as well as $3.5 million for a public safety project. The town is also in the planning stages of building a new elementary school to replace two existing ones and will seek voter approval in calendar-year 2019. The total cost of the project is estimated at $78 million with the town's portion totaling $63.3 million net of state reimbursement. If approved, the town anticipates issuing $5 million in additional debt over the next two years for the project and will bond out for the remainder in different phases by 2022. While we don't expect Brookfield's debt profile to be materially affected within our outlook period given its current short-term debt plans, we believe the town's debt metrics could potentially weaken as it takes on new debt related to the school project.

Brookfield's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.5% of total governmental fund expenditures in 2017. Of that amount, 1.7% represented required contributions to pension obligations, and 0.8% represented OPEB payments. The town made its full annual required pension contribution in 2017.

Brookfield administers its own defined-benefit pension plan for town employees. The plan maintains a 96.2% funded ratio as of fiscal 2017 and net pension liability of $1.9 million using an assumed rate of return of 6.5%. The town is in the process of implementing a hybrid plan for all employees. New employees hired after July 1, 2017 participate in the plan. The plan would combine its current defined-benefit plan with a defined-contribution plan where employees will be covered under the defined-benefit plan for their first 20 years of employment and then switch to a defined-contribution plan where they contribute a minimum 5% and the town contributes up to 11%. The plan is expected to be mandatory for new employees and will be optional for any employees hired prior to 2017. Although the town will not see a reduction in contributions, according to officials, the goal of the hybrid plan is to reduce the town's liability over the long term and mitigate potential risks while providing the same benefits to employees and retirees.

Brookfield also provides OPEB benefits to eligible retirees, although it eliminated these benefits for all future town and non-certified employees, except for new police hires. As of fiscal 2017, the town had an unfunded liability of $18.8

million. The town maintains an OPEB trust fund with a current balance of $1.2 million as of fiscal 2019. The town contributed $300,146 to the fund in fiscal 2019 and plans to add at least $200,000 annually. As a result, we expect the town's retirement costs to remain manageable.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our opinion of the town's very strong economy supported by its access to the Bridgeport MSA and its positive budgetary performance, which has led to improved reserves over the past three years. The rating is further supported by the town's strong management conditions and very strong debt and contingent liability profile with manageable retirement liabilities. Although we expect management to continue to manage the town's debt burden, should future debt issuance result in materially weaker debt metrics while decreasing reserves as a result of negative financial operations, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments