

RatingsDirect®

Summary:

Brookfield, Connecticut; General Obligation

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Credit Profile		
US\$3.6 mil GO rfdg bonds ser 2020 due 09/01/2030		
Long Term Rating	AAA/Stable	New
Brookfield Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Brookfield, Conn.' series 2020 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

Security and use of proceeds

The town's full-faith-and-credit pledge secures the bonds. Officials plan to use the bond proceeds to refund the town's 2010 bonds outstanding for interest savings.

Credit summary

With access to a broad and diverse metropolitan statistical area (MSA), Brookfield maintains very high per capita household incomes and market values. Management has been very prudent with its budget estimates, and has been proactive with its largest departments, urging collaboration and transparency in the budget-development process. The town will issue additional debt over the next several years to make renovations to one of its schools. Debt ratios are manageable and affordable, in our view, and we do not view pension and other postemployment benefits (OPEB) liabilities as a credit risk. While debt ratios will likely increase over the next few years, Brookfield's tax base is poised for some modest new growth, and management has demonstrated the willingness to make the necessary changes to stay in budgetary alignment, without the need to draw on reserves.

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 "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" criteria, 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 MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the

total governmental fund level in fiscal 2018;

- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 9.3% of operating expenditures;
- Very strong liquidity, with total government available cash at 11.2% of total governmental fund expenditures and 1.9x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 5.8% of expenditures and net direct debt that is 66.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 69.2% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Very strong economy

We consider Brookfield's economy very strong. The town, with an estimated population of 17,488, is in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 166% of the national level and per capita market value of \$185,933. Overall, the town's market value fell 5.5% over the past year to \$3.3 billion in 2020. The county unemployment rate was 4.0% in 2018.

Brookfield is approximately 70 miles north of New York City and borders Candlewood Lake--Connecticut's largest. The town participates in the broad and diverse Bridgeport-Stamford-Norwalk MSA and residents have access to broader employment opportunities in New York City and Westchester County. Although the town is mainly residential, it has a notable commercial presence that makes up about 15% of the total tax base.

The local economy remains very strong, in our view, supported by a stable real estate market and continued commercial and residential developments that should underpin near-term stability. Brookfield has been undertaking revitalization efforts in its Town Center District, with the support of state and federal grants. This has yielded new taxable levy growth, as developers have seen greater interest in investing within the district and in surrounding neighborhoods. The grand list, while exhibiting modest growth over the past few years is likely to remain steady as the risk of a national recession remains low, in our view.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas. Management reviews its policies and practices on a regular basis, and we note certain key policies to credit quality are in various stages of formalization and adoption.

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-actual results to the board monthly, including investment holdings and earnings, as well as school-related budget-to-actual results. Brookfield maintains and updates annually a formal 10-year capital improvement plan that identifies funding sources. It also has a formal investment policy that mirrors state guidelines. Officials do not maintain a formal long-term financial plan, although they are looking to adopt 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. Management is working toward formally adopting a debt and reserve policy in the next two years.

Strong budgetary performance

Brookfield's budgetary performance is strong, in our opinion. The town had surplus operating results in the general fund of 1.8% of expenditures, and slight surplus results across all governmental funds of 0.8% in fiscal 2018. Our calculations include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds.

Notably, the 2018 operating result marks the town's third-consecutive general fund surplus. The town reported a surplus general fund operating result of 1.2% in 2017 and 0.1% in 2016.

According to management, the fiscal 2018 general fund surplus was primarily due to savings in expenditures, including areas such as health insurance, public safety, education, and debt service, while revenues came in slightly above budget. The result is notable due to the uncertainty finance officials faced budgeting state aid in that year. As a result of the state's late budget earlier in fiscal 2018, the town had to adjust for a reduction of approximately \$1.9 million in state funding revenue, which composed about 3% of total revenues. In addition, there was about \$2.8 million in additional one-time expenses Brookfield incurred in May 2018, due to a large storm. According to officials, the town offset the loss of these revenues and covered 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.

For fiscal 2019, the town ended with another general fund surplus of about \$1.4 million, which is in line with those of previous years. Officials again attribute the surplus to savings in expenditures and positive variances in general fund revenues against the budget.

Property taxes account for 87% of general fund revenues, followed by intergovernmental revenue at 11%. The fiscal 2020 budget totals \$70 million, which represents a 2.8% increase from the fiscal 2018 budget, and does not include any use of fund balance toward operations. The town factors into its budget continued uncertainty of state funding and includes a 3.85% increase in the mill rate over the previous year, while continuing to fund more capital investments with cash.

Officials indicate budget-to-actual results 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 2018 of 9.3% of operating expenditures, or \$6.6 million.

The town has steadily increased reserves over the past three years and expects them to improve an additional \$1.4 million in fiscal 2019. The town estimates its unassigned fund balance totals \$7.9 million as of fiscal 2019, which equates to about 10.7% of budget. The fiscal 2020 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 11.2% of total governmental fund expenditures and 1.9x governmental debt service in 2018. 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 strong access to external liquidity. We do not expect any deterioration in the town's cash levels, so we believe liquidity will remain strong. The town does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

Strong debt and contingent liability profile

In our view, Brookfield's debt and contingent liability profile is strong. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 66.5% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 69.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

With this issuance, the town will have about \$51.9 million in total direct debt. This includes approximately \$5.3 million in existing bond anticipation notes. The town is in the preliminary stages of building a new elementary school to replace two existing ones. Management estimates the total cost of the project at \$78 million, with the town's portion totaling \$63.3 million net of state reimbursement. The town anticipates issuing additional debt over the next two years for the project. While we do not expect Brookfield's debt profile will be materially affected within our two-year outlook period, given its current short-term debt plans, we believe the town's debt metrics could weaken as it takes on new debt related to the school project.

Pension and other postemployment benefits

- We do not view pension and other postemployment benefits (OPEB) liabilities as an immediate credit risk for Brookfield.
- The town's pension costs are low as a percent of expenditures and the plans maintain high funded ratios.
- Although OPEB liabilities are paid primarily on a pay-as-you-go basis, the low cost and liability is unlikely to represent a credit risk in the near term, and the town has begun funding an OPEB trust.

Brookfield's combined required pension and actual OPEB contributions totaled 2.3% of total governmental fund expenditures in 2018. Of that amount, 1.6% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The town made its full annual required pension contribution in 2018.

Brookfield administers its own defined-benefit pension plan for town employees. The plan maintains a 99.0% funded ratio as of fiscal 2018 and net pension liability of \$497,000 using an assumed rate of return of 6.5%, which we consider a sustainable rate of return to limit the impact of market volatility on costs. The town is implementing a hybrid plan for all employees. New employees hired after July 1, 2017 would participate in the plan, which combines the town's

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 to which 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 before 2017. Although the town will not see a reduction in contributions, according to officials, the goal of the hybrid plan is to reduce Brookfield'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 2018, the town had an unfunded liability of \$19.3 million, which will decline to \$11.7 million following the town's changes to health insurance coverage. The town maintains an OPEB trust fund with a current balance of \$1.2 million as of fiscal 2019.

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-Stamford-Norwalk 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 Brookfield to continue to manage its 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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments

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