S&P Global
Ratings

RatingsDirect®

Summary:
Brookfield, Connecticut; General Obligation

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

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

Table Of Contents

Summary:

Brookfield, Connecticut; General Obligation

Credit Profile		
US$35.335 mil GO bnds ser 2020 due 08/15/2040		
Long Term Rating	AAA/Stable	New
Brookfield Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

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.

The town's full-faith-and-credit pledge secures the bonds. Officials plan to use the bond proceeds to permanently finance existing short-term debt and provide funding for an elementary school project.

Credit overview

The rating reflects our view of the town's access to a broad and diverse metropolitan statistical area (MSA) and high wealth and income indicators. Management has been very prudent with its budget estimates, leading to consistently positive financial operations and an increase in reserves over the last few years. While debt ratios are expected to weaken as the town issues debt for its elementary school project, we believe its future fixed costs should remain manageable, in large part because of its pension plan being fully funded and other postemployment benefits (OPEB) liability remaining relatively low. Although the full impact of the COVID-19 pandemic remains to be seen, we believe the town's improving reserve position, conservative budgeting practices, low retirement costs, and strong management conditions should provide it with cushion to absorb any unanticipated declines in revenues or unexpected stagnation in its economy as a result of recessionary pressures or events related to COVID-19. Nonetheless, the stable outlook reflects S&P Global Ratings' expectation that Brookfield's management will make the necessary budgetary adjustments in order to maintain balanced operations and stable reserve levels. Further rating stability is provided by the town's very strong liquidity position and manageable retirement costs. Our outlook is generally for two years, but we see some risks because of the COVID-19 pandemic and U.S. recession over the next six to 12 months.

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 long-term rating reflects our opinion of Brookfield'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;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 10.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.2% of total governmental fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 6.6% of expenditures and net direct debt that is 93.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We analyzed the town's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

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

Credit Opinion

Very strong economy

We consider Brookfield's economy very strong. The town, with an estimated population of 17,488, is located in Fairfield County in the Bridgeport-Stamford-Norwalk, CT MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 164% of the national level and per capita market value of $187,757. Overall, the town's market value grew by 1.0% over the past year, to $3.3 billion in 2021. The county unemployment rate was 3.6% in 2019.

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 broader employment opportunities in New York City and Westchester County. Although the town is mainly residential, it does maintain a notable commercial presence that makes up about 15% of the total tax base.

The local economy remains very strong, supported by a stable real estate market and continued commercial and residential developments that should underpin near stability. The town 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. Officials report there are several development projects underway, including a utility expansion project from Iroquois Gas, a new assisted-living facility, and the relocation of the Branson Ultrasonics headquarters to Brookfield, as well new businesses moving into the town. The town also continues to support many of these developments and areas of interest, such as Brookfield Village, through infrastructure upgrades and expansion to help attract further private development. Officials also indicate the town has experienced increases in its local population as more people continue to move away from urban centers like New York City into suburban communities like Brookfield, which is expected to lead to more growth in the town's local economy.

While the town's economy has remained stable over the last few years, we believe the effects of COVID-19 could have a negative effect on the local economy, especially as we forecast a notable decline in regional and national GDP for much of the remainder of the year (for more information, please see "U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect). Although we currently do not expect a major change in the town's overall economy, we believe its local unemployment figures (averaging 3.2% in 2019) could increase significantly if the current economic disruption is prolonged or if the manufacturing and commercial sectors experience further contraction. This could result in a weakening of the town's economic metrics and potentially change our view of its economy.

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, but that governance officials might not formalize 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, to which it currently adheres. The town is working toward formally adopting its debt and reserve policy within the next two years.

Adequate budgetary performance

Brookfield's budgetary performance is adequate, in our opinion. The town had operating surpluses of 1.8% of expenditures in the general fund and of 2.1% across all governmental funds in fiscal 2019. General fund operating results of the town have been stable over the last three years, with a result of 1.8% in 2018 and a result of 1.2% in 2017.

Fiscal 2019 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds.

The town has consistently maintained positive financial performance over the last three years. For fiscal 2020, the town expects to end the year with a $1.5 million general fund surplus. While the town incurred about $130,000 in COVID-19-related expenses, for which it expects to receive federal and state reimbursement, the town also experienced savings in expenditures, which is driving a majority of the estimated surplus. This includes savings in town and school operations because of the pandemic shutdown, lower-than-budgeted snow and ice removal costs, and savings in health care contributions. Town revenues came in on target and the town did not experience any disruptions in tax collections during the year. Property taxes account for 84% of general fund revenue, followed by intergovernmental at 13%, which includes on-behalf state pension contribution payments toward the teachers' pension plan.

The fiscal 2021 budget totals $70.7 million, which represents a less than 1% increase over the previous year and no use of fund balance toward the budget. While the town has raised its mill rate by about 1.7% for fiscal 2021, it also reduced its anticipated tax collection rate, interest income, building permits, and state grants revenue for the year as a conservative measure, given the economic uncertainty related to the pandemic. The town only increased its school department costs by 3.25% over the previous year and has built an additional $500,000 contingency line-item into its budget, on top of its normal contingency of $283,150, in order to help offset any sharp increases in expenses or unexpected losses in revenues. Management indicates the town would also hold off on nonessential capital items and potentially move to online learning for its school departments (which netted savings for the town in fiscal 2020) if economic and financial conditions were to worsen for the town because of the pandemic and recession.

Therefore, while we believe management will continue to make the necessary budgetary adjustments to try to maintain balanced operations, we imagine the unprecedented widespread effects of COVID-19 will have an effect on state revenue and many local economies, including Brookfield, could potentially result in weaker budgetary performance for fiscal 2021 and beyond. If management were to maintain balanced financial results during the next two fiscal years, or until the threat of stagnating or decreasing revenue as a result of negative economic shocks has subsided, we could revise our view of budgetary performance to strong.

Strong budgetary flexibility

Brookfield's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2019 of 10.7% of operating expenditures, or $8.0 million.

The town has steadily increased reserves over the past three years and expects to have improved them by an additional $1.5 million by year-end fiscal 2020.The fiscal 2021 budget does not include any use of fund balance, and management currently does not expect to use reserves 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 19.2% of total governmental fund expenditures and 2.9x governmental debt service in 2019. 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 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.

Strong debt and contingent liability profile

In our view, Brookfield's debt and contingent liability profile is strong. Total governmental fund debt service is 6.6% of total governmental fund expenditures and net direct debt is 93.7% of total governmental fund revenue. Overall net debt is low, at 2.3% of market value, which is in our view a positive credit factor.

With this issuance, the town will have about $77.8 million in total direct debt. The town currently plans to issue approximately $33 million for its new elementary school project. The total cost of the project is estimated at $78 million, with the town's portion totaling $63.3 million net of state reimbursement. The town anticipates new property tax revenue from three large development projects, which is expected to net an additional $2.3 million by fiscal 2025 and will help offset the increases in future debt service related to the school project. We understand the town does not have any additional debt plans or other major projects on the horizon once the school is completed. Nonetheless, we expect its debt metrics to weaken as it takes on new debt related to the school project.

Pension and other postemployment benefits

- We do not view pension and 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, which is 9.40% funded as of fiscal 2019.

Brookfield's combined required pension and actual OPEB contributions totaled 2.5% of total governmental fund expenditures in 2019. 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 2019.

Brookfield administers its own defined-benefit pension plan for town employees. The plan maintains a 103.7% funded ratio as of fiscal 2019 and net pension asset of $2 million, 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 has implemented a hybrid plan for all employees. New employees hired after July 1, 2017, 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, 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. As of fiscal 2019, the town had an unfunded liability of $11.7 million. The town maintains an

OPEB trust fund with a current balance of $1.2 million as of fiscal 2019. Overall, given the town's fully funded pension plan and manageable OPEB liabilities, we expect costs to remain low.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020