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CREDIT OPINION
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New Canaan (Town of) CT

Updated to credit analysis

Summary

New Canaan, CT (Aaa stable) benefits from a large tax base and very strong wealth and income profile. The town's reserve and cash position is stable, although below national medians, supported by conservative budget management and formally adopted policies. The town's long-term liabilities are low and will remain so given moderate capital needs and strong pension funding.

Credit strengths

» Large tax base with very strong resident wealth and incomes

» Trend of stable financial position supported by formally adopted policies and conservative budgeting

» Manageable long-term liabilities and fixed costs

Credit challenges

» Tax base has contracted slightly over last several years and remains smaller than pre-recession peak

Rating outlook

The stable outlook reflects the expectation that the town's financial position will remain healthy due to strong management, stable revenues supported by annual tax rate increases and low fixed costs.

Factors that could lead to an upgrade

» N/A

Factors that could lead to a downgrade

» Significant tax base deterioration and weakening of wealth and income profile

» Sustained trend of structural imbalance

» Increased long-term liabilities

Key indicators

Exhibit 1

New Canaan (Town of) CT	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$11,483,498	$12,377,455	$12,102,749	$11,927,335	$11,464,169
Population	20,219	20,248	20,357	20,376	20,357
Full Value Per Capita	$567,956	$611,293	$594,525	$585,362	$563,156
Median Family Income (% of US Median)	321.3%	355.5%	299.0%	299.0%	299.0%
Finances					
Operating Revenue ($000)	$147,745	$150,812	$158,695	$165,314	$175,154
Fund Balance ($000)	$30,177	$28,224	$28,940	$31,156	$33,366
Cash Balance ($000)	$35,991	$34,178	$25,005	$34,202	$36,028
Fund Balance as a % of Revenues	20.4%	18.7%	18.2%	18.8%	19.0%
Cash Balance as a % of Revenues	24.4%	22.7%	15.8%	20.7%	20.6%
Debt/Pensions					
Net Direct Debt ($000)	$125,171	$121,717	$118,027	$124,454	$114,545
3-Year Average of Moody's ANPL ($000)	N/A	$32,610	$38,437	$42,360	$42,696
Net Direct Debt / Full Value (%)	1.1%	1.0%	1.0%	1.0%	1.0%
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.7x	0.8x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.3%	0.3%	0.4%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.2x	0.2x	0.3x	0.2x

Source: Moody's Investors Service; town CAFRs

Profile

New Canaan is located in Fairfield County approximately 45 miles northeast of New York City (Aa1 stable). The town is primarily residential and had approximately 20,357 residents as of 2017.

Detailed credit considerations

Economy and tax base: large, albeit somewhat stagnant, tax base with very strong income and wealth metrics

Despite weak taxable and equalized grand list trends in recent years, high-end housing stock, favorable southwestern Connecticut (A1 stable) location, and ongoing development will support New Canaan's tax base over the long term. The town's large $11.5 billion Equalized Net Grand List (ENGL), which exceeds state and national Aaa medians, has remained largely flat over the past five years, growing at an average rate of 0.1% annually, while taxable grand list decreased by 7.7% in assessment year 2018 (fiscal 2020) largely due to softening of the local high-end housing market.

Nonetheless, New Canaan's tax base will remain strong over the long term. The town is located 45 miles northeast of Manhattan and the town's housing stock is extremely valuable, with a median home value of $1.4 million which is 5.33 times the state median and 7.44 times the nation's. Management reports approximately $140 million of in-progress development that will add to the town's taxable rolls in the coming years.

Resident wealth and housing values far exceed state and national levels, as reflected the $563,156 equalized net grand list per capita, one of the highest in the state. Median family income is similarly strong at 226% of the statewide median and 299% of the national median.

Financial operations and reserves: sound financial positions supported by stable revenues and conservative management

New Canaan's financial position will remain healthy given the town's long-term trend of effectively matching recurring revenues with recurring expenditures. The town's fiscal 2019 budget included a 1.7% mill rate increase and a $2.5 million fund balance appropriation. The town finished the year with a $1.8 million operating surplus, bringing available fund balance to $33.4 million, representing 19% of revenues. Positive operating results were driven by property taxes and investment income over budget and expenditure savings.

Reserve levels are above the median for similarly-rated statewide peers, but fall below national medians. However, the town's budget is more than triple that of the Aaa national median.

The fiscal 2020 budget reduces spending by 0.43% relative to the 2019 budget, includes a 1.28 mill rate increase, and a $3 million fund balance appropriation (consistent with prior budgets). Despite recent tax rate increases, the town's equalized mill rate of 12.3 mills is very low compared to statewide peers.

New Canaan receives the majority of its revenues from property taxes (80.8% of 2019 revenues). The primary expenditure is education at 65.7% of fiscal 2019 general fund expenditures.

LIQUIDITY

The town's net cash position at the close of fiscal 2019 was $36 million representing a healthy 20.6% of general fund revenues.

Debt and pensions: manageable fixed costs and long-term liabilities

New Canaan's direct debt position of 1% of ENGL (including its Series 2020 bond issuance) will remain manageable despite future borrowing needs. The town's direct debt accounts for a modest 0.7 times general fund revenues and is in line with the state median for Aaa rated towns. The town maintains a five year capital improvement plan, which currently contains $77.7 million in projects, approximately $67 million of which will be funded with bonds.

DEBT STRUCTURE

All of the town's debt is fixed rate. Annual debt service payments remain affordable, representing 10.4% of fiscal 2019 expenditures. Payout is average with 81.2% of principal repaid in 10 years.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

New Canaan's long-term liabilities are moderate and do not represent a material pressure to the town's credit profile. The town maintains a single-employer defined benefit retirement plan for its employees and participates in the state-administered Teachers' Retirement System (TRS) cost-sharing plan. Moody's adjusted net pension liability (ANPL) for the single employer plan, based on a 3.5% discount rate, is $49.8 million, representing a low 0.3 times operating revenue or 0.4% of full value. By comparison, the GASB reported net liability, based on a 6.75% discount rate, is negative $9.8 million as the plan is 107% funded, a notable credit strength.

While the town annually funds 100% of the actuarial determined contribution (ADC), this amount falls short of our "tread water" indicator[1]. In fiscal 2019, the actual contribution of $1.3 million represented 76% of the tread water. Given that the plan is over funded, however, annual contributions below the tread water are less material to the long-term health of the plan. Town officials intend to maintain a strong funded ratio and fund 100% of the ADC.

Currently, the State of Connecticut makes employer contributions on-behalf of the town and assumes the TRS liability in full. In 2019, the state contributed $15 million in on-behalf payments to fund New Canaan's proportionate share of the TRS liability.

The town maintains a trust for retiree health care (OPEB) expenses. On a reported basis the town's OPEB liability is 62.7% funded. The town is budgeting to make 100% of the plan's actuarially required contribution in fiscal 2020.

Fiscal 2019 fixed costs, comprised of pensions, OPEB and debt service, represented a manageable 13.3% of operating revenues. Failure to earn the 6.5% assumed rate of return on its pension assets and/or escalation of OPEB expense as the number of retirees increases and they age could result in higher future fixed costs. Based on their size relative to the tax base and budget, however, with ANPL and adjusted OPEB liability combined representing a manageable 1.6% of full value and 1.0 times operating revenues, these liabilities are unlikely to represent significant future challenges.

Management and governance

The town's conservative budgeting is reflected in its multi-year trend of stable operating performance. The town maintains a policy that unassigned fund balance must be a minimum of 10% of expenditures. The town's long-term liability funding is strong and management adheres to multiple formally adopted debt issuance guidelines.

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. Cities and towns additionally benefit from high revenue-raising ability due to the absence of a state-wide property tax cap. Expenditures primarily consist of personnel costs as well as education costs for those cities and towns 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.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

New Canaan (Town of) CT

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$11,464,169	Aa
Full Value Per Capita	$563,156	Aaa
Median Family Income (% of US Median)	299.0%	Aaa
Notching Factors:[2]		
Other Analyst Adjustment to Economy/Taxbase Factor: Extraordinarily strong wealth and income metrics		Up
Finances (30%)		
Fund Balance as a % of Revenues	19.0%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	1.4%	A
Cash Balance as a % of Revenues	20.6%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	0.1%	A
Notching Factors:[2]		
Other Analyst Adjustment to Finances Factor: Stable operating performance		Up
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Notching Factors:[2]		
Unusually Strong or Weak Budgetary Management and Planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.0%	Aa
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.4%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.2x	Aaa
Notching Factors:[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Contingent risk associated with state pension support		Down
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census Bureau, Moody's Investors Service

Endnotes

1 Our "tread water" indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to the tread water indicator will end the year with an unchanged net pension liability relative to the beginning of the year if all plan assumptions hold. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return. Still, higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly than lower contributions.

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