Waterbury, CT

General Obligation Bonds, Issue of 2017, Series A

General Obligation Refunding Bonds, Issue of 2017, Series B

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Executive Summary

Kroll Bond Rating Agency (KBRA) has assigned a AA- rating and Stable Outlook on the City of Waterbury (the City), Connecticut's General Obligation Bonds, Issue of 2017, Series A and General Obligation Refunding Bonds, Issue of 2017, Series B.

KRBA has also affirmed the AA- rating and Stable Outlook on the City of Waterbury, Connecticut's remaining outstanding general obligation bonds.

Ratings			
Issuer: City of Waterbury, CT			
Series/Bond	**Rating**	**Outlook**	**Action**
General Obligation Bonds, Issue of 2017, Series A	AA-	Stable	Assigned
General Obligation Refunding Bonds, Issue of 2017, Series B	AA-	Stable	Assigned
General Obligation Bonds	AA-	Stable	Affirmed

This rating assignment is based on KBRA's **U.S. Local General Obligation Rating Methodology**. KBRA's rating evaluation of the long-term credit quality of local government general obligation bonds focuses on four key rating determinants:

- Governance, Management Structure and Policies,
- Municipal Resource Base,
- Debt and Additional Continuing Obligations, and
- Financial Performance and Liquidity Position.

In the rating process, KBRA reviewed multiple sources of information and spoke with City management. Further information may be found in the **City of Waterbury, CT General Obligation Bonds,** the annual surveillance review of the City, published on November 3, 2017.

Security

The Bonds are general obligations of the City and are secured by its full faith and credit pledge. Under state statute, the City has the power to levy ad valorem property taxes on all taxable property in the City, without limitation as to rate or amount, to pay debt service on the Bonds.

Key Rating Strengths
• Consistent trend of positive operations resulting from strong financial management policies and procedures.
• Strong management team as evidenced by conservative budgeting/fiscal management practices and successful efforts to change employee benefits structure.
• Flexibility and willingness to raise property tax revenues, coupled with high tax collection rates.
• Absence of taxbase concentration, and role as a regional medical center.
• Requirement to fully fund actuarially determined pension contribution, as per statutes authorizing the 2009 pension obligation bonds.

Key Rating Concerns
• Relatively high unemployment rates and poverty rates, and low income per capita.
• Limit on General Fund reserves through 2022 constrains City's financial flexibility.

Use of Proceeds

The Series A proceeds of will primarily fund two large projects: a new centralized department of public works facility ($16 million) and comprehensive energy saving improvements ($15 million). The energy saving measures are expected to yield savings sufficient to offset related debt service costs. The Series B bond proceeds will be used to refund a portion of outstanding debt, with favorable estimated net present value savings (5.9% of refunded debt). The refunding structure does not extend debt maturity.

Rating Summary

KBRA views the City's governance and management structure as strong based on its comprehensive budget process, monthly budget-to-actual financial reports, weekly monitoring of City-wide operations, defined reserve policies, multi-year capital planning, and required annual funding of the actuarially determined pension contribution amount. The City continues to successfully pursue economic development efforts with public and private entities. The City's municipal services include public safety, solid waste, education, public health, public works, recreation, and water and wastewater systems.

The City is located at the intersection of two major expressways, Interstate 84 and Route 8, providing access to other metropolitan areas of the state and region. The City is also the terminus of Metro-North's Waterbury line branch. The City of Waterbury, with a 2016 population of 108,269, is located in the west central part of the state of Connecticut, approximately 21 miles north of New Haven and 29 miles southwest of Hartford. The current administration has placed a priority on economic development, and collaborates with private businesses, the state, and other public entities such as UCONN-Waterbury to attract new businesses and additional capital investment, especially to the downtown district. Economic recovery from the recession has benefited from the City's transportation assets, as rail improvements and the interstate widening project promote economic vitality.

As is typical of many older, industrial centers, the municipal resource base has relatively low income levels, as well as above average poverty and unemployment rates. All of these economic indices have moved in tandem with statewide trends, indicating relative stability in the City's economic base. So while the City is home to a more disadvantaged population relative to the statewide population, the City's demographic profile is not weakening. The current administration has invested heavily in promoting economic development, which has helped the City keep pace with statewide trends through additions of new employers, new jobs, and resultant unemployment rates that have fallen by half.

Waterbury's full market value per capita is currently approximately $55,000, which KBRA views as moderate. The taxbase is diverse with the top ten taxpayers represented by a mix of retail, utility, hospital and higher education concerns. The City expects growth in real estate and commercial activity in the coming years while it also continues to invest in capital development. The widening and ramp reconfigurations of Interstate I-84 at Waterbury has helped spur development. A $12.2 million state investment package, known as "Waterbury Next," is funding a variety of transportation, redevelopment, and new construction projects in downtown Waterbury to stimulate economic activity. The City also invests in an active blight remediation program to maintain neighborhood stability, and invests in brownfield remediation to facilitate reuse of existing industrial sites.

KBRA views the City's financial performance as strong reflecting a trend of generating healthy operating surpluses each year and stable General Fund balances. These financial results reflect the City's conservative budgeting and fiscal monitoring practices as well as the City's willingness to make budget adjustments to maintain structural balance. In recent fiscal years, the City has proactively responded to revenue shortfalls by instituting cost containment efforts which have effectively maintained fiscal balance and stability. Based on the unaudited financial status report for FY 2017, General Fund operations resulted in a $6.8 million operating surplus, without the use of any appropriated funds. Such strong results are notable, and highlight the City's ability to manage amidst a period of state budgetary uncertainty.

KBRA views Waterbury's debt burden as moderate, both on a per capita basis and as a percentage of full market property valuation. The City's overall debt per capita is $4,207 which KBRA views as moderate. Waterbury's overall debt represents 7.7% of the City's full market value which KBRA also views as moderate.

KBRA believes that the City's pension-related obligations will remain high, but controlled given significant pension and benefit reform efforts over the last several years. The City's FY 2016 contribution to the Waterbury Employee Retirement System (WERS), a single-employer defined benefit retirement system, increased by 2% to $17.0 million. The pension contribution represents 3.1% of FY 2016 total governmental expenditures. As of July 1, 2016, the City's net pension liability was $193 million and the WERS was 69% funded.

The City provides health benefits to both its active employees and retired employees (OPEB); newer employees will be required to purchase retirement health insurance. The City funds its OPEB obligations on a pay-as-you-go ("pay-go") basis. As of July 1, 2016, due to the City's Medicare Initiative project, Waterbury's unfunded OPEB liability declined to $894 million, down from the July 1, 2014 liability of $988 million. The City's FY 2016 OPEB contribution was $44.7 million, or 8.2% of total governmental expenditures. The City has successfully negotiated contractual provisions with its labor unions to contain the trajectory of the OPEB liability.

Total fixed costs, including direct debt service, pension contribution and pay-go OPEB cost, increased minimally to $108. 9 million in FY 2016, and was 19.8% of total governmental expenditures. It is expected that with the fixed costs percentage will decline for FY 2017 due to the reduced health costs.

Based on a review of the four Rating Determinants included in the KBRA Methodology for Rating U.S. Local Government General Obligation Bonds, KBRA has assigned a rating to each Rating Determinant, as follows:

- Governance and Management Structure and Policies: AA
- Municipal Resource Base: A
- Debt and Additional Continuing Obligations: A+
- Financial Performance and Liquidity: AA

Outlook: Stable

The stable outlook reflects KBRA's expectation that the City will continue to adhere to its strong financial management policies and procedures. It also reflects the expectation that the City will continue to manage its financial operations to maintain balanced operations and strong reserves, though challenges exist. KBRA will continue to monitor the City's adherence to its financial management policies as well as its financial position.

In KBRA's view, the following factors may contribute to a rating upgrade:

- Ability to maintain tax base and fiscal stability through a full-economic cycle.
- Increase in the level of other operating reserves not subject to the 5.0% cap.
- A significant decline in the unemployment rate for the City coupled with an increase in the per capita income level.
- Consistently healthy AV growth, particularly any attributable to redevelopment efforts.

In KBRA's view, the following factors may contribute to a downgrade of the rating:

- Failure to comply with the City's financial management policies and procedures.
- Failure of the City to fully fund its pension at the actuarially determined level.
- Deterioration in the liquidity position of the City.
- Decline in available fund balance reserve levels in the General Fund.

Key Rating Determinants

Rating Determinant 1: Governance and Management Structure and Policies

KBRA views the City's governance and management structure as strong based on its comprehensive budget process, monthly budget-to-actual financial reports, weekly monitoring of City-wide operations, defined reserve policies, multi-year financial planning, and required annual funding of the actuarially determined pension contribution amount. The City continues to successfully pursue economic development efforts with public and private entities. The City's municipal services include public safety, solid waste, education, public health, public works, recreation, and water and wastewater systems.

City Organization

The City is governed by a mayor and a Board of Alderman (Board) comprised of 15 members elected for two-year terms. A 2014 City Charter amendment changed the term of the mayor to four years, and in November 2015 Mayor Neil O'Leary was re-elected for a four-year term. The Charter was also changed to elect Alderman by district, rather than by voters at-large, so as to improve neighborhood representation. The 10-member Board of Education is also elected. The City Charter establishes a Finance and Audit Review Committee which oversees the financial reporting and operations of the City and the school board. School operations are funded through the General Fund of the City and the City oversees the budget, manages the capital program, and issues debt for school purposes.

Financial Management Policies and Procedures

KBRA believes the City has strong fiscal management and control supported by formal financial policies and practices. The City's fund balance policy requires maintenance of an available General Fund balance in the range of 5.0% to 8.0% of budget. Currently, IRS regulations (related to the special capital reserve fund bonds) prohibit an undesignated fund balance in excess of approximately 5.0% of budgeted expenditures. The restriction lifts when the bonds are redeemed or mature in 2022. Pursuant to its reserve fund policy, the City designates a contingency reserve of up to 1.0% of budgeted expenditures (outside the 5.0% cap) in its budget for subsequent years' expenditures, providing some budgetary operating flexibility.

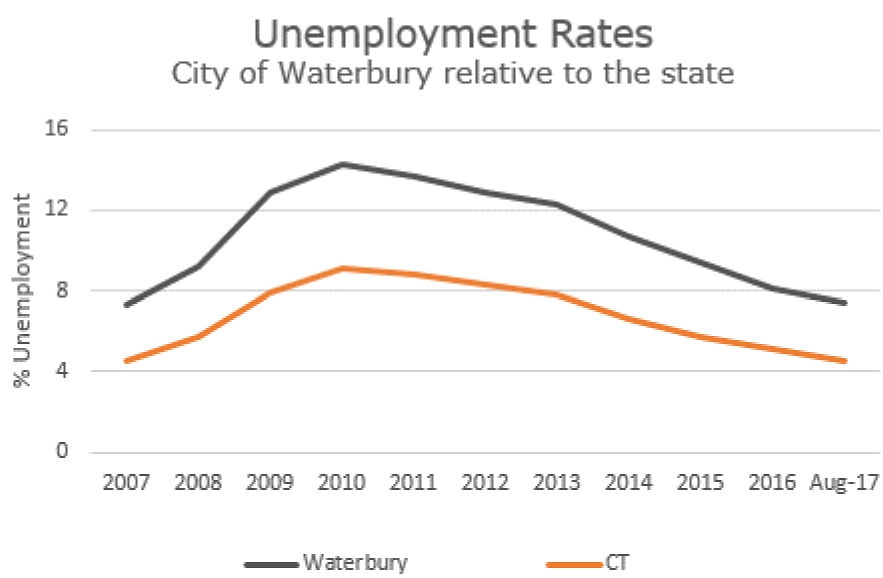
Consistent with its conservative fiscal practices, the City continues to budget collections at 96% of the property tax levy, even though actual current year collection rates are 97%. The City's strong tax collection rate has been supported by expanded efforts to improve delinquent tax collections.

Established in 2012, the City's Cost Containment & Oversight Committee (CCOC) includes the Budget Director, a Policy and Management Budget specialist, and other members appointed by the Mayor. The CCOC generally meets weekly with department heads to monitor and discuss budget to actual performance throughout the year. KBRA believes that the CCOC is a key contributor to the City's ability to achieve annual operating surpluses by containing expenditures and managing police and fire department overtime budget overages.

Based on the foregoing, KBRA views the City of Waterbury's governance and management structure and policies as consistent with a AA Rating Determinant rating. This rating level reflects the City's adherence to formal fiscal policies, conservative financial planning, integrated weekly monitoring of operations, maintenance of reserve levels, and existence of a formal CIP along with demonstrated success of economic development plans. It also reflects the governance impact of recent changes made to the City charter, which KBRA views positively.

Rating Determinant 2: Municipal Resource Base

Located at the intersection of two major expressways and at the terminus of a Metro-North rail branch, the City was an early leader in industrial manufacturing. As typical of many older City centers, the municipal resource base has relatively low income levels, high poverty and above average unemployment rates. All of these economic indices have moved in tandem with statewide trends, indicating a relative stability in the City's economic base. So while the City is home to a more disadvantaged population, the demographic profile has emerged from the recession in step with the state. The current administration has invested heavily in promoting economic development, which has helped the City keep pace with statewide trends through additions of new employers and new jobs. KBRA positively notes that the unemployment rate has fallen by half.



Source: Bureau of Labor Statistics

Brownfield redevelopment is considered an integral component of realizing development potential, and the City is active in remediation efforts. Blight remediation and tax auctions of delinquent properties are pursued by the City to promote stability and expansion. A $330 million ongoing state improvement project to Interstate-84 is improving traffic capacity and flow to the City, thereby expanding the customer base for the City's retail, food, and entertainment establishments. The project began in 2015 and completion is scheduled for Fall 2019. It is anticipated that the alleviation of the bottleneck at the expressway interchange, will foster continued development and diversification in the City's economic base. The City's East End is a beneficiary of the first phase of the project, and the area has seen a new retail plaza, Restaurant Depot and a new medical building, in addition to Kohl's and Costco. Car-Max, the pre-owned retail car giant recently announced the opening of a new location visible from I-84.

	City of Waterbury		Connecticut			United States		
	2016	Chg from 2010	2016	Chg from 2010	City of Waterbury as % of Connecticut	2016	Chg from 2010	City of Waterbury as % of United States
Population	108,269	-2.0%	3,576,452	0.0%		323,127,515	4.7%	
Age Dependency Ratio[1 2]	58.5%	-0.8	59.1%	0.4	**99.0%**	61.3%	2.4	**95.4%**
Population with B.A. Degree or higl	16.3%	-1.6	38.6%	3.1	**42.2%**	31.2%	3.0	**52.2%**
Poverty Level[2]	21.9%	0.9	9.8%	-0.3	**223.5%**	14.0%	-1.3	**156.4%**
Income per capita	$21,504	2.0%	$41,087	17.1%	**52.3%**	$31,128	19.5%	**69.1%**

Source: U.S. Census Bureau and U.S Bureau of Economic Analysis.

[1] Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs.

[2] Year over year change shown as nominal change in percentage points.

Tax Base and Demographics

The City's five-year revaluation is currently underway and officials are not anticipating much movement in property values. Additions to the base are recognized each year, and the City has had very modest annual growth. The 2012 revaluation resulted in a 24.3% assessed value decline, although the mill rate was adjusted to allow for levy growth. The City's full market value was approximately $5.9 billion in FY 2016. The full market value per capita is approximately $55,000, which KBRA views in the medium range. Property is assessed at 70.0% of estimated full market value. The City's top 10 taxpayers represented 11% of assessed value in FY 2016, which KBRA views as diverse. The most recent taxbase reporting combines Yankee Gas operations (previously reported as two entities), increasing the top ten percentage to 12.6%. The City's FY 2016 property tax collection rate is high, with a current tax collection rate of 97%.

The City of Waterbury's population has remained relatively stable, declining by 2% since calendar year 2010. The population's educational attainment is well below the state and nation, with only 16.3% of City residents having a BA degree or higher.

City of Waterbury's 10 Largest Taxpayers[1]			
Company	**Business**	**Taxable Valuation ($'000)**	**% of Assessed Value**
Yankee Gas Services Company	Utility	$159,390	3.8%
Conn. Light & Power	Utility	102,854	2.5%
Brass Mill Center, LLC	Retail	67,860	1.6%
Prospect Waterbury, Inc	Hospital	58,761	1.4%
Waterbury Generation LLC	Power Generation	46,804	1.1%
BRE DDR BR Naugatuck CT LLC	Retail	29,771	0.7%
Brass Mill Commons	Retail	17,150	0.4%
Post University Inc	Higher Education	14,388	0.3%
Brixmore GA Waterbury LLC	Retail	13,327	0.3%
Waterbury MZL, LLC	Retail	13,242	0.3%
Total		**$523,546**	**12.6%**

[1] *Source: Preliminary Official Statement, values as of October 1, 2016*

Economic Development Activities

The City of Waterbury's current administration has placed a priority on economic development. The City continues to work with private businesses, the state, and other public entities such as UCONN-Waterbury to bring new businesses and additional capital investment to the City, especially to the downtown district.

"Waterbury Next," a $12 million state award, is funding a variety of transportation, redevelopment, and new construction projects to stimulate downtown economic activity. The City is redeveloping under-utilized downtown buildings into residential, retail, and business facilities. Projects include the repurposing of private housing into student housing facilities for University of Connecticut students, improvements to the City's Metro-North rail line station, and the development of new downtown residential housing. The majority of the City's redevelopment efforts are funded through state and federal grants.

In early 2016, the University of Connecticut (UConn) opened a new expansion facility; the City is home to three institutions of higher education. UConn's Waterbury campus currently offers a variety of undergraduate and graduate programs, including nursing and education, as well as a Master of Business Administration degree.

Employment

The City's unemployment rate has declined but remains above that for the state and nation. As of July 2017, Waterbury's unemployment rate was 7.7% compared to 5.0% and 4.3% for the state and nation, respectively.

Residents of Waterbury have access to employment markets in a number of metropolitan areas including Fairfield County, New Haven, and Hartford. Top employers within City limits include the City itself, and two large hospitals, Saint Mary's Hospital and Waterbury Hospital. The City serves as a regional center for a wide range of medical services. In 2016, Saint Mary's Hospital and Waterbury Hospital were both acquired by national health care companies, Trinity Health and Prospect Medical Holdings, respectively. The acquisitions came with substantial capital investment commitments. Waterbury Hospital has a three-year tax stabilization agreement with the City.

Based on the foregoing, KBRA has assigned an A Rating Determinant rating for the City's municipal resource base, recognizing the City's stable profile relative to broader economic trends, role as a regional center and the diversified taxbase.

Rating Determinant 3: Debt and Additional Continuing Obligations

KBRA views Waterbury's debt burden as moderate, both on a per capita basis and as a percentage of full market property valuation. The City's overall debt per capita is $4,207 which KBRA views as moderate. Waterbury's overall debt represents 7.7% of the City's full market value which KBRA also views as moderate.

Overall Direct and Overlapping Debt

Waterbury's direct debt includes general obligation debt issued for all purposes, including education and pension obligation bonds. As of June 30, 2016, total debt outstanding was $450 million, of which 59% (or $263.9 million) is for the 2009 pension deficit bonds. There is no overlapping debt. The City has no variable debt and no exposure to derivative products such as swaps.

KBRA views the City's direct debt amortization as average, with 50.6% of debt retired within 10 years and 91% within 20 years. KBRA views the level of direct debt service paid as a percentage of total governmental expenditures in FY 2016 to be moderate at 8.6%.

Debt Ratios
As of November 28, 2017 (pro forma)

KBRA Metric	Ratio
Overall direct and indirect debt per capita	$4,207
Overall debt as % of 2016 full market value of property	7.7%
Debt amortization within 10 years	50.6%
Debt amortization within 20 years	91.0%
Direct debt service as a % of total governmental expenditures, FY 2016	8.6%

Source: FY2016 City of Warebury CAFR; November 8, 2017 POS

Capital Improvement Plan (FY 2018-2022)

The City of Waterbury maintains a formal five-year capital improvement plan (CIP). The FY2018-2022 CIP totals $162.6 million, including $72.6 million budgeted for FY 2018. The FY 2018 budgeted financing sources are bonds ($12.3 million) and grants and loans ($60.2 million).

Employee Retirement Fund

The City's pension plan has a $193 million unfunded accrued pension liability (assumes an 8.0% discount rate), and per the July 1, 2016 actuarial report was 69% funded. Given the history of significant pension and benefit reform efforts, KBRA believes pension obligations will remain under control. State statutes, under which the 2009 pension obligation bonds were issued, require the City to fully fund annual contributions. The employee contribution rate is relatively high with most employees paying either 7.5% or 9.5% of salary.

The City of Waterbury Employee Retirement System (WERS) is a single-employer defined benefit retirement system administered by the City, and provides pension benefits for non-teacher employees. WERS is managed by the Waterbury Retirement Board, which consists of seven members appointed by the Mayor whose powers and duties are codified in City ordinances.

The City's $17 million FY 2016 WERS contribution is 3.1% of total governmental expenditures.

The City is not responsible for contributions to the teachers' pension plan, as the State of Connecticut contributes 100% of each school districts' required contribution. The state's 2018 budget (approved by the legislature) includes an employee (teacher) pension contribution rate increase to 7% from 6% of salary.

OPEB Liabilities

As of July 1, 2016, the City's unfunded OPEB liability is $894 million, a reduction from the prior valuation. In an effort to control costs, Waterbury now requires all Medicare eligible employees and retirees to switch to Medicare coverage. This change reduced the OPEB liability by $240 million effective with the July 1, 2016 actuarial report. The latest actuarial report, dated July 1, 2016, includes several assumption changes which, absent the shift to Medicare, would have increased the total OPEB liability. Notably, the assumed discount rate was lowered to 4% from 4.5%.

Medicare eligible retirees are now required to enroll in Medicare Parts A&B; the City pays Medicare Part B premium and provides supplemental coverage. Post-employment health benefits are specified in each bargaining group's labor contract, and newer employees must pay in full for retirement healthcare coverage. The cost of both supplemental coverage and interim coverage until Medicare eligible, is specified in labor contracts. New hires will pay 102% of COBRA in retirement. While benefits are subject to negotiation, City officials believe given the attention to the affordability of OPEB, the contractual provisions regarding OPEB are unlikely to change.

The City self-insures health benefits, and provides detailed audited and budget reporting of plan components. Kroll views the transparency of the City's health insurance reporting as a credit positive. The fiscal 2016 health benefit expense totals $107 million, with 42% ($45 million) of the costs for pay-go OPEB. Unaudited results for FY 2017 indicate an almost $11 million decline in OPEB pay-go costs.

In FY 2016, total fixed costs, including direct debt service, pension contribution and pay-go OPEB expenses, increased minimally to $108.9 million, and represented 19.8% of total governmental expenditures. The fixed costs percentage will decline in 2017 due to the reduced OPEB pay-go costs.

Based on the foregoing, KBRA considers Waterbury's debt and continuing obligations profile as being consistent with an A+ Rating Determinant rating. This rating level reflects the City's moderate debt burden relative to its full value and on a per capita basis. While the City has achieved notable success in reducing its OPEB liability, both OPEB and pension are sizable future obligations.

Rating Determinant 4: Financial Performance and Liquidity

KBRA views the City's financial performance as strong reflecting a trend of generating healthy operating surpluses each year and healthy General Fund balance levels. These financial results reflect the City's conservative budgeting and fiscal monitoring practices as well as the City's willingness to make budget adjustments to maintain structural balance. In recent fiscal years, the City has proactively responded to revenue shortfalls by instituting cost containment efforts which have effectively maintained fiscal balance and stability.

The General Fund is the City's primary operating fund and the focus of KBRA's financial performance analysis. The City's fiscal year ends June 30. The City budgets and operates on a budgetary basis which is very close to the modified accrual basis of Generally Accepted Accounting Principles (GAAP) for state and local governments.

Diversity of Revenues

In FY 2016, property taxes accounted for 57.4% of General Fund revenues while intergovernmental revenues, largely state education funding, accounted for 37.9%. The remaining 4.6% of revenues comes from a combination of investment income and charges for services and reimbursements. The percentage of revenues represented by these sources has remained generally stable over the last five years.

FY 2016 Financial Results

Fiscal 2016 closed with a stable General Fund position, and maintenance of healthy reserves. Actual results reflected favorable variances on both revenues and expenditures, enabling the City to avoid use of the $3 million of assigned fund balance that was budgeted as revenue. Property tax revenues were the largest contributor to favorable budgetary performance, with collections exceeding budget by more than $3.3 million due to conservative budgeting. On the expenditure side, cost savings were largest in education and public works.

General Fund revenue growth was minimal, less than 1%, but expenditure growth was even smaller reflecting strong budgetary control.

General Fund FY 2012-FY 2016

Revenues, Expenditures and Changes in Fund Balance (Modified Accrual Basis)

($'000)	2016	2015	2014	2013	2012
General Fund Revenue	$417,071	$413,440	$410,162	$403,119	$399,066
percent change	0.9%	0.8%	1.7%	1.0%	
General Fund Expenditures	$367,670	$363,755	$361,140	$354,378	$352,294
percent change	1.1%	0.7%	1.9%	0.6%	
Surplus (Deficit) from Operations	49,401	49,685	49,022	48,741	46,772
Total Other Financing Sources (Uses)	($49,375)	($49,512)	($48,982)	($48,720)	($46,757)
Net Change in Fund Balance	26	173	40	21	15
Total Fund Balance	$22,661	$22,635	$22,462	$22,422	$22,401
Assigned Fund Balance	$3,000	$3,000	$3,000	$3,000	$3,000
Unassigned Fund Balance	$19,661	$19,635	$19,462	$19,422	$19,383
Unassigned Fund Balance as a % of General Fund Expenditures	**5.3%**	**5.4%**	**5.4%**	**5.5%**	**5.5%**

Source: City of Waterbury Audited Financial Statements FY 2011 - FY 2016

Unassigned General Fund balance levels have been consistent over the last several years, as reflected in the table above. In FY 2016, unassigned General Fund balance was maintained at $19.7 million, or 5.3% of FY 2016 General Fund expenditures.

Estimated FY 2017 Results

Preliminary General Fund results indicate a sizable $6.8 million General Fund operating surplus, before transfers to comply with IRS provisions limiting undesignated balances. Concerns regarding the state budget led the Mayor to prudently institute a hiring and spending freeze in November 2016. In addition to savings from managing vacancies, savings were achieved in employee benefits, fuel, utility and waste disposal. State aid receipts essentially met budgeted amounts, and property tax receipts were $3.8 million over budgeted amount. The real property tax mil rate was 60.21, an increase of 1.99 mills compared to the prior year.

State law capped the fiscal 2017 motor vehicle mill rate at 37 mills, a decrease of 21.22 mills compared to the prior year. To compensate for the lost revenue from the cap, the City received a $13.4 million state revenue sharing grant. In total, the City received $147.3 million in state aid, representing approximately 36% of General Fund revenues. The majority of state aid ($117 million) is related to education.

In addition to controlling vacancies, the City has also successfully managed overtime costs (OT) for the police and fire departments. In conversation with City officials, Kroll learned that both the cost containment and oversight committee's increased attention and the City's procurement of a consultant to track and analyze police and fire OT spending, helped lead to reduced OT spending in FY 2017. KBRA also understands that year to date fiscal 2018 spending is also tracking favorably to budget assumptions.

Unaudited results for 2017 also indicate significant improvement in the health benefit fund. The fund had closed FY 2016 with a $4 million net deficit position. Full implementation of the switch to Medicare as the primary provider, enabled a FY 2017 operating surplus of $7 million, and a resultant year end net surplus position of $3 million, before residual transfers from the general fund. The year-end position is net of incurred but not reported liabilities.

The City's audited financial statements are anticipated by the end of December.

2018 Budget

The fiscal 2018 General Fund budget of $412.6 million reflects a modest spending increase of 1.48% over the prior year adopted budget. Similar to prior years, the budget includes a $3 million appropriated fund balance. Moreover, the budget continues to include conservative assumptions, including a 96% current tax collection rate and a contingency reserve expenditure line item ($5.8 million) to cover, among other items, state aid shortfalls, and potential payroll increases for open contracts. The police, fire, white collar and nurse supervisor contracts are presently outstanding.

State aid for operations was budgeted at $168. 4 million, and the current state legislative budget reduces the City's state aid by $5. 6 million. The City's plan to address the shortfall includes use of the contingency appropriation ($2.5 million), diversion of pay-go capital ($1.5 million, to be replaced with a state capital grant), and continuation of fiscal spending controls ($1.6 million). Given the City's demonstrated strong budgetary controls, KBRA assesses the remediation plan favorably.

Property taxes, the largest revenue source, are budgeted to increase by over 2% due to additions to the grand list, including Waterbury Hospital. Growth in values is captured in the statutorily required five-year revaluation. Local officials are not anticipating much movement with the 2017 revaluation, which will affect the 2019 levy.

Waterbury, CT: Taxbase and Current Levy
$ in millions

Fiscal Year	%ch	2018	2017
Current Levy, budgeted at 96% collection	2.4%	$230.8	$225.3
Real estate grand list	2.1%	$3,743.7	$3,668.4
Motor vehicle grand list	7.8%	$439.1	$407.4
Mill rate, RE/MV		60.21/37	60.21/37

Source: City of Waterbury Fiscal 2018 and Fiscal 2017 Adopted Budgets

The General Fund contribution to health insurance is budgeted to decline by $3.5M, reflecting containment in health expense costs and increased availability of grant contributions for fringe benefits.

Liquidity Position

As of June 30, 2016, the City's cash position in its governmental funds totaled $19 million. This equates to an adequate 12.7 days cash, an improvement from the 6.1 days cash at the end of fiscal 2015. The City is authorized to issue cash flow notes in the form of tax anticipation notes but has not used this option in more than five years.

Based on the foregoing, KBRA views Waterbury's consistently strong financial performance and liquidity as being consistent with an AA Rating Determinant rating.

Bankruptcy Analysis

To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), an entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code and must be specifically authorized to file a municipal bankruptcy petition by the State in which it is located. Under Connecticut General Statutes, no Connecticut municipality can file for bankruptcy under Chapter 9 without the written consent of the Governor. Because the City qualifies as a "municipality" both under the Bankruptcy Code and under the Connecticut General Statutes, with the express written consent of the Governor of the State of Connecticut to file a Chapter 9 petition, and assuming that it meets the other requirements of the eligibility provisions (Section 109(c)) of the Bankruptcy Code, it would be eligible to file a Chapter 9 petition. The State of Connecticut has been proactive in providing support and intervention to fiscally distressed municipalities, as evidenced by its imposition of the state fiscal oversight board in Waterbury (2001-2006) as well as in several other municipalities over the last 30 years.

Conclusion

KBRA has assigned a AA- rating and Stable Outlook on the City of Waterbury General Obligation Bonds, Issue of 2017, Series A and General Obligation Bonds, Issue of 2017, Series B. KBRA has also affirmed the AA- rating on the City's outstanding general obligation bonds. The rating outlook is Stable.

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Related Publications:

- **City of Waterbury, CT General Obligation Bonds**