

Summary:

Danbury, Connecticut; General Obligation; Note

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Summary:

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Credit Profile

US\$13.0 mil GO BANs dtd 07/18/2019 due 07/16/2020

<i>Short Term Rating</i>	SP-1+	New
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US\$7.0 mil GO bnds ser 2019 due 07/15/2029

<i>Long Term Rating</i>	AA+/Stable	New
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Danbury GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Danbury GO BANs

<i>Short Term Rating</i>	SP-1+	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and stable outlook to Danbury, Conn.'s series 2019 general obligation (GO) bonds and affirmed its 'AA+' long-term rating, with a stable outlook, on the city's existing GO debt.

S&P Global Ratings also assigned its 'SP-1+' short-term rating to the city's bond anticipation notes (BANs), payable July 16, 2020, and affirmed its 'SP-1+' short-term rating on the city's existing BANs, maturing July 18, 2019.

The short-term rating reflects our view that the city maintains a very strong capacity to pay principal and interest when BANs come due. Danbury has a low market-risk profile because of its strong legal authority to issue long-term debt to take out the BANs. In addition, the frequent issuer regularly provides disclosure to market participants.

The bonds and BANs are a GO of the city, for which it has pledged its full-faith-and-credit taxing power to levy ad valorem taxes, without limit as to rate or amount, on all taxable property within its jurisdiction.

Officials plan to use series 2019 bond proceeds to finance a portion of BANs outstanding permanently and new BAN proceeds to refund existing BANs and provide new money for various capital improvements.

The affirmation reflects our opinion of Danbury's very strong management, which has supported its history of, what we consider, strong budgetary performance, resulting in strong budgetary flexibility. The city benefits from its access to a broad and diverse metropolitan statistical area (MSA) and continuous local property tax base expansion. We consider the long-term rating stable because we expect Danbury will likely absorb additional costs associated with its robust capital plan, pensions, and other-postemployment-benefits (OPEB) costs.

The long-term rating reflects our opinion of Danbury's:

- Strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;

- Strong budgetary performance, with a slight operating surplus in the general fund but breakeven operating results at the total governmental-fund level in fiscal 2018;
- Strong budgetary flexibility, with available fund balance in fiscal 2018 at 14.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 20.2% of total governmental-fund expenditures and 2.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 9.3% of expenditures and net direct debt that is 44.7% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with roughly 80% of debt scheduled to be retired within 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Strong economy

We consider Danbury's economy strong. The city, with an estimated population of 84,641, is in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider broad and diverse. The city has a projected per capita effective buying income at 97.3% of the national level and per capita market value of \$132,417. Overall, market value has grown by 1.4% during the past year to \$11.2 billion in fiscal 2020. County unemployment was 4% in 2018.

The city has easy road access to New York City, Hartford, and Norwalk. Danbury is home to Danbury Fair Mall, one of New England's largest covered malls and the city's leading taxpayer, accounting for 3% of net grand list. Commercial and industrial properties account for 25% of net grand list while residential properties account for 58.3%.

Danbury is also a regional employment center with stable employers representing a broad spectrum of concerns. Leading employers include:

- Western Connecticut Health Center (2,665 employees),
- Boehringer-Ingelheim Pharmaceuticals (2,500), and
- Danbury School System (1,750).

Officials think various citywide developments will help contribute to a growing economy, including FuelCell Energy's recent completion; a new Cumberland Farms; and Woodlands by Toll Brothers, a recently completed 172-unit townhome community on Reserve Road with 35,000 square feet of commercial space and another planned 113-unit, single-family, detached, age-restricted housing community. Recently, Matrix's corporate center and Union Carbide's world headquarters are under new management; the business park they call home is now known as The Ridge at Danbury, which will be undergoing extensive development, providing a sizable boost to the grand list once complete.

The city continues to invest in infrastructure, including a partnership with New York State to create a direct-access rail line to Danbury from New York City. Danbury Airport is also undergoing enhancements to attract and better allow corporate, commuter, and recreational air travel.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The city's budget assumptions are conservative, coupled with multiyear historical trend analysis. In June 2014, the city council adopted formal budgetary, OPEB funding, debt-management, and reserve policies. The debt-management policy specifies debt limits, permissible debt structures, and bond proceed use. The reserve policy outlines maintaining unassigned reserves at 8%-15% of expenditures. We understand management provides elected officials with monthly budget updates, as required by the city charter, and investment reports as requested. Management maintains an informal long-term financial plan and updates its formal five-year, council-approved capital improvement plan annually.

Strong budgetary performance

Danbury's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund at 1.1% of expenditures but breakeven results across all governmental funds in fiscal 2018. General fund operating results have been balanced during the past three fiscal years.

Fiscal 2018 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Management primarily attributes the fiscal 2018 surplus to conservative budgeting that led to lower expenditures. The city's recurring stronger-than-budgeted property tax revenue is one positive revenue highlight. Salaries, benefits, and purchase-and-contract services have also materialized savings.

The fiscal 2019 budget totals \$257 million, a 2.5% increase from fiscal 2018. The city has also budgeted intergovernmental revenue more conservatively, using the governor's budget estimates, which are roughly \$5.6 million less than the fiscal 2018 budget. Danbury expects to end fiscal 2019 with a modest surplus, once again adding to reserves. With the exception of building permits, revenue met or exceeded projections.

The adopted fiscal 2020 budget is \$261.5 million, up \$4.5 million from fiscal 2019; the budget assumes the governor's budget for intergovernmental revenue. A \$2.2 million increase in board of education funding is one of the main factors of that increase. The city continues to see student population growth, requiring additional capital and personnel. However, as the grand list grows, Danbury has capitalized on a growing tax base: It consistently experiences property tax revenue growth while keeping the millage flat.

Property taxes generate about 74% of general fund revenue while state aid contributes about 21%. Strong tax collections, averaging 98%, provide, what we view as, good financial stability; the limited dependence on state aid insulates Danbury from fluctuations. Due to the city's ability to make adjustments during the year and current projections, we expect budgetary performance will likely remain strong. However, we also believe it is operating in a tighter budget environment due to the possibility of uncertain state support, coupled with increasing student population and robust capital projects.

Strong budgetary flexibility

Danbury's budgetary flexibility is strong, in our view, with available fund balance in fiscal 2018 at 14.1% of operating expenditures, or \$39.3 million.

Management has consistently maintained strong budgetary flexibility during the past three fiscal years. For fiscal 2019, it expects available reserves to improve by about \$500,000 due to positive financial operations. Management's reserve policy limits unassigned fund balance to 8% of expenditures. Because it has historically adhered to these targets, we do

not expect flexibility will likely deteriorate. Danbury should keep available reserves at current levels because management has demonstrated an ability to adjust spending when needed.

Very strong liquidity

In our opinion, Danbury's liquidity is very strong, with total government available cash at 20.2% of total governmental-fund expenditures and 2.2x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

Danbury has demonstrated strong market access by issuing GO bonds within the past several years. Therefore, we expect liquidity will likely remain very strong because there is no significant deterioration of cash balances planned or expected. Furthermore, we note the city does not have any contingent-liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, management is not aggressive in its use of investments.

Strong debt-and-contingent-liability profile

In our view, Danbury's debt-and-contingent-liability profile is strong. Total governmental-fund debt service is 9.3% of total governmental-fund expenditures, and net direct debt is 44.7% of total governmental-fund revenue. Overall net debt is low at 1.4% of market value and roughly 80% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Danbury's significant medium-term debt plans negatively affect our view of the city's debt profile.

Following the current bond issue, Danbury will have roughly \$173 million of total direct debt outstanding, including \$13 million in BANs. Officials currently plan to issue about \$60 million of additional debt during the next two years to three years; a new middle school project will account for the majority, which management expects to fund with 63% grant funding. Management will use the additional \$20 million of the issuance for various public works and capital projects. One large capital project is Danbury's share of a sewer plant project; total project bonding will be about \$102.6 million with the city funding it through user fees, grants, and a Clean Water Fund loan with other municipalities funding the remainder.

We, however, do not expect future debt plans to change Danbury's debt profile materially. Danbury maintains, in our view, low overall net debt: Management expects to maintain debt service below 10% of expenditures and debt at less than 3% of market value.

Danbury's combined required pension and actual OPEB contribution totaled 6.8% of total governmental-fund expenditures in fiscal 2018: 3.7% represented required contributions to pension obligations and 3.1% represented OPEB payments. The city made 101% of its annual required pension contribution in fiscal 2018.

Danbury administers seven single-employer, defined-benefit retirement plans that cover almost all employees, except for teachers, which Connecticut Teachers' Retirement System covers; the city does not have any liability for the teachers' plan. Based on Governmental Accounting Standards Board Statement No. 67 reporting requirements, the plans' funded ratios vary with its general employees' plan, the largest plan, 73.59% funded with a net pension liability of \$39.4 million using an assumed rate of return of 7.125%. The city's net pension liability for all its plans totaled \$102.6 million as of fiscal 2018.

The reported funding percentage has decreased recently due to management using stronger underlying pension-actuarial-valuation assumptions. The city expects to lower its discount rate further to 7% for the July 1, 2019, valuation. Danbury has made 100% of the actuarial determined contribution to all plans for more than 10 years.

Danbury also provides a retiree health care plan, and its net OPEB liability for the general employees' and board of education plans was \$229.7 million as of fiscal 2018. Management's policy is to continue funding \$500,000 above the previous year's amount into its OPEB trust until it reaches the determined annual required contribution. As of fiscal 2018, the city had about \$6 million set aside in trust fund assets; management intends to fund \$2.5 million in fiscal 2019. Although retirement costs remain manageable, we believe increasing pension and OPEB contributions due to large liabilities could pressure the budget.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Danbury will likely maintain budgetary flexibility and that management will likely take appropriate action to ensure it balances budgets between ongoing revenue and growing expenditures. In our opinion, the underlying economy, with access to leading employment centers, provides further rating stability. Therefore, we do not expect to change our rating during the two-year outlook period.

Upside scenario

If underlying economic indicators were to improve, we could raise the rating, particularly due to our view of its very strong management. In addition, management would need to make progress toward addressing outsized retirement liabilities while improving reserves through consistent positive financial performance.

Downside scenario

If management cannot maintain budgetary balance and reserves were to diminish significantly, 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

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