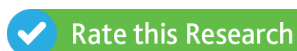


CREDIT OPINION

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Danbury (City of) CT

Update to credit analysis

Summary

[Danbury](#) (Aa1), Connecticut's credit profile benefits from its large and robust tax base and average resident wealth and income profile. The city's financial position is stable. Danbury's debt, pension and OPEB burdens are substantial but manageable.

Credit strengths

- » Large tax base in Fairfield County
- » Formally adopted fund balance and debt policies

Credit challenges

- » Resident wealth and incomes below the state median
- » Above average debt burden
- » Large OPEB liability

Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Material strengthening of financial position
- » Sustained tax base growth and diversification
- » Improved resident wealth and incomes

Factors that could lead to a downgrade

- » Structural imbalance leading to erosion of reserves or liquidity
- » Erosion of taxable base
- » Growth of debt, pension and/or OPEB liabilities

Key indicators

Exhibit 1

Danbury (City of) CT	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$9,754,448	\$10,106,163	\$10,072,276	\$10,377,905	\$10,962,930
Population	82,781	83,476	83,890	84,573	85,246
Full Value Per Capita	\$117,834	\$121,067	\$120,065	\$122,709	\$128,603
Median Family Income (% of US Median)	119.1%	118.4%	113.7%	110.6%	110.6%
Finances					
Operating Revenue (\$000)	\$243,095	\$252,799	\$260,278	\$273,850	\$282,436
Fund Balance (\$000)	\$28,812	\$27,071	\$32,937	\$34,672	\$39,342
Cash Balance (\$000)	\$23,525	\$23,111	\$33,603	\$36,872	\$38,449
Fund Balance as a % of Revenues	11.9%	10.7%	12.7%	12.7%	13.9%
Cash Balance as a % of Revenues	9.7%	9.1%	12.9%	13.5%	13.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$179,370	\$170,461	\$171,105	\$205,664	\$178,909
3-Year Average of Moody's ANPL (\$000)	\$147,326	\$183,867	\$238,435	\$277,354	\$291,803
Net Direct Debt / Full Value (%)	1.8%	1.7%	1.7%	2.0%	1.6%
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.7x	0.8x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.5%	1.8%	2.4%	2.7%	2.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.6x	0.7x	0.9x	1.0x	1.0x

Source: Audited financial statements and Moody's Investors Service

Profile

The city is located northern Fairfield County, bordering [New York State](#) (Aa1 stable). As of the 2017 American Community Survey Danbury had 84,473 residents.

Detailed credit considerations

Economy and tax base: Growing tax base in upper Fairfield County

Danbury's sizeable \$11.1 billion 2019 Equalized Net Grand List (ENGL) will remain stable in the near term given the city's healthy trend of tax base growth along with its favorable location in southwestern [Connecticut](#) (A1 stable).

Danbury's ENGL has grown at a strong average annual rate of 2.5% over the past five years, which compares favorably to statewide trends. The city's assessment year 2017 and 2018 net taxable grand list, or assessed values for fiscal years 2019 and 2020, grew by 8.5% (revaluation year) and 1.4%, respectively.

Danbury benefits from its close proximity to major transportation corridors and is an important employment center for upper Fairfield County. The city has a strong retail presence, specifically the Danbury Fair Mall, which is one of the largest shopping centers in New England. The mall is the city's largest taxpayer at 3.4% of the grand list. Several new residential and commercial construction projects will support the city's tax base moving forward with numerous small to midsize commercial and residential projects currently at various stages of development.

The city's resident wealth and income profile compares favorably to the nation, but not to statewide peers. Danbury's median family income (MFI) is 110.6% of the US median but just 83.6% of the state median. The ENGL per capita, at \$129,686, is well above nationwide full value per capita of \$88,913, but below statewide ENGL per capita of \$142,135. The city's labor market is strong with unemployment at 2.7% (as of April 2019), below the state and nation's unemployment rates of 3.3%. Favorably, the city is one of the fastest growing municipalities by population in the state.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial Operations and Reserves: Strong multi-year operating performance supports stable reserves

The city's strong operating performance will continue to support its stable financial position. Danbury broke even or generated a surplus in each of the past six years, over which time available General Fund balance remained very stable between 12% and 14% of revenues.

Danbury ended fiscal 2018 with a \$3.2 million operating surplus bringing available reserves to \$39.3 million representing 13.9% of revenues. Positively, despite the State of Connecticut's imposition of certain cuts to municipal aid, Danbury remained largely unaffected, with its total statutory formula aid reduced from \$40.9 million in fiscal 2017 to \$40.6 million after the mid-year holdbacks in fiscal 2018. While the city's reserves are in line with state medians, they remain below national medians. The city's relatively low fund balance is partially mitigated by its strong operating performance that benefits from a majority of revenues coming from resilient and predictable property taxes, as well as formal financial and debt policies.

Management reports that fiscal 2019 operating performance was positive and the city expects to report a \$500,000 to \$600,000 surplus and growth to fund balance. The 2019 surplus was driven by positive expenditure variance on salaries and benefits and savings from a budgeted but unspent capital expenditure.

The fiscal 2020 adopted budget totals \$261 million which is 1.8% larger than fiscal 2019's budget. Due to the positive tax base growth the city budgeting for a \$3.2 million increase in property tax revenues without any increase its mill rate. The budget includes a \$4.6 million fund balance appropriation, largely consistent with appropriations of fund balance in recent years' budgets, all of which have been fully replenished. Primary expenditure drivers include a \$2.2 million increase in education spending and a \$1.25 million increase in public safety.

Property taxes are the city's largest revenue source at 74.1% of total revenues. Collections remain very strong at over 98% in the current fiscal year. State aid, including aid for education and on-behalf payments by the state for the teachers' pension plan, comprised 22% of 2018 revenues, generally in line with the Connecticut medians for intergovernmental aid.

LIQUIDITY

General Fund cash has been stable for the past four years and totaled \$38.4 million representing 13.6% of revenues as of fiscal 2018 year-end.

After sale of its 2019 bonds and BANs the city will have \$13 million in outstanding short-term notes outstanding and available liquidity at maturity is expected to provide 2.96 times projected coverage on the notes.

Debt and Pensions: Manageable debt and pension burdens; elevated OPEB

Despite future borrowing plans the city's debt burden will remain manageable given its quick amortization of principal and formalized debt policies. Including the city's 2019 bond and BAN issuances the city's debt burden is \$148.3 million (excluding debt fully supported by city utilities) representing a manageable 1.3% of ENGL. The city typically issues debt annually and currently has a minimal \$20.9 million in bond issuances outlined in its capital plan with an additional \$36.9 million in pay-go capital planned through 2025. The city anticipates seeking voter approval for approximately \$60 million in school and general government bonding in calendar year 2020 which would likely be issued over the next several years starting in fiscal year 2021. Approximately \$25 million (63%) of the \$40 million school project will be funded through state grants.

In fall 2018 city voters approved \$102.6 million in debt issuance for upgrades to the city's wastewater treatment facility. The project will largely be funded through low cost state clean water fund loans and the costs will be shared by neighboring municipalities who utilize Danbury's wastewater services. The city's utility systems are self-supporting, therefore sewer-related indebtedness is excluded from the city's debt burden calculations.

Despite the additional projected debt issuances, the debt burden will remain manageable given the city's strong management team and commitment to remaining compliant with the formal policies, including annual debt service equal to a maximum of 10% of annual expenditures and the debt burden at a maximum of 3% of net taxable grand list (excluding capital leases and net of self-supporting enterprise debt).

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is faster than average, with 81.8% repaid within ten years.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Danbury's pension and OPEB liabilities are significantly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The city administers multiple defined benefit pension plans and funds retiree health care (OPEB) for general government and Board of Education employees in excess of pay-go, depositing 5% of each year's benefit cost into an OPEB trust which, as of the end of fiscal 2018 had a balance of \$6 million. The table below summarizes the city's 2018 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

Pension and OPEB liabilities large but manageable

	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Reported Unfunded Pension Liability	122,643	43.90%	7.13%
Moody's Adjusted Net Pension Liability (3 year average)	266,984	103.50%	4.14%
Reported Net OPEB Liability	229,731	81.50%	5.78%
Moody's Adjusted Net OPEB Liability	289,421	102.60%	4.14%
Pension Contribution	12,704	4.50%	-
Pension Tread Water Gap	64	0.02%	-
OPEB Contribution	11,468	4.06%	-
Debt Service	16,634	5.89%	-
Total Fixed Costs	40,806	14.44%	-

Source: Moody's Investors Service and audited financial statements

Favorably, the city has made a concerted effort to reduce its pension investment return assumption which it dropped to 7.125% from 7.25% on July 1, 2017 and will cut further to 7% on July 1, 2019. The city's 2018 pension contributions were approximately equal to tread water, the amount required to prevent the unfunded liability from increasing assuming all plan assumptions are realized.

For teachers, the town participates in the State of Connecticut Teachers' Retirement System (TRS). Employer contributions to the TRS, which are covered by on-behalf payments made by the state, totaled \$28.3 million in 2018. Any changes to the current funding structure would require approval by the state legislature. During the last two budget cycles the legislature has considered and rejected shifting a portion of responsibility for funding teacher pensions to local governments.

To the extent that the city's pension plans experience returns on assets that fall short of their assumptions, the city's required pension contribution will increase. The city's OPEB costs will likely escalate as the number of retirees covered grows and retirees age. OPEB expense escalation may be mitigated through active management and use of federal insurance options where applicable. Since 2015 the district's annual OPEB expense has increased at an average rate of 10.45% per year.

Fiscal 2018 fixed costs, comprised of pensions, OPEB and debt service, represented a manageable 14.44% of operating revenues. Return on assets in the city's pension plans, a partial shift of teacher pension funding to the city and future escalation of OPEB costs could materially affect fixed costs going forward.

Management and governance: Solid budgeting supports strong operating performance

Management budgets conservatively, practices long-term capital planning, and maintains a policy of keeping unassigned General Fund reserves of between 8%-15% of expenditures. The city also maintains various policies that guide its debt issuance and OPEB funding practices.

Connecticut Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The [US Local Government General Obligation Rating 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 3

Danbury (City of) CT

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$11,055,197	Aa
Full Value Per Capita	\$129,686	Aa
Median Family Income (% of US Median)	110.6%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	13.9%	A
5-Year Dollar Change in Fund Balance as % of Revenues	4.1%	A
Cash Balance as a % of Revenues	13.6%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	5.5%	A
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
Other Analyst Adjustment to Management Factor (specify): Proactive management of long-term liabilities		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.3%	Aa
Net Direct Debt / Operating Revenues (x)	0.5x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.6%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	A
Notching Factors: ^[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Contingent risk associated with state pension support		Down
Other		
Credit Event/Trend Not Yet Reflected in Existing Data Sets: Large OPEB liability		Down
Scorecard-Indicated Outcome		Aa2
Assigned Rating		Aa1

[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 dated December 16, 2016.

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard Inputs Updated for 2019](#) publication.

Source: Moody's Investors Service and audited financial statements

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