FitchRatings

Fitch Rates Danbury, CT's $7MM Ser 2019 GO Bonds 'AAA' and $13MM BANs 'F1+'; Outlook Stable

Fitch Ratings-New York-28 June 2019: Fitch Ratings has assigned the following ratings to the City of Danbury, CT general obligation (GO) bonds and notes:

--$7,000,000 GO bonds, issue of 2019, 'AAA';
--$13,000,000 GO bond anticipation notes (BANs), maturing July 16, 2020, 'F1+'.

The bonds and notes are scheduled to sell competitively on July 9. Proceeds of the bonds will be used to refinance a portion of outstanding BANs and for various general purpose and school projects. The BANs are being issued for general city, sewer and school projects.

In addition, Fitch has affirmed the following ratings:

--Approximately $153 million outstanding GO bonds at 'AAA';
--The city's Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds and BANs are general obligations of the city backed by its full faith and credit and unlimited taxing power.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO bond rating incorporate Fitch's expectation that the city of Danbury will maintain healthy financial flexibility throughout economic cycles, consistent with a history of strong operating performance and the highest gap-closing ability. The ratings also reflect a low long-term liability burden and budgetary strengths inherent in an unlimited legal ability to raise property tax revenues and solid level of expenditure flexibility. The 'F1+' Short-Term rating on the BANs is based on Fitch's mapping to the long-term credit quality of the city.

Economic Resource Base
Danbury is located in northern Fairfield County approximately 60 miles north of New York City and is proximate to other major employment centers in Connecticut. It has an estimated 2018 population of roughly 85,000 which is up approximately 5% since 2010.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Danbury's revenues are derived primarily from property taxes. Solid general fund revenue growth over the past

ten years through fiscal 2018 has been supported by a mix of tax rate increases and improvements in the tax base. Fiscal 2019 tax base growth of almost 9%, new economic development, improving housing values, and the city's generally strong and stable economic underpinnings, support Fitch's future expectation for comparable growth trends. Local governments in Connecticut have unlimited taxing power.

Expenditure Framework: 'aa'
Fitch expects the natural pace of spending growth to be in line with to slightly above natural revenue growth over time. Carrying costs for debt service, pensions and OPEB claim a moderate proportion of total governmental spending. The city has adequate controls over employee headcount and wages and has demonstrated the flexibility and willingness to cut spending during economic downturns.

Long-Term Liability Burden: 'aaa'
Danbury's long-term liability burden is low at approximately 6% of residents' estimated personal income. The burden is not expected to change materially based on a manageable borrowing plan net of anticipated state support for school-related projects and a practice of fully funding its actuarially determined pension contributions.

Operating Performance: 'aaa'
Fitch expects the city to manage through periods of economic decline on the basis of its superior level of budgetary flexibility and high level of financial resilience. Disciplined budget management practices support the city's consistently favorable operating performance.

RATING SENSITIVITIES

Strong Management Practices: The 'AAA' IDR and GO bond rating are sensitive to shifts in the city's strong financial management practices and maintenance of fundamental financial flexibility.

Revenue Growth Prospects: Fitch expects natural revenue growth to range between the level of inflation and GDP over time. Results contrary to that expectation would be viewed negatively.

CREDIT PROFILE

Danbury benefits from continued economic development and its role as an important regional employment and retail center. The city's major employers besides the city and schools include the Western Connecticut Health Network affiliated Danbury Hospital, Boehringer-Ingelheim Pharmaceuticals and Cartus Corporation (a corporate relocation firm). The city is also home to Western Connecticut State University, one of four state operated universities. The Danbury Fair Mall is the city's largest taxpayer at a little over 3% of the tax base and overall the top ten taxpayers represent approximately 11% of the fiscal 2020 tax base.

Wealth levels register comfortably above national averages, but remain lower than the above-average Fairfield County and state levels. The city's unemployment rates have traditionally trended below state and national levels.

Revenue Framework
Property taxes represented approximately 83% of fiscal 2018 general fund revenues, net of the state pass-through payment for the state teachers' pension plan. State and federal aid represented roughly 12% of these net revenues, the former being more variable in recent years due to the state's fiscal issues.

The city completed its statutorily required five-year revaluation, effective Oct. 1, 2017, for the fiscal 2019 budget year and net taxable value experienced a 8.5% increase year over year. The city's last revaluation was performed Oct. 1, 2012, effective for fiscal 2014 and resulted in a sizable 13.5% decline in taxable value.

Between valuations, tax base changes reflect only property improvements, new additions, or changes due to appeals, but not the results of sales of property. Growth in between revaluations has ranged between 0.9% and 1.5% annually from fiscal 2015-2018 and the fiscal 2020 tax base is up 1.4%. Fitch expects moderate tax base growth to continue to occur based on developments underway and planned and potential for continued growth in housing prices.

Management has the independent legal ability to raise taxes without limit and has made regular increases in its tax levy as needed to meet expenditure growth.

Expenditure Framework

Danbury's spending is primarily for education and city employee salary and benefits. Management has kept growth in these costs at a moderate level. Fixed costs for debt service, pension and other post-employment benefits (OPEB) represented a moderate 15% of fiscal 2018 total governmental spending, but were closer to 12% when netting out one-time principal payments for BANs. Fitch expects fixed cost spending to remain moderate based on expectations for changes in debt service and moderate increases in pension costs primarily as a result of the gradual lowering of the investment rate of return to 7% in fiscal 2020 for city-administered plans.

Expense growth is expected by Fitch to be moderate and generally in line with to slightly above revenues without policy action.

The city has the ability to reduce expenses tied to its services and typically budgets for a moderate level of pay-as-you-go capital spending (1%-2% of budget). Management has the ability to reduce non-public safety staff at any time if necessary. Union contracts are subject to arbitration but a decision may be rejected by a two-thirds vote of the city's legislative body. Arbitration decisions are required to take into consideration the financial capability of the employer. A new arbitration panel would then be appointed by the state, and its subsequent decisions are binding but required to take into consideration the financial capability of the employer. Recent labor agreements have produced manageable salary increases.

Long-Term Liability Burden

With this issuance, the long-term liability burden for debt and Fitch-adjusted net pension liabilities (NPL) represent a low 6% of residents' estimated personal income. Fitch expects liability levels to remain low given the city's moderate borrowing plans (net of state aid reimbursements for school-related projects) and its commitment toward full funding of its actuarially determined pension contributions. Additionally, the pace of debt amortization is rapid with 82% of principal paid off over 10 years. City policy restricts annual debt service costs to no greater than 10% of general fund spending (currently around 6%).

The city's approximately $100 million waste water treatment plant project, approved by voters in Nov. 2018, will be funded partially from other participating towns, but mostly from city user fees. The project is eligible for approximately 25% in grant funding and management plans to use low interest loans from the state-sponsored Clean Water Fund to fund the project.

The city maintains seven separate single-employer pension plans covering substantially all of its eligible employees (collectively, the city's pension plans), except those public school teachers covered under the State of Connecticut Teachers' Retirement System for which the state is responsible for funding. As of June 30, 2018, the city's pension plans had a Fitch-adjusted aggregate estimated assets to liabilities ratio of 63% using a 6% investment rate of return. The aggregate estimated NPL based on the Fitch rate of return assumption was $160 million, or approximately 3% of personal income.

The net OPEB liability for town and school board employees was $230 million (4% of personal income) as of the July 2016 valuation. The city has been increasing its contribution toward its OPEB trust the past several years and the annual amount budgeted in fiscal 2020 was $3 million. Recent changes in the city's insurance plans are expected to help control growth in these costs.

Operating Performance
Danbury's 'aaa' operating performance assessment is based on Fitch's view of the city's superior inherent budget flexibility in conjunction with its stable and high level of reserves in relation to expected revenue volatility through economic cycles. The impact on the city's financial position is expected to be limited due to the city's unlimited tax raising capacity. Fitch expects the city will continue to maintain sound reserve levels throughout economic cycles within its unassigned policy level of 8%-15% of budgeted expenditures.

Management's use of conservative budget estimates and prudent fiscal policies combined with careful management of changes in tax rates has supported balanced operations over the past several fiscal years and stability in reserve levels. At fiscal-end 2018, a general fund net operating surplus of $4.6 million (roughly 2% of spending) improved the unrestricted fund balance to $39.3 million or 14% of general fund spending. Results mostly reflect a bond premium of $3.7 million; however, management was able to achieve positive results despite a decline in state aid of approximately $4.2 million compared to budget expectations. Conservative budget estimates and a hiring freeze on all non-essential positions helped overcome the loss in aid. Other offsetting factors included achieving savings from switching to a self-insurance health plan and higher than anticipated building permit fees.

The city's original fiscal 2019 budget totaled $257 million and represented a $6.5 million increase over the prior year's adopted budget. The bulk of the increase was related to an increase in school spending of approximately $4 million to accommodate contractual salary increases, some additional staffing and increases in spending related to the recently completed expansions to the high school, including security enhancements. The budget includes the use of previously assigned general fund reserves of approximately $4 million for capital related purposes. The tax rate was reduced by 4.66%, or 1.35 mills, to 27.6 mills, in consideration of the tax base increase. Management plans to carryforward the budgeted use of assigned reserves for capital purposes and projects a modest operating surplus for fiscal 2019.

The fiscal 2020 budget of $261.5 million represents an increase of 1.8% in general fund spending. The tax rate was held flat and primary expenditure drivers were associated with the school department (city contribution up $2.2 million) and employee salaries and benefits. State budgeted revenues to Danbury will increase by a net $2.6 million from a board of education Alliance Grant of $2.7 million offset by a small decline for the city compared to the prior year.

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Additional information is available on www.fitchratings.com
Applicable Criteria
Short-Term Ratings Criteria (pub. 02 May 2019)
U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017)
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)

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