City of Waterbury, CT

Issuer: City of Waterbury, CT		
Assigned	**Ratings**	**Outlook**
General Obligation Bonds, Issue of 2022	AA	Stable
Upgraded	**Ratings**	**Outlook**
City of Waterbury, CT - G.O.	AA *from AA-*	Stable *from Positive*

Methodology

- U.S. Local Government GO Methodology
- ESG Global Rating Methodology

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Rating Summary: The rating assignment and upgrade of the City of Waterbury's ("the City") General Obligation (G.O.) Bonds recognizes the administration's deep commitment and demonstrated ability to attract economic development and successful navigation of the COVID-19 pandemic, as well as the City's clear runway for further growth. The upgrade further reflects the achievements that the City made since the outlook was revised to Positive in January 2022 - 1) the 2022 bonds' immaterial impact on debt burden, which KBRA expects to resume improving; 2) management's strong financial policies and monitoring; and 3) continued improvement in financial flexibility, especially now that the City's unreserved fund balance can grow from 5.0% to 8.0% of budgeted expenditures.

The City's General Obligation Bonds, Issue of 2022 ("the Bonds") and outstanding General Obligation Bonds are direct and general obligations of the City, 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. Proceeds of the Bonds will provide funding a range of City capital projects, including projects for primary education, public works, water systems, and recreation.

KBRA views the City's governance and management structure as excellent based on its comprehensive budget process, monthly budget-to-actual financial reports, weekly monitoring of City-wide operations, continuity planning, 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, primary & secondary education, public health, public works, recreation, and the provision of water and wastewater systems.

The City's fund balance policy requires maintenance of an unreserved general fund balance in the range of 5.0% to 8.0% of budget. With the 2002 special capital reserve bonds fully repaid on April 1, 2022, the related IRS working capital bond covenant restrictions no longer limit the City's unreserved fund balance to 5.0% of budgeted expenditures. Management currently has a goal of reaching 8% of budget. Pursuant to its reserve fund policy, the City also designates a contingency reserve of up to 1.0% of budgeted expenditures (outside the cap) in its budget for subsequent years' expenditures, providing additional budgetary operating flexibility.

KBRA views Waterbury's debt burden as moderate and expects the 2022 bonds to have a minimal impact on debt metrics. Pro-forma general obligation debt (as of 6/15/2022) is expected to be $447.1 million, excluding self-supporting water and sewer debt. Scheduled amortization remains solid and management plans to not issue further new money debt over the next two to three years. Additionally, KBRA expects that the City's pension-related obligations will remain high but manageable, given the significant pension and benefit reform efforts implemented over the last several years. Total fixed costs, including debt service, pension contribution, and pay-go OPEB costs improved from 20.0% of governmental expenditures in FY 2019 to 17.4% in FY 2021.

The City's financial performance has been consistently strong based on the trend of healthy operating surpluses 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 budgetary 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 City maintains a comprehensive rolling five-year CIP, which KBRA views as a favorable practice. The proposed FY 2023-2027 CIP totals $335 million, representing an approximately $156 million increase from the FY 2022-2026 CIP driven largely by out-year capital expenditures by the Department of Public Works and Bureau of Water. KBRA views management's strategy to rely heavily on grant funding and ability to revise out-year capital expenditures as protecting the City from over-leveraging.

The February 2022 monthly financial status report projects, using the first eight months of FY 2022 and forecasting the last four, that FY 2022 tax collections could exceed the corresponding budget by $3.4 million. In KBRA's opinion, the continuous oversight provided by the Cost Containment and Oversight Committee (CCOC)[1] will ensure that the City stays disciplined through any remaining uncertainty from further evolution of the pandemic.

The City, with a 2020 population of 114,403[2], is located in the west central area of the State, on the northern side of New Haven County. Transportation access to other metropolitan areas of the state and region is provided by multiple major highways (benefited by the successful completion of Interstate 84 corridor expansion) and the terminus of Metro-North's Waterbury commuter train branch. As with many older, formerly industrial cities, the municipal resource base is characterized by low income levels, high poverty, and above average unemployment rates. Despite a recovery from pandemic-induced job losses, the unemployment rate continued to exceed the State's level as of February 2022 (7.7% versus 5.0%). Waterbury's tax base remains diverse, with the top ten taxpayers representing 12.5% of the total base, which KBRA views favorably. The City's property tax base grew at a 2.0% 5-year CAGR through Grand List Year 2021 (i.e., property valuation year) and is expected to grow again with the 2022 property reevaluation.

Waterbury's current administration has invested heavily in promoting economic development. The City's downtown redevelopment initiative reached several milestones with the completion of the transportation plan in 2020, Phase 1 of the Library Park, and the East Main Street utilities and road improvements in 2021, despite facing various logistical challenges during the pandemic. The Q1 announcement of a planned Amazon distribution facility over a 157-acre site that the City sought for decades to develop is another prime example of economic development that will yield job growth and increase the City's property tax base as well as provide a boost to the capital reserves with the proceeds from land-sale. The City also invests in the remediation of residential blight and industrial brownfields to attract new companies/developers to the area. As the City continues to focus its role as a local medical service center, significant healthcare-related projects include a 42-bed rehabilitation hospital and a letter of intent signed by Yale New Haven Health to acquire Waterbury Hospital from Prospect Waterbury Inc.

The Stable Outlook reflects the City's continued fiscal discipline and KBRA's expectation that the City will adhere to its strong financial management policies while maintaining balanced operations and strong reserves.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- Strong upside for local economy given extensive ongoing development and successful navigation of pandemic.
- Consistent trend of positive operations resulting from strong financial management policies and procedures.
- Requirement to fully fund actuarially determined pension contribution, as per statutes authorizing the 2009 pension obligation bonds.

Credit Challenges

- Elevated unemployment and poverty rates, and low income per capita.
- Moderate debt burden with high but manageable pension-related obligations.

Rating Sensitivities

▪ Material growth in per capita income and reductions in poverty and unemployment levels	+
▪ Material deterioration in the City's debt metrics. ▪ Failure to comply with the City's financial management policies and procedures. ▪ Material declines in available general fund balance reserve levels.	-

Key Ratios	
Unemployment Rate, February 2022	
Waterbury	7.7%
State	5.0%
Taxbase: Full Market Value Per Capita*	$57,229
Poverty Level, 2019	27.0%
Pro-Forma Debt as a % of Full Market Value*	6.8%
Pro-Forma Debt per Capita	$3,908
Fixed Costs as a % of General Governmental Expenditures, FY 2021	17.4%
Historical General Fund (GF) Operations	Consistently Balanced
GF Unassigned balance as % of expenditures, FY 2021	5.6%

**Full market value is derived from net taxable grand list for Grand List Year 2021 / FY 2023*

[1] Established in 2012

[2] Source: U.S. Census Bureau

Rating Determinants (RD)	
1. Management Structure and Policies	AA+
2. Debt and Additional Continuing Obligations	AA-
3. Financial Performance and Liquidity Position	AA+
4. Municipal Resource Base	A

A detailed discussion of each of the abovementioned rating determinants (RDs) is provided in KBRA's report dated January 15, 2021. KBRA's bankruptcy assessment, certain credit relevant ESG factors, and updates to RD 2-RD 4 are provided in KBRA's report dated January 14, 2022. The following discussion provides an update to RD 2.

Bankruptcy Assessment

KBRA has consulted outside counsel on bankruptcy matters and the following represents our understanding of the material bankruptcy issues relevant to the City and the Bonds.

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 also be specifically authorized to file a municipal bankruptcy petition by the State in which it is located. The City is a municipality of the State of Connecticut organized and existing under state law, and thus is a "municipality" as defined under the Bankruptcy Code. Under Connecticut law, no Connecticut municipality can file for relief under Chapter 9 without the express written consent of the Governor. Historically, the State of Connecticut has tightly controlled financially-distressed municipalities and has not authorized Chapter 9 proceedings for them, providing instead both support and supervision, as evidenced by its imposition of a state fiscal oversight board in Waterbury (2001-2006) as well as in several other municipalities over the last 30 years. That said, with the consent of the Governor, and assuming that the City met the other Chapter 9 filing requirements in the Bankruptcy Code, KBRA is advised that the City would be eligible to file a Chapter 9 petition.

The principal of and interest on the Bonds are payable from general property tax revenues, unless paid from other sources. The City has the power under Connecticut law to levy ad valorem taxes on all taxable property in the City without limit as to rate or amount, except as to certain classified property (such as certified forest land taxable at a limited rate, and dwellings of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts).

KBRA is advised that if the City were to file a petition commencing a Chapter 9 proceeding, Chapter 9 provides for post-petition recognition of (i) a security interest represented by a pledge of specific special tax revenues or municipal enterprise revenues (each "special revenues") and also (ii) a statutory lien on revenues pledged for municipal obligations. By contrast, the pledge of general valorem property taxes for general purpose obligations and operations of a municipality is not recognized as a security interest or lien that survives the filing of a petition under Chapter 9.

Accordingly, because (a) the funds pledged to pay the Bonds are not from a separate, dedicated source of revenues that meets the definition of "special revenues" under Chapter 9, and (b) there is no statutory lien imposed on the pledged ad valorem tax revenues levied to pay the Bonds, therefore holders of the Bonds would likely be treated as unsecured creditors of the City in a Chapter 9 proceeding of the City.

RD 2 Update: Debt and Additional Continuing Obligations

Pro-forma Debt Profile

Pro-forma general obligation debt is expected to total $447.1 million as of 6/15/2022, exclusive of $50.7 million in self-supporting water and sewer debt. The new issuance of $75 million only marginally affects debt metrics relative to the City's population and tax base; KBRA continues to view Waterbury's debt burden as moderate. Debt amortization is not expected to materially change either. By FYE 2032, 60.6% of the $447.1 million of GO debt will have matured.

Figure 1

Waterbury Debt Ratios

KBRA Metric	Pro-Forma*	FY 2021	FY 2020	FY 2019
Overall direct and indirect debt per capita	$3,908	$3,712	$4,193	$3,937
Overall debt as % of full market value of property	6.8%	6.8%	7.3%	7.0%
Debt amortization, 10 years	61%	60%	57%	61%
Debt amortization, 20 years	96%	95%	95%	97%
Debt service as a % of total governmental expenditures		8.1%	8.6%	9.3%

Source: City of Waterbury

**FMV in pro-forma metrics is derived from net taxable grand list from Grand List Year 2021 / FY 2023*

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

A discussion of certain credit relevant ESG factors is provided in KBRA's report dated January 14, 2022.