

RatingsDirect®

Summary:

Waterbury, Connecticut; General Obligation

Primary Credit Analyst:

Krystal Tena, New York + 1 (212) 438-1628; krystal.tena@spglobal.com

Secondary Contact:

Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile

US\$75.0 mil GO bnds ser 2022 due 06/01/2042

Long Term Rating AA-/Stable New

Waterbury GO

Long Term Rating AA-/Stable Affirmed

Waterbury GO rfdg bnds iss of 2020 ser B dtd 02/11/2020 due 09/01/2020-2030

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to Waterbury, Conn.'s approximately \$75 million 2022 general obligation(GO) bonds. We also affirmed our 'AA-' rating on the city's outstanding GO debt. The outlook on the bonds is stable.

The city's full faith and credit and an agreement to levy ad valorem property taxes without limit as to rate or amount secures the bonds. We understand proceeds of the bonds will fund multiple citywide projects, including \$25 million that will likely be self-supporting.

Credit overview

The rating on Waterbury reflects its consistent record of positive year-end operating results, maintenance of fund balance levels, and growing, though limited economic metrics. The city maintains a very strong set of financial policies and controls that are institutionalized and embedded into its overall financial management, which we believe has been a primary factor contributing to the city's stable financial profile. However, the city's long-term rating is constrained by its exposure to high and rising costs related to its pension and other postemployment benefit (OPEB) obligations. While the city remains proactive in managing these liabilities, due to the low funded levels and the potential volatility and risks posed by the underlying actuarial assumptions, in particular as it pertains to pension plan, we believe costs will continually rise and remain a source of credit pressure.

The rating additionally reflects our view of Waterbury's:

- Limited but growing economy with economic development projects continuously underway;
- Prudent and consistent financial management policies and practices that yield positive operating results and a stable fiscal environment;
- Consistently positive operating performance and stable fund balance that we expect to grow modestly over the near term and strong institutional framework; and
- High carrying charges with poor pension plan assumptions that may lead to volatility.

Environmental, social, and governance

We analyzed the city's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are neutral in our analysis.

Stable Outlook

Downside scenario

If the city were unable to absorb increased health care, pension, and/or OPEB costs, which are its main sources of budgetary pressure, leading to reduced budgetary performance; or if it experienced any decline in budgetary flexibility or liquidity, we would lower the rating.

Upside scenario

We believe that the city's very weak debt and liability profile currently constrains the rating. We believe Waterbury's significantly unfunded pension and OPEB obligations, and risks related to weak assumptions could challenge the city. Nevertheless, should the overall debt and contingent liability profile improve, coupled with higher wealth and income levels and strengthened general fund reserves, we could raise the rating.

Credit Opinion

Diversified economy with continued brownfield development but currently limited economic metrics

Waterbury is located on the convergence of two major expressways, Interstate 84 and Connecticut Route 8, providing easy access to the surrounding areas. The city offers passenger rail and bus service, including Metro North access to New York City. It is also located within 30 miles of New Haven and Bridgeport, and 45 miles northeast of Bradley International Airport, the region's second largest airport.

The manufacturing, health care, and higher education sectors have significant representation in the economy, providing employment opportunities both locally and regionally. Major employers include Waterbury Hospital (2,018), Post University (1,790), and St. Mary's Hospital (1,536). The city has several large scale utility, commercial, and residential projects recently completed or underway, including its downtown revitalization project, with utility and streetscape project on its East Main Street expected to be complete this month. It also recently completed its underground utility and streetscape project in its Freight Street Corridor, and the next phase is to demolish and remediate a 20 acre parcel to be developed as a mixed use site. In addition, Amazon has proposed a 650,000 square foot facility at the city's Waterbury/Naugatuck Industrial Park with the potential to generate 1,000 jobs and \$5 million in property revenues. The city's assessed values have consistently grown over the last decade, which we expect to continue. We expect, however, that despite the recent development and emphasis on growth, Waterbury's wealth and income metrics remain weak compared to those of state and national peers, and believe these are limiting factors in its ability to raise local-source tax revenues, in particular given its already high tax rate. Nevertheless, the economic environment is stable and as mentioned, poised to see additional growth, albeit modest, in the coming years.

Comprehensive and codified financial management policies facilitate consistent operations

The city's strong management practices are in place to achieve management's clear goal of structural balance. It

examines revenue and expenditure trends and uses the data to make realistic budget assumptions to attain positive operating results. Budget-to-actual results are reviewed frequently and reported to the governing body monthly. The city has a comprehensive rolling five-year capital plan that looks at both facilities and infrastructure improvements and identifies funding sources. It also maintains a multiyear financial plan where future issues are identified and revenue and expenditure decisions are made from a long-term perspective. The city has its own investment policy and reports holdings and returns to the governing board semiannually. In addition, it maintains a 5% fund balance policy for its unassigned funds, a level it has historically met but it now aiming to target 8% of general fund expenditures, as the city's IRS restriction to maintain 5% in unassigned general fund balance ended in April 2022. The city also maintains basic debt management practices that addresses debt maturity, debt limits, and the debt schedule.

Consistent and positive operating performance and fund balance in adherence with formal policy

The city has produced modest surpluses since 2009, which speaks to the consistency and vigilance in management's budgetary practices. In particular, a cost containment & oversight committee (CCOC) meets weekly to review budget performance results, which in our opinion, has been instrumental in achieving consistently strong operating results--despite the slow-growth economic environment and past uncertainty related to its state aid.

Property taxes accounted for 57% of general fund revenue in fiscal 2021, while intergovernmental was 39%. In our view, the revenue environment is stable. The property tax collection rate remains steady at 97%, and the state of Connecticut is financially in a much stronger position relative to years past, which minimizes the risk of midyear state reductions.

The 2022 general fund budget totals \$425 million, with a projected year-end result of \$4 million in surplus, as the city's revenues and expenditures are outperforming budget year to date and tax collections remained strong. The city is expecting to increase its available fund balance by \$1 million by fiscal year end 2022, to total about \$26 million or 6.1% of expenditures. The city also has several internal service funds from which it could access funds if necessary, which totaled \$21.6 million in unrestricted net assets on July 1, 2021. The city also maintains several city-wide reserves not included in our baseline ratios, in additional cash and investment reserves (debt service, health benefits, general liability, workers' compensation, heart and hyperextension, and capital and various other special revenue funds) totaling \$91 million. Furthermore, the city has been allotted a total of \$75 million in American Rescue Plan Act funding, of which it has received \$37.7 million; the city has a tentative plan to allocate the majority of the funds to its capital projects with about \$4 million going toward workforce and youth development programs and community resources centers.

The city's fiscal 2023 proposed budget totals \$429 million, or a 0.9% increase over previous year.

Likewise, the city's liquidity position has improved over the last several years and remains very strong. Waterbury maintains good market access and strong external liquidity prospects demonstrated by past successful GO bond sales in the past 20 years. The city does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

High carrying charges with no plans to issue new money debt in the near term

Following this issuance, the city will have approximately \$498 million in outstanding direct GO debt, of which we consider \$26 million self-supporting through user fees. We understand that it does not plan to issue material new

money debt over the near-term. As such, we do not anticipate to change our view of the city's debt profile during the outlook period.

Large liabilities with weak assumptions

- In our opinion, a credit weakness is Waterbury's large pension and OPEB obligation and limited capacity to address costs from potentially escalating, particularly given the pension system and OPEBs' low funded ratios.
- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, which we believe increases the risk of unexpected contribution escalations.
- The city funds OPEB liabilities on a pay-as-you-go basis, and we note these costs will continually challenge the budget due to the large liability and general health care climate.

As of June 30, 2021, Waterbury participated in the following pension plan:

- Waterbury Contributory Retirement System: 72.3% funded with a \$185.6 million net pension liability.

Waterbury's pension and OPEB contributions totaled 9.7% of total governmental fund expenditures in 2021. The city made its full annual required pension contribution in 2021 and we expect it will continue to do so. The Waterbury system's adopted amortization schedule is closed with 21 years remaining. While the city has been proactive by lowering the discount rate of these liabilities in the past from a high of 8.5% to the current discount rate of 7.8%, it remains well above our 6.0% guideline. In our opinion, this could lead to contribution volatility should actual performance not meet those assumptions. However, the level-dollar amortization cost method is positive, in our view, indicating a payment schedule where annual payments are unchanged from year to year. Notably, the city met our static funding metric in the most recent year, but did not meet the minimum funding progress calculation, indicating that the system is addressing current costs but not fully making headway addressing its unfunded liabilities.

Waterbury provides OPEBs in the form of health care and other benefits to retirees and their spouses. Its net OPEB liability was \$1.146 billion at the end of fiscal 2021. The city does maintain roughly \$23.6 million in health benefit reserves earmarked against this liability. We believe options are limited in its capacity to execute on a plan to meaningfully address the total liability and its effects on the annual budget. Ultimately, while the city remains proactive in managing these liabilities, we believe costs will continually rise and remain a source of credit pressure.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Waterbury City, Connecticut Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Weak economy				
Projected per capita EBI % of U.S.	65			
Market value per capita (\$)	55,595			
Population		114,403	107,803	108,296
County unemployment rate(%)			8.0	

Waterbury City, Connecticut Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Market value (\$000)	6,360,250	6,392,929	6,194,009	
Ten largest taxpayers % of taxable value	12.9			
Strong budgetary performance				
Operating fund result % of expenditures		0	0	0
Total governmental fund result % of expenditures		0	4	2
Adequate budgetary flexibility				
Available reserves % of operating expenditures		5	5	5
Total available reserves (\$000)		25045	24042	23584
Very strong liquidity				
Total government cash % of governmental fund expenditures		26	19	8
Total government cash % of governmental fund debt service		310	216	79
Very strong management				
Financial Management Assessment	Strong			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		8	9	10
Net direct debt % of governmental fund revenue	78			
Overall net debt % of market value	7			
Direct debt 10-year amortization (%)	54			
Required pension contribution % of governmental fund expenditures		4		
OPEB actual contribution % of governmental fund expenditures		6		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 11, 2022)

Waterbury pension oblig (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Waterbury GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Waterbury GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Waterbury GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of May 11, 2022) (cont.)

Waterbury GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Waterbury GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Waterbury GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Waterbury GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Waterbury GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Waterbury GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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