FitchRatings

Public Finance
Tax-Supported
U.S.A.

Waterbury, Connecticut

FACT Tools

Ratings

Long Term Issuer Default Rating	AA-

New Issue

$75,000,000 General Obligation Bonds, Issue of 2022	AA-

Outstanding Debt

General Obligation Bonds	AA-

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Waterbury, CT's $75MM Series 2022 GO Bonds 'AA-'; Outlook Stable (May 2022)

New Issue Summary

Sale Date: The bonds are scheduled to price via negotiated sale on May 24, 2022.

Series: GO bonds, Issue of 2022

Purpose: Proceeds of the bonds will be used to finance various capital improvement projects in the city.

Security: The bonds are general obligations of the city backed by its full faith and credit and unlimited taxing authority.

The IDR and GO bond rating of 'AA-' reflect the city's stable operating performance and high level of fundamental financial flexibility, supported by available general fund and non-general fund reserves. Expected improvement in tax base values following the upcoming five-year revaluation is expected to support general fund revenue growth in line with inflation. Adequate expenditure flexibility, solid reserve levels, and an elevated but moderate long-term liability burden additionally support the ratings. The city's other post-employment benefits (OPEB) liability remains very high and will likely remain high for some time, although management has been managing growth in these costs.

Economic Resource Base: Waterbury is located in the west-central portion of Connecticut, 21 miles north of New Haven, with a 2020 Census population of about 114,400, up about 4% from 2010. The city's proximity to Interstate 84 provides easy access to Hartford and major cities north and south and has helped attract new businesses to the city. Waterbury's economy is driven by manufacturing, but it also features higher education, health care and retail.

Key Rating Drivers

Revenue Framework: 'aa': Fitch expects natural growth in general fund revenues in line with long-term U.S. inflation, consistent with Fitch's expectations for future tax base performance and state aid. There is no legal limit to the real and personal property tax rate or levy.

Expenditure Framework: 'a': Natural spending growth is expected to expand generally in line with revenue growth as the city addresses increases in benefit and salary costs. Fixed carrying costs associated with debt, pension and OPEB obligations are currently manageable and the city maintains moderate control over wages and benefits in labor contracts.

Long-Term Liability Burden: 'a': The city's long-term liability burden, encompassing debt and Fitch-adjusted net pension liabilities, is moderate when compared to residents' personal income. However, the unfunded liability of the city's OPEB is very high and expected to remain so, notwithstanding the limitations on benefits for new hires since 2004 and movement of all eligible retirees over age 65 to Medicare as the primary payer in 2016.

Operating Performance: 'aaa': The city has historically maintained general fund reserves at 5% of working capital with excess surpluses allocated mostly to capital and internal service funds, consistent with special capital reserve fund (SCRF) bond fund balance restrictions that were recently lifted in April 2022 upon maturation of the SCRF bonds. These reserve levels have been sufficient to support a high degree of fundamental financial flexibility given the city's relatively low revenue volatility through economic cycles. Fitch expects the city will continue to maintain conservative budgeting practices now that SCRF requirements are lifted, adjusting tax rates when necessary to maintain ongoing structural balance.

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Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in overall fixed cost spending related to debt and retiree benefits leading to what Fitch believes is improved expenditure flexibility.
- Continued strong management of growth in expenditures in line with changes in revenue while preserving financial resilience levels.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A weakening of financial resilience evidenced by a sustained decline in available reserves.
- Growth in fixed carrying costs to a level closer to 25% of governmental spending, leading to a material weakening of expenditure flexibility.
- A reversal of natural revenue growth to trends below inflationary levels.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	5/06/22
AA–	Upgraded	Stable	11/07/17
A+	Affirmed	Positive	12/27/16
A+	Revised	Stable	4/30/10
A–	Upgraded	Stable	7/31/09
BBB+	Upgraded	Stable	10/05/07
BBB	Upgraded	Stable	4/19/06
BBB–	Affirmed	Stable	4/17/03
BBB–	Upgraded	—	4/02/02
BB	Affirmed	Positive	5/07/01
BB	Downgraded	Evolving[a]	12/01/00
BBB–	Downgraded	Negative[a]	11/22/00
BBB	Upgraded	—	1/18/00
BBB–	Affirmed	—	11/02/98
BBB–	Downgraded	Evolving[a]	5/21/96
BBB	Affirmed	Negative[a]	2/02/96
BBB	Assigned	—	7/29/93

[a]Rating Watch.

Current Developments

Fiscal 2021 audited results indicated another year of positive operating results, with YE surplus transfers of about $7.9 million (2% of spending) to non-general fund reserve accounts and a general fund net operating surplus of $1 million. Unrestricted general fund reserve levels grew to $25 million or about 5.5% of spending. Revenues benefited from property tax collections above budget and strong conveyance fee activity due to robust residential sales activity. YE operating results also benefited from vacancy savings across departments and about $2.6 million in reimbursements from pandemic related federal grants.

The fiscal 2022 adopted budget totaled about $425 million, up about 1% from the prior year's budget. The budget held the tax rate flat for the sixth consecutive year and included a $3 million appropriation of fund balance, similar to its practice in prior years. The city reports that both revenues and expenditures are trending favorably to budget, which has eliminated the need for the budgeted fund balance appropriation.

Management projects at least a $1 million addition to reserves. The city was allocated $75.4 million in American Rescue Plan Act (ARPA) funding and has received half of this allocation to date. The city intends to utilize the funding for a variety of eligible uses, including water, sewer, and parks improvements. Separately, the Waterbury Public Schools have been allocated $90 million in ARPA funds, which it plans to use to support school program and facilities improvements.

Covenants associated with the city's SCRF bonds have required the city to operate with certain financial constraints, contributing to the city's general fund stability over the past several years. The provisions for the SCRF bonds required the city to continue to appropriate any reserves in excess of 5% of spending for pay-as-you-go funding of capital and transfers to other funds requiring subsidies. If the city had not complied with these provisions, an early redemption mandate would have been triggered. With the final maturity of these bonds in April 2022, these restrictions have now been lifted, and the city plans to grow fund balance levels to its policy level of 8% of spending over the next few years.

The mayor's fiscal 2023 proposed budget totals about $429 million, up about 1% over the prior year's adopted budget. The real estate and personal property tax rates would remain flat. Fiscal 2023 spending growth is primarily related to increases in capital contributions and the general fund contingency account for upcoming employee contract renewals. The budget is subject to approval by the city's board of aldermen, with final approval expected by June 10, 2022.

Credit Profile

The city is largely industrial with some diversity from the education, health care, and retail sectors. Resident income and employment metrics compare unfavorably to the state and nation. However, these metrics have shown improvement over the past decade. The tax base remains below its pre-recession peak, but moderate growth has occurred the past five fiscal years and the upcoming revaluation (effective for fiscal 2024) is expected to show sizeable growth.

New developments include planned construction for a new 650,000 sf logistics center, and the city is also benefiting from state and federal funding for various brownfield remediation projects, which should help support future development once rehabilitations have been completed.

The city is home to Waterbury Hospital and Saint Mary's Hospital, the city's largest and second largest private employers, respectively. The city is also home to Post University, Naugatuck Valley Community College, and the Waterbury downtown branch of the University of Connecticut.

Revenue Framework

Property taxes are the city's largest source of revenue, making up about 61% of general fund budgetary revenues in fiscal 2022. State municipal aid accounts for the bulk of remaining general fund sources.

Fitch expects future natural revenue growth prospects to track long-term inflation over time. This assumption reflects a combination of slow long-term property value appreciation, modest population growth, and moderate new development contributing to future tax base expansion. The city's tax base was up 3% after the most recent five-year revaluation effective Oct. 1, 2017 for the fiscal 2019 tax year.

The next five-year revaluation will be effective October 2022 for the fiscal 2024 budget year. This revaluation is currently expected to show significant growth due to appreciation in property values and the robust sales activity that is occurring in the region. A change in property value due to sales activity is not captured in between revaluations.

The city has independent legal ability to raise property taxes without limit.

Expenditure Framework

The city is responsible for the provision of public education, the cost of which is funded by a combination of local contributions and state aid. Approximately half of the city's general fund spending is related to education, with public safety related expenses accounting for a major portion of city-related expenses.

Fitch expects the city's spending needs to grow at a pace in line with, to marginally above inflationary revenue growth in the absence of policy action. The city has the ability to reduce expenses tied to its services, including the ability to reduce staff at any time if necessary. Union contracts are subject to arbitration, but a decision may be rejected by a two-thirds vote by city council. A new arbitration panel would then be appointed by the state, and their subsequent decisions are binding but required to take into consideration the financial capability of the city.

Carrying costs related to debt service, actuarially determined pension contributions, and OPEB contributions were moderate at 17% of total governmental fund spending in fiscal 2021. Fixed costs are expected to remain relatively stable given debt service trends and slow growth in pension and OPEB costs. Management continues to monitor and manage changes in its employee benefit costs through its contract negotiations.

Long-Term Liability Burden

Fitch considers the city's long-term liability burden to be moderate at roughly 17% of residents' personal income. Direct debt obligations make up about 60% of the total. Future debt plans, combined with an average amortization schedule of about 61% of principal paid off over ten years (including this issuance), and the funded ratio of pensions suggest that liability levels should remain moderate when compared to the resource base.

The city's defined benefit pension plan for general employees had a reported net pension liability (NPL) of approximately $186 million, or an assets to liabilities ratio of 72%, based on the city's 7.9% investment rate of return (IRR) assumption. The NPL increases to $306 million, or 61% funded, when adjusted by Fitch to reflect a 6% IRR assumption. The plan's funded ratio was very low prior to the city issuing pension obligation bonds of roughly $313 million in 2009. Management is committed to making full actuarially determined contributions to the plan.

The city's OPEB liability represents a larger burden than debt and pension combined and weighs asymmetrically on the long-term liability assessment. The unfunded liability was $1.1 billion, as of a July 1, 2020 valuation, and equates to a very high 25% of personal income. The liability has increased in recent years, primarily due to reductions in the IRR assumption (2.16% for fiscal 2021).

The city has previously taken actions to reduce the liability by shifting all eligible retirees to Medicare coverage and requiring the majority of active employees to enroll in a high deductible health savings plan. Recent prescription plan changes were also made to help control growth in the liability. Fitch expects the liability will fluctuate based on future IRR assumptions but remain very high.

Operating Performance

The city exhibits ample gap-closing capacity and a high level of inherent budget flexibility based on its unlimited legal ability to raise revenues and adequate level of spending flexibility. General fund reserve levels have been maintained at 5% levels for many years and maintenance of other capital, debt and internal service fund reserves held outside the city's general fund provide for additional flexibility.

The city has adjusted tax rates and spending levels when needed to maintain structurally balanced operations. With the SCRF restrictions lifted, management has indicated its intention to continue to maintain its conservative budgetary management practices.

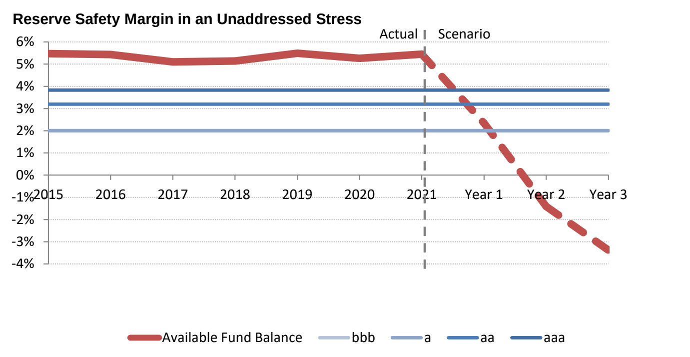
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Waterbury (CT)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

The city exhibits ample gap-closing capacity and a high level of inherent budget flexibility based on its unlimited legal ability to raise revenues and adequate level of spending flexibility. General fund reserve levels have been maintained at 5% levels for many years and maintenance of other capital, debt and internal service fund reserves held outside the city's general fund provide for additional flexibility.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)			2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%**	*Case Used:* **Moderate**	(1.3%)	1.3%	3.8%
Inherent Budget Flexibility				High	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2015	2016	2017	2018	2019	2020	2021	Year 1	Year 2	Year 3
Total Revenues	413,440	417,071	453,470	455,882	430,020	457,129	460,412	454,531	460,263	477,752
% Change in Revenues	-	0.9%	8.7%	0.5%	(5.7%)	6.3%	0.7%	(1.3%)	1.3%	3.8%
Total Expenditures	363,755	367,670	401,751	405,495	378,854	395,746	393,787	401,663	409,696	417,890
% Change in Expenditures	-	1.1%	9.3%	0.9%	(6.6%)	4.5%	(0.5%)	2.0%	2.0%	2.0%
Transfers In and Other Sources	-	-	-	-	-	-	-	-	-	-
Transfers Out and Other Uses	49,512	49,375	51,290	50,052	51,007	60,925	65,622	66,934	68,273	69,639
Net Transfers	(49,512)	(49,375)	(51,290)	(50,052)	(51,007)	(60,925)	(65,622)	(66,934)	(68,273)	(69,639)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	173	26	429	335	159	458	1,003	(14,066)	(17,706)	(9,777)
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.2%	(3.0%)	(3.7%)	(2.0%)
Unrestricted/Unreserved Fund Balance (General Fund)	22,635	22,661	23,090	23,425	23,584	24,042	25,045	10,979	(6,728)	(16,504)
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	22,635	22,661	23,090	23,425	23,584	24,042	25,045	10,979	(6,728)	(16,504)
Combined Available Fund Bal. (% of Expend. and Transfers Out)	5.5%	5.4%	5.1%	5.1%	5.5%	5.3%	5.5%	2.3%	(1.4%)	(3.4%)

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	20.4%	10.2%	6.4%	3.8%	2.6%
Reserve Safety Margin (aa)	15.3%	7.7%	5.1%	3.2%	2.0%
Reserve Safety Margin (a)	10.2%	5.1%	3.2%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.8%	2.6%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.