FitchRatings

Public Finance
Tax-Supported
U.S.A.

Danbury, Connecticut

New Issue Summary

Sale Date: The bonds and BANs are expected to sell competitively on June 30, 2022.

Series: GO Bonds Issue of 2022, GO BANs Issue of 2022

Purpose: Proceeds of the bonds will be used for various general city and school projects. The BANs are being issued to refinance a portion of outstanding BANs and for general city, sewer and school projects.

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

The 'AAA' IDR and GO bond rating incorporate Fitch's expectation that the city will maintain healthy financial flexibility through future economic downturns, consistent with a history of strong operating performance. 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 corresponds to the city's 'AAA' IDR and reflects the unlimited tax pledge for note repayment.

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 2021 population of roughly 86,800, which is up approximately 7% since 2010.

Key Rating Drivers

Revenue Framework: 'aa': Danbury's revenues are derived primarily from property taxes. Fitch expects natural general fund revenue growth to be above inflation but below U.S. GDP when considering changes in tax base values from future five-year revaluation results and new improvements. 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. Fixed carrying costs for debt service, pensions and OPEB represented a moderate 13% of fiscal 2020 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 overall debt and Fitch-adjusted net pension liabilities (NPL) represent a low 6% of estimated total personal income. The burden is expected to increase but remain in the low range given a manageable borrowing plan net of anticipated state support for school-related projects.

Operating Performance: 'aaa': Disciplined budget management practices support the city's consistently favorable operating performance. Fitch expects the city to manage well through periods of economic decline given its superior level of budgetary flexibility, relatively limited expected revenue volatility, and solid reserves.

Rating Sensitivities

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

- Not applicable for the 'AAA' or 'F1+' ratings.

FACT Tools

Ratings

Long Term Issuer Default Rating	AAA

New Issues

$20,000,000 General Obligation Bonds, Issue of 2022	AAA
$120,000,000 General Obligation Bond Anticipation Notes, Issue of 2022	F1+

Outstanding Debt

General Obligation Bonds	AAA
General Obligation Bond Anticipation Notes	F1+

Rating Outlook

Stable

Applicable Criteria

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

Related Research

Fitch Rates Danbury, CT's $20MM GO Bonds 'AAA' and $120MM GO BANs 'F1+'; Outlook Stable (June 2022)

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

- Weakening of revenue growth prospects to a level that lags the rate of inflation.
- A sustained decline in general fund reserves due to budgetary imbalances to a level that materially weakens financial resilience.
- For the short-term rating, a downgrade of the IDR below 'AA-', given the linkage between the short-term rating and the IDR.

Current Developments

The fiscal 2021 adopted budget totaled $262 million (about a 0.3% increase from the prior year's budget), included an appropriation of $4.6 million in fund balance, and kept the tax rate flat from the prior year. Unaudited results indicate a sizable general fund net operating surplus of $17.4 million, which built unrestricted reserve levels to $61 million (22% of spending). Positive results reflected recognition of $12.1 million in 'American Rescue Plan Act' (ARPA) funds classified as revenue replacement, as well as strong conveyance tax collections and vacancy-related expenditure savings.

The adopted fiscal 2022 budget totaled $267 million and left the tax rate unchanged. The budget increased the city's supplemental OPEB contribution to $1 million following a reduction in supplemental contributions to $500,000 in fiscal 2021 due to the pandemic. Year-to-date results have generally been favorable with revenues benefiting from strong conveyance tax collections as well as additional intergovernmental revenues above budget via an increased payment in lieu of taxes from the state of Connecticut. However, positive variances are not anticipated to fully offset budgeted use of fund balance, leading to a moderate reduction in unrestricted reserves at fiscal year-end.

The city's largest taxpayer, the Danbury Fair Mall, recently had a favorable ruling in a tax appeal on its 2017 grand list values, where the judge determined the value of the mall's assessment should be reduced by about $37 million (less than 0.5% of the total tax base). The negative finding of $4.6 million (covering four years of tax payments) will primarily be covered from the city's tax appeal contingency reserves. Nevertheless, the city still maintains healthy reserve levels that remain supportive of high fundamental financial flexibility through economic cycles.

The fiscal 2023 adopted budget totals $278 million, up about 4% yoy over the prior year's adopted budget and includes a 2% increase in the millage rate. Budgeted spending growth primarily reflects increased expenditures for education and retiree benefits. The city has been allocated $32 million in ARPA funds and schools were allocated about $36 million in funds. The city plans to utilize the funding for a variety of uses, including spending on ambulance operations, eligible capital projects, and for component units that experienced revenue declines due to the pandemic.

Credit Profile

Danbury benefits from continued economic development and its role as a 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 top 10 taxpayers comprise approximately 10% of the total, with the Danbury Fair Mall the largest at 3% of the 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 rate had typically trended below state and national levels.

Revenue Framework

Property taxes represented approximately 86% of fiscal 2022 budgeted general fund revenues, net of the pass-through payment for the state teachers' pension plan. The bulk of remaining general fund revenue is derived from state aid. The relatively modest size of state aid as a share of revenue helps to mitigate the effects of any potential future changes in this revenue source.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	6/24/22
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	8/26/05
AA+	Upgraded	—	7/23/98
AA	Assigned	—	1/19/94

Given continued development in the city, Fitch expects future natural revenue growth will increase at a rate exceeding inflation but below U.S. GDP growth. The city completed its statutorily required five-year revaluation, effective Oct. 1, 2017 for the fiscal 2019 budget year, and net taxable value experienced an approximate 9% increase. 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 between revaluations has typically ranged around 0.5%-1.5%.

The next five-year revaluation will be effective October 2022 for the fiscal 2024 budget year. Fitch expects the revaluation to show significant growth due to appreciation in property values and robust sales activity in the region.

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.

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

Fixed costs for debt service, pension and other post-employment benefits (OPEB) represented a moderate 13% of fiscal 2020 total governmental spending. Fitch expects fixed cost spending to remain moderate based on expectations for modest changes in debt service and increases in pension costs. 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. 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

The long-term liability burden for debt and Fitch-adjusted net pension liabilities (NPL) represent a low 6% of 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 77% 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 maintains seven separate single-employer pension plans covering substantially all of its eligible employees (collectively, the city's pension plans); the only exception is those public school teachers covered under the State of Connecticut Teachers' Retirement System, for which the state is responsible for funding. The city's most recent pension valuations reported a combined NPL of the pension plans of $89 million. Applying Fitch's standard 6% discount rate adjustment, the adjusted NPL increases to $141 million (approximately 2% of personal income) and the ratio of assets to liabilities equates to 71%.

The net OPEB liability for city and school board employees was $244 million (4% of personal income) as of the fiscal 2020 audit date. Prior to the pandemic, the city had been increasing its contribution toward its OPEB trust and the annual amount budgeted in fiscal 2020 was an additional $3 million on top of pay-go contributions. For fiscal 2021, the city reduced its supplementary contribution to $500,000 due to the pandemic, but the city plans to gradually restore the supplemental contribution and is increasing the amount to $1 million in fiscal 2022.

Operating Performance

Fitch believes Danbury is well-positioned to manage any challenges associated with future economic downturns while maintaining a high level of fundamental financial flexibility. The city's strong revenue raising ability, moderate fixed carrying costs and solid control over other expenditures afford the city substantial gap-closing capacity. Fitch expects the city will continue to maintain sound reserve levels through future 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 have supported balanced operations and stability in reserve levels over the past several fiscal years.

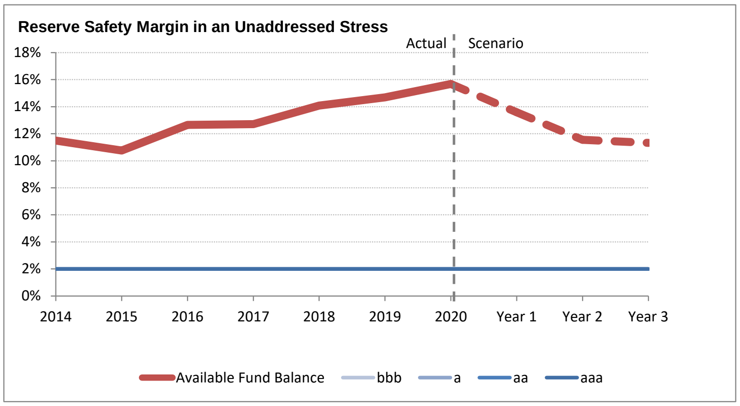
ESG Considerations

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.

Danbury (CT)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

Fitch believes Danbury is well-positioned to manage any challenges associated with future economic downturns while maintaining a high level of fundamental financial flexibility. The city's strong revenue raising ability, moderate fixed carrying costs and solid control over other expenditures afford the city substantial gap-closing capacity. Fitch expects the city will continue to maintain sound reserve levels through future economic cycles within its unassigned policy level of 8%-15% of budgeted expenditures.

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**	(1.0%)	1.6%	3.8%
Inherent Budget Flexibility				Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	Year 1	Year 2	Year 3
Total Revenues	240,935	248,796	258,267	273,850	282,344	269,744	282,866	280,037	284,574	295,496
% Change in Revenues	-	3.3%	3.8%	6.0%	3.1%	(4.5%)	4.9%	(1.0%)	1.6%	3.8%
Total Expenditures	239,563	246,091	254,116	267,936	273,695	264,455	276,920	282,458	288,107	293,870
% Change in Expenditures	-	2.7%	3.3%	5.4%	2.1%	(3.4%)	4.7%	2.0%	2.0%	2.0%
Transfers In and Other Sources	10,068	5,431	19,334	1,977	18,685	1,767	12,034	11,913	12,106	12,571
Transfers Out and Other Uses	11,050	5,550	21,935	4,796	22,717	6,090	13,371	13,638	13,911	14,189
Net Transfers	(982)	(119)	(2,601)	(2,819)	(4,032)	(4,323)	(1,337)	(1,725)	(1,805)	(1,618)
Bond Proceeds and Other One-Time Uses	-	-	15,862	-	17,140	-	7,344	-	-	-
Net Operating Surplus/(Deficit) After Transfers	390	2,585	1,550	3,095	4,618	965	4,608	(4,146)	(5,339)	9
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	0.2%	1.0%	0.6%	1.1%	1.7%	0.4%	1.6%	(1.4%)	(1.8%)	0.0%
Unrestricted/Unreserved Fund Balance (General Fund)	28,812	27,071	32,937	34,672	39,342	39,730	44,359	40,213	34,874	34,883
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	28,812	27,071	32,937	34,672	39,342	39,730	44,359	40,213	34,874	34,883
Combined Available Fund Bal. (% of Expend. and Transfers Out)	11.5%	10.8%	12.7%	12.7%	14.1%	14.7%	15.7%	13.6%	11.5%	11.3%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	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.

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