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Ratings

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Summary:

Danbury, Connecticut; General Obligation; Note

Primary Credit Analyst:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Secondary Contact:
Tyler Fitman, Boston (1) 617-530-8021; tyler.fitman@spglobal.com

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Credit Profile		
US$120.0 mil GO BANs dtd 07/14/2022 due 07/13/2023		
Short Term Rating	SP-1+	New
US$20.0 mil GO bnds, issue of 2022, Series A due 07/15/2032		
Long Term Rating	AA+/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the City of Danbury, Conn.'s $20.0 million series 2022 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's GO debt outstanding. S&P Global Ratings also assigned its 'SP-1+' short-term rating to Danbury's $120.0 million series 2022 GO bond anticipation notes (BANs) and affirmed its 'SP-1+' rating on the city's existing BANs. The outlook on all long-term ratings is stable.

The short-term rating on the notes reflects our criteria for evaluating and rating BANs. In our view, Danbury maintains a very strong capacity to pay principal and interest when the notes come due. We view its market risk profile as low because the city has strong legal authority to issue long-term debt to take out the notes and is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The bonds and BANs are a general obligation of the city, for which it has pledged its full faith and credit taxing power to levy ad valorem taxes, without limit as to rate or amount, on all taxable property within its jurisdiction.

Proceeds of the series 2022 bonds will support various capital projects in Danbury, including for its board of education, while notes proceeds will be used to roll over existing BANs and provide new money for various capital projects, including the wastewater treatment plant and the Danbury Career Academy.

Credit overview

The rating is underpinned by the city's very strong financial management, which has enabled it to maintain surplus operations. Danbury's very strong reserves and the stability of its largest revenue source, property taxes, provide important buffers against economic swings. That said, the city's diversified economy continues to expand with various residential and commercial developments supporting ongoing tax base growth. Overall fixed cost carrying charges for debt service, pensions, and other postemployment benefits (OPEB) are manageable, although the combined size of the unfunded pension and OPEB liabilities remains elevated, which could increase cost pressure over time.

The rating also reflects our view of Danbury's:

- Growing economy with access to broad and diversified metro areas,
- Well-embedded financial management policies and practices,

- Recurring surplus operations supporting very strong reserves, and
- Contained fixed cost carrying charges despite elevated unfunded pension and OPEB liabilities.

Environmental, social, and governance

We analyzed Danbury's environmental, social and governance risks relative to the city's economy, management, financial measures, and debt and liability profile, and consider them neutral within our credit rating analysis.

Stable Outlook

Upside scenario

While not anticipated during our outlook period, if Danbury's underlying economic indicators improve to levels commensurate with those of higher-rated peers, in addition to maintenance of reserves at levels we deem as very strong while the city continues to make progress on retirement liabilities, we could raise the rating.

Downside scenario

If the city's budgetary performance were to reverse to deficit performance or if increases in retirement liabilities pressure performance resulting in material reductions in reserves, we could consider a negative rating action.

Credit Opinion

Expanding economy with access to broad and diversified metro areas

Danbury is in southwest Connecticut approximately 30 miles northwest of Bridgeport with easy road access to New York City, Hartford, and Norwalk. Although the city has access to broader employment centers, it is also a regional employment center, with stable employers covering a broad spectrum of industries including health care and pharmaceutical.

Danbury continues to see a wide range of economic developments and redevelopment of existing structures. For instance, Encompass Health received approval to build a 100,000-square-foot inpatient rehabilitation hospital, which will lead to the creation of over 70 full-time jobs. A former office building, the Matrix Corporate Center, is being remodeled into office space and residential units under the name Summit at Danbury. The city's residential market remains strong, with ongoing grand list growth, and city officials expect residential properties to increase even more in value compared to commercial properties following an upcoming grand list revaluation in October 2022. Overall, we expect continued economic progress given the city's favorable location and proximity to major employment centers.

Well-embedded and formalized financial management policies

Danbury's budget assumptions are conservative and are prepared in conjunction with multiyear historical trend analysis. The city has formal budgetary, OPEB funding, debt management, and reserve policies. The debt management policy specifies debt limits, permissible debt structures, and use of bond proceeds. The reserve policy outlines holding unassigned reserves at 8%-15% of expenditures. We understand management provides elected officials with monthly budget updates, as required by the city charter, and investment reports as requested. Management maintains an informal long-term financial plan and updates its formal five-year, council-approved capital improvement plan annually.

Recurring surplus results leading to very strong reserves

We adjust the city's budgetary performance for recurring transfers and one-time capital expenditures paid for with bond proceeds. Unaudited results for fiscal 2021 show a substantial surplus. Conservative budgeting led to positive variances on the revenue and expense side, especially for Danbury's board of education. Of most importance, however, the city also recognized approximately $12.1 million in lost revenue, which it covered using American Rescue Plan Act (ARPA) funds. In total, the city will receive approximately $32.1 million in ARPA money and will use the remainder for various capital projects and other programs benefiting the community. Reserves were 16% at the end of fiscal 2020 but because of Danbury's strong fiscal 2021 performance, available fund balance increased by approximately $17 million or 38% year over year.

Danbury's fiscal 2022 budget included a 1.9% increase in the general fund from the previous year, a $2 million fund balance appropriation, and no mill rate increase for the third consecutive time. Revenue collection during the fiscal year remained strong, benefiting from the stability of Danbury's largest revenue source, property taxes (accounting for 74% of general fund revenues). At the same time, the city reported expenditure savings across all categories. One positive item: The impact of higher energy costs on the city's budget has been mitigated by the city's long-term supply contracts at prices lower than current spot prices. Consequently, management expects broadly balanced results with potentially only a minor draw on reserves after recurring transfers.

In its proposed fiscal 2023 budget, Danbury anticipates raising the mill rate by 2.25% in addition to 2.75% increases in water and sewer rates. These increases following a prolonged period of stable mill rates are aimed to cover higher costs from inflation and growing service needs, including six additional police officers. The city is also trying to rebuild reserves in anticipation of its upcoming grand list revaluation in October 2022 and potential tax appeals that could follow. Overall, we believe the city's strong track record of conservative budgeting and stable revenues, and management's proactive response to potential financial challenges, will allow Danbury to maintain strong budgetary performance and very strong reserves and liquidity over our outlook horizon. Danbury's liquidity position is also bolstered by strong market access and the absence of any contingent liquidity risks.

Manageable debt burden despite somewhat elevated pension and OPEB liabilities

Following the current bond issue, Danbury will have approximately $332.2 million of total direct debt outstanding, including $120 million in BANs. Although our calculation of debt amortization does not include the city's plans to amortize and permanently finance BANs, we note that including these plans would likely raise the amortization rate above 65%. Officials currently plan to issue about $16 million-$20 million of additional debt per year over the next five years broadly in line with annual principal repayments.

Pension and OPEB liabilities:

- We view pension and OPEB liabilities as a potential source of credit pressure for Danbury given the total size of the combined liabilities, but note that the pressure is mitigated due to the closure of the older plans and contributions remaining affordable compared with budget.
- Pensions face high risk of unexpected contribution escalations as a result of an elevated return assumption compared to our guidelines, notwithstanding a recent 125 basis point reduction to 72%.

- OPEB liabilities are largely paid on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs.

Danbury participated in the following defined-benefit plans, measured as of June 30, 2020:

- General Employees Plan: 66.93% funded, $53.3 million net pension liability;
- Pre-1967 Police Plan: 31.21% funded, $3.0 million net pension liability;
- Pre-1967 Fire Plan: 30.04% funded, $3.8 million net pension liability;
- Post-1967 Police Plan: 57.72% funded, $26.8 million net pension liability;
- Post-1967 Fire Plan: 66.20% funded, $38.5 million net pension liability;
- Post-1983 Police Plan: 60.84% funded, $29.9 million net pension liability;
- Post-2011 Fire Plan: 74.05% funded, $344,273 net pension liability; and
- A single-employer, defined-benefit health care plan for city and school district employees: 5.7% funded and net OPEB liability of $243.9 million.

In line with its policy, the city continues to make 100% of its annual required pension contribution. Although retirement costs remain manageable, we believe increasing pension and OPEB contributions could pressure the budget and note that contributions are scheduled to increase each year with expected payroll growth. While a number of the plans are lower funded, in our opinion, we do not consider them as a substantial risk factor because of their limited size. Assets for each of the city's pension plans may only be used to pay benefits for that plan but all are invested in a single trust, assuming an annual return of 7%.

Management's policy for the OPEB plan is to contribute in excess of the minimum pay-as-you-go amount, with a goal of eventually paying the actuarial recommendation. As of fiscal 2020, Danbury had under $12 million set aside in trust fund assets to cover the OPEB liabilities, and there is no plan to negotiate for reducing benefits.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Danbury, Connecticut -- Key Credit Metrics				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Strong economy				
Projected per capita EBI % of U.S.	95			
Market value per capita ($)	135,427			
Population		85,808	86,302	84,641
County unemployment rate(%)	6.1			
Market value ($000)	11,277,481			
Ten largest taxpayers % of taxable value	9.8			
Strong budgetary performance				
Operating fund result % of expenditures		1.0	(0.3)	1.1

Danbury, Connecticut -- Key Credit Metrics (cont.)	Most recent	Historical information		
		2020	2019	2018
Total governmental fund result % of expenditures		1.4	1.9	(0.0)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		15.7	14.7	14.1
Total available reserves ($000)		44,360	39,731	39,342
Very strong liquidity				
Total government cash % of governmental fund expenditures		25	23	20
Total government cash % of governmental fund debt service		455	292	216
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.5	7.8	9.3
Net direct debt % of governmental fund revenue	73			
Overall net debt % of market value	2.1			
Direct debt 10-year amortization (%)	49			
Required pension contribution % of governmental fund expenditures		4.1		
OPEB actual contribution % of governmental fund expenditures		3.3		
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 June 27, 2022)		
Danbury GO		
Long Term Rating	AA+/Stable	Affirmed
Danbury GO BANs		
Short Term Rating	SP-1+	Affirmed