

Danbury, Connecticut

Full Rating Report

Ratings

| | |
|---------------------------------------------------|-----|
| Issuer Default Rating | AAA |
| New Issues | |
| General Obligation Bonds, Issue of 2016, Series B | AAA |
| Bond Anticipation Notes of 2016 | F1+ |
| Outstanding Debt | |
| General Obligation Bonds | AAA |
| Bond Anticipation Notes | F1+ |

Rating Outlook

Stable

New Issue Details

Sale Information: \$16,000,000 General Obligation Bonds, Issue of 2016, Series B, and \$64,000,000 Bond Anticipation Notes of 2016 via competition on July 12.

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

Security: The bonds and BANs are general obligations of Danbury backed by its full faith and credit and unlimited taxing power.

Maturity: GOs, July 15, 2036; BANs, July 20, 2017.

Key Rating Drivers

Revenue Framework ('aaa' factor assessment): Danbury's revenues had a compound annual growth rate of 4.3% between fiscal 2004 and fiscal 2014, above both U.S. GDP and the consumer price index for the same period. Revenue growth came from a mix of tax rate increases and tax base growth. Fitch Ratings expects more modest revenue growth absent additional tax increases reflective of continued slow growth in housing values, a moderate level of property improvements and the city's generally strong and stable economic underpinnings.

Expenditure Framework ('aa' factor assessment): Fitch expects the natural pace of spending growth to be in line with to slightly above natural revenue growth over time. Carrying costs for long-term liabilities claim a moderate proportion of 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. General spending will be limited by a state imposed 2.5% cap beginning with fiscal 2018 budgets, but exemptions exist for some items, including debt service.

Long-Term Liability Burden ('aaa' factor assessment): Fitch anticipates Danbury's long-term liability burden to remain low based on a manageable borrowing plan net of anticipated state support for school-related projects and a practice of fully funding its pension actuarially determined contribution (ADC). The city's debt and adjusted unfunded net pension liabilities are low, at 5.8% of personal income.

Operating Performance ('aaa' factor assessment): Fitch expects the city to manage through periods of economic decline while maintaining a sound financial cushion on the basis of its superior level of budgetary flexibility and adequate reserves. Disciplined budget management practices support the city's consistently favorable operating performance.

Short-Term Considerations: The 'F1+' short-term rating reflects the strong market access indicated by the city's high long-term credit quality.

Rating Sensitivities

Financial Flexibility: The Issuer Default Rating (IDR) and GO ratings are sensitive to the city's ability to maintain financial flexibility including adequate reserves in light of modest expected growth in the tax base in the near term and a manageable, but growing, expenditure base.

Related Research

Fitch Rates Danbury, CT's 2016 GO Bonds 'AAA' and BANs 'F1+'; Outlook Stable (July 2016)

Analysts

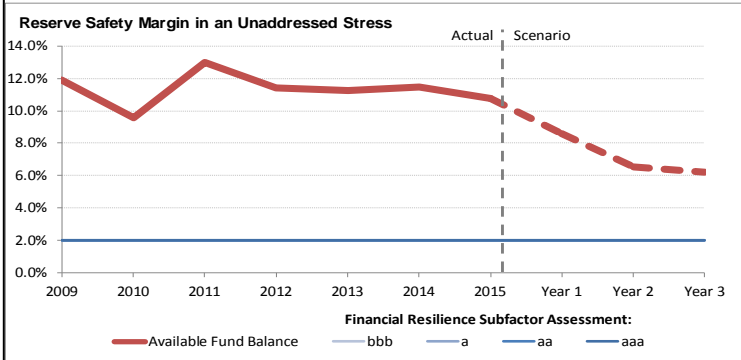
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Danbury (CT)

Scenario Analysis

v. 1.10 2016/06/22



Analyst Interpretation of Scenario Results:
 Fitch expects management will continue to maintain strong reserve levels throughout an economic cycle given its historically stable revenue performance, high degree of inherent budget flexibility, and demonstrated commitment to maintaining reserves at its policy level of 8%-15% of budgeted expenditures. During the most recent downturn the city demonstrated its ability to reduce spending through cost controls and staff reductions and Fitch expects management would take the same actions to maintain its strong financial resilience.

| 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) | (1.0%) | 2.1% | 3.7% |
| Inherent Budget Flexibility | Superior | | |

| Revenues, Expenditures, and Fund Balance | Actuals | | | | | | | Scenario Output | | |
|----------------------------------------------------------------------|------------------------------------|----------------|----------------|-----------------|-------------|-----------------|---------|-----------------|---------|---------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Year 1 | Year 2 | Year 3 |
| Total Revenues | 206,365 | 205,566 | 213,266 | 225,901 | 232,383 | 240,935 | 248,796 | 246,308 | 251,379 | 260,728 |
| % Change in Revenues | - | (0.4%) | 3.7% | 5.9% | 2.9% | 3.7% | 3.3% | (1.0%) | 2.1% | 3.7% |
| Total Expenditures | 208,343 | 209,804 | 215,555 | 226,563 | 233,931 | 239,563 | 246,091 | 251,013 | 256,033 | 261,154 |
| % Change in Expenditures | - | 0.7% | 2.7% | 5.1% | 3.3% | 2.4% | 2.7% | 2.0% | 2.0% | 2.0% |
| Transfers In and Other Sources | 2,051 | 41,378 | 4,013 | 17,021 | 15,909 | 10,068 | 5,431 | 5,377 | 5,487 | 5,691 |
| Transfers Out and Other Uses | 744 | 38,046 | 759 | 16,260 | 14,189 | 11,050 | 5,550 | 5,661 | 5,774 | 5,890 |
| Net Transfers | 1,307 | 3,332 | 3,254 | 761 | 1,720 | (982) | (119) | (284) | (287) | (198) |
| Bond Proceeds and Other One-Time Uses | - | - | - | - | - | - | - | - | - | - |
| Net Operating Surplus(+)/Deficit(-) After Transfers | (671) | (906) | 965 | 99 | 172 | 390 | 2,585 | (4,990) | (4,941) | (625) |
| Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out) | (0.3%) | (0.4%) | 0.4% | 0.0% | 0.1% | 0.2% | 1.0% | (1.9%) | (1.9%) | (0.2%) |
| Unrestricted/Unreserved Fund Balance (General Fund) | 24,920 | 23,751 | 28,115 | 27,696 | 27,900 | 28,812 | 27,071 | 22,081 | 17,139 | 16,515 |
| Other Available Funds (Analyst Input) | - | - | - | - | - | - | - | - | - | - |
| Combined Available Funds Balance (GF + Analyst Input) | 24,920 | 23,751 | 28,115 | 27,696 | 27,900 | 28,812 | 27,071 | 22,081 | 17,139 | 16,515 |
| Combined Available Fund Bal. (% of Expend. and Transfers Out) | 11.9% | 9.6% | 13.0% | 11.4% | 11.2% | 11.5% | 10.8% | 8.6% | 6.5% | 6.2% |
| Reserve Safety Margins | Inherent Budget Flexibility | | | | | | | | | |
| | | 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 downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. 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.

Rating History

| Rating | Action | Outlook/ Watch | Date |
|--------|----------|-------------------|---------|
| AAA | Affirmed | Stable | 7/9/15 |
| AAA | Affirmed | Stable | 7/10/14 |
| AAA | Revised | Stable | 4/30/10 |
| AA+ | Affirmed | Stable | 7/7/09 |
| AA+ | Upgraded | — | 7/23/98 |
| AA | Assigned | — | 1/19/94 |

Credit Profile

The 'AAA' IDR and GO rating reflect Fitch's expectation for the city of Danbury to maintain healthy financial flexibility throughout economic cycles, consistent with a history of strong operating performance and sound reserves. The city's strong financial profile reflects a wealthy property tax base, moderate expenditure growth, and a demonstrated ability to reduce expenditures during economic downturns.

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 2015 population of 84,657 (up 12.7% since 2000). Danbury benefits from continued economic development and its role as an important regional employment and retail center. The Western Connecticut Health Network affiliated Danbury Hospital is the city's largest employer with 2,283 employees. Other large employers include Boehringer-Ingelheim Pharmaceuticals (1,800 employees), Cartus Corporation (a corporate relocation firm with 1,349 employees), and Pitney Bowes (650). The city is also home to Western Connecticut State University, one of four state-operated universities. The university had 4,328 full time students in fall of 2015.

The city's unemployment rate is consistently below state and national levels. Income levels register comfortably above national averages, but remain below the above-average Fairfield County and state levels.

Revenue Framework

Property taxes represent approximately 83% of fiscal 2017 budgeted revenues. 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. State aid has been subject to cuts recently and represents approximately 14% of fiscal 2017 operating revenues.

Fitch expects modest tax base growth, slightly above inflation over time. Housing values have experienced only modest gains since 2012 according to Zillow.com and Zillow.com projections call for values to remain similar to prior year trends. The state requires local governments to undergo a revaluation every five years. Between valuations tax base changes reflect only property improvements or new additions but not the results of sales of property. The city's last revaluation was performed effective Oct. 1, 2012 for fiscal 2014 and resulted in a sizable 13.5% decline in taxable value.

Expenditure Framework

Danbury's spending is primarily for education and city employee salary and benefits and management has kept growth in these costs at a moderate level. Fixed costs for debt service, pension, and other post-employment benefits (OPEB) represent a moderate 11.5% of fiscal 2015 spending. The city has increased its funding of OPEB over pay-as-you-go by approximately \$500,000 in fiscal 2015 and \$1 million (0.4% of general fund spending) in fiscal 2016. Management prudently plans to increase its OPEB funding by an additional 5% each year until it reaches full funding of the annual required contribution, forecast in fiscal 2036. The fiscal 2017 budget increases the current budget level by \$500,000 to \$1.5 million.

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

The city has the ability to reduce expenses tied to its services and budgets generally include a transfer out for pay-as-you-go capital spending. The fiscal 2017 budget includes a capital spending appropriation of \$3.8 million, or 1.6% of budget. Management has the ability to

Related Criteria

[U.S. Tax-Supported Rating Criteria \(April 2016\)](#)

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 by the city's legislative body. Arbitration decisions are required to take into consideration the financial capability of the employer.

State legislation was passed last year imposing a 2.5% spending cap on local governments' general spending growth budgets beginning in fiscal 2018. The cap limits annual increases to 2.5% over the spending level for the previous fiscal year, or the rate of inflation, whichever is greater. The cap excludes expenditures for debt service, special education, court orders and arbitration awards. There is an exception for major disasters provided there is a presidential or gubernatorial declaration of emergency.

Towns and cities that increase their general budget expenditures over the previous fiscal year by an amount that exceeds this cap receive a reduced municipal revenue sharing grant. The reduction is equal to 50 cents for every dollar the local government spends over the cap. Danbury is projecting to receive \$2.7 million (1.1% of budgeted general fund revenues) from this grant in fiscal 2017. Although this spending cap does limit the city's overall spending flexibility, Fitch does not believe it will have a notable impact on its financial operations based on the city's historically stable operating results and conservative budget practices.

Long-Term Liability Burden

Long-term liabilities for debt and unfunded pensions represent a low 5.8% of 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 annual pension contribution. Additionally, debt amortization is rapid with 70% of principal paid off over 10 years. City policy restricts annual debt service costs to no greater than 10% of the general fund spending (currently 7%) and debt not to exceed 3% of taxable assessed value (currently 2.8%).

Voters have approved a number of capital improvement initiatives over the past few years, including \$53.5 million in high school expansions and renovations approved June 2015. Costs for this project are eligible for an estimated 80% reimbursement from the state. Future general fund supported debt of \$12 million–\$15 million annually for the next four years is anticipated to meet these initiatives without notably increasing the liability burden.

The city maintains seven separate single employer pension plans covering substantially all of its eligible employees (collectively, the city's pension plans), except those public school teachers covered under the State of Connecticut Teachers' Retirement System. The city's pension plans are funded at an estimated Fitch-adjusted 72% using a 7% investment return rate and the aggregate estimated net pension liability based on this return is \$99.6 million (1% of market value and 1.9% of personal income) as of June 30, 2015.

The unfunded OPEB liability for town and school board employees was a manageable \$258 million (2.6% of market value and 4.9% of personal income) as of the July 2014 valuation.

Operating Performance

Fitch expects the city will continue to maintain sound reserve levels throughout economic cycles given its historically stable revenue performance, superior inherent budget flexibility, and demonstrated commitment to maintaining reserves within its policy level of 8%–15% of budgeted expenditures. The city has experienced steady growth in revenues largely driven by consistent moderate increases in the property tax rate that have supported growth in

expenditures and helped maintain a level of reserves well above the level Fitch deems adequate to maintain an 'aaa' financial resilience assessment.

At fiscal year-end 2015, the general fund experienced a net surplus after transfers of \$2.6 million as a result of conservative spending estimates offsetting a decline in anticipated intergovernmental revenues, lower than anticipated debt service costs due to a bond refunding, and \$3.8 million in proceeds from the sale of assets. Transfers out of \$5.5 million were primarily associated with capital projects. The unrestricted general fund balance of \$27.1 million represents 11% of spending, which includes a pass-through of state support for teachers' pension contributions.

The fiscal 2016 budget of \$237.7 million was up less than 1% over the prior year's budget and included increases in debt, pensions, and other employee benefits as well as a \$1.8 million appropriation of fund balance. Spending for capital from the general fund operational budget was \$2.2 million in fiscal 2016. Management is projecting essentially flat operations with a potential for a small use of appropriated fund balance.

Danbury's fiscal 2017 budget of \$244 million is up 2.6% from the prior years' budget. The bulk of the increase is for education which is up 1.8% and also a general wage increase. The budget includes a \$750,000 appropriation of fund balance, down from the \$1.8 million in fiscal 2016 as management continues its commitment to completely eliminate the use of fund balance to balance its budgets. Capital funding was budgeted at \$3.8 million. Tax base growth of 1.2% from new projects generated approximately \$1.8 million in new tax revenues.

The state of Connecticut enacted cuts to municipal and education aid programs for the city of approximately \$1.5 million after the city's fiscal 2017 budget was approved. Management has outlined a plan to address this shortfall through cost controls and projected employee contract savings.

During the most recent downturn management demonstrated its ability to reduce spending through cost controls, staff reductions, and deferred hiring practices. Fitch expects management would take similar actions if needed to maintain its strong financial resilience. At times of economic recovery, the city acts to maintain balances within policy levels.

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