

Danbury, Connecticut

New Issue Report

Ratings

Long-Term Issuer Default Rating AAA

New Issues

\$15,500,000 General Obligation Bonds, Series 2018 AAA

\$23,500,000 General Obligation Bond Anticipation Notes F1+

Outstanding Debt

General Obligation Bonds AAA

Rating Outlook

Stable

New Issue Summary

Sale Date: July 10 via competitive sale.

Series: \$15,500,000 General Obligation Bonds, Series 2018, and \$23,500,000 General Obligation Bond Anticipation Notes (BANs), maturing July 18, 2019.

Purpose: Bonds: to refinance a portion of outstanding BANs and for various general purpose and school projects. BANs: for general city, sewer and school projects.

Security: The city of Danbury's full faith and credit and unlimited taxing power.

Analytical Conclusion

The 'AAA' IDR and GO bond rating reflect Fitch Ratings' 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 ratings also reflect a low long-term liability burden and budgetary strengths inherent in an unlimited legal ability to raise property tax revenues, as well as a solid level of expenditure flexibility. The 'F1+' short-term rating on the BANs is based on Fitch's mapping to the long-term credit quality of the city.

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 2017 census population of 85,246, which is up approximately 5% from 2010.

Key Rating Drivers

Revenue Framework: 'aa'

Danbury's revenues are derived primarily from property taxes. General fund revenue growth has been in excess of inflation over the past 10 years through fiscal 2017, reflecting a mix of tax rate increases and tax base growth. Fitch expects similar trends to continue based on economic development underway, recent changes in housing values, and the city's generally strong and stable economic underpinnings. 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. Carrying costs for debt service, pensions and other post-employment benefits (OPEB) 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.

Long-Term Liability Burden: 'aaa'

Danbury's long-term liability burden is low at 6% of residents' estimated personal income and is not expected to change materially based on a manageable borrowing plan, net of anticipated state support for school-related projects, and a practice of fully funding its actuarially determined pension contributions.

Analysts

Kevin Dolan
+1 212 908-0538
kevin.dolan@fitchratings.com

Andrew Hoffman
+1 212 908-0527
andrew.hoffman@fitchratings.com

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	7/2/18
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	8/26/05
AA+	Upgraded	—	7/23/98
AA	Assigned	—	1/19/94

Operating Performance: 'aaa'

Fitch expects the city to manage through periods of economic decline while maintaining a high gap-closing capacity 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.

Rating Sensitivities

Strong Management Practices: The 'AAA' IDR and GO bond rating are sensitive to shifts in the city's strong financial management practices and maintenance of fundamental financial flexibility.

Credit Profile

Danbury benefits from continued economic development and its role as an important regional employment and retail center. The city's major employers, apart from 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 Danbury Fair Mall is the city's largest taxpayer at 3.5% of the tax base, and, overall, the top 10 taxpayers represent approximately 9%.

Wealth levels register comfortably above national averages, but remain lower than the above-average Fairfield County and state levels. The city's unemployment rates have traditionally trended below state and national levels. Unemployment rates for the month of May 2018 were 3.4% for the city, compared with 4.3% for the state and 3.6% for the nation.

Revenue Framework

Property taxes represented approximately 84% of fiscal 2017 general fund revenues, net of the state pass-through payment for the state teachers' pension plan. State and federal aid represented 13% of these revenues, the former being subject to cuts in recent years due to the state's fiscal issues.

The city completed its statutorily required five-year revaluation, effective Oct. 1, 2017, for the upcoming fiscal 2019 budget year, and net taxable value increased 8.5% year over year. The city's last revaluation occurred on Oct. 1, 2012, effective for fiscal 2014, and resulted in a sizable 13.5% decline in taxable value. Between valuations, tax base changes reflect only property improvements or new additions and changes due to appeals, but not the results of sales of property. Growth between revaluations ranged from 0.9% to 1.5% annually from fiscal years 2015–2018. Fitch expects moderate tax base growth to continue to occur based on developments underway, and planned and recent increases in housing prices. Housing prices were up over 7% year over year through May 2018, according to Zillow.com.

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. Fixed costs for debt service, pension and OPEB represented a moderate 13% of fiscal 2017 total governmental spending. Fitch expects fixed-cost spending to remain moderate based on expectations for changes in debt service and moderate increases in pension costs.

Related Research

Fitch Rates Danbury, CT's \$15.5MM 2018 GO Bonds 'AAA' and \$23.5MM BANs 'F1+'; Outlook Stable (July 2018)

Related Criteria

U.S. Public Finance Short-Term Debt Rating Criteria (November 2017)

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

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 typically budgets for a moderate level of pay-as-you-go capital spending (1%–2% of budget). 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 by the city's legislative body. Arbitration decisions are required to take into consideration the financial capability of the employer. A new arbitration panel would then be appointed by the state, and its subsequent decisions are required to take into consideration the financial capability of the employer. Recent labor agreements have produced manageable salary increases.

Long-Term Liability Burden

With this issuance, the long-term liability burden for debt and the city's Fitch-adjusted net pension liability (NPL) represent a low 6% of residents' 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 to full funding of its actuarially determined pension contributions. Additionally, general fund-supported debt amortization is rapid with 73% of principal paid off over 10 years. City policy restricts annual debt service costs to no greater than 10% of general fund spending (currently about 7%).

The city maintains seven separate single-employer pension plans covering substantially all its eligible employees (collectively, the city's pension plans), except those public school teachers covered under the State of Connecticut Teachers' Retirement System, for which the state is responsible to fund. As of June 30, 2017, the city's pension plans had a Fitch-adjusted aggregate estimated assets to liabilities ratio of 60% using a 6% investment rate of return. The aggregate estimated NPL based on the Fitch rate of return assumption was \$172 million, or approximately 3% of personal income.

The unfunded OPEB liability for town and school board employees, based on the GASB 74 reporting requirements, was \$227 million (4% of personal income) as of June 30, 2017. Recent changes in the city's insurance plans are expected to help control growth in these costs.

Operating Performance

Danbury's 'aaa' operating performance assessment is based on Fitch's view of the city's superior inherent budget flexibility, in conjunction with its stable and high level of reserves in relation to expected revenue volatility through economic cycles. For details, see Scenario Analysis, page 5.

Management's use of conservative budget estimates, combined with consistent but moderate increases in the property tax rate, has supported balanced operations over the past several fiscal years and stability in reserve levels. At fiscal year-end 2017, the general fund balance improved by approximately \$3 million (about 1% of spending), and the unrestricted fund balance improved to approximately \$35 million, or 13% of general fund spending. Results included \$2 million in bond premiums but also reflected state aid cuts of roughly \$1.5 million, which occurred mid-year after the city's budget was adopted.

Projections for fiscal 2018 are again positive with a modest surplus expected for the general fund. The city experienced a \$4 million decline in state aid compared to budget, but again assumed conservative budget estimates and continued its hiring freeze on all non-essential positions to help overcome the loss in aid. Other offsetting factors included savings incurred

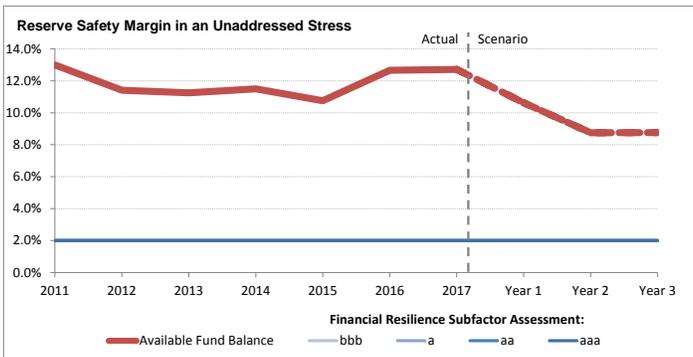
from switching to a self-insurance health plan and higher than anticipated non-advalorem revenues.

The city's fiscal 2019 budget totals \$257 million and represents a \$6.5 million increase over the prior year's adopted budget. The bulk of the increase is related to an increase in school spending of approximately \$4 million to accommodate contractual salary increases and increases in spending related to the recently completed expansions to the high school. These include security enhancements and some additional staffing. The budget includes the use of previously assigned general fund reserves of approximately \$4 million for capital-related purposes. The tax mill rate was reduced 4.66%, or by 1.35 mills, to 27.6 mills, reflecting the tax base increase.

Danbury (CT)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

Danbury's 'aaa' operating performance assessment is based on Fitch's view of the city's superior inherent budget flexibility in conjunction with its stable and high level of reserves in relation to expected revenue volatility through economic cycles. The impact on the city's financial position is expected to be limited due to the city's unlimited tax raising capacity. Fitch expects the city will continue to maintain sound reserve levels throughout economic cycles within its 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)	(1.0%)	2.2%	3.9%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	213,266	225,901	232,383	240,935	248,796	258,267	273,850	271,112	277,041	287,862
% Change in Revenues	-	5.9%	2.9%	3.7%	3.3%	3.8%	6.0%	(1.0%)	2.2%	3.9%
Total Expenditures	215,555	226,563	233,931	239,563	246,091	254,116	267,936	273,295	278,761	284,336
% Change in Expenditures	-	5.1%	3.3%	2.7%	3.3%	3.3%	5.4%	2.0%	2.0%	2.0%
Transfers In and Other Sources	4,013	17,021	15,909	10,068	5,431	19,334	1,977	1,958	2,000	2,079
Transfers Out and Other Uses	759	16,260	14,189	11,050	5,550	21,935	4,796	4,892	4,990	5,089
Net Transfers	3,254	761	1,720	(982)	(119)	(2,601)	(2,819)	(2,934)	(2,989)	(3,011)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	15,862	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	965	99	172	390	2,585	1,550	3,095	(5,118)	(4,709)	515
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	0.4%	0.0%	0.1%	0.2%	1.0%	0.6%	1.1%	(1.8%)	(1.7%)	0.2%
Unrestricted/Unreserved Fund Balance (General Fund)	28,115	27,696	27,900	28,812	27,071	32,937	34,672	29,554	24,844	25,359
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	28,115	27,696	27,900	28,812	27,071	32,937	34,672	29,554	24,844	25,359
Combined Available Fund Bal. (% of Expend. and Transfers Out)	13.0%	11.4%	11.2%	11.5%	10.8%	12.7%	12.7%	10.6%	8.8%	8.8%
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.

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.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.