

CREDIT OPINION

2 July 2018

 Rate this Research

Contacts

Joseph Manoleas +1.212.553.7106
Analyst
joseph.manoleas@moodys.com

Lauren Von Bargaen +1.212.553.4491
AVP-Analyst
lauren.vonbargaen@moodys.com

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Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Danbury (City of) CT

Update to credit analysis

Summary

Danbury, Connecticut (Aa1) benefits from a sizeable tax base with average resident wealth and income levels. The city's financial position is stable. Danbury's debt burden is above average and its pension and OPEB liabilities are manageable.

Credit strengths

- » Sizeable and growing tax base in Fairfield County, Connecticut
- » Multi-year trend of stable financial operations
- » Formalized fund balance and debt policies
- » Strong pension and OPEB funding practices

Credit challenges

- » Wealth and income levels below the state median for the rating category
- » Above average debt burden

Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Sustained increase in financial reserves
- » Material tax base growth and diversification
- » Significant improvement in wealth and income levels

Factors that could lead to a downgrade

- » Operating deficits resulting in a decline in reserves or liquidity
- » Significant declines in tax base or deterioration of resident wealth and incomes
- » Further increase in debt, reducing the city's budgetary flexibility

Key indicators

Exhibit 1

Danbury (City of) CT	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$9,161,036	\$9,754,448	\$10,106,163	\$10,072,276	\$10,377,905
Population	81,967	82,781	83,476	83,890	84,992
Full Value Per Capita	\$111,765	\$117,834	\$121,067	\$120,065	\$122,104
Median Family Income (% of US Median)	116.1%	119.1%	118.4%	113.7%	113.7%
Finances					
Operating Revenue (\$000)	\$233,170	\$243,095	\$252,799	\$260,278	\$273,850
Fund Balance (\$000)	\$27,900	\$28,812	\$27,071	\$32,937	\$34,672
Cash Balance (\$000)	\$23,022	\$23,525	\$23,111	\$33,603	\$36,872
Fund Balance as a % of Revenues	12.0%	11.9%	10.7%	12.7%	12.7%
Cash Balance as a % of Revenues	9.9%	9.7%	9.1%	12.9%	13.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$176,046	\$198,764	\$187,474	\$186,183	\$223,983
3-Year Average of Moody's ANPL (\$000)	\$114,154	\$147,326	\$183,867	\$238,435	\$277,354
Net Direct Debt / Full Value (%)	1.9%	2.0%	1.9%	1.8%	2.2%
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.7x	0.7x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.2%	1.5%	1.8%	2.4%	2.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.6x	0.7x	0.9x	1.0x

Source: Moody's Investors Service, audited financial statements

Profile

The city is located northern Fairfield County, bordering New York State (Aa1 stable). Danbury's population as of the 2016 American Community Survey was 83,890.

Detailed credit considerations

Economy and Tax Base: Sizeable tax base in Fairfield County

Located in southwestern Connecticut (A1 stable) along Interstate 84, Danbury benefits from its proximity to major transportation corridors and continues to evolve as a regional economic and employment center for upper Fairfield County. The sizeable \$10.3 billion equalized net grand list (ENGL) increased in three of the last four years, growing at a five-year average annual rate of 1.4%. This compares favorably to the state median of 0%.

The net taxable grand list, on which the tax levy is based, has increased in five consecutive years, averaging 2.5% annually for fiscal 2016-2019. The city's grand list grew 8.5% in fiscal 2019 due to a revaluation. The city is home to a strong retail presence, specifically the Danbury Fair Mall, which is one of the largest shopping centers in New England. The mall is the city's largest taxpayer at 3.5% of the grand list. Moderate new growth will come from several small to midsize commercial and residential projects that are currently at various stages of development. Favorably, the city is one of the fastest growing municipalities by population in the state.

The median family income (MFI) of \$77,188 is above average compared to the US (114% of US), but trails the state (85% of state level). Similarly, the ENGL per capita at \$122,104 is above US levels but less than the state average. Although the MFI and wealth levels are below the state medians for the rating category. The city's labor market is healthy with unemployment at 4.1% (as of March 2018), below the state's jobless rates of 4.7% and even with the nation's at 4.1%.

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Financial Operations and Reserves: Stable Reserves; Balanced operations in fiscal 2018 despite challenging state funding environment

Available General Fund reserves have remained very stable over the past decade, with available fund balance as a percentage of revenues remaining within a narrow band of 11.4% to 13.0%. Audited fiscal 2017 available reserves were \$34.7 million, or a satisfactory 12.7% of revenues. While these levels are in line with state medians, they are below the national medians. These relatively low fund balance levels are mitigated by the city's stable operating performance that benefits from a substantial portion of its revenues coming from resilient and predictable property taxes, as well as formal financial and debt policies.

Management reports that fiscal 2018 operating performance is positive, and the city anticipates incurring an approximately \$1.5 million surplus and growth to fund balance. Estimates for fiscal year end available General Fund reserves is \$36.2 million, or approximately 14.8% of General Fund revenues. Positively, despite the State of Connecticut's fiscal uncertainties and its imposition of certain cuts to municipal aid, Danbury remained largely unaffected in fiscal 2018. The city's total statutory formula aid was reduced from \$40.9 million in fiscal 2017 to \$40.6 million after the mid-year holdbacks.

The fiscal 2019 adopted budget is balanced at \$257 million, or 2.8% larger than fiscal 2018's budget. Due to the revaluation and growth in the city's grand list, the mill rate was decreased by 4.7% offset by an 8.5% increase in the grand list. The 2019 budget includes \$4.9 million in appropriated fund balance to fund the city's annual capital improvement program. Danbury has historically appropriated reserves to balance budgets; however, conservative budgeting typically resulted in favorable variances replenishing those appropriations. The 2019 budget reflects a \$5.6 million reduction in state aid.

Property taxes are the city's largest revenue source at 74.3% of total revenues. Collections remain very strong at over 98% in the current fiscal year. State aid, including aid for education and on-behalf payments by the state for the teachers' pension plan, comprised 21% of 2017 revenues, generally in line with the Connecticut medians for intergovernmental aid.

LIQUIDITY

General Fund cash has been stable for the past four years and was \$36.9 million, or 13.5% of revenues, as of fiscal 2017 year-end. Management estimates that the net cash position may increase slightly in fiscal 2018, consistent with the city's positive operating performance.

The city has \$23.5 million in short-term notes outstanding and available liquidity is expected to provide 1.57 times projected coverage on the notes.

Debt and Pensions: Above average debt burden; manageable pension and OPEB

The city's debt burden is an above average 1.3% of ENGL (excluding self-supporting enterprise debt), consistent with the state rating category median of 1.5% but above the national median of 0.8%.

The city will effectively takeout its short-term bond anticipation notes (\$23.5 million) due its demonstrated track record of market access and healthy liquidity position.

In addition to some pay-as-you-go financing for capital projects, the city maintains a six-year Capital Improvement Program that will result in an additional \$89 million in borrowing (approximately \$10 to \$19 million annually) through fiscal 2023. The city additionally anticipates seeking voter approval for a \$95 million water project in calendar year 2018, with a potential issuance in calendar year 2019. The project would be mostly covered by grants, other communities and user charges. Despite the additional debt coming online, the debt burden will remain manageable given the city's strong management team and commitment to remaining compliant with the formal policies, including annual debt service equal to a maximum of 10% of annual expenditures and the debt burden at a maximum of 3% of net taxable grand list (excluding capital leases and net of self-supporting enterprise debt). Management projections indicate debt service as a percentage of expenditures will not exceed 7% despite proposed debt issuances.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is below average, with 71% repaid within ten years. Debt service costs in fiscal 2017 comprised a manageable 6% of General Fund expenditures.

DEBT-RELATED DERIVATIVES

The city is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Danbury maintains seven locally administered defined benefit pension plans for substantially all city employees, with the exception of teachers and certain school administrators who are covered under the state plan. The city fully funds its required contribution for all plans, which was a combined \$11.7 million in fiscal 2017, or a manageable 4.2% of General Fund expenditures. The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$296 million, or 1.1 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities.

Most teachers participate in the state administered plan, for which the city is not legally responsible for any contributions. In fiscal 2017, the state made a \$28 million contribution on behalf of the district. When including the city's share of the TRS ANPL to the adjusted liabilities of the city managed plans, the ANPL increases to \$41 million, representing 3.6% of full value.

Danbury contributed \$9.5 million (3.4% of expenditures) for OPEB in fiscal 2017, which represents 40% of the annual OPEB ARC. The city maintains an OPEB trust fund that has a current balance of approximately \$2.5 million as of the most recent actuarial valuation date of July 1, 2016. The total unfunded liability is a sizeable at approximately \$258 million.

Total fixed costs for fiscal 2017, including debt service, required pension contributions and retiree healthcare payments, represented a moderate 13.5% of expenditures.

Management and Governance: Conservative budgeting and formal fund balance policy

Management budgets conservatively, practices long-term capital planning and is guided by a minimum reserve policy. The city remains in compliance with its formal policy to maintain an unassigned fund balance between 8% and 15% of budget.

Connecticut Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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