

## Fitch Rates Danbury, CT's GO Rfdg Bonds 'AAA'; Outlook Stable

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings assigns a rating of 'AAA' to the following City of Danbury, CT (the city) general obligation (GO) bonds:

--\$11,455,000 GO refunding bonds, 2014.

The bonds are scheduled to price via negotiation on April 22. Proceeds will be used to refund the city's outstanding series 2004 GO bonds for savings.

In addition, Fitch affirms the following ratings:

--Approximately \$136 million outstanding GO bonds at 'AAA'.

The Rating Outlook is Stable.

### SECURITY

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

### KEY RATING DRIVERS

**STRONG FINANCIAL POSITION:** The city's strong financial management implements conservative budget decisions and has prudently raised annual revenues contributing to consistently solid reserve levels. The city maintains a high degree of financial flexibility.

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**ABOVE-AVERAGE SOCIOECONOMIC INDICATORS:** The city's economic profile is strong with a broad economic base and continued economic development. Economic indicators include high income levels and below-average unemployment rates. The city benefits from its proximity to New York City and Hartford employment centers.

**LOW DEBT LEVELS:** The debt burden is low and is expected to remain so given the rapid amortization of existing debt and the city's manageable debt plans.

**FUTURE RETIREE COSTS WELL FUNDED:** The city contributes 100% of its annual required contribution (ARC) toward its pensions and funded levels are solid. Other post-employment benefits (OPEB) are manageable and management prudently plans to increase its contributions gradually above pay-go over the next few years.

### RATING SENSITIVITIES

**MAINTENANCE OF FINANCIAL FLEXIBILITY:** The rating is sensitive to a shift in credit fundamentals including the city's overall level of financial flexibility. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

### CREDIT PROFILE

Danbury is the largest city in Northern Fairfield County and has a 2013 population of 82,807 (up 10.6% since 2000). Danbury's unique location near major interstates makes it easily accessible to New York City, Hartford and Norwalk, all of which are within 60 miles.

### SOUND FINANCIAL MANAGEMENT

The city maintains a healthy level of financial flexibility with consistently solid general fund reserve balances, despite a moderate use of fund balance periodically for capital

pay-as-you-go expenditures. Management has traditionally funded a certain level of pay-as-you capital spending from the general fund, and could curtail this spending if necessary to support operations. Additionally, management retains independent revenue raising flexibility as there are no statutory tax limitations in Connecticut, further enhancing financial flexibility.

The city ended fiscal 2012 with a moderate surplus, after operating transfers, of \$99,311 and an unrestricted fund balance of \$27.7 million or a solid 12.2% of spending. Revenues were up slightly due to increases in licenses and permit fees and the city recorded a premium from its bond sale. Management continued to manage its costs and did not use any of the \$2.4 million in originally appropriated fund balance (a typical practice of the city). The city continued its policy of funding certain capital pay-as-you-go from the general fund appropriating \$1.1 million for such projects.

The adopted fiscal 2013 budget included a 3.49% mill rate increase, generating an additional \$7 million to support expenditure increases primarily for education, pension costs, and debt service. The budget also included \$2.1 million for capital improvements, \$0.45 million for contingencies and an appropriation of \$2.35 million of fund balance.

The city ended fiscal 2013 with another moderate surplus of \$171,746, after transfers, negating the need for the use of fund balance. The positive results reflect, again, careful cost management and expenditure savings due to keeping vacant positions unfilled and spending less on debt service than originally planned. License and permit fees continued to be higher than budget and the city again recorded a premium from its bond sale. Unrestricted fund balance improved to \$27.9 million (11.9% of spending).

### FISCAL 2014 BUDGET ADJUSTED FOR TAX BASE DECLINES

The fiscal 2014 budget increases general fund spending by \$7.25 million, an increase of 3.3% compared to the fiscal 2013 budget. Property taxes represent the largest revenue source and make up a high 80% of total general fund revenues. The budget includes the fund balance appropriation of \$2.35 million, which is similar to the amount budgeted in the prior year. Increases in spending were reflected across all areas including education. Capital spending was increased by \$1.4 million to \$3.5 million.

The city's most recent state mandated five year property revaluation was performed effective Oct. 1, 2012 for the fiscal 2014 budget year. The revaluation resulted in a relatively high 13.5% decline in net taxable assessed values (AV) as the last revaluation occurred in 2007 prior to the recession. As a result, the tax burden shifted more towards commercial type properties as residential properties experienced the larger decline in AV. Management has adjusted the tax rate to account for the change in value and prudently established an allowance of \$1 million for uncollectable taxes and impacts from tax appeals.

According to management, budgeted revenues and expenditures are in line with original expectations. The city does not expect to use the full \$2.35 million that was a budgeted use of fund balance and could achieve surplus results by fiscal year end. Fitch finds these projections to be reasonable based on management's conservative budget practices and careful expense monitoring.

### FISCAL 2015 BUDGET INCREASES REVENUES

The preliminary fiscal 2015 budget includes an \$8.4 million increase over fiscal 2014 and a projected 2.98% tax increase. Major expenditure drivers include capital spending (up \$1.8 million), school funding, and increased employee benefits and salary costs. A smaller \$1.85 million use of fund balance is being proposed, down \$500,000 from the prior year, and part of management's strategy to lessen its reliance on use of fund balance in future budgets. Additionally, management is proposing a modification to and strengthening of its fund balance, budget and debt policies, which Fitch considers favorable.

### LOW DEBT BURDEN

Overall debt levels, net of self-supporting water and sewer supported debt, are moderate at \$2,146 per capita, but low as a percentage of market value at 1.75%. Par amortization is rapid with 73% of principal retiring within 10 years.

In November 2012, voters approved \$44 million in funding for school building improvements and expansion. Future projected debt plans include a \$20 million offering this summer planned to retire a portion of the outstanding \$40 million in bond anticipation

notes (BANs) maturing in July, followed by \$12 million in calendar 2015 and potentially \$10 million in each of the following years. The remaining balance of the BANs is expected to be paid off from state reimbursements for school construction projects equal to 63% of costs. Debt levels are expected to remain moderate to low given the city's rapid amortization rate and limited bonding plans spread over the next few years.

### FUTURE RETIREE COSTS WELL FUNDED

The city has historically funded its annual required contribution (ARC) for its six pension plans at the required levels. In 2012, management lowered its interest rate assumption for each of the plans to 7.25% from 8% and pensions remain well funded. On an aggregate basis, the city's six pension plans are 86% funded and using Fitch's 7% discount rate assumption, are an estimated 84% funded. For fiscal 2013, the city's contribution for its pension plans increased \$0.8 million to \$8.5 million, and represented a manageable 3.1% of total governmental spending. The aggregate unfunded pension liability totals \$41.6 million or a low 0.4% of market value.

The city makes pay-as-you-go payments towards its OPEB obligations and such costs are manageable. The unfunded OPEB liability as of July 1, 2012 totals \$134,076,100 and \$20,393,300 for city and board of education employees, respectively, or a manageable 1.5% of market value. Management has prudently established an OPEB reserve currently funded at \$1.5 million and has included a \$450,000 appropriation in its preliminary fiscal 2015 budget as a contribution to this reserve.

Carrying costs for debt service, pension and OPEB pay-go are low to moderate at 11.9% of fiscal 2013 total governmental spending but may increase slightly as pension and debt service costs increase over the next few years.

### STRONG SOCIOECONOMIC INDICATORS

Danbury, located within 60 miles of New York City, Hartford, and Norwalk, benefits from continued economic development and its role as an important regional employment and retail center. Retail sale per capita is equal to a high 185% of the state average reflecting the presence of the Danbury Fair Mall, which received a \$180 million renovation

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several years ago and remains the largest retail mall in New England. Major employers include the Western Connecticut Health Network with 2,237 employees, which is opening its \$150 million 300,000 sq. ft. expansion this summer; Boehringer-Ingelheim Pharmaceuticals (1,800); as well as GE Commercial Finance and Pitney Bowes. The city is also home to Western Connecticut State University, one of four state operated universities.

The university had 4,465 full time students in fall of 2013 and plans to open its new \$97 million performing arts center this fall.

The city's unemployment rate has declined to 5.3% for December 2013 compared to 6.3% the prior year, in part due to a 0.9% decline in labor force, and compares favorably with the state (6.8%) and national (6.5%) averages. Income levels register comfortably above national average, but remain below the above-average Fairfield County and state levels.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, and National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Additional Disclosure

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