

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

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Fitch rates the following City of Danbury, CT (the city) general obligation (GO) bonds and notes:

--\$11,000,000 GO bonds, series 2014, 'AAA';

--\$31,600,000 GO bond anticipation notes (BANs) 'F1+'.

The bonds and notes are scheduled to sell competitively on July 15. Proceeds of the bonds will be used to refinance a portion of outstanding BANs and for various general purpose and school projects. The BANs are being issued for general city, school and sewer projects.

In addition, Fitch affirms the following ratings of the city:

--Approximately \$140 million outstanding GO bonds at 'AAA'.

The Rating Outlook is Stable.

### SECURITY

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

### KEY RATING DRIVERS

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**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.

**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 continue to increase its contributions gradually above pay-go over the next few years.

**STRONG MARKET ACCESS:** The 'F1+' short-term rating reflects the strong credit characteristics of the city and Fitch's expectation for strong market access.

### 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

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. Management retains independent revenue raising flexibility as there are no statutory tax limitations in Connecticut, further enhancing financial flexibility. Additional flexibility is derived from regular capital spending from the general fund.

The city ended fiscal 2013 with a moderate surplus of \$171,746, after transfers, in contrast to the \$2.35 million appropriated fund balance. The positive results reflect continued careful cost management and budgeted savings due to vacant positions and lower debt service costs than originally planned. Unrestricted fund balance improved to \$27.9 million (a sound 11.9% of spending) from \$27.7 million the prior year.

## FISCAL 2014 BUDGET ADJUSTED FOR TAX BASE DECLINES

The fiscal 2014 budget increased 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. 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. Management adjusted the tax rate to offset the decline in value and prudently established an allowance of \$1 million for uncollectable taxes and impacts from tax appeals.

Management expects only a moderate use, if any, of the \$2.35 million of fund balance that was appropriated to balance the budget. Fitch finds these projections to be reasonable

based on management's conservative budget practices and careful expense monitoring.

## FISCAL 2015 BUDGET INCREASES REVENUES

The adopted fiscal 2015 budget includes an \$8.4 million increase over fiscal 2014 and a 3.95% tax levy increase. A smaller \$1.85 million use of fund balance was approved, 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.

## LOW DEBT BURDEN

Overall debt levels are moderate at \$2,101 per capita, but low as a percentage of market value at 1.8%. Amortization of direct debt is rapid with 69% of principal retiring within 10 years. Debt levels should remain moderate to low given the rapid amortization rate and limited bonding plans.

## FUTURE RETIREE COSTS WELL FUNDED

The city has historically funded its actuarially 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. Fiscal 2014 costs increased to \$9.7 million from \$8.5 million for the prior fiscal year. The aggregate unfunded pension liability totals \$41.6 million as of July 1, 2012, the most recent valuation available, 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 established an OPEB reserve currently funded at \$1.2 million and has included a \$450,000 appropriation in its fiscal 2015 budget as a

contribution to this reserve. Management prudently plans to increase its OPEB funding by an additional 5% each year until it reaches full funding of the ARC.

Carrying costs for debt service, pension and OPEB pay-go are currently low at 11.9% of fiscal 2013 total governmental spending but will likely increase slightly as pension, OPEB 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. The Western Connecticut Health Network affiliated Danbury Hospital, which just completed a new 350,000 square foot expansion last month, is the city's largest employer with 2,237 employees. Other large employers include Boehringer-Ingelheim Pharmaceuticals (1,800 employees), 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.

The city's unemployment rate declined to 5.4% for April 2014 compared to 5.8% the prior year, in part due to a 0.2% decline in labor force, and compares favorably with the state (6.6%) and national (5.9%) 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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