

Research Update:

Derby, CT GO Debt Rating Outlook Revised To Stable From Negative On Enhanced Reserves; 'AA-' Rating Affirmed

April 23, 2026

Overview

- S&P Global revised the outlook to stable from negative and affirmed its 'AA-' underlying rating on Derby, Connecticut's general obligation (GO) debt outstanding.
- At the same time, we assigned our 'AA-' long-term rating, with a stable outlook, to the city's \$7 million issue of 2026 bonds.
- The outlook revision reflects Derby's enhanced reserve position, the result of a return to balanced-to-positive operations that we expect will continue.

Rationale

Security

Derby's faith-and-credit GO pledge secures the bonds and its outstanding GO debt. Bond proceeds will fund general purpose and sewer projects.

Credit highlights

The outlook revision to stable reflects Derby's improved financial performance following a large tax increase implemented by a new management team, translating to an enhanced reserve position. The city expects to produce positive operating results in fiscal 2026 without use of federal COVID-19 pandemic relief funds or other one-time revenues, and we believe that the city is likely to adjust the budget as necessary to maintain roughly balanced operations over the outlook horizon. The 'AA-' rating is further supported by Derby's stable local economy, property tax levy flexibility under state law, and limited fixed costs.

The city's current mayor and finance director, who took office in December 2023, implemented midyear spending freezes that contributed to the fiscal 2024 surplus and a 12% tax increase in fiscal 2025 that better aligned recurring revenues and expenditures. The fiscal 2026 budget included a 1.5% tax levy increase and was balanced without material use of nonrecurring revenue; management states that the city is trending toward a \$870,000 fund balance increase primarily due to cost savings from an unbudgeted health insurance plan change.

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We expect Derby to maintain roughly balanced operations. The fiscal 2027 budget totals \$55.1 million, incorporates a small (<1%) property tax increase after adjusting for a revaluation, and is balanced; management's newly developed five-year operating plan forecasts balanced outyear results with 3% to 4% annual tax levy increases and assumes 2% annual education spending increases, lower than those of comparable municipalities. While management is willing to use reserves in excess of the upper end of its policy target (5% to 10% of expenditures) to fund nonrecurring costs, it currently has no plans to do so. We expect the city's reserves to be sustained at roughly current levels but to remain weaker than those of similarly rated peers, limiting upward rating potential.

Derby anticipates an estimated \$60 million to \$100 million in future debt issuance for sewer projects over the next several years. Management expects to determine the project's scope over the next year and plans to finance debt service through increasing user charges. The rating could be pressured if debt service is not adequately supported by corresponding revenue increases.

The rating reflects our view of Derby's:

- Stable, largely residential economy, with modest ongoing development and access to employment opportunities in New Haven and southwestern Connecticut. Management intends to implement the Oct. 1, 2025 revaluation over five years, from fiscals 2027 to 2031.
- Recent enhancements to historically permissive budgeting practices; a capital plan that outlines potential projects over the next five years, but does not include funding sources; and debt and investment policies. The city recently developed a long-term financial plan, which we believe improves its ability to identify future budget pressures and could improve our view of management if it continues to embed it into its financial planning.
- An operating surplus anticipated in 2026 without support from nonrecurring revenue sources, and balanced results expected over the outlook horizon. While the water pollution control fund's cash decreased in fiscal 2025 due to a note repayment, capital expenditure, and reclassification of funds invested in the state treasurer investment fund, management believes that operating revenues and expenditures are structurally balanced and does not anticipate that governmental funds will be required to support Water Pollution Control Authority operations.
- Currently manageable \$37 million in net direct debt, but with the potential for \$60 million to \$100 million in borrowing for sewer capital projects over the next several years.
- Limited credit pressure from pension and other postemployment benefit (OPEB) liabilities despite a history of not contributing the full actuarially determined contribution (ADC) to its city pension plan (88% funded, \$3 million net pension liability), though management has budgeted to make the full ADC in fiscals 2026 and 2027. It has historically made its full ADC to the Connecticut Municipal Employees Retirement System (80% funded, \$8 million net liability). It funds its OPEB (\$27 million liability) on a pay-as-you-go basis, which we believe could lead to escalating costs over the long term.
- We expect the operating environment for Connecticut municipalities will remain stable. For more information, see "[Institutional Framework Assessment: Connecticut Local Governments](#)," Sept. 9, 2024 on RatingsDirect.

Environmental, social, and governance

We view Derby's environmental, social, and governance factors as neutral in our rating analysis.

Outlook

The stable outlook reflects our view that Derby's management is likely to continue making budgetary adjustments over the outlook horizon as necessary to support balanced operations, though it may use fund balance for nonrecurring purposes when reserves exceed its 10% policy target. It further incorporates our understanding that management intends to support any significant debt issues for sewer projects with corresponding utility revenue increases.

Downside scenario

We could lower the rating if Derby's financial performance deteriorates or if it draws reserves below its policy target without a plan to replenish them. We could also lower the rating if the city's debt and liabilities significantly increase and pressure operations.

Upside scenario

We could raise the rating if the city's local income metrics and available fund balance improve to levels comparable to those of higher-rated peers.

Derby, Connecticut--Credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.53
Economy	3.5
Financial performance	2
Reserves and liquidity	2
Management	2.65
Debt and liabilities	2.50

Derby, Connecticut--Key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	91	--	--	91
County PCPI % of U.S.	97	--	--	97
Market value (\$000s)	1,265,510	1,237,954	1,235,671	1,204,820
Market value per capita (\$)	101,346	99,139	99,723	97,501
Top 10 taxpayers % of taxable value	11.6	11.6	10.6	--
County unemployment rate (%)	3.6	3.6	3.2	3.2
Local median household EBI % of U.S.	81	--	81	84
Local per capita EBI % of U.S.	90	--	90	92
Local population	12,487	12,487	12,391	12,357
Financial performance				
Operating fund revenues (\$000s)	--	57,871	62,916	59,526
Operating fund expenditures (\$000s)	--	56,735	61,073	61,418
Net transfers and other adjustments (\$000s)	--	--	--	--
Operating result (\$000s)	--	1,136	1,843	(1,892)

Derby, Connecticut--Key credit metrics

	Most recent	2025	2024	2023
Operating result % of revenues	--	2.0	2.9	(3.2)
Operating result three-year average %	--	0.6	(1.2)	(1.0)
Reserves and liquidity				
Available reserves % of operating revenues	--	12.3	7.0	3.4
Available reserves (\$000s)	--	7,133	4,425	1,998
Debt and liabilities				
Debt service cost % of revenues	--	2.8	2.9	3.2
Net direct debt per capita (\$)	2,954	2,390	2,997	3,200
Net direct debt (\$000s)	36,883	29,838	37,138	39,545
Direct debt 10-year amortization (%)	66	71	58	55
Pension and OPEB cost % of revenues	--	4.0	4.0	5.0
NPLs per capita (\$)	--	920	1,036	995
Combined NPLs (\$000s)	--	11,486	12,840	12,294

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

New Issue Ratings

US\$7,000,000 City of Derby, Connecticut, General Obligation Bonds, Issue of 2026, dated: Date of Delivery, due: May 15, 2046

Long Term Rating AA-/Stable

Outlook Action

	To	From
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Local Government

Derby, CT Unlimited Tax General Obligation	AA-/Stable	AA-/Negative
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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