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BOARD OF FINANCE

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May 19, 2022

Jeff Curtis, President
Board of Representatives
City of Stamford
888 Washington Boulevard, 5th Floor
Stamford, CT 06904

Re: Consideration of $20 million reserve for capital non-recurring expenses

Dear President Curtis:

Pursuant to Charter Sec. C8-30-10 and C.G.S Sec. 7-361, the Board of Finance (BOF) voted unanimously on May 17 at our annual mill rate meeting to recommend levying an additional tax, in addition to the tax needed to fund the operating budget, to fund a $20 million reserve to be used only for capital and non-recurring expenses. Funding of a reserve for capital and non-recurring expenses via the tax rate is authorized under C.G.S. Sec. 7-361 "upon the recommendation of the budget-making authority and approval by the legislative body". Therefore, I request that approval of this additional tax be scheduled for consideration by the Board of Representatives (BOR) prior to May 25, the date by which the charter requires the tax rate to be fixed.

Background

While the recent increase in the state reimbursement rate for school construction has greatly lessened the local funding needed to implement the Board of Education's Long Term Facilities (LTF) plan, our local funding needs are still great – as much as $300 million if the entire plan is executed. For just the first two schools already authorized by the BOF, Westhill and Roxbury, the required local funding is $85 million.

At a special meeting on March 3, the BOF discussed in great detail the optimal strategy for financing the LTF plan. Two principal funding sources were examined for possible use in combination: Bonding, the traditional source, as well as an incremental tax dedicated to capital projects. While the latter requires the up-front levying of additional tax, it confers substantial long-term savings from not paying interest on borrowed funds: $400,000 in interest saved over the life of a 20-year bond for every $1,000,000 borrowed. Furthermore, unlike a traditional mortgage with a fixed monthly payment of principal and interest, municipal bonds are repaid on a schedule of level principal payments with front-loaded interest. About half the interest on a 20-year bond is repaid in the first six years, meaning most of the interest savings is up front. In addition to its long-term fiscal benefits, funding capital projects via tax levy, to the extent practicable, lessens the pressure on the city's bonding capacity and so allows for greater funding of the city's many other pressing non-school capital needs.

Additionally, this budget year presented a unique opportunity to consider such funding. Given a confluence of positive budgetary events, most notably an unprecedented drop in the city's required pension and OPEB contribution, the BOF was able to consider pairing the funding of a meaningful capital reserve with a historically small tax increase. Our ultimate decision was to recommend funding a $20 million capital reserve while holding the average mill rate increase for real and personal property to 1%. By contrast, the average mill rate increase since 2013 has been 2.8%, excluding revaluation years and the extraordinary 2020-21 budget year.

Decision of the Board of Representatives
As stated, the $20 million capital reserve increment of the mill rate requires approval of the BOR; the base mill rate excluding the capital reserve does not. The mill rates to be considered by the BOR, and comparison rates, are as follows:

District	2021-22 Mill Rate	2022-23 Mill Rate excluding Capital Reserve	2022-23 Mill Rate including Capital Reserve	Capital Reserve Increment in mills
A	26.94	26.22	27.17	.95
B	26.38	25.73	26.68	.95
C	25.97	25.39	26.33	.94
CS	26.45	25.80	26.74	.94
Personal Property	26.94	26.22	27.17	.95

The last two columns of rates are those to be considered by the BOR. Also, please note that the BOR's decision will not change the auto mill rate, which the BOF fixed at 27.25, unchanged from last year.

Other Considerations
Approval of the capital reserve by the BOR would add the incremental mills for this year only; next year's budget would start at the base rate. Conversely, rejection would require bonding the $20 million in the 2023-24 budget and consequently, at current interest rates, next year's budget would start at the base rate plus an additional cost for debt service starting at .08 mills and continuing for 20 years. Also, if rejected, the need to bond another $20 million would necessarily crowd out capital funding for other desirable and beneficial projects.

Finally, an approval only funds the reserve. Any disbursement from the reserve would require a capital appropriation voted on by the Planning Board, BOF and BOR. Thank you.

Richard Freedman
Richard Freedman, Chair
Board of Finance

cc: Mayor Caroline Simmons
Board of Finance