Mayor
DAVID R. MARTIN

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CITY OF STAMFORD
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December 15, 2015

David R. Martin, Mayor
Members of the Board of Finance

Mayor Martin and Members of the Board of Finance:

Section 8-20-3 of the Charter of the City of Stamford requires the Director of Administration to annually report upon the amount and nature of expenditures which, in his/her opinion, the City may incur safely for capital projects during each of the next six succeeding years, and the effect of such expenditures upon the current budgets for each of those years. In analyzing the amount of debt that the City may safely incur, a number of factors must be considered. Some of those factors are:

- Capital needs of the community
- Legal debt limitations
- Overall debt position
- Impact of the proposed plan on debt position and credit rating
- Impact of the plan on future operating budgets

In my capacity as Director of Administration the safe debt limit I am recommending is a capital-spending plan, net of direct grants and non-general obligation (G.O.) bonds, of $45 million for Fiscal Year 2016-17. As I indicated last year, Fiscal Years 2015-16 and 2016-17 are unique in that we are funding two major capital projects—a new inter-district magnet school and a new police headquarters. As such, my recommendation for Fiscal Year 2016-17 will be higher than the "out years," much like my Fiscal Year 2015-16 recommendation. My recommendation is supported by the financial projections contained in this report.

INTRODUCTION

By far, the largest portion of the City of Stamford's net assets reflects its investment in capital assets such as land, buildings, machinery, equipment, and infrastructure. In analyzing the amount of debt that the City may safely incur, a number of factors must be considered. Those factors are identified in this report along with supporting documentation and information.

The capital requests submitted by municipal departments, Board of Education, enterprise fund operations, and outside agencies for next fiscal year were significant, as in recent years. The largest components of these requests were for infrastructure improvements on City roadways/ sidewalks/bridges and school construction related to renovation and code compliance issues.

However, in addition to the customary annual capital project demands, the City is faced with two new major capital project needs—a new K-8 inter-district magnet school and a new headquarters for the police department.

In June of 2014, I presented plans for financing a new K-8 school located at 200 Strawberry Hill Ave. At that time, I indicated that the financing plans presented were designed to enable the City to apply for State grant opportunities and as such, incorporated what I considered to be "worst-case" or "conservative" assumptions on what we could reasonably anticipate to be the City's share of construction expenses. The plan I will lay out for you here takes into consideration additional information and updated expectations.

In October of 2014, the City received formal citations for violations from the Connecticut Department of Labor for environmental concerns within the Stamford Police headquarters building, located at 805 Bedford Street. The citations relate to asbestos-containing material which was discovered by contractors working in the building in the summer of 2014. The overall condition of the building and the needs of the department led the administration to immediately explore all potential options and solutions.

It is important to note that financing and managing not one, but two significant capital projects along with the customary capital needs of the City is a challenging task—one that is only possible because of the strong financial position of the City. As I have stated repeatedly, I would not recommend anything that I believe would jeopardize the fiscal strength of the City or our credit ratings. To the contrary, I believe that now is the appropriate time for the City to address the critical issues of inequity and overcrowding in our schools and an outdated and deteriorating police department headquarters.

Debt ratios and metrics are a significant factor in determining the level of debt that is sustainable for a city of our size. However these metrics must be analyzed concurrently with the ability of the citizens to incur any additional tax burden. The rating agencies including Standard & Poor's and Moody's have stated that the City's existing credit rating is AAA/Aa1 with a stable outlook. In their report dated July 23, 2015, Standard & Poor's highlighted the following:

- Strong overall budgetary performance and flexibility
- Very strong liquidity with total government available cash at 19.7% of total governmental fund expenditures and 2.2x governmental debt service.
- Strong debt and contingent liability profile with net debt that is 72.5% of total governmental fund revenue and low overall net debt at less than 3% of market value of taxable property.

The report goes on to conclude that the stable outlook reflects Standard & Poor's view of the City's consistent financial performance and economy which is supported by strong management.

Taking into consideration the magnitude of our aggregate capital needs along with the debt ratios presented later in this report, I believe the amount recommended is both warranted and fiscally responsible.

PROPOSED CAPITAL SPENDING PLAN

Capital Needs and Financing Plans
For Fiscal Year 2016-17 and the subsequent 5 years

Fiscal Year	City Capital Budget Bond[1]	New School Bond	New School BAN[2]	Police HQ Bond	Total Bond
2016-17	$23 million	$0 million	$40 million	$22 million	$45 million
2017-18	$25 million	$0	$21 million	$0	$25 million
2018-19	$25 million	$0	$0 million	$0	$25 million
2019-20	$25 million	$0	$0	$0	$25 million
2020-21	$25 million	$0	$0	$0	$25 million
2021-22	$25 million	$0	$0	$0	$25 million

[1]Net of all grants
[2]BAN or Bond Anticipation Notes will be repaid with grants from the State of Connecticut

Bonding Requirements for Fiscal Year 2016-17:

The Safe Debt limit recommended in this report addresses the following three areas:

1. Annual City capital budget projects net of associated grants – $23 million G.O. bonds. These projects address ongoing infrastructure projects and capital technology/equipment/vehicle requirements that are essential to providing a safe environment to the residents and visitors of this city. This includes capital projects from the City, Board of Education (projects not related to the new proposed school), and outside agencies.

2. New Stamford Police Department Headquarters– $22 million G.O. bonds. The administration is currently in the design phase of a new police headquarters and we are still anticipating a June, 2018 date of occupancy. As you know, the City has compiled the requisite land this past year and we are now working with a contiguous, albeit complex site, which involves the moving of an historic structure. It is expected that the total funds available from bond issuance for the headquarters project will be $45 million, spread out over two years. Additional funding sources may be used as needed for still to-be-determined parking solutions and the ultimate use of the remainder of the site.

3. K-8 Inter-district Magnet School (200 Strawberry Hill Ave.) – $40 million Bond Anticipation Note. The City's application to the State of Connecticut received approval of the legislature. We are anticipating 80% reimbursement of the total $77 million cost. This is inclusive of the $9.8 million the City spent to acquire the property. In August of 2014, the City issued G.O. bonds, of which $10 million was used for the acquisition of the property. The remaining $5.4 million issued as part of our recent $65 million G.O. issuance on July 30, 2015 will fulfill the total City-share of $15.4 million for the entire project. The remaining $61.6 million will need to be funded on a short-term basis as we anticipate receiving reimbursement from the State. To

fund the short-term cash flow needs I propose issuing Bond Anticipation Notes (BANs). It is expected that 100% of the BANs will be repaid with grant funds from the State of Connecticut.

Bonding Requirements for Fiscal Year 2017-18:

1. Annual City capital budget projects net of grants – $25 million G.O. bonds.

2. New K-8 Inter-district Magnet School (200 Strawberry Hill Ave.) – $0 million G.O. bonds and $21.6 million BANs. As previously discussed, it is expected that 100% of the BANs will be repaid with grant funds from the State of Connecticut.

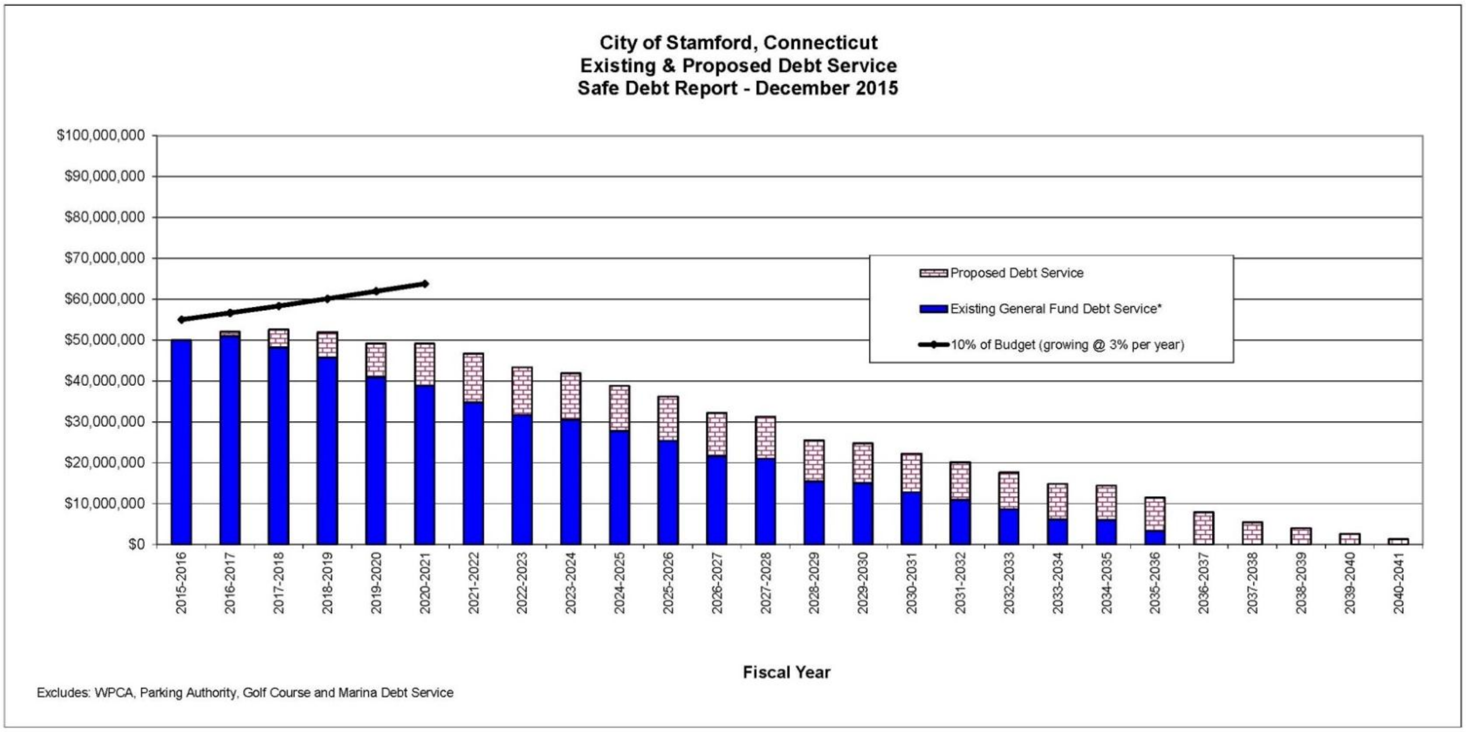
Bonding Requirements for 4 Fiscal Years (FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22):

1. Annual City capital budget projects net of grants – $25 million G.O. bonds.

Impact on Debt Service:

The impact our proposed financing plans would have on our annual debt service is an important factor to consider and one that is central to maintaining the City's AAA credit rating. This is a major limiting factor in the amount of debt that the City can safely issue. As a rule, I strive to maintain our annual debt service below 10% of the City's annual operating budget.

In FY 2015-16, the City's annual debt service was $49,970,000 or 9.5% of our annual operating budget, below the 10% threshold. In FY 2016-17, our projected debt service is expected to increase to $52,078,000 or 9.93% of our annual operating budget. For planning purposes, I assume a City (inclusive of the BOE) operating budget increase of 3% per year.



Capital Needs of the Community

As I previously stated, the capital needs of the City are significant. In January 2013, the City began to take advantage of historically low interest rates by raising $50 million, $25 million of which was spent across our 20 schools in areas including code compliance, abatement, and air quality improvement. In August of 2014, the City again raised $50 million to further invest in prime areas where immediate attention was paramount and deferred maintenance would only result in higher costs in future years. It is imperative that these investments be made in projects that support the safety and well-being of residents and have a positive impact in the reduction of operating costs. This current plan as outlined will serve to improve the quality of our schools and replace a police department building that is conservatively 15 years past its useful life and is potentially unsafe in its current form. With the completion of these two projects, the City should be able to return to a more normalized capital spending program of $25 million per year.

Legal Debt Limitations

The State of Connecticut imposes legal limits on the amount of debt that the City is authorized to issue. Under Connecticut General Statutes, municipalities are not permitted to incur indebtedness through the issuance of bonds that will cause aggregate indebtedness by class to exceed the following:

General Purposes:	2.25 times annual receipts from taxation
School Purposes:	4.50 times annual receipts from taxation
Sewer Purposes:	3.75 times annual receipts from taxation
Urban Renewal Purposes:	3.25 times annual receipts from taxation
Pension Obligation Bonds	3.00 times annual receipts from taxation
Total - All Purposes:	7.00 times annual receipts from taxation

Under these statutory limits, the City is permitted to incur indebtedness of $3.0 billion. From a practical standpoint, however, the City could never approach this level of indebtedness. If the City were to incur this magnitude of debt we would surely find our credit rating in the junk bond category. For this reason, the legal debt limit in Connecticut is of no practical consequence for the City of Stamford.

Overall Debt Position

The City's overall debt position remains quite modest. For purposes of this discussion, the rating agencies look at net debt, meaning they exclude any "self-supporting" debt. Within the City of Stamford, self-supporting debt includes debt for the WPCA, Parking Fund, E.G. Brennan, Marina Fund, and most recently the Mill River Collaborative. In September 2014, the City issued $16.5 million in general obligation bonds for the Mill River Corridor Project, refunding previously issued non-general obligation Tax Increment Financing or "TIF" bonds of October 2011. As a condition of the refunding/issuance, the Mill River Collaborative and Assessor's Office were required to demonstrate that tax revenue collected by the City on behalf of the Mill River Tax district would be sufficient to service this debt. As of December 15, 2015, the City's outstanding General Obligation debt (exclusive of interest and self-supporting debt) was approximately $408.7 million, considering current year debt service and the August 2015 issue of $65 million.

Impact of the Proposed Plan on Debt Position and Credit Rating

Stamford is in elite company with a AAA bond rating—the highest available—from Standard & Poor's and Aa1 from Moody's. Of the over 4,000 local governments covered, less than 10% carry an AAA general obligation rating from Standard & Poor's. In assigning credit ratings, the rating agencies analyze four broad rating factors in a community: Economic Factors (wealth levels, tax base, employment, regional economy, etc.); Financial Factors (operating results, financial reserves, contingent obligations, etc.); Administrative Factors (experience of the management team, financial management track record, etc.); and Debt Factors (debt as a percent of full value, per capita debt, debt service as a percent of budget, etc.). The City's capital plan must recognize the importance of debt factors in the evaluation of the City's credit by the rating agencies. Provided below is a comparison of Stamford's ratios with selected cities in Connecticut and with selected other AAA cities in the country.

Debt Ratio Benchmarks

Connecticut Benchmarks: extracted from State of Connecticut, Fiscal Indicators Report 2014

City	S&P Rating	Population	Debt Per Capita	(Debt Burden) Debt to Fair Market Value	Undesignated Fund Balance as % of Expenditures
Stamford (as of 6/30/15)	AAA	126,456	2,901	1.40%	5.0% *
Bridgeport	A-	147,216	4,506	8.60%	2.30%
New Haven	A-	130,660	3,880	5.90%	0.00%
Hartford	AA-	125,017	3,900	7.50%	4.90%
Waterbury	AA-	109,676	4,164	8.30%	4.80%
Norwalk	AAA	87,776	2,460	1.30%	8.90%
Danbury	AA+	83,684	1,808	1.70%	8.90%
West Hartford	AAA	63,371	2,100	1.60%	7.40%
Greenwich	AAA	62,396	1,520	0.20%	5.90%
Fairfield	AAA	60,855	3,501	1.40%	6.00%
Average		**96,739**	**3,093**	**4.00%**	**5.50%**

* Includes $22.2 million in the Rainy Day Fund as of June 30, 2015

National Benchmarks: Extracted from Stanard & Poor's Review of AAA Rated Municipalities					
As of June 2014					
City	S&P Rating	Population	Debt Per Capita	Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Alexandria, VA	AAA	128,283	2,795	1.20%	11.1%
Bellevue, WA	AAA	109,569	1,807	1.00%	12.5%
Cambridge, MA	AAA	101,355	3,388	1.30%	31.7%
Cary, NC	AAA	94,536	827	0.60%	55.5%
Chandler, AZ	AAA	176,581	1,172	1.50%	16.2%
Huntsville, AL	AAA	158,216	3,030	2.80%	15.6%
Naperville, IL	AAA	128,358	633	0.50%	21.5%
Overland Park, KS	AAA	149,080	948	0.90%	33.9%
Scottsdale, AZ	AAA	202,705	4,323	2.30%	21.0%
Winston-Salem, NC	AAA	185,776	806	0.90%	14.6%
Average		**143,446**	**1,973**	**1.30%**	**23.36%**

While Stamford's per capita debt is above the average for medium sized cities in the State of Connecticut, it is lower than some of the AAA-rated national benchmarks. That may be due in part to Stamford's location in a state without county government and where local Board of Education debt is included with the City debt. In many AAA communities, counties take responsibility for sewers and roads on the capital side of the budget and some social service, health, and safety functions as part of their operating budget. In Stamford, all of the funding responsibility is borne by the City. These issues must be taken into consideration when examining the debt per capita ratios.

One of the most important debt ratios for rating agencies is debt as a percentage of fair market value of all taxable property in the municipality. Stamford compares very well in this category. Stamford's average debt to fair market value of 1.3% compares favorably to the 3.2% average within the State and 2.2% average of AAA cities outside the State of Connecticut. Please note that self-supporting funds (funds other than general fund) incur additional capital project authorizations. The project ratios will be mitigated as a portion of the new bonds will be allocated to the self-supporting funds. It is important to note that while no single ratio determines a credit rating, the City's debt burden remains low compared to most other AAA rated communities.

Unassigned & Rainy Day Fund Balance - The last ratio identified is the unassigned fund balance plus the balance assigned for Rainy Day purposes as a percent of operating expenditures. This is not a debt ratio; however, it is a critical financial measure that is used by the rating agencies to gauge the ability of a municipality to react to unexpected financial emergencies or events such as natural disasters or the recent upheaval in the financial markets. In general, the rating agencies expect that AAA credits will maintain this balance in the range of 5-10% of annual expenditures and many of our benchmarks have fund balances well in excess of this range. Until Charter Revision in 2005, the City was not allowed to maintain a general fund "Rainy Day Fund" of greater than 5% of its annual operating budget. Over the past four years, the City has made a concerted effort to contribute towards our future financial stability and today the current "Rainy Day Fund" balance is a healthy $22.2 million, roughly 4.2% of the City's 2015-16 operating budget. Including the unassigned Fund Balance as of June 30, 2015 of $3.5 million, this ratio is 5.0%.

Impact of the Plan on Future Operating Budgets

When approving capital spending plans it is important to realize that this spending results in a direct impact on the City's future operating budgets and tax rates. Not only must future taxpayers fund the original appropriation, but it also must be repaid with interest.

Keeping this in mind, it is very clear that the coming fiscal year will be a challenge. The dramatic increase in structural costs such as pension contributions, insurance costs, and Other Post Employment Benefit (OPEB) liabilities and the erosion of non-tax revenue coupled with slower than ideal growth in the local economy will press the current administration to prepare a fiscally conservative budget with the underlying premise that the taxpayers of the City of Stamford cannot absorb a tax increase of significant proportions.

It is important to note, and for clarification purposes to discuss, the current and following fiscal year debt service contributions from the general fund to the debt service fund. First and foremost, principal and interest payments are made from the debt service fund. The general fund is one source, albeit the primary source, of financing for debt service. The current year debt service is $49,970,533.

Total Debt Service FY 2015-16:	$49,970,533
Total Debt Service FY 2016-17 (Projected):	$52,078,202
Change in Annual Debt Service:	$2,107,669

(See attached)

Pay-as-you-go Financing - Financing a portion of the City's capital projects with current revenue is a financially prudent and conservative financing practice. Most AAA credits finance at least a portion of their capital plan through a pay-as-you-go mechanism. In FY 2014-15, the City committed $4.3 million of cash to purchase capital items such as vehicles, technology equipment, and software systems. In FY 2015-16 the City again committed $4.5 million in cash towards capital projects. These were major first steps towards increased financial flexibility and a practice that we plan to continue. One possible scenario going forward could be to allocate a portion of prior year fund balance to the capital non-recurring fund for projects typically financed with shorter term debt such as police vehicles and technology. By moving away from borrowing for these items, in time the general fund debt service obligations will lessen.

CONCLUSION

I trust the information and recommendations provided in this report will assist you in your deliberations regarding the City's future debt position. While this proposal is somewhat more aggressive than I would ordinarily support, it serves to address the vital needs of our vibrant city and maintains financial strength and discipline.

Respectfully Submitted,

Michael E. Handler
Director of Administration

City of Stamford Debt Service Analysis
Existing & Proposed Debt Analysis
Safe Debt Report for Fiscal Year 2016-17

===> Proposed New Bond Issues

Projected borrowing rates

NET GENERAL FUND DEBT SERVICE EXCLUDES SELF-SUPPORTING FUNDS

(A) Fiscal Year	(B) Principal	(C) Interest	(D) Total Debt Service	(E) Less Interest Subsidies	(F) NET Total	(G) Annual Change	(H) School $40 million BAN Issue 3/16 to 3/17	(I) School $21 million BAN Issue 3/17 to 3/18	(L) 3.25% $45M Jul - 2016 Debt Service	(M) 3.50% $25M Jul - 2017 Debt Service	(N) 3.75% $25M Jul - 2018 Debt Service	(O) 4.00% $25M Jul - 2019 Debt Service	(P) 4.25% $25M Jul - 2020 Debt Service	(Q) Total Proposed Debt Service	(R) Total Existing & Proposed Debt Service	(S) Annual Change	(T) Fiscal Year
2015-2016	35,806,276	15,005,661	50,811,938	(841,404)	49,970,533		-	-		-	-	-	-	-	49,970,533		2015-2016
2016-2017	36,508,754	15,245,336	51,754,091	(807,139)	50,946,952	976,419	400,000	-	731,250	-	-	-	-	1,131,250	52,078,202	2,107,669	2016-2017
2017-2018	35,279,439	13,705,758	48,985,197	(761,165)	48,224,032	(2,722,920)	-	210,000	3,675,938	437,500	-	-	-	4,323,438	52,547,470	469,268	2017-2018
2018-2019	34,367,094	12,062,724	46,429,818	(711,779)	45,718,040	(2,505,992)	-	-	3,602,813	2,103,125	468,750	-	-	6,174,688	51,892,727	(654,742)	2018-2019
2019-2020	30,979,192	10,619,609	41,598,802	(659,200)	40,939,602	(4,778,438)	-	-	3,529,688	2,059,375	2,164,063	500,000	-	8,253,125	49,192,727	(2,700,000)	2019-2020
2020-2021	30,085,098	9,298,823	39,383,922	(604,177)	38,779,744	(2,159,858)	-	-	3,456,563	2,015,625	2,117,188	2,225,000	531,250	10,345,625	49,125,369	(67,358)	2020-2021
2021-2022	27,322,782	8,026,354	35,349,136	(547,977)	34,801,159	(3,978,585)	-	-	3,383,438	1,971,875	2,070,313	2,175,000	2,285,938	11,886,563	46,687,722	(2,437,648)	2021-2022
2022-2023	25,284,488	6,901,161	32,185,649	(491,042)	31,694,607	(3,106,552)	-	-	3,310,313	1,928,125	2,023,438	2,125,000	2,232,813	11,619,688	43,314,295	(3,373,427)	2022-2023
2023-2024	24,950,402	5,991,862	30,942,264	(433,716)	30,508,548	(1,186,059)	-	-	3,237,188	1,884,375	1,976,563	2,075,000	2,179,688	11,352,813	41,861,361	(1,452,934)	2023-2024
2024-2025	22,994,722	5,097,643	28,092,365	(375,995)	27,716,369	(2,792,179)	-	-	3,164,063	1,840,625	1,929,688	2,025,000	2,126,563	11,085,938	38,802,307	(3,059,054)	2024-2025
2025-2026	21,410,060	4,268,566	25,678,625	(317,069)	25,361,557	(2,354,813)	-	-	3,090,938	1,796,875	1,882,813	1,975,000	2,073,438	10,819,063	36,180,619	(2,621,688)	2025-2026
2026-2027	18,330,000	3,526,305	21,856,305	(256,826)	21,599,479	(3,762,077)	-	-	3,017,813	1,753,125	1,835,938	1,925,000	2,020,313	10,552,188	32,151,667	(4,028,952)	2026-2027
2027-2028	18,305,000	2,847,834	21,152,834	(195,321)	20,957,512	(641,967)	-	-	2,944,688	1,709,375	1,789,063	1,875,000	1,967,188	10,285,313	31,242,825	(908,842)	2027-2028
2028-2029	13,410,000	2,171,840	15,581,840	(131,473)	15,450,367	(5,507,146)	-	-	2,871,563	1,665,625	1,742,188	1,825,000	1,914,063	10,018,438	25,468,804	(5,774,021)	2028-2029
2029-2030	13,385,000	1,684,184	15,069,184	(65,569)	15,003,615	(446,752)	-	-	2,798,438	1,621,875	1,695,313	1,775,000	1,860,938	9,751,563	24,755,178	(713,627)	2029-2030
2030-2031	11,475,000	1,246,019	12,721,019	(16,211)	12,704,808	(2,298,807)	-	-	2,725,313	1,578,125	1,648,438	1,725,000	1,807,813	9,484,688	22,189,496	(2,565,682)	2030-2031
2031-2032	10,000,000	897,813	10,897,813	-	10,897,813	(1,806,996)	-	-	2,652,188	1,534,375	1,601,563	1,675,000	1,754,688	9,217,813	20,115,625	(2,073,871)	2031-2032
2032-2033	8,000,000	622,813	8,622,813	-	8,622,813	(2,275,000)	-	-	2,579,063	1,490,625	1,554,688	1,625,000	1,701,563	8,950,938	17,573,750	(2,541,875)	2032-2033
2033-2034	5,750,000	380,781	6,130,781	-	6,130,781	(2,492,031)	-	-	2,505,938	1,446,875	1,507,813	1,575,000	1,648,438	8,684,063	14,814,844	(2,758,906)	2033-2034
2034-2035	5,750,000	199,063	5,949,063	-	5,949,063	(181,719)	-	-	2,432,813	1,403,125	1,460,938	1,525,000	1,595,313	8,417,188	14,366,250	(448,594)	2034-2035
2035-2036	3,250,000	52,813	3,302,813	-	3,302,813	(2,646,250)	-	-	2,359,688	1,359,375	1,414,063	1,475,000	1,542,188	8,150,313	11,453,125	(2,913,125)	2035-2036
2036-2037	-	-	-	-	-	(3,302,813)	-	-	2,286,563	1,315,625	1,367,188	1,425,000	1,489,063	7,883,438	7,883,438	(3,569,688)	2036-2037
2037-2038	-	-	-	-	-	-	-	-	-	1,271,875	1,320,313	1,375,000	1,435,938	5,403,125	5,403,125	(2,480,313)	2037-2038
2038-2039	-	-	-	-	-	-	-	-	-	-	1,273,438	1,325,000	1,382,813	3,981,250	3,981,250	(1,421,875)	2038-2039
2039-2040	-	-	-	-	-	-	-	-	-	-	-	1,275,000	1,329,688	2,604,688	2,604,688	(1,376,563)	2039-2040
2040-2041	-	-	-	-	-	-	-	-	-	-	-	-	1,276,563	1,276,563	1,276,563	(1,328,125)	2040-2041
2041-2042	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,276,563)	2041-2042
2042-2043	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
	432,643,309	119,852,961	552,496,269	(7,216,063)	545,280,206		400,000	210,000	60,356,250	34,187,500	34,843,750	35,500,000	36,156,250	201,653,750	746,933,956		

PHOENIX ADVISORS, LLC