Mayor
DAVID R. MARTIN

DIRECTOR OF ADMINISTRATION
SANDRA L. DENNIES

Phone: (203) 977-4182
FAX: (203) 977-5657
Email: sdennies@stamfordct.gov

CITY OF STAMFORD
OFFICE OF ADMINISTRATION
888 WASHINGTON BOULEVARD
P.O. BOX 10152
STAMFORD, CONNECTICUT 06904-2152

December 7, 2020

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

Re: Safe Debt FY 22

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 $40 million for Fiscal Year 2021-22.

PROPOSED CAPITAL SPENDING PLAN

Financing Plans
For Fiscal Year 2021-22 and the subsequent 5 years

City Capital Budget

Fiscal Year	G.O. Bond[1]
2021-22	$40 million
2022-23	$40 million
2023-24	$40 million
2024-25	$40 million
2025-26	$40 million
2026-27	$40 million

[1]Net of all grants

Rating Agencies

Standard & Poor's and Fitch have both stated that the City's existing credit rating is AAA/AAA with a stable outlook. In their most recent report dated October 14, 2020, Standard & Poor's highlighted the following:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 5.3% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 19.6% of total governmental fund expenditures and 2.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 8.1% of expenditures and net direct bonded debt that is 61.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67% of debt scheduled to be retired in 10 years;
- Strong management, with "good" financial policies and practices; and a
- Strong institutional framework score.

Impact on Debt Service

The impact of proposed financing plans on our annual debt service is an important factor to consider and is a major limiting factor in the amount of debt that the City can safely issue. As a rule, the City maintains its annual debt service below 10% of the City's annual operating budget. This is necessary for two reasons: First, debt service levels above 10% tend to crowd out other vital operating expenses, which could either limit the services the City can adequately provide or force upward pressure on property taxes; and second, rating agencies tend to use 10% as an upper limit for AAA-rated municipalities.

In FY 2019-20 the City's annual debt service was $52,597,049 (including $120,000 for issuance costs) or 8.8% of the annual operating budget; below the 10% threshold. In FY 2020-21, debt service is $52,000,285 (including $150,000 for issuance costs) or 8.8% of our annual operating budget. The proposed debt holds the debt service funding to $52 million and allows the City to issue debt in excess of that prescribed last year to allow the City to meet future obligations.

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

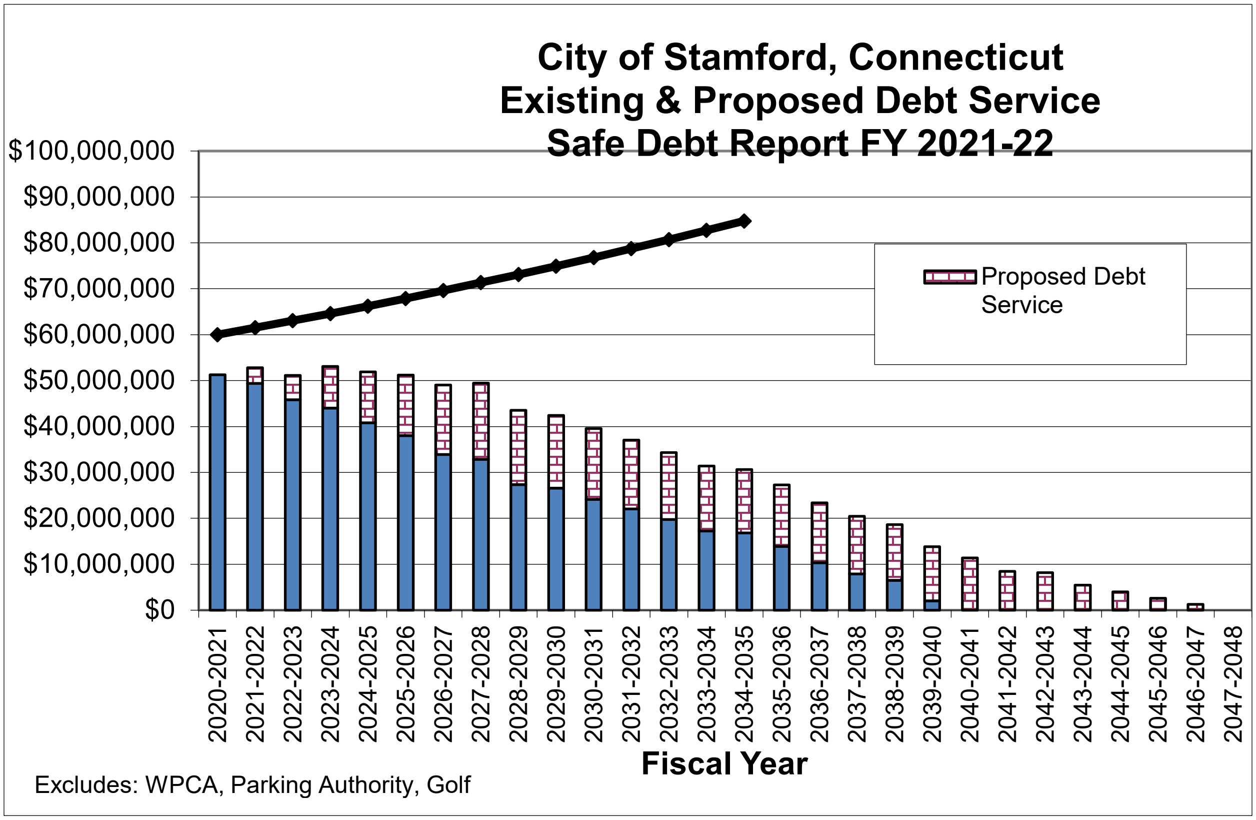
Under these statutory limits, the City is permitted to incur indebtedness of over $3.5 billion. From a practical standpoint, however, the City could never approach this level of indebtedness. If the City were to incur this magnitude of debt, we would surely find our credit rating reduced to below-investment grade. For this reason, the legal debt limit in Connecticut is of no practical consequence for the City of Stamford.

How Much Debt is Required to Support Capital Projects?

The City is considering the future need to borrow to address issues including adequate space and healthy conditions in the district's school buildings. In a prior year, the City identified 5 school buildings that were in need of significant renovations addressing mold. This year, planning for significant renovation and construction of school buildings is being recognized as a high priority. In fact, the Board of Education has established a Long Term Facilities Committee to establish firm plans from which to move forward. As a member of that Committee, I can attest that dollars needed and timeframes for accomplishing objectives have yet to be addressed. However, that Committee is working diligently to address the full scope of the Board of Education's needs. One thing we do know is that the cost of repair and construction will exceed the bond limits provided for in the last safe debt letter.

Therefore, I have provided below a Scenario in which the projected borrowing over the next six years is expanded from $165 million to $240 million but the annual debt service remains at the current $52 million. This scenario (see attached Scenario Report) suggests that the City can take advantage of current low interest costs (the City sold $40 million bonds in August 2020 with an All–in-TIC of 0.93) to once again borrow $40 million in FY 21-22 and then do the same for the remaining 5 years. The projected average coupon increases 10 basis points each year. This scenario gives the City an indication of the borrowing possible without escalation of the debt service. Additionally, this borrowing is anticipated to meet the standards of the rating agencies in meeting their AAA requirements.

This Scenario not only provides a look at what amount of borrowing is possible and safe but it allows time for the City to weigh alternative bonding scenarios before being required to commit.



This Scenario should also allow the City time to approach the State legislature before making projections on total borrowings necessary.

So how do we know what is the appropriate amount of bonds that the City should proposed selling? A significant factor in determining the appropriate debt is to consider the ability to spend the bond funds in a timely manner. Bonds are proceeds to be spent in accordance with the Treasury Regulations, but generally, it is reasonable expectation that you will use those funds within 2 years and definitely no later than 3 years after the issue date. Based upon the current status of the BOE Long Term Facility Committee, the dates of spending at this time are not known. Only one school project of approximately $4 million will be submitted by June 30, 2021 requiring evidence of bond authorization. In addition to that school (Stamford High School) additional funds need to be made available to address the architectural drawings of schools to be submitted the following year. Therefore, bonding next fiscal year should address the typical needs of both the Board of Education and the City while adding to that the known educational facility costs.

Since the City is provided a safe debt letter annually, the City has the opportunity to amend its recommendation each year. Therefore, my recommendation for safe debt for FY 21-22 is $40 million as it will not increase the City's debt service given the low average coupon rates and it will allow the City to address capital needs of the City and provide initial capital to the Board of Education to address one school and architectural drawings that will be needed to cost out school construction grant requests to the State legislature in the next fiscal year. The following year's safe debt letter will then take into consideration the recommendations of the Long Term Facilities Committee and the input of the Board of Finance and Board of Representatives.

The following is provided to allow you to review Stamford's debt standing related to other Connecticut municipalities as well as other national AAA communities.

Connecticut Benchmarks: extracted from State of Connecticut, Fiscal Indicators Report 2019

City	S&P Rating	Population	Debt Per Capita	(Debt Burden) Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Stamford* (as of 6/30/19)	AAA	129,800	3,291	1.9%	4.3%
Bridgeport	A	147,500	5,178	11.8%	3.5%
New Haven	BBB+	130,800	4,686	9.3%	-1.7%
Hartford**	BB+	124,400	4,680	14.4%	0.7%
Waterbury	AA-	109,300	4,147	10.2%	4.5%
Norwalk	AAA	88,700	2,672	1.6%	14.7%
Danbury	AA+	84,600	1,767	1.9%	8.6%
West Hartford	AAA	63,400	2,320	2.3%	8.0%
Greenwich	AAA	62,800	2,597	0.5%	9.5%
Fairfield	AAA	61,700	2,937	1.6%	9.6%
Average		**97,022**	**3,443**	**6.0%**	**6.4%**

* Includes $25.9 million of Rainy Day Fund as of June 30, 2019
** City of Hartford's Debt is guaranteed by the State of Connecticut

National Benchmarks: Extracted each municipalities 2019 CAFR

City	S&P Rating	Population	Debt Per Capita	Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Alexandria, VA	AAA	154,500	4,841	1.8%	11.7%
Bellevue, WA	AAA	142,000	1,944	0.5%	18.8%
Cambridge, MA	AAA	109,694	4,653	1.0%	40.3%
Cary, NC	AAA	163,930	1,082	0.7%	29.8%
Chandler, AZ	AAA	254,239	1,294	1.0%	27.6%
Huntsville, AL	AAA	196,000	4,280	3.6%	21.5%
Naperville, IL	AAA	147,449	812	0.6%	26.0%
Overland Park, KS	AAA	195,000	1,083	0.8%	30.8%
Scottsdale, AZ	AAA	242,500	2,151	4.1%	28.3%
Winston-Salem, NC	AAA	243,026	3,665	4.0%	14.4%
Average		**184,834**	**2,580**	**1.8%**	**24.91%**

While Stamford's per capita debt is slightly above the average for medium sized cities in the State of Connecticut, it is lower than some of the AAA-rated national benchmarks. Stamford is located 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 this 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 1.8% compares favorably to the 6.0% average within the State and 1.8% 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 many other AAA rated communities.

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 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. The City's Charter Revision of 2005 first permitted the City to maintain a general fund "Rainy Day Fund" up to 5% of its annual operating budget. Over the past eight years, the City has made a concerted effort to contribute towards our future financial stability and today the current "Rainy Day Fund" balance is $25.8 million, roughly 4.3% of the City's 2019-20 operating budget. During budget deliberations for FY 20-21, however, the City recognized that tax revenues may not be sufficient to support the operating budget. The Board of Finance authorized the City to use up to $18.2 million of the Rainy Day Fund if tax revenues fell short. Today that need is approximately $3.3 million.

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. While the City continues to manage complex structural costs, such as personnel, health care, pension and Other Post Employment Benefit (OPEB) liabilities, it also has a host of activities that require funding support. That is why it is imperative to continue to maintain manageable annual debt service levels as we explore potential solutions to our public school facilities challenges. As we address the decades of deferred and failed maintenance, we will be pressed 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.

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 the City of Stamford, cash used to fund the purchase of capital items is held in the City's Capital Non-Recurring (CNR) fund. In FY 2018-19, the City used $10.4 million to support capital projects in the CNR fund. In FY 2019 – 20 the City used $1.1 (City did adjustments that year - the City has a clean-up from prior year including unlinked projects) and in 2020-21 it has the potential of expending up to $32.2. In FY 20-21, it is anticipated that the City will continue to earmark projects to be supported on a pay as you go basis. Nearly $14.8 million operating surplus from FY 19-20 is anticipated to go to the CNR fund, to address at a minimum, $6.4 million for schools and the balance ($8.4 Million) for necessary City improvements.

CONCLUSION

In my capacity as Director of Administration, the safe debt limit I am recommending at this time is a capital-spending plan, net of direct grants and non-general obligation (G.O.) bonds, of $40 million for Fiscal Year 2021-22 to be re-examined the following year. I trust the information and recommendations provided in this report will assist you in your deliberations regarding the City's debt position.

Respectfully submitted,

Sandra Dennies

Sandra L. Dennies
Director of Administration

Safe Debt Report for Fiscal Year 2021-22

$40 Million Per Year

===> Proposed Bond Issues   *Projected borrowing rates (using average coupon not TIC)*

$240,000,000 *<=== Total Bonds next 6 years*

GENERAL FUND DEBT SERVICE - EXCLUDES SELF-SUPPORTING FUNDS

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)
						3.00%	3.10%	3.20%	3.30%	3.40%	3.50%		Excess	Total		
						$40M	$40M	$40M	$40M	$40M	$40M	Total	Debt Service	Existing &		
Fiscal Year	Principal	Interest	Total Debt Service	Amount Budgeted	Annual Change	July - 2021 Debt Service	July - 2022 Debt Service	July - 2023 Debt Service	July - 2024 Debt Service	July - 2025 Debt Service	July - 2026 Debt Service	Proposed Debt Service	Generated Debt Budget Flat	Proposed Debt Service	Annual Change	Fiscal Year
2020-2021	37,009,598	14,251,932	51,261,531	52,000,285		-	-	-	-	-	-	-	738,754	51,261,531		2020-2021
2021-2022	35,763,282	13,626,922	49,390,204		(2,610,081)	2,610,081	-	-	-	-	-	2,610,081	-	52,000,285	(0)	2021-2022
2022-2023	33,791,988	12,049,909	45,841,897		(3,548,307)	3,255,000	2,903,388	-	-	-	-	6,158,388	-	52,000,285	(0)	2022-2023
2023-2024	33,415,902	10,630,515	44,046,417		(1,795,480)	3,192,000	3,178,000	1,583,868	-	-	-	7,953,868	-	52,000,285	(0)	2023-2024
2024-2025	31,522,222	9,294,110	40,816,332		(3,230,085)	3,129,000	3,116,000	3,248,000	1,690,953	-	-	11,183,953	-	52,000,285	(0)	2024-2025
2025-2026	30,003,560	8,032,761	38,036,321		(2,780,011)	3,066,000	3,054,000	3,184,000	3,254,000	1,405,964	-	13,963,964	-	52,000,285	(0)	2025-2026
2026-2027	26,983,500	6,915,075	33,898,575		(4,137,746)	3,003,000	2,992,000	3,120,000	3,188,000	3,292,000	2,506,709	18,101,709	-	52,000,285	(0)	2026-2027
2027-2028	27,017,500	5,872,765	32,890,265		(1,008,311)	2,840,000	2,930,000	3,056,000	3,122,000	3,224,000	3,330,000	18,502,000	-	51,392,265	(608,020)	2027-2028
2028-2029	22,400,500	4,937,923	27,338,423		(5,551,841)	2,780,000	2,868,000	2,992,000	3,056,000	3,156,000	3,260,000	18,112,000	-	45,450,423	(5,941,841)	2028-2029
2029-2030	22,427,500	4,184,379	26,611,879		(726,544)	2,720,000	2,806,000	2,928,000	2,990,000	3,088,000	3,190,000	17,722,000	-	44,333,879	(1,116,544)	2029-2030
2030-2031	20,715,500	3,434,266	24,149,766		(2,462,113)	2,660,000	2,744,000	2,864,000	2,924,000	3,020,000	3,120,000	17,332,000	-	41,481,766	(2,852,113)	2030-2031
2031-2032	19,275,500	2,800,999	22,076,499		(2,073,267)	2,600,000	2,682,000	2,800,000	2,858,000	2,952,000	3,050,000	16,942,000	-	39,018,499	(2,463,267)	2031-2032
2032-2033	17,470,500	2,285,358	19,755,858		(2,320,642)	2,540,000	2,620,000	2,736,000	2,792,000	2,884,000	2,980,000	16,552,000	-	36,307,858	(2,710,642)	2032-2033
2033-2034	15,460,500	1,764,594	17,225,094		(2,530,764)	2,480,000	2,558,000	2,672,000	2,726,000	2,816,000	2,910,000	16,162,000	-	33,387,094	(2,920,764)	2033-2034
2034-2035	15,460,500	1,348,230	16,808,730		(416,364)	2,420,000	2,496,000	2,608,000	2,660,000	2,748,000	2,840,000	15,772,000	-	32,580,730	(806,364)	2034-2035
2035-2036	12,960,500	945,103	13,905,603		(2,903,127)	2,360,000	2,434,000	2,544,000	2,594,000	2,680,000	2,770,000	15,382,000	-	29,287,603	(3,293,127)	2035-2036
2036-2037	9,725,000	632,541	10,357,541		(3,548,062)	2,300,000	2,372,000	2,480,000	2,528,000	2,612,000	2,700,000	14,992,000	-	25,349,541	(3,938,062)	2036-2037
2037-2038	7,510,000	397,319	7,907,319		(2,450,222)	2,240,000	2,310,000	2,416,000	2,462,000	2,544,000	2,630,000	14,602,000	-	22,509,319	(2,840,222)	2037-2038
2038-2039	6,260,000	209,363	6,469,363		(1,437,956)	2,180,000	2,248,000	2,352,000	2,396,000	2,476,000	2,560,000	14,212,000	-	20,681,363	(1,827,956)	2038-2039
2039-2040	2,000,000	60,000	2,060,000		(4,409,363)	2,120,000	2,186,000	2,288,000	2,330,000	2,408,000	2,490,000	13,822,000	-	15,882,000	(4,799,363)	2039-2040
2040-2041	-	-	-		(2,060,000)	2,060,000	2,124,000	2,224,000	2,264,000	2,340,000	2,420,000	13,432,000	-	13,432,000	(2,450,000)	2040-2041
2041-2042	-	-	-		-	2,030,000	2,062,000	2,160,000	2,198,000	2,272,000	2,350,000	13,072,000	-	13,072,000	(360,000)	2041-2042
2042-2043	-	-	-		-	-	1,523,250	2,096,000	2,132,000	2,204,000	2,280,000	10,235,250	-	10,235,250	(2,836,750)	2042-2043
2043-2044	-	-	-		-	-	-	2,032,000	2,066,000	2,136,000	2,210,000	8,444,000	-	8,444,000	(1,791,250)	2043-2044
2044-2045	-	-	-		-	-	-	-	1,570,625	2,068,000	2,140,000	5,778,625	-	5,778,625	(2,665,375)	2044-2045
2045-2046	-	-	-		-	-	-	-	-	1,271,250	2,070,000	3,341,250	-	3,341,250	(2,437,375)	2045-2046
2046-2047	-	-	-		-	-	-	-	-	-	-	-	-	-	(3,341,250)	2046-2047
2047-2048	-	-	-		-	-	-	-	-	-	-	-	-	-	0	2047-2048
	427,173,553	103,674,061	530,847,615			54,585,081	54,206,638	54,383,868	53,801,578	53,597,214	53,806,709	324,381,088		855,228,703		