

Mayor
CAROLINE SIMMONS



DIRECTOR OF ADMINISTRATION
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CITY OF STAMFORD
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December 3, 2021

To: Caroline Simmons, Mayor
Members of the Board of Finance

Re: Safe Debt FY 23

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 2022-23.

PROPOSED CAPITAL SPENDING PLAN

**Financing Plans
For Fiscal Year 2022-23 and the subsequent 5 years**

City Capital Budget	
Fiscal Year	G.O. Bond¹
2022-23	\$40 million
2023-24	\$40 million
2024-25	\$40 million
2025-26	\$40 million
2026-27	\$40 million
2027-28	\$40 million

¹Net 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 July 20, 2021, Standard & Poor's highlighted the following:

- Very strong economy, with access to a broad and diverse Metropolitan Statistical Area;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 7.4% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 19.8% of total governmental fund expenditures and 2.6 times governmental debt service, and access to external liquidity which is considered strong;
- Strong debt and contingent liability position, with debt service carrying charges at 7.5% of expenditures and net direct bonded debt that is 65.1% 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 2020-21 the City's annual debt service budget was \$52,000,285 (including \$120,000 for issuance costs) or 8.8% of the annual operating budget; below the 10% threshold. In FY 2021-22, budgeted debt service is \$52,000,285 (including \$150,000 for issuance costs) or 8.45% of our annual operating budget. The proposed debt holds the debt service funding to \$52 million.

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. The Board of Education has hired a firm to address the dollars needed and timeframes for accomplishing the facility objectives. The final Master Plan will be available in late December to mid-January. The Committee has already established the replacement cost of Westhill High School at \$261M and the Lockwood Avenue building at \$58M. Therefore, the one item we do know is that the cost of repair and construction will exceed the bond limits provided for in this safe debt letter even with school construction grant funding.

The following is the Board of Education’s portion of the \$416M authorized but unissued bonds

Board of Education: Capital

C3B444	STRAWBERRY HILL RENOVATIONS	\$49,788,668
CP1471	WESTHILL HIGH SCHOOL REPLACEMENT PROJECT	261,038,536
CP1472	STAMFORD EARLY CHILDHOOD EDUCATION CENTER REPLACEMENT PROJECT	52,626,728
CPBMXX	BOE MTF PROJECTS	28,968,623
C3B502	INTERDISTRICT K-8 MAGNET SCHOOL	58,331
C5B613	DISTRICT-WIDE BOILER & BURNER REPLACEMENT	300,000
C5B637	RIPPOWAM CENTER RENOVATION	73,437
CPB017	DAVENPORT CODE COMPLIANCE	15,884
CPB093	DISTRICT-WIDE CARPET & TILES REPLACEMENT	770

CPB403 WESTHILL HS EXPANSION/ADDITION

192,163

CPB404 ROGERS CODE/RENOVATION

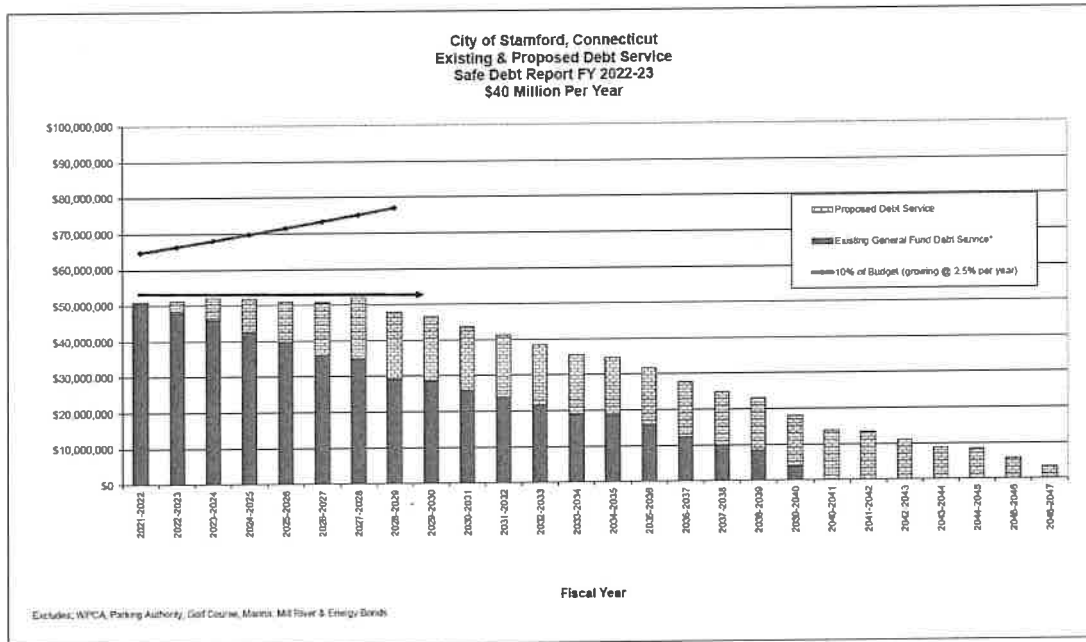
(79)

Total BOE Capital

\$393,063,061

I have provided below a Scenario in which the projected borrowing over the next six years is \$240 million with the annual debt service remaining at the current \$52 million budgeted level. This scenario (see the attached Safe Debt Report for Fiscal 2022-23) suggests that the City can continue to take advantage of current low interest costs even though rates may be increasing. The City sold \$40 million GO bonds in July 2020 with an All-In-True Interest Cost of 1.43%. In July 2021, the City again sold \$34.5 million GO bonds with an All-In-True Interest Cost of 1.55%. The attached report reflects an anticipated average coupon increase of 5 - 10 basis points each year. This scenario gives the City an indication of the borrowing without escalation of the debt service. Additionally, this borrowing also addresses the standards of the rating agencies in meeting their AAA requirements.

This Scenario not only provides a look at what amount of borrowing is both 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 on school construction cost sharing before making projections on total borrowings necessary.

So how do we know what is the appropriate amount of bonds that the City should propose 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 a 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 the bulk of bonded spending remain unknown. However, bonding next fiscal year should address the typical needs of both the Board of Education and the City while formulating the need for 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 22-23 is \$40 million as it will not increase the City's debt service budget given the low average coupon rates and it will allow the City to address capital needs of both the City and the Board of Education. As developments occur, with regard to the Long Term Facilities Committee, the discussion with the State legislature and the recommendations of the Board of Finance and Board of Representatives the safe debt can be re-examined.

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 2020

City	S&P Rating	Population	Debt Per Capita	(Debt Burden) Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Stamford* (as of 6/30/20)	AAA	135,511	3,072	1.3%	4.7%
Bridgeport	A	148,698	6,281	8.2%	3.9%
New Haven	BBB+	134,052	4,868	5.5%	3.0%
Hartford**	BB+	121,026	4,092	6.6%	2.9%
Waterbury	AA-	114,426	3,942	6.2%	4.6%
Norwalk	AAA	91,194	2,830	1.2%	14.8%
Danbury	AA+	86,570	1,507	1.1%	8.9%
West Hartford	AAA	64,019	2,112	1.3%	7.7%
Greenwich	AAA	63,502	2,483	0.3%	9.0%
Fairfield	AAA	61,472	2,741	1.0%	10.2%
Average		98,329	3,428	3.5%	7.2%

* Includes \$26.7 million of Rainy Day Fund as of June 30, 2020

** City of Hartford's Debt is guaranteed by the State of Connecticut

National Benchmarks: Extracted each municipalities 2020 CAFR

City	S&P Rating	Population	Debt Per Capita	Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Alexandria, VA	AAA	157,613	4,745	1.8%	11.7%
Bellevue, WA	AAA	144,403	2,023	0.4%	17.9%
Cambridge, MA	AAA	116,632	4,113	0.9%	32.3%
Cary, NC	AAA	166,268	973	0.6%	19.2%
Chandler, AZ	AAA	252,692	855	0.5%	31.4%
Huntsville, AL	AAA	228,527	3,590	3.0%	24.1%

Naperville, IL	AAA	147,501	600	0.4%	29.5%
Overland Park, KS	AAA	191,011	437	0.3%	32.8%
Scottsdale, AZ	AAA	250,602	1,731	3.1%	42.6%
Winston-Salem, NC	AAA	243,026	631	0.7%	10.7%
Average		189,828	1,970	1.2%	25.24%

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 1.3% compares favorably to the 3.5% average within the State and is approximate to the 1.2% 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 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. As of June 30, 2021, the "Rainy Day Fund" balance is \$26.9 million, roughly 4.5% of the City's Fiscal 2020-21 actual operating expenditures (including transfers).

Impact of the Plan on Future Operating Budgets

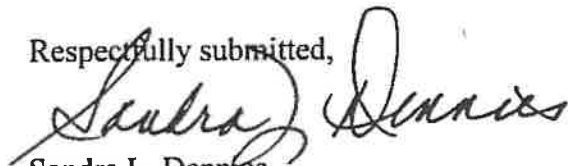
When approving capital spending plans it is important to realize that this spending results in a direct impact on the City's future operating budgets and tax rates. Not only must future taxpayers fund the original appropriation, but it also must be repaid with interest. While the City continues to manage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

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 2020-21, the City used \$12.4 million to support capital projects in the CNR fund. In 2021-22 it has the potential of expending up to \$31.7. In FY 21-22, it is anticipated that the City will continue to earmark projects to be supported on a pay as you go basis. Nearly \$15.6 million operating surplus from FY 20-21 is anticipated to go to the CNR fund, to address at a minimum, \$4.2 million for schools and the balance (\$11.4 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 2022-23 to be re-examined prior to bonding and before the following fiscal 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 L. Dennies

Director of Administration

City of Stamford
Existing & Proposed Debt Analysis
Safe Debt Report for Fiscal Year 2022-23
\$40 Million Per Year

(A) (B) (C) (D) (E) (F) (G) (H) (I) (J) (K) (L) (M) (N) (O) (P)

DRAFT

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

\$240,000,000

Fiscal Year	GENERAL FUND DEBT SERVICE - EXCLUDES SELF-SUPPORTING FUNDS										Total Existing & Proposed Debt Service	Annual Change Compared to Current Budget of \$2,000,285	Fiscal Year				
	Principal	Interest	Total Debt Service	Amount Budgeted	Annual Change	3.40%		3.50%		3.65%				3.70%		Total Proposed Debt Service*	
						July-2022	July-2023	July-2024	July-2025	July-2026				July-2027	Debt Service		Debt Service
2021-2022	37,013,282	13,999,935	51,013,217	52,000,285										51,013,217	(987,068)	2021-2022	
2022-2023	34,807,988	12,921,774	47,829,762		(4,170,523)	3,392,000	3,392,000	3,392,000	3,392,000	3,392,000	3,392,000	3,392,000	3,392,000	51,221,762	(776,523)	2022-2023	
2023-2024	34,541,902	11,426,290	45,968,192		(1,861,570)	3,224,000	2,733,000	2,733,000	2,733,000	2,733,000	2,733,000	2,733,000	2,733,000	51,993,192	(7,093)	2023-2024	
2024-2025	32,674,222	10,000,575	42,674,797		(3,293,395)	3,156,000	3,116,000	3,248,000	3,248,000	3,248,000	3,248,000	3,248,000	3,248,000	51,859,797	(140,488)	2024-2025	
2025-2026	31,153,560	8,655,888	39,809,448		(2,865,551)	3,088,000	3,054,000	3,164,000	3,254,000	3,254,000	3,254,000	3,254,000	3,254,000	51,020,199	(980,086)	2025-2026	
2026-2027	28,473,500	7,460,200	35,933,700		(3,875,546)	3,068,000	3,020,000	3,120,000	3,188,000	3,292,000	3,330,000	3,330,000	3,330,000	50,813,700	(1,186,585)	2026-2027	
2027-2028	28,522,500	6,332,990	34,855,490		(1,078,211)	2,952,000	2,830,000	3,056,000	3,122,000	3,224,000	3,330,000	3,330,000	3,330,000	51,994,189	(6,086)	2027-2028	
2028-2029	23,920,500	5,312,648	29,233,148		(5,622,341)	2,884,000	2,868,000	2,992,000	3,056,000	3,158,000	3,280,000	3,280,000	3,280,000	47,847,148	(4,153,137)	2028-2029	
2029-2030	23,962,500	4,473,004	28,435,504		(797,644)	2,816,000	2,806,000	2,928,000	2,992,000	3,088,000	3,190,000	3,190,000	3,190,000	46,651,504	(5,346,781)	2029-2030	
2030-2031	22,270,500	3,653,591	25,924,091		(2,511,413)	2,748,000	2,744,000	2,864,000	2,928,000	3,020,000	3,120,000	3,120,000	3,120,000	43,742,091	(8,256,194)	2030-2031	
2031-2032	20,820,500	3,002,212	23,822,712		(2,101,379)	2,680,000	2,620,000	2,800,000	2,858,000	2,952,000	3,050,000	3,050,000	3,050,000	41,242,712	(10,757,573)	2031-2032	
2032-2033	18,965,500	2,489,720	21,475,220		(2,347,492)	2,612,000	2,620,000	2,736,000	2,792,000	2,884,000	2,980,000	2,980,000	2,980,000	38,487,220	(13,503,065)	2032-2033	
2033-2034	16,950,500	1,972,658	18,923,158		(2,552,064)	2,544,000	2,544,000	2,672,000	2,726,000	2,816,000	2,910,000	2,910,000	2,910,000	35,547,156	(16,453,129)	2033-2034	
2034-2035	16,915,500	1,561,530	18,477,030		(446,127)	2,476,000	2,408,000	2,544,000	2,594,000	2,690,000	2,770,000	2,770,000	2,770,000	34,703,030	(17,297,255)	2034-2035	
2035-2036	14,710,500	1,148,353	15,858,853		(2,620,177)	2,408,000	2,372,000	2,480,000	2,528,000	2,612,000	2,700,000	2,700,000	2,700,000	31,684,853	(20,315,432)	2035-2036	
2036-2037	11,475,000	803,166	12,278,166		(3,578,687)	2,272,000	2,310,000	2,416,000	2,462,000	2,544,000	2,630,000	2,630,000	2,630,000	27,706,166	(24,292,119)	2036-2037	
2037-2038	9,260,000	535,131	9,795,131		(2,483,034)	2,204,000	2,248,000	2,352,000	2,396,000	2,476,000	2,560,000	2,560,000	2,560,000	24,827,131	(27,173,154)	2037-2038	
2038-2039	6,010,000	314,363	6,324,363		(1,470,769)	2,136,000	2,188,000	2,288,000	2,330,000	2,408,000	2,490,000	2,490,000	2,490,000	22,656,363	(29,041,923)	2038-2039	
2039-2040	3,750,000	130,000	3,880,000		(4,444,363)	2,068,000	2,124,000	2,224,000	2,264,000	2,340,000	2,420,000	2,420,000	2,420,000	18,116,000	(33,884,285)	2039-2040	
2040-2041	-	-	-		(3,880,000)	-	-	2,160,000	2,198,000	2,272,000	2,350,000	2,350,000	2,350,000	13,838,000	(38,162,285)	2040-2041	
2041-2042	-	-	-		-	-	-	2,066,000	2,132,000	2,204,000	2,280,000	2,280,000	2,280,000	13,440,000	(38,560,285)	2041-2042	
2042-2043	-	-	-		-	-	-	2,032,000	2,065,000	2,136,000	2,210,000	2,210,000	2,210,000	11,042,000	(40,958,285)	2042-2043	
2043-2044	-	-	-		-	-	-	2,032,000	2,065,000	2,136,000	2,210,000	2,210,000	2,210,000	8,712,000	(43,288,285)	2043-2044	
2044-2045	-	-	-		-	-	-	2,032,000	2,065,000	2,136,000	2,210,000	2,210,000	2,210,000	8,444,000	(43,556,285)	2044-2045	
2045-2046	-	-	-		-	-	-	2,032,000	2,065,000	2,136,000	2,210,000	2,210,000	2,210,000	5,778,625	(46,221,660)	2045-2046	
2046-2047	-	-	-		-	-	-	1,570,625	2,088,000	2,140,000	2,140,000	2,140,000	2,140,000	3,341,250	(48,859,035)	2046-2047	
2047-2048	-	-	-		-	-	-	1,271,250	2,070,000	2,070,000	2,070,000	2,070,000	2,070,000	-	-	2047-2048	
	418,317,955	98,191,822	514,509,777			54,312,000	52,513,000	55,583,000	53,801,578	54,491,250	52,828,708	52,828,708	52,828,708	838,037,315			

* includes \$150,000 each year for issuance costs