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Safe Debt Limit – REVISED

July 5, 2019

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 $60 million for Fiscal Year 2019-20.

PROPOSED CAPITAL SPENDING PLAN

Financing Plans
For Fiscal Year 2019-20 and the subsequent 5 years

City Capital Budget	
Fiscal Year	**G.O. Bond[1]**
2019-20	$60 million
2020-21	$40 million
2021-22	$25 million
2022-23	$25 million
2023-24	$25 million
2024-25	$25 million

[1]Net of all grants

It must be noted that this safe debt letter is unlike those in prior years. In each of the prior six years of my tenure, I have been in a position to accurately project our future capital needs. I then balance the City's capital needs with the self-imposed constraints aimed at maintaining our strong balance sheet and the impact debt service has on future operating budgets. Fiscal Year 2019-20 is vastly different in that at the time of this letter being written, I do not have an accurate projection of our next year's capital needs. Because the City's safe debt letter is statutorily due on December 15th, I have prepared my projections based on the best information on hand at this time. I fully anticipate that our capital budget needs will increase, perhaps dramatically, requiring me to return to the requisite boards for supplemental authority.

By way of background, Fiscal Year 2019-20 was initially anticipated to be the final year ($25 million) of a rather austere debt issuance plan. This was a direct result of having issued a total of $105 million in fiscal years 2015-16 and 2016-17 to build a new police headquarters and a new school on Strawberry Hill Ave. The intention was to reduce our debt service to more manageable levels, thereby providing budgetary relief and/or room to handle unforeseen or emergency capital needs at some future time.

That future time, unfortunately, is now and the capital emergency is complicated. On October 29, 2018 the City and the Board of Education formed the Mold Task Force. The reason for the Task Force was to create an action-oriented team that could cut through the varying layers of bureaucracy and implement solutions to challenges that have plagued our schools for some time. The mold issues in our schools reached heightened levels and it became clear that swift action needed to be taken to ensure the health, welfare and educational opportunities of our students and dedicated staff.

While my recommendation is supported by the financial projections contained in this report, the capital needs for our schools as mentioned previously, are not yet fully known. The $100 million of capital spending recommended over the next two fiscal years assumes that approximately $60 million will be allocated to addressing the mold and water intrusion issues already investigated in several of our schools. Again, this is solely based on best estimates received at this time and does not take into account all of the schools that require immediate attention. I fully anticipate that our capital needs will grow and we are fortunate that our balance sheet is in a strong position to be able to accommodate our needs.

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 report dated July 20, 2018, Standard & Poor's highlighted the following:

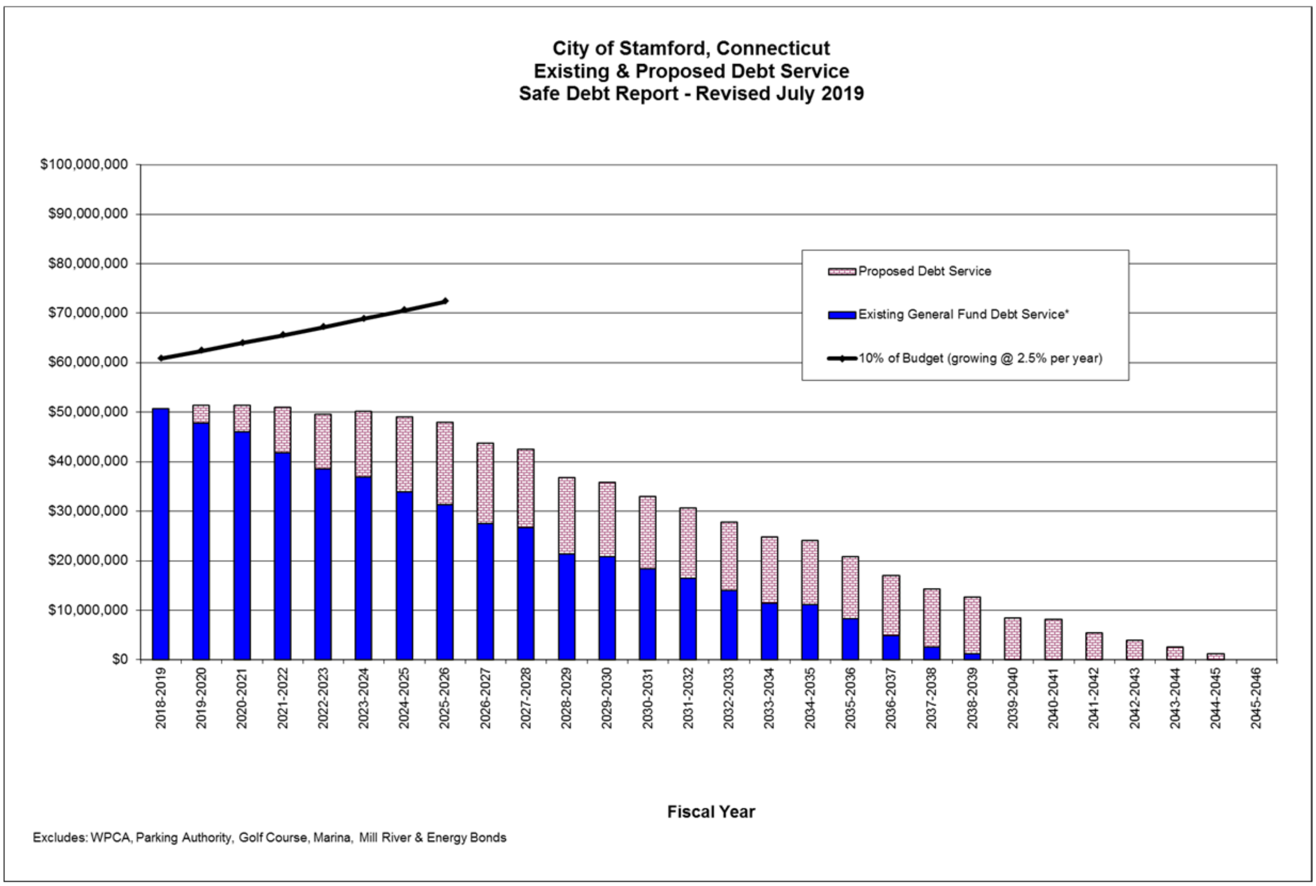
- The GO rating on Stamford is rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario
- Strong budgetary performance and flexibility
- Strong management, with "good" financial policies and practices
- Very strong liquidity with total government available cash at 20.5% of total governmental fund expenditures and 2.6x governmental debt service
- Strong debt and contingent liability profile with net debt that is 63.1% of total governmental fund revenue and low overall net debt at less than 3% of market value of taxable property

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, while conservative and likely to grow, both warranted and fiscally responsible.

<u>Impact on Debt Service</u>

The impact our proposed financing plans would have 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, I strive to maintain our 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 upward limit for AAA-rated municipalities.

In FY 2018-19 the City's annual debt service was $51,173,789 or 9.1% of our annual operating budget, below the 10% threshold. In FY 2019-20, our projected debt service is expected to be $52,432,049 or 8.9% of our annual operating budget. For planning purposes, I assume a City (inclusive of the BOE) operating budget increase of 2.5% per year.



Capital Needs of the Community

As stated previously, the overall capital needs of the City and BOE are significant. In addition to the issues we are addressing in our schools, we also need to build on the important work already underway repairing our roadways. The City has seized the opportunity to take advantage of a historically low interest rate environment. Since 2013, the City has issued $265 million in long-term new money general obligation bonds to invest in prime areas where immediate attention was paramount. It was imperative that these investments be made in projects that support the safety and well-being of residents and have a positive impact on the reduction of operating costs. This capital planning improved the quality of our City overall as we build a new school on Strawberry Hill Avenue and replace a failing police department headquarters. Equally as important, the City capitalized on this unprecedented period of low interest rates by refunding over $140 million of general obligation bonds. In aggregate, these refundings led to present value savings in excess of $16 million or 11% of the bonds refunded. It continues to be our practice to capture these savings equally in each of the remaining term years and in some cases the savings were more heavily weighted in the out years.

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 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. As of December 15, 2018, the City's outstanding General Obligation debt (exclusive of interest and self-supporting debt) was approximately $381 million.

Impact of the Proposed Plan on Debt Position and Credit Rating

Stamford is in elite company with an AAA bond rating—the highest available—from both Standard & Poor's and Fitch. 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 2017

City	S&P Rating	Population	Debt Per Capita	(Debt Burden) Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Stamford* (as of 6/30/17)	AAA	127,410	3,346	1.3%	4.0%
Bridgeport	A	147,022	4,411	7.5%	3.1%
New Haven	BBB+	130,405	4,006	5.1%	-0.6%
Hartford**	A	124,320	4,838	8.5%	0.8%
Waterbury	AA-	109,211	3,920	7.4%	4.4%
Norwalk	AAA	87,930	2,500	1.1%	13.6%
Danbury	AA+	83,890	1,566	1.3%	8.9%
West Hartford	AAA	63,187	2,381	1.6%	7.2%
Greenwich	AAA	62,418	2,499	0.3%	7.9%
Fairfield	AAA	61,114	2,790	1.1%	8.6%
Average		**96,611**	**3,212**	**3.8%**	**6.0%**

* Includes $22.7 million of Rainy Day Fund as of June 30, 2017
** City of Hartford's Debt is guaranteed by the State of Connecticut

National Benchmarks: Extracted from each municipality's 2017 CAFR

City	S&P Rating	Population	Debt Per Capita	Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Alexandria, VA	AAA	156,100	3,570	1.43%	9.0%
Bellevue, WA	AAA	140,700	2,067	0.65%	22.5%
Cambridge, MA	AAA	109,694	3,603	1.00%	38.8%
Cary, NC	AAA	160,390	1,096	0.68%	33.5%
Chandler, AZ	AAA	250,547	1,208	0.94%	38.1%
Huntsville, AL	AAA	188,000	4,170	3.49%	20.0%
Naperville, IL	AAA	145,789	1,003	0.73%	23.0%
Overland Park, KS	AAA	191,000	1,108	0.82%	28.9%
Scottsdale, AZ	AAA	238,000	2,432	8.99%	22.5%
Winston-Salem, NC	AAA	240,603	3,493	4.04%	13.7%
Average		**182,082**	**2,375**	**2.28%**	**25.00%**

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 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 3.8% average within the State and 2.3% 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.

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. 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 five years, the City has made a concerted effort to contribute towards our future financial stability and today the current "Rainy Day Fund" balance is $24.6 million, roughly 4.3% of the City's 2018-19 operating budget.

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 bonds.

Total Debt Service FY 2018-19 (Current Year):	$50,712,005*
Total Debt Service FY 2019-20 (Projected):	$52,163,886
Year-over-year Variance in Debt Service:	$1,451,881

*Note: FY2018/19 general fund debt service obligation (excluding issuance cost of $120k) was previously estimated at $51,147,005 which assumed a 3.25% interest rate on the FY18/19 $25M bond issue.

(See attached Debt Schedule)

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 2015-16, the City used $4.4 million of cash from Capital Non-Recurring (CNR) to purchase capital items such as vehicles, technology equipment, and software systems. In FY 2016-17 the City used $6.9 million and in FY 17-18, the City used $8.1 million from CNR. It is anticipated that in FY 2018-19, the City will use $5.0 million from CNR. These were major first steps towards increased financial flexibility and a practice that we plan to continue. I have proposed designating $1.9 million from last year's operating surplus to go into the CNR fund for projects typically financed with shorter term debt such as light vehicles and technology. By moving away from borrowing for these items, we are reducing our future general fund debt service obligations.

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 $60 million for Fiscal Year 2019-20. I fully anticipate coming back before you to ask for additional capital appropriations once I know the full extent of the additional needs in our schools. I trust the information and recommendations provided in this report will assist you in your deliberations regarding the City's future debt position.

Respectfully Submitted,

Michael E. Handler
Director of Administration

Safe Debt Report for Fiscal Year 2019-20 (revised July 2019)

===> **Proposed New Bond Issues** *Projected borrowing rates*

(A)	(B)	(C)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)
NET GENERAL FUND DEBT SERVICE EXCLUDES SELF-SUPPORTING FUNDS				**3.65%**	**3.80%**	**3.95%**	**4.10%**	**4.25%**	**4.40%**		**Total**		
				60M	**$40M**	**$25M**	**$25M**	**$25M**	**$25M**	**Total**	**Existing &**		
Fiscal Year	**Principal**	**Interest**	**Annual Change**	Jul - 2019 Debt Service	Jul - 2020 Debt Service	Jul - 2021 Debt Service	Jul - 2022 Debt Service	Jul - 2023 Debt Service	Jul - 2024 Debt Service	**Proposed Debt Service**	**Proposed Debt Service**	**Annual Change**	**Fiscal Year**
2018-2019	37,253,297	14,160,351		-	-	-	-	-	-	-	50,712,005		2018-2019
2019-2020	35,014,120	13,534,746	(2,812,952)	4,264,833	-	-	-	-	-	4,264,833	52,163,886	**1,451,881**	2019-2020
2020-2021	34,650,098	12,010,336	(1,834,193)	5,122,838	760,000	-	-	-	-	5,882,838	51,947,697	**(216,188)**	2020-2021
2021-2022	31,902,782	10,511,742	(4,190,511)	5,012,425	3,482,000	493,750	-	-	-	8,988,175	50,862,524	**(1,085,173)**	2021-2022
2022-2023	29,884,488	9,149,548	(3,324,363)	4,902,013	3,406,000	2,212,813	1,412,500	-	-	11,933,325	50,483,311	**(379,213)**	2022-2023
2023-2024	29,465,402	7,943,724	(1,568,400)	4,791,600	3,330,000	2,163,438	2,249,375	531,250	-	13,065,663	50,047,249	**(436,063)**	2023-2024
2024-2025	27,524,722	6,820,730	(3,006,776)	4,681,188	3,254,000	2,114,063	2,198,125	2,285,938	550,000	15,083,313	49,058,123	**(989,126)**	2024-2025
2025-2026	25,960,060	5,772,466	(2,554,839)	4,570,775	3,178,000	2,064,688	2,146,875	2,232,813	2,322,500	16,515,650	47,935,621	**(1,122,502)**	2025-2026
2026-2027	22,870,000	4,884,768	(3,918,373)	4,460,363	3,102,000	2,015,313	2,095,625	2,179,688	2,267,500	16,120,488	43,622,086	**(4,313,535)**	2026-2027
2027-2028	22,840,000	4,069,096	(785,043)	4,349,950	3,026,000	1,965,938	2,044,375	2,126,563	2,212,500	15,725,325	42,441,881	**(1,180,205)**	2027-2028
2028-2029	18,160,000	3,359,653	(5,326,505)	4,239,538	2,950,000	1,916,563	1,993,125	2,073,438	2,157,500	15,330,163	36,720,214	**(5,721,667)**	2028-2029
2029-2030	18,135,000	2,756,684	(563,003)	4,129,125	2,874,000	1,867,188	1,941,875	2,020,313	2,102,500	14,935,000	35,762,049	**(958,165)**	2029-2030
2030-2031	16,225,000	2,203,206	(2,414,822)	4,018,713	2,798,000	1,817,813	1,890,625	1,967,188	2,047,500	14,539,838	32,952,064	**(2,809,985)**	2030-2031
2031-2032	14,750,000	1,733,594	(1,928,633)	3,908,300	2,722,000	1,768,438	1,839,375	1,914,063	1,992,500	14,144,675	30,628,269	**(2,323,795)**	2031-2032
2032-2033	12,750,000	1,334,375	(2,399,219)	3,797,888	2,646,000	1,719,063	1,788,125	1,860,938	1,937,500	13,749,513	27,833,888	**(2,794,381)**	2032-2033
2033-2034	10,500,000	965,313	(2,619,062)	3,687,475	2,570,000	1,669,688	1,736,875	1,807,813	1,882,500	13,354,350	24,819,663	**(3,014,225)**	2033-2034
2034-2035	10,500,000	655,156	(310,156)	3,577,063	2,494,000	1,620,313	1,685,625	1,754,688	1,827,500	12,959,188	24,114,344	**(705,319)**	2034-2035
2035-2036	8,000,000	378,281	(2,776,875)	3,466,650	2,418,000	1,570,938	1,634,375	1,701,563	1,772,500	12,564,025	20,942,306	**(3,172,038)**	2035-2036
2036-2037	4,750,000	189,688	(3,438,594)	3,356,238	2,342,000	1,521,563	1,583,125	1,648,438	1,717,500	12,168,863	17,108,550	**(3,833,756)**	2036-2037
2037-2038	2,500,000	80,469	(2,359,219)	3,245,825	2,266,000	1,472,188	1,531,875	1,595,313	1,662,500	11,773,700	14,354,169	**(2,754,381)**	2037-2038
2038-2039	1,250,000	20,313	(1,310,156)	3,135,413	2,190,000	1,422,813	1,480,625	1,542,188	1,607,500	11,378,538	12,648,850	**(1,705,319)**	2038-2039
2039-2040	-	-	(1,270,313)	-	2,114,000	1,373,438	1,429,375	1,489,063	1,552,500	7,958,375	7,958,375	**(4,690,475)**	2039-2040
2040-2041	-	-	-	-	2,038,000	1,324,063	1,378,125	1,435,938	1,497,500	7,673,625	7,673,625	**(284,750)**	2040-2041
2041-2042	-	-	-	-	-	1,274,688	1,326,875	1,382,813	1,442,500	5,426,875	5,426,875	**(2,246,750)**	2041-2042
2042-2043	-	-	-	-	-	-	1,275,625	1,329,688	1,387,500	3,992,813	3,992,813	**(1,434,063)**	2042-2043
2043-2044	-	-	-	-	-	-	-	1,276,563	1,332,500	2,609,063	2,609,063	**(1,383,750)**	2043-2044
2044-2045	-	-	-	-	-	-	-	-	1,277,500	1,277,500	1,277,500	**(1,331,563)**	2044-2045
2045-2046	-	-	-	-	-	-	-	-		-	-	**(1,277,500)**	2045-2046
2046-2047	-	-	-	-	-	-	-	-		-	-	**0**	2046-2047
	414,884,971	102,534,237		82,718,208	55,960,000	35,368,750	36,662,500	36,156,250	36,550,000	283,415,708	796,096,998		