

RatingsDirect®

Summary:

Stamford, Connecticut; General Obligation

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Credit Profile

US\$25.0 mil GO bnds ser 2017A due 07/15/2037		
<i>Long Term Rating</i>	AAA/Stable	New
US\$24.64 mil GO rfdg bnds ser 2017D due 07/15/2027		
<i>Long Term Rating</i>	AAA/Stable	New
US\$19.415 mil GO rfdg bnds ser 2017C due 07/15/2037		
<i>Long Term Rating</i>	AAA/Stable	New
US\$5.0 mil GO bnds ser 2017B due 07/15/2027		
<i>Long Term Rating</i>	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' rating to Stamford, Conn.'s series 2017A, 2017B general obligation (GO) bonds. We also assigned our 'AAA' rating to the city's series 2017C GO refunding bonds, and to its 2017D GO crossover refunding bonds. At the same time, we affirmed our 'AAA' rating on the city's existing GO debt. The outlook is stable.

The city's full faith and credit pledge secures the bonds. Management indicates the series 2017A and will be used for public improvement projects, including school projects. The series 2017B bond proceeds will be used for energy improvement projects. The series 2017C and series 2017D bond proceeds will be used to refund the city's series 2011B bonds and the city's series 2009 taxable Build America Bonds, respectively, for present value savings.

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 based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. Locally derived property taxes accounted for more than 85% of the city's general fund revenue in fiscal 2016.

The refunding of the series 2009 Build America Bonds is a crossover refinancing, with a crossover date of Aug 1, 2019. Prior to the crossover date, principal and interest on the refunding bonds will remain GOs of the city payable from ad valorem property taxes; however, interest from the date of issuance through and including the crossover date is expected to be paid from an escrow account. The proceeds of the series 2017D bonds will be deposited in an escrow account and invested in U.S. government obligations.

The rating reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2016;

- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 6.2% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 19.1% 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 debt that is 63% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66.3% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider Stamford's economy very strong. The city, with an estimated population of 128,250, is located in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 161% of the national level and per capita market value of \$217,877. Overall, the city's market value grew by 1.3% over the past year to \$27.9 billion in 2017. The county unemployment rate was 4.8% in 2016.

Residential unit construction has supported consistent growth in the city's tax base, with multiple projects supporting continued increases in housing units, particularly in the city's downtown area. Home sales and median prices have also experienced improvement, year over year. After the departure of UBS and Pitney Bowes, the city's vacancy rate reached 28% at the end of 2016; however, city officials note that commercial leasing rebounded slightly since August 2016 with a variety of firms, including Henkel; PartnerRe; Charter Communications; and Octagon Sports, signing new leases. Stamford Hospital also recently completed a \$450 million expansion project in the city.

The city maintains a diverse employment base, driven by employment in high-paying sectors, including financial services, insurance, and real estate as well as professional, technical and business services. Stamford has consistently maintained income levels at significantly higher levels than national medians, and we expect its economy to remain very strong.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Stamford maintains and utilizes robust trend data in preparation of budgeted revenue and expenditure assumptions, which we believe are conservative. The city also maintains contact with the state Office of Policy and Management, supporting our view of its proactive identification of potential issues affecting city finances. The city's board of finance and board representatives receive quarterly reports on budget to actuals as well as projections for the remainder of the fiscal year.

Stamford also undertakes long-term financial planning and capital planning activities on a rolling basis. The city's projected revenue and expenditures for the current and two subsequent years allow for the identification and allocation of funds for potential revenue and expense changes. The city's capital plan includes the current year and five subsequent years, and provides details about sources and use of funds. These documents are publicly available.

The city charter includes a requirement for an annual comprehensive debt analysis to be provided to the mayor and board of finance, which analyzes current debt levels and the impacts of anticipated issuance on outyear debt service; but management's target for debt service carrying charges at 10% of expenditures or less remains informal and limits on debt issuance are not as restrictive as the state's guidelines. Stamford does maintain formal policies on investments and fund balance. Investment holdings and earnings are reported quarterly, and the city continues to improve fund balance levels to support its rainy day fund target of 5%; nonetheless, the amount set aside in this fund remains below 5%.

Strong budgetary performance

Stamford's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 0.7% of expenditures, and balanced results across all governmental funds of negative 0.4% in fiscal 2016. General fund operating results of the city have been stable over the past three years, with a result of 1.6% in 2015, and a result of 0.1% in 2014.

Our assessment of the city's performance adjusts for bond proceeds spent towards capital outlays and a planned set-aside for labor settlements attributable to retroactive pay in fiscal years prior to 2016. The city settled with its police union in fiscal 2016, requiring the use of fund balance for retroactive payouts. Stamford continued to manage balanced operations in fiscal 2016, and we believe it will continue to do so over the near term. Nominal cost increases were largest for Board of Education costs, which were driven by other postemployment benefit (OPEB) obligations, health insurance, and teacher salary and wage increases. Property taxes make up about 86% of operating revenues, which we believe provides insulation from future reductions in state aid.

We anticipate the city will end with positive operating results in fiscal 2017, after adjusting for anticipated fund balance use for settlements with four city unions, the largest of which was its firefighters union, whose settlement closely followed that of its police union in 2016. Better than budgeted results were mostly attributable to positive variance associated with revenue line items, including conveyance taxes, supplemental auto taxes, and building permit revenues. We believe the city's expenditure line items will experience minimal negative variance as compared to budgeted.

To offset reductions in state aid, the city raised revenues in fiscal 2017, mostly through property taxes, and did so again for fiscal 2018, increasing the total levy by 2.79% and bringing the mill rate to 26.49. While we recognize the city is likely to experience continued reductions in state aid, its portion is relatively small compared to those of statewide peers; in addition, we believe the city has proactively managed its finances and reserves to withstand further state aid cuts. We also note the city continues to conservatively project revenues, such as conveyance taxes, which we believe are likely to continue to support positive revenue variance.

Strong budgetary flexibility

Stamford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 6.2% of operating expenditures, or \$34.6 million. In addition, the city has an ability and willingness to raise taxes when needed, which we view as a positive credit factor.

The available fund balance calculation includes the city's committed rainy-day fund balance of \$300,000. Despite continued reductions in state aid in recent years, the city has shown the ability to manage these revenue makeup

changes through increased property taxes, and we believe Stamford has demonstrated a willingness to raise its tax levy to cover annual spending needs; the city raised the adjusted annual levy by 2.9% in 2016 and by 2.73% in 2017. We do not expect the city's flexibility to change given management's expectation of positive operating performance for 2016 and continued improvement towards its rainy day fund balance policy of 5%.

Very strong liquidity

In our opinion, Stamford's liquidity is very strong, with total government available cash at 19.1% of total governmental fund expenditures and 2.4x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

Our measurement of the city's liquidity includes short-term investments which we consider liquid. Stamford maintains strong access to external liquidity, based on its regular issuance of GO debt. The city historically has not made use of cash flow borrowing. It maintains funds in liquid investments, which we deem not aggressive. Given these factors and our expectation for continued balanced results, we do not anticipate changing our view of the city's liquidity over the near term.

Strong debt and contingent liability profile

In our view, Stamford's debt and contingent liability profile is strong. Total governmental fund debt service is 8.1% of total governmental fund expenditures, and net direct debt is 63% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 66.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The city anticipates issuing \$25 million over the next two years, and we expect outstanding principal paydown to exceed this amount over the same period. We do not anticipate changing our view of the city's debt profile over the near term.

Stamford's combined required pension and actual OPEB contributions totaled 6.3% of total governmental fund expenditures in 2016. Of that amount, 3% represented required contributions to pension obligations, and 3.3% represented OPEB payments. The city made 100% of its annual required pension contribution in 2016.

Stamford maintains four pension plans, in order of size:

- Classified Employee's Retirement Fund (CERF), funded at 74.3%;
- Policeman's Pension Trust Fund, funded at 74.4%;
- Firefighters' Pension Trust Fund, funded at 65.7%; and
- Custodians' and Mechanics' Retirement Fund, funded at 75.5%.

On a combined basis, the fiduciary net position of all funds is \$549.5 million, with a total pension liability of \$758.6 million, for a combined funded ratio of 72.4%. The city has steadily reduced its assumed rate of return in recent years, and no plan maintains an assumed rate of return exceeding 7.63% (CERF), with all plans expected to continue to reduce the assumed rate of return in fiscal 2018. We also note the city adopted an ordinance to fully fund its actuarially determined contributions annually.

The city also provides OPEBs, and it has made a recent practice of contributing 100% of its actuarially required contributions. The city's actuarial accrued liability was \$294.2 million as of July 1, 2015, with assets toward the liability

of \$57.5 million, for a funded ratio of 19.5%. We believe the city continues to actively manage its pension and OPEB liabilities through its working relationship with its collective bargaining units and we anticipate it will continue to do so over the near term.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects our view of the city's very strong economy, very strong liquidity, and strong management practices, supporting what we believe will be the continued maintenance of balanced operations. We do not anticipate changing our view of the city's credit profile over the next two years; however, if the city were to experience weakened performance, particularly if driven by accelerating costs associated with labor, including legacy costs, requiring sustained drawdowns on the city's available reserves, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of June 20, 2017)		
Stamford GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Stamford GO forward rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Stamford GO rfdg bnds iss ser 2016 due 08/01/2027		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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