

Stamford, Connecticut

New Issue Report

Ratings

Long-Term Issuer Default Rating AAA

New Issues

\$25,000,000 General Obligation Bonds Series 2017A AAA
 \$5,000,000 General Obligation Bonds Series 2017B AAA
 \$19,415,000 General Obligation Refunding Bonds Series 2017C AAA
 \$24,640,000 General Obligation Refunding Bonds Series 2017D AAA

Rating Outlook

Stable

New Issue Summary

Sale Date: Series A and B: Competitively on July 6; Series C and D: Negotiated Sale during week of July 17

Series: General Obligation Bonds Series 2017A and 2017B and General Obligation Refunding Bonds Series 2017C and 2017D

Purpose: Series A and B bonds: to provide financing for various city and school capital projects; the series C bonds: to refinance certain outstanding GO bonds of the city for debt service savings; the series D bonds: to crossover-refinance previously issued Taxable Build America Bonds for debt service savings.

Security: The full faith and credit and unlimited taxing power of the city of Stamford.

Analytical Conclusion

The 'AAA' Issuer Default Rating and GO ratings reflect Fitch Ratings' expectation for the city of Stamford to maintain healthy financial flexibility throughout economic cycles, consistent with a recent history of strong operating performance and sound reserves. The city's strong financial profile reflects a wealthy property tax base, moderate fixed cost burden and demonstrated ability to reduce expenditures during economic downturns. Fitch expects long-term liabilities to remain low based on manageable capital needs and a commitment to full funding of city-managed pension plans.

Key Rating Drivers

Economic Resource Base: The city of Stamford covers an area of 40 square miles on the Long Island Sound between Greenwich to the west and New Canaan and Darien to the east. It is about one hour from New York City by rail or highway transportation. Stamford had an estimated 2016 Census population of 129,113 (up 5.3% since 2010) and is Connecticut's third largest city by population.

Revenue Framework: 'aaa' factor assessment. Stamford's primary source of revenues is property taxes, which have generated general fund revenue growth over the past 10 years above U.S. GDP for the same period. Growth in revenues was derived from a combination of tax rate increases and tax base growth. Fitch expects natural revenue growth to be above inflation but below GDP as a number of new developments are either underway or proposed and are expected to improve the tax base. Local governments in Connecticut have an unlimited taxing authority. Exposure to declining state aid is not material.

Expenditure Framework: 'aa' factor assessment. Fitch expects the natural pace of spending growth to be in line with revenue growth over time. Carrying costs for long-term liabilities represent a moderate 14% of governmental spending. The city has adequate controls over employee headcount and wages, and has demonstrated the flexibility and willingness to cut spending during economic downturns.

Long-Term Liability Burden: 'aaa' factor assessment. Fitch expects Stamford's long-term liability burden associated with debt and pensions to remain low based on a manageable capital plan, rapid debt amortization and city ordinances in place requiring full funding of its annual pension actuarially determined contributions (ADC). The city's overall debt and estimated unfunded net pension liabilities are a low 7% of estimated personal income.

Analysts

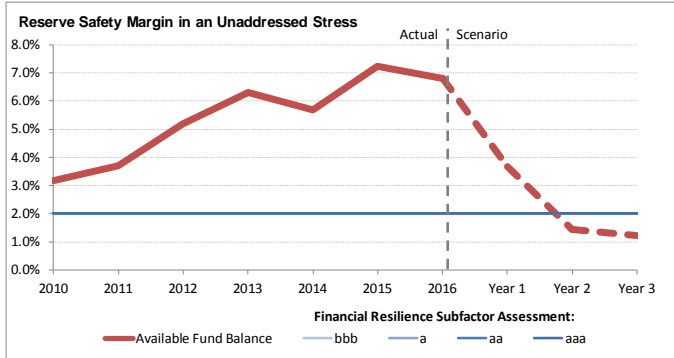
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Stamford (CT)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:
 Fitch expects the city will continue to maintain strong financial resilience throughout economic cycles given its superior inherent budget flexibility in the form of revenue and spending control and the limited economic sensitivity of its revenue base. The city has demonstrated a commitment to restoring reserves during periods of recovery, including the continued practice of funding external reserves as appropriate for capital, OPEB, risk management and among others, its medical insurance fund. City charter limits the rainy day fund held as assigned in the general fund to 5% of spending.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	2.9%	4.1%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2010	2011	2012	2013	2014	2015	2016	Year 1	Year 2	Year 3
Total Revenues	462,647	476,130	497,505	512,394	536,955	544,435	556,312	550,749	566,550	589,637
% Change in Revenues	-	2.9%	4.5%	3.0%	4.8%	1.4%	2.2%	(1.0%)	2.9%	4.1%
Total Expenditures	420,759	431,930	447,833	460,093	487,289	489,228	507,886	518,044	528,405	538,973
% Change in Expenditures	-	2.7%	3.7%	2.7%	5.9%	0.4%	3.8%	2.0%	2.0%	2.0%
Transfers In and Other Sources	3,715	2,798	3,215	2,865	3,079	2,799	2,780	2,752	2,831	2,946
Transfers Out and Other Uses	47,826	44,510	49,394	52,869	52,244	49,197	51,548	52,579	53,631	54,703
Net Transfers	(44,111)	(41,712)	(46,179)	(50,004)	(49,165)	(46,398)	(48,768)	(49,827)	(50,800)	(51,757)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(2,223)	2,488	3,494	2,297	501	8,809	(343)	(17,122)	(12,655)	(1,093)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(0.5%)	0.5%	0.7%	0.4%	0.1%	1.6%	(0.1%)	(3.0%)	(2.2%)	(0.2%)
Unrestricted/Unreserved Fund Balance (General Fund)	3,251	8,584	11,967	14,259	30,666	38,967	38,134	21,012	8,357	7,263
Other Available Funds (Analyst Input)	11,676	8,987	13,914	18,119	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	14,927	17,571	25,881	32,378	30,666	38,967	38,134	21,012	8,357	7,263
Combined Available Fund Bal. (% of Expend. and Transfers Out)	3.2%	3.7%	5.2%	6.3%	5.7%	7.2%	6.8%	3.7%	1.4%	1.2%
Reserve Safety Margins	Inherent Budget Flexibility									
		Minimal	Limited	Midrange	High	Superior				
Reserve Safety Margin (aaa)		16.0%	8.0%	5.0%	3.0%	2.0%				
Reserve Safety Margin (aa)		12.0%	6.0%	4.0%	2.5%	2.0%				
Reserve Safety Margin (a)		8.0%	4.0%	2.5%	2.0%	2.0%				
Reserve Safety Margin (bbb)		3.0%	2.0%	2.0%	2.0%	2.0%				

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Assigned	Stable	6/22/17

Operating Performance: 'aaa' factor assessment. The city's steady revenue growth combined with prudent fiscal policies and conservative budgeting practices has resulted in historically sound operating results and maintenance of sound general and capital reserve levels. Based on its solid level of expenditure flexibility and superior level of revenue-raising ability, Fitch expects management will continue to maintain its financial flexibility to withstand a future economic downturn in a manner consistent with the current rating level.

Rating Sensitivities

Strong Management Practices: The rating is sensitive to shifts in the city's strong financial management practices and maintenance of fundamental financial flexibility. Fitch expects future growth prospects for revenues to remain sound, and results contrary to this expectation could pressure this key rating factor assessment.

Credit Profile

Stamford is the state's largest business center and has a strong and diverse business base, including a high concentration of national and international corporate headquarters. Major employers across multiple industry sectors include healthcare, banking, insurance, pharmaceuticals, media and information technology, and retail. Major employers include Stamford Hospital (3,000 employees), Stamford Town Center Mall (2,500), RBS (1,285), Gartner, Inc. (1,250) and Deloitte (1,100).

Office vacancy rates have risen in recent years as several large companies, including RBS, UBS and Pitney Bowes, have reduced their presence in the city. More recently UBS moved offices across the street into the RBS building, leaving vacant the large 720,000 square foot (sf) UBS facility. First-quarter 2017 vacancy rates for the Stamford Central Business District were 25% and the vacancy rate for the Stamford Non-Central Business District was a high 28% (according to Cushman and Wakefield) based on an inventory of 16.6 million sf in the city. Despite this above-average level of vacancy rates, development of new office space and new residential/apartment housing has been strong, leading to growth in the city's tax base. Positively, apartment and retail vacancy rates were a relatively low 6% and approximate 7%, respectively, last year, according to city officials.

The city's proximity to New York City, highly-educated regional employment base and its quality housing and apartment options have attracted new companies to the city as well as continued new residential and office development. A number of major commercial and residential developments are underway and planned which Fitch believes will help continue to support tax base values and lead to continued economic growth.

Revenue Framework

The city's primary source of revenues is property taxes, which represent approximately 90% of fiscal 2016 operating revenues (net of state pass-throughs for teachers' pensions). Management has made modest annual increases to the tax rate to meet expenditure growth and the city has an independent legal ability to raise taxes without limit. Exposure to state aid for the city and its schools is minimal as only 3% of fiscal 2016 operating revenues were from state sources.

Fitch expects revenue growth to be sound even without policy action due to the strength in the city's economy. The development of new residential, commercial and retail properties is helping contribute to economic growth and future tax base growth supporting Fitch's expectations.

Related Research

[Fitch Rates Stamford CT's \\$74MM Series 2017 GO Bonds 'AAA'; Outlook Stable \(June 2017\)](#)

Related Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(May 2017\)](#)

The city's fiscal 2018 net taxable grand list (assessed value) totaled just under \$20 billion based on an Oct. 1, 2016 valuation and is up around 5% over the past four years due to new development since the last statutory five-year revaluation. In between revaluations, tax base values are not adjusted for sales of real property or changes in lease rental rates. The tax base had declined a high 22.5% during the last five-year revaluation which was effective Oct. 1, 2012, due to declines primarily in housing and industrial values and a decline in lease rental values. A new revaluation is scheduled for Oct. 1, 2017 and management is projecting a moderate level of new growth. Fitch believes prospects for tax base growth are reasonable based on reported growth in housing values over the past five years, new development underway and significant plans for future development.

Wealth levels are above average compared to the state and nation and unemployment rates remain below state and national averages.

Expenditure Framework

Stamford's spending is primarily for school and city employee salaries and benefits.

Fitch expects expenses to grow in line with to slightly above revenues without policy action. Fixed costs for debt service, pension and OPEB represent a manageable 14% of fiscal 2016 total governmental spending. Management has established an OPEB trust with a balance of \$67 million as of July 1, 2016 (21% of its OPEB liability) and beginning in fiscal 2017 has started making 100% of its OPEB annual actuarially required contribution.

The city has the ability to reduce expenses tied to its services, including reducing staff at any time if necessary. Union contracts are subject to arbitration but a decision may be rejected by a two-thirds vote by city council. A new arbitration panel would then be appointed by the state and subsequent panel decisions are required to take into consideration the financial capability of the city.

Management recently settled the bulk of its major contracts and achieved savings in future health insurance costs due to implementation of a high deductible plan and higher employee contribution rates. In addition, management negotiated certain changes to OPEB benefits which Fitch expects should help control growth in those costs. Management also negotiated certain pension plan changes affecting future benefits for existing employees. Negotiated salary adjustments were moderate for all groups.

Long-Term Liability Burden

Long-term liabilities for debt, including the overlapping debt from the city's tax increment financing district, and net pension liabilities represent a low 7% of personal income. Fitch expects liability levels to remain low given manageable borrowing plans, rapid amortization of existing debt (72% of principal paid over 10 years) and full funding of its ADC. The city passed ordinances that require management to fully fund the ADC for its pensions.

The city administers four single-employer defined benefit pension plans and the reported aggregate ratio of assets to liabilities was 72% as of June 30, 2016. Based on a 6% investment rate of return the Fitch-estimated aggregate net pension liability is \$334 million (3% of residents' personal income) and the estimated ratio of assets to liabilities is 62%.

The city's unfunded OPEB liability was \$237 million as of the July 1, 2016 valuation, equivalent to 2% of personal income.

Operating Performance

Fitch expects the city will continue to maintain strong financial resilience throughout economic cycles given its superior inherent budget flexibility in the form of revenue and spending control and the limited economic sensitivity of its revenue base. For details, see Scenario Analysis, page 2.

Fiscal 2016 results showed essentially flat operations following planned uses of fund balance of \$1 million to the city's capital non-recurring fund, \$300,000 to the rainy day fund, and close to \$1 million to other funds for future health liabilities and storm cleanup. The city's unrestricted general fund balance was \$38 million or 7% of spending. Additional liquidity is provided by the city's capital non-recurring fund which totaled \$13 million at fiscal end 2016.

Fiscal 2017, year-end projections call for an operating surplus of approximately \$5 million (1% of budget). Positive variances occurred in conveyance tax and building permit revenues as well as higher supplemental auto taxes. State aid was less than anticipated by \$0.5 million but expenses came in under budget by close to \$1 million, contributing to the positive results from operations.

Fiscal year-end results will reflect the planned use of amounts previously set aside for anticipated retroactive wages for unsettled contracts. The use of \$7.9 million in assigned fund balance will result in a downward change in unrestricted fund balance to a Fitch-estimated \$35 million (7% of 2017 spending).

The fiscal 2018 budget of \$555 million is up approximately 5% from the prior year's original budget and includes conservative assumptions for building conveyance and permit revenues and holds state aid at \$19 million (3% of budget), or \$0.5 million less than last year's budget. A contingency was built into the budget due to the uncertainty of future state aid and management plans to withhold the designation of the \$5 million fiscal 2017 surplus monies until after the state's budget is finalized. The primary drivers for the budget increase were increases in city funding to the schools and increases in OPEB contributions and pension costs due to a lowering of pension plan interest rate assumptions. The tax base increased close to 1%, providing additional new revenues.

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