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Ratings

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Summary:

Stamford, Connecticut; General Obligation

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Table Of Contents

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Credit Profile		
US$25.0 mil GO bnds ser 2018 due 08/01/2038		
Long Term Rating	AAA/Stable	New
Stamford GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Stamford, Conn.'s series 2018 general obligation (GO) bonds. At the same time, we affirmed our long-term rating on the city's outstanding GO debt. The outlook is stable.

Stamford's full-faith-and-credit pledge, payable from the levy of an unlimited-ad valorem tax on all taxable property in the city secures the series 2018 bonds. We understand that officials intend to use proceeds from the series 2018 bonds to permanently finance various general-purpose capital improvements and school construction projects.

Stamford's GO debt is eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), Stamford has a predominantly locally derived revenue source, with approximately 83.5% of general fund revenue coming from property taxes for fiscal 2017. The town also has independent taxing authority and independent treasury management from the federal government.

The rating reflects our opinion of the following factors for Stamford, specifically its:

- 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 (FMA) methodology;
- Strong budgetary performance, with slight surplus operating results in the general fund and at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 4.8% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 20.5% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 8.0% of expenditures and net direct debt that is 63.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 69.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Stamford's economy very strong. The city, with an estimated population of 130,824 (the third-most populous city in Connecticut), encompasses 40.7 square miles in Fairfield County on the northern shore of Long Island Sound, approximately 40 miles northeast of New York City and 23 miles southwest of Bridgeport. It is in the Bridgeport-Stamford-Norwalk MSA, which we consider broad and diverse. Reflecting residents' wealth and income levels, respectively, the city has per capital market value of $237,262 and its projected per capita effective buying income is 169% of the national level. Overall, its estimated full value grew by 8.5% over the past year to roughly $30.6 billion. As of Oct. 1, 2017, its net taxable grand list reached $21.4 billion.

Stamford's location along a developed network of highways and commuter rail lines connects residents with employment opportunities across the MSA and in New York City. In addition, the city features a large and diverse employment base, based on employment in high-paying sectors, including financial services, insurance, and real estate as well as professional, technical and business services. Fairfield County's unemployment rate was 4.5% in 2017, which was below the state's (4.7%) and slightly above the nation's (4.4%) average. However, due to its position as a principal employment center in the broader regional economy, we understand Stamford's local unemployment conditions (estimated at 3.6% in 2017) compare favorably to county, state, and national rates.

While the state continues to bear the adverse effects of a sluggish statewide economic recovery, Stamford has realized steady growth in its taxable base, spurred by a healthy mix of residential and commercial development. According to city estimates, approximately 1,000 residential units were completed over the past year, and nearly 3,100 additional units are in various stages of planning or construction. In addition, overall home sales and median prices have experienced year-over-year improvement. The city also continues to support diverse and inclusionary housing; embedded in its zoning regulations is a requirement that developers of new multifamily projects permanently set aside 10% of their units for low-income residents. Notably, the University of Connecticut completed a 118-unit dormitory to serve students at its Stamford campus. The university expects to increase its commitment to placing students in an additional 500 housing units beginning for fall 2018.

Over the past several years, the city has attracted several large corporations and reports expansion of its existing companies, particularly in its downtown and transportation center areas. Indeed and Henkel have announced workforce expansions over the past year and Charter Communications announced that will be building a new 500,000-square-foot headquarters and add 1,100 new positions in Stamford. Several media companies and financial firms have also announced plans to expand or relocate operations there. Stamford's central business district had a commercial vacancy rate of 26.9% in 2017, a slight decrease from about 28% in 2016. Although the vacancy rate remains elevated compared to commercial real estate trends in other metropolitan areas, officials indicate that several large commercial buildings are undergoing redevelopment that could be leased by several corporate employers. In addition, the development of new office space and evidence of robust commercial leasing activity has continued across the city.

In the last legislative session, the Connecticut General Assembly approved enabling legislation for the development of a tax-increment financing (TIF) district in the area around Stamford's transportation center. The legislation allows the district to sell up to $250 million in bonds to finance public improvement projects there. Formation of the TIF and recent designation as an Opportunity Zone could also allow the city to compete for federal funding to support future projects around the transportation center. While the city has no immediate plans to pursue bond financing, it is completing a land-use planning study and is working with the state on obtaining ownership of related properties.

In our view, Stamford has consistently maintained income levels at significantly higher levels than national medians. Based on our expectation that ongoing residential and commercial development will continue to support tax base growth, coupled with Stamford's position as a leading regional employment center, we expect its economic profile to remain very strong over the next two years.

Strong management

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

In preparation of its annual budget, Stamford performs a comprehensive review of historical trends to develop its revenue and expenditure assumptions. Financial officials review annual budget requests with department heads and the city maintains contact with the state Office of Policy and Management, supporting our view of its proactive identification of potential issues affecting city finances.

During the fiscal year, management shares quarterly budget-to-actuals and year-end projections to the city's board of finance and board of representatives. Stamford also undertakes long-term financial 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 long-term planning documents are publicly available and management incorporates them into annual budget discussions.

Although it does not have a formal debt policy, the city charter requires management to deliver a comprehensive debt analysis to the mayor and board of finance annually. The city's "Safe Debt Report" is an analysis of current debt levels and it provides projections for the impact of anticipated issuance of proposed issuances. The city's administration has an informal target to keep annual debt service requirements below 10% of general fund revenue. Stamford does maintain formal policies on investments and a rainy day fund balance policy. Investment holdings and earnings are reported quarterly, and the city maintains fund balance levels to support its rainy day fund target of 5% general fund expenditures.

Strong budgetary performance

Stamford's budgetary performance is strong, in our opinion. The city reported surplus operating results of 0.3% of expenditures in the general fund and near-balanced results at negative 0.2% across all governmental funds, in fiscal 2017. Our assessment of the city's budgetary performance adjusts for bond proceeds spent toward nonrecurring capital expenditures and a planned set-aside for labor settlements attributable to retroactive pay in fiscal years prior to 2017. General fund operating results of the city have been stable over the last three years, with results of 0.7% in 2016 and 1.6% in 2015.

We expect Stamford to maintain strong budgetary performance over the next several years, primarily due to its strong budgeting development and monitoring framework, coupled with its conservative expenditure forecasting. In addition, we believe the city has demonstrated its ability to operate in a less predictable state aid environment.

Connecticut's budget impasse last year, which extended four months into the 2018-2019 biennium, demonstrated significant state-level gridlock over revenue shortfalls and rising fixed costs that had a direct and harmful effect on municipal finances entering fiscal 2018. While the prospect for additional statutory aid cuts affects all local governments in the state, we believe Stamford maintains a predictable revenue profile that is largely independent of state or federal funds. It benefits from a historically stable and very strong property tax base, which generates approximately 83.5% of general fund revenue. Intergovernmental sources represent the second-highest share of general fund revenue at 12.4%, while charges for services constitute about 3.8%. 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 2.9% and bringing the mill rate to 26.89. Tax collections have remained strong with current collections averaging 98.5% over the past five years.

Although Stamford approved an appropriation of fund balance to use for settlements with four city unions for fiscal 2017, audited year-end results reflect an operating surplus. Officials attribute this positive result to the return of unexpended contingency appropriations and cost savings from unused departmental expenditures, particularly public safety and general government services. Concurrently, strong local economic growth supported favorable revenue variances from conveyance taxes, licenses, permits, and fees, which contributed better-than-budgeted revenue at fiscal year-end.

For fiscal 2018, the city adopted a $554.6 million general fund budget, or a 2.5% increase over the previous year, with a $1 million contingency appropriation of fund balance for uncertainty in state funding. Stamford held its state funding flat with the prior fiscal year; at fiscal year-end, it reported a net loss of $2.6 million in state grants, including a $1.1 million reduction in enterprise zone reimbursement and $2.9 million in municipal revenue sharing. The loss of state revenue was partly offset by a $1.7 million increase in the municipal stabilization grants. However, officials estimate that the city will realize a $2.9 million operating surplus due to better-than-budgeted revenue and departmental efforts to contain costs. City administration expects to commit $1 million of the projected surplus for any unsettled wage increases in subsequent years. Although Stamford has set aside reserves for this purpose, officials do not expect the resolution of contract negotiations to present a material pressure on budgetary performance.

Stamford's fiscal 2019 budget accounted for the possibility of future state-aid reductions. It budgeted for intergovernmental revenue to be $4.6 million less than the prior fiscal year and appropriated $1 million for contingency purposes. At the same time, the city budgeted for a $2.9 million annual increase in pension and OPEB costs and it appropriated a $3.1 million (roughly 1%) increase to its board of education budget. Officials identified cost-savings measures to reduce estimated increases to mill rates. Based on management's demonstrated conservatism in developing its annual revenue and expenditure projections, we anticipate the city will end with, at least, balanced operating results for fiscal 2019. For these reasons, we do not expect budgetary performance to deteriorate over the next two years.

Strong budgetary flexibility

Stamford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 4.8% of operating expenditures, or $29.0 million. In addition, the city has an ability and willingness to raise taxes when needed, which we view as a positive credit factor.

Our assessment of available fund balance factors in the city's committed rainy day fund balance of $2 million. Although the city has reported strong operating performance over the past three years, we note that it had a year-over-year decline in assigned and unassigned fund balance. However, we understand this largely reflects a reclassification of approximately $6.3 million of assigned fund balance to committed fund balance to support nonrecurring capital expenditures.

Despite continued reductions in state aid in recent years, Stamford has demonstrated the ability to adjust local revenue from its very strong property tax base and increase charges for services. While officials indicate that they prioritize expenditure adjustments before raising revenue, the city maintains the authority to levy ad valorem taxes on unlimited basis when necessary. It raised its adjusted annual levy by roughly 2.9% in 2016, by 2.7% in 2017, and by 2.9% for fiscal 2018, demonstrating its willingness and revenue-raising flexibility to levy taxes to manage its annual expenditure needs.

Given our expectation that the city will maintain positive operating performance for fiscal 2018 and sustain, at least, balanced operations for fiscal 2019, we do not expect to change our view of the city's strong budgetary flexibility over the next two years.

Very strong liquidity

In our opinion, Stamford's liquidity is very strong, with total government available cash at 20.5% of total governmental fund expenditures and 2.6x governmental debt service in 2017. For analytical consistency, we have included all Stamford's investments with maturities of less than one year in our calculation of liquidity. In our view, the city has strong access to external liquidity if necessary.

The majority of Stamford's cash is invested in money market funds, certificates of deposits, and short-term investments. At the same time, the city is a regular market participant that has issued debt frequently over the past 20 years, including GO bonds and bond anticipation notes. In addition, it does not currently have any variable-rate or direct-purchase debt. Finance officials also confirmed that the city does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

For these reasons, and given the strong and stable budgetary environment, we believe the city's liquidity profile should remain very strong.

Strong debt and contingent liability profile

In our view, Stamford's debt and contingent liability profile is strong. Total governmental fund debt service is 8.0% of total governmental fund expenditures, and net direct debt is 63.1% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and approximately 69.0% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following the current bond issue, Stamford will have approximately $524.3 million of total direct debt outstanding. Of this amount, the city had approximately $82.8 million of tax-secured enterprise debt secured by net revenue from its water pollution control authority operations. Furthermore, the city has neither overlapping nor underlying debt. As outlined in Stamford's five-year capital plan, it expects to issue $25 million in bonds in fiscal 2020 and management will increase its bond financing to $30 million annually over the subsequent four fiscal years.

However, due to what we believe to be rapid amortization of existing debt–management generally strives to retire debt at an amount equal to the amount that it will issue–we do not expect Stamford's direct debt profile to change materially over the near term.

Stamford's combined required pension and actual OPEB contributions totaled 7.0% of total governmental fund expenditures in 2017. Of that amount, 3.1% represented required contributions to pension obligations, and 3.9% represented OPEB payments. The city made 100% of its annual required pension contribution over the last three audited fiscal years.

Stamford maintains four pension plans, which are, in order of size:

- Classified Employee's Retirement Fund (CERF), funded at 80.6%;
- Policeman's Pension Trust Fund, funded at 78.7%;
- Firefighters' Pension Trust Fund, funded at 67.6%; and
- Custodians' and Mechanics' Retirement Fund, funded at 82.3%.

On a combined basis, the fiduciary net position of all funds is $605.9 million, with a total pension liability of $787.2 million, for a combined funded ratio of 76.97%. The city has steadily reduced its assumed rate of return in recent years, and no plan maintains an assumed rate of return exceeding 7.5%, with all plans expected to continue to reduce the assumed rate of return in fiscal 2019. 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 $354.7 million as of July 1, 2017, with assets toward the liability of $92.2 million, for a funded ratio of 25.99%. We believe it 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.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Stamford will likely maintain very strong financial practices and policies that contribute to strong and predictable budgetary performance overall, and support its strong budgetary flexibility and very strong liquidity. It also reflects the city's very strong underlying economic profile, which benefits its direct access to the Bridgeport-Stamford-Norwalk MSA. In addition, we expect it will maintain a very strong debt and contingent liability profile, coupled with manageable pension and OPEB liabilities. For these reasons, we are unlikely to change the rating during the next two years.

Although unlikely over the next two years, given the city's strong-to-very strong underlying credit fundamentals, we could lower the rating if the city were to experience a substantial weakening of budgetary performance--particularly if reflecting accelerating costs associated with labor or retirement costs--leading to a deterioration of available reserves and constraints on liquidity.

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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Ratings Detail (As Of July 20, 2018)		
Stamford GO forward rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Stamford GO rfdg bnds iss ser 2016 due 08/01/2027		
Long Term Rating	AAA/Stable	Affirmed