



Fitch Rates Stamford CT's \$60MM Series 2019 GO Bonds 'AAA'; Outlook Stable

Fitch Ratings-New York-23 July 2019: Fitch Ratings assigns a 'AAA' rating to the following city of Stamford, CT general obligation (GO) bonds:

--\$60 million GO bonds, series 2019.

The bonds are scheduled for competitive sale on July 30 and are being issued to provide financing for school mold remediation projects and other various city and school-related capital projects.

In addition, Fitch has affirmed its 'AAA' rating on the city's Issuer Default Rating (IDR) and the city's outstanding series 2017A, 2017B, 2017C, 2017D and 2018 GO bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are backed by Stamford's full faith and credit and unlimited taxing power.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO bond rating reflect Fitch's 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 its moderate fixed cost burden, unlimited legal ability to raise revenues and a 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 its city-managed pension plans.

Economic Resource Base

The city of Stamford covers an area of 40 square miles and is located 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 is Connecticut's third largest city based on its estimated 2018 Census population of approximately 130,000, up close to 6% since 2010, a rate faster than the state and close to the national increase.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Stamford's primary source of revenues is property taxes. Fitch expects natural general fund revenue growth to be above inflation but below GDP when considering changes in tax base values from future five-year revaluation results and new improvements. A number of new developments are either underway or proposed and are expected to continue a recent trend in moderate tax base growth. Local governments in Connecticut

have an unlimited taxing authority.

Expenditure Framework: 'aa'

Fitch expects the natural pace of spending growth to be generally in line with revenue growth over time. Fixed carrying costs for debt service, pensions and OPEB represent a moderate 14% of total 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'

The city's overall debt and Fitch adjusted net pension liabilities (NPL) represent a low 6.5% of residents' estimated personal income. Fitch expects Stamford's long-term liability burden to remain low based on a manageable capital plan, a rapid pace of principal amortization and city ordinances in place requiring full funding of its annual pension actuarially determined contributions (ADC).

Operating Performance: 'aaa'

Prudent fiscal policies and conservative budgeting practices have resulted in historically sound operating results and maintenance of sound general and capital reserve levels. Based on Stamford's solid level of expenditure flexibility and superior level of revenue raising ability, Fitch expects management will continue to maintain a high level of financial flexibility in order 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 Fitch's expectations for continued solid expenditure flexibility and solid growth prospects for revenues.

CREDIT PROFILE

Stamford is the state's largest business center and has a strong and diverse business base, including a high number of national and international corporate headquarters. Major employers across multiple industry sectors include healthcare, banking, insurance, pharmaceuticals, retail and media and information technology. Major employers, apart from the city and schools, include Stamford Hospital, Stamford Town Center Mall, Gartner, Inc., Charter Communications and Deloitte.

Office vacancy rates have remained stubbornly high the past number of years following the reduced presence of several large companies including RBS, UBS and Pitney Bowes. The second-quarter 2019 vacancy rate for the Stamford Central Business District was 31% and the vacancy rate for the Stamford Non-Central Business District was a high 33% (according to Cushman and Wakefield) based on an inventory of approximately 16.3 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. The city's proximity to New York City, highly-educated regional employment base and its housing and apartment options have attracted new companies to the city as well as continued new residential and office development amid the reductions mentioned above. KPMG LLP completed its move to the former UBS facility this spring and World Wrestling Federation (WWE) announced it would move its headquarters from the city's East Side to the former UBS facility by early 2021.

A new 500,000 square foot headquarters building for Charter Communications is also under way. Fitch believes the new construction along with other development planned or in progress 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 92% of fiscal 2018 general fund operating revenues (net of state on-behalf payments primarily 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. Net intergovernmental revenues for the city and its schools accounted for approximately 3% of fiscal 2018 general fund revenues.

Fitch expects revenue growth to be solid 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.

The city's tax base underwent a statutorily required five year revaluation as of Oct. 1, 2017 (effective for the fiscal 2019 budget year) and results showed 8.5% growth in net taxable values to \$21.4 billion. The tax base declined a high 22.5% during the last five-year revaluation effective Oct. 1, 2012, due to declines primarily in housing and industrial property values and a decline in lease rental values. In between revaluations, assessed values will change from new development or appeals activity, but tax base values are not adjusted for sales of real property or changes in lease rental rates. The overall change in net taxable value since the prior revaluation (effective for fiscal 2014) was 15% through fiscal 2020. Fitch believes prospects for continued tax base growth are reasonable based on trends in annual building permits, 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 averages and close to 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 consideration of policy action. Fixed costs for debt service, pension and OPEB represent a manageable 14% of fiscal 2018 total governmental spending. Management established an OPEB trust in fiscal 2009, and the city and board of education have gradually increased contributions each year, achieving 100% of required annual actuarially determined contributions in fiscal 2017. The trust had a balance of \$116 million as of July 1, 2018 equal to 32% of its accrued OPEB liability and up from \$92 million the prior year. Debt service costs are managed not to exceed 10% of general fund spending and future projections inclusive of planned debt issuances over the next five years demonstrate adherence to this policy.

Management has successfully negotiated changes in employee health insurance plan contributions and deductibles for its city workers and continues to seek additional cost savings. School employees moved to the lower cost state-sponsored medical self-insurance plan last year. Additionally, the city and school have been successful in moving most new employees (excluding teachers) into defined contribution plans. These actions are helping to control growth in these benefit costs.

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 an initial decision may be rejected by a two-thirds vote from the city's board of representatives. A new arbitration panel would then be appointed by the state and their subsequent decision is binding but the panel's decisions are required to take into consideration the financial capability of the city.

Additional expenditure flexibility is evidenced by the city's use of pay-as-you go funding for certain capital improvements or purchases. Such spending equated to a little over 1% of general fund spending in fiscal 2018.

Long-Term Liability Burden

Long-term liabilities for debt, including the overlapping debt from the city's tax increment financing district, and Fitch-adjusted net pension liabilities represent a low 6.5% of resident's estimated personal income. Fitch expects liability levels to remain low given manageable borrowing plans, rapid amortization of existing debt (71% of principal paid over 10 years) and full funding of its ADC for pensions, as required by city ordinance.

The city administers four single-employer defined benefit pension plans and the reported aggregate ratio of assets to liabilities was 78% as of June 30, 2018 based on the city's 7.2% discount rate of return. The Fitch-adjusted ratio declines to 69% based on a 6% discount rate of return and the Fitch-estimated aggregate net pension liability is \$298 million (about 2% of residents' personal income).

The city's net unfunded OPEB liability was \$248 million as of the July 1, 2018 valuation, equivalent to close to 2% of personal income.

Operating Performance

Fitch expects the city will continue to maintain a high level of financial resilience throughout economic cycles given its superior inherent budget flexibility in the form of its legal unlimited revenue raising flexibility and solid spending control. The city has demonstrated a commitment to restoring reserves during periods of recovery, including the continued practice of funding non general fund reserves as appropriate including for capital and its medical insurance fund. City charter limits the rainy day fund held as assigned in the general fund to 5% of spending.

Fiscal 2018 general fund results on a GAAP basis reflected a \$4 million decline in unrestricted fund balance following transfers out that included \$6.5 million to capital non-recurring funds and \$0.5 million to the risk management fund. Unrestricted general fund balance declined from \$38.7 million to \$34.4 million or 5.5% of spending. Positive expenditure variances of \$4.7 million helped offset negative revenue variances of \$1.4 million, which included lower than anticipated state aid of \$2.3 million. Additional liquidity is provided by the city's capital non-recurring fund which totaled \$15.3 million at fiscal end 2018, up from \$11.6 million at fiscal end 2017.

Fiscal 2019 year-end projections call for a net operating surplus of \$9.9 million on a budgetary basis. A conservative estimate of state grants resulted in a positive variance of approximately \$3 million and building permit fees and conveyance tax revenues came in above budget by \$8.9 million and \$1.8 million, respectively. These results were achieved even with additional appropriations made during the year for mold remediation and prevention in the amount of \$8.8 million. A portion of bond proceeds may be used to reimburse the general fund for these costs and certain of the projects to be financed with proceeds from the series 2019 bonds are eligible for support from state grants.

The fiscal 2020 operating budget of \$592 million is up approximately 4% from the prior year's revised budget and includes a 3.24% mill rate increase of 0.82 mills. The primary expense drivers are associated with a \$4.4 million lease cost to the city of leasing a facility for students attending an elementary school that has been closed and will be restored due to mold remediation; an increase in retiree benefit costs for pensions and OPEB due in part to a 0.10% reduction in the pension discount rate to 7.1%; and, an increase in board of education spending.

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Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)

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