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Ratings

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Summary:

Stamford, Connecticut; General Obligation

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Credit Profile		
US$19.585 mil GO rfdg iss of 2019 ser A due 12/01/2030		
Long Term Rating	AAA/Stable	New
US$9.025 mil GO rfdg iss of 2019 ser B due 12/01/2031		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Stamford, Conn.'s series 2019 A and B general obligation (GO) refunding bonds. The outlook is stable.

The rating is supported by Stamford's very strong economy and wealthy tax base with access to the Bridgeport and New York City metropolitan statistical areas (MSAs). We believe the city's ongoing developments will continue to expand its tax base and provide additional revenue-raising flexibility. Coupled with its strong management conditions, this should allow it to maintain positive financial operations and stable reserve levels. In addition, we believe the city's fixed costs and retirement liabilities should remain manageable and not add significant pressure to the budget.

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 2019 bonds. Officials will use proceeds from the series 2019 A and B bonds proceeds to refund the city's series 2010 A and B GO bonds and series 2011 series B bonds for present value savings.

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 in fiscal 2017. The city 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 MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) 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 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 4.9% of operating expenditures, and the ability and willingness to raise taxes when needed;

- Very strong liquidity, with total government available cash at 19.5% of total governmental fund expenditures and 2.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 7.9% of expenditures and net direct debt that is 57% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 69% 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 128,049 40.7 square miles, is 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 to be broad and diverse. The city has a projected per capita effective buying income of 160% of the national level and per capita market value of $241,502. Overall, market value grew by 1.1% over the past year to $30.9 billion in 2020. The county unemployment rate was 4.0% in 2018.

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.

While Connecticut continues to face 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. More than 3,100 residential units are under construction or have been approved by the city to begin construction. Some of the most recently completed residential projects include phase 1 of Atlantic Station, a 325-unit luxury residential tower; Davenport Landing, which opened in August 2018 and includes 218 units; and the completion of the UCONN Stamford dormitory for university students. A few of the projects under construction or approved include a 435-unit residential complex at Harbor Points, 32 townhome units known as West Gate Townhomes, 187 residential units in the downtown area by Garden Homes, and new single-family homes and townhouses on Colonial Road.

Stamford also has almost 16.5 million square feet of commercial property, with about 1.2 million square feet of leasing activity in 2018 alone. Demand in 2018 outpaced the prior year by more than 13.2%. While several companies have downsized over the past few years, reducing the need to lease or own an entire building, many of them still maintain a presence in Stamford and continue to expand to other areas of the city. Charter Communications Inc. is in the process of moving its current headquarters in Stamford to a new, 500,000-square-foot facility that is under construction; the company will create 1,100 new jobs. Several media companies and financial firms have also announced plans to expand in the city or relocate operations there. In the past month, ITV America and Wheelhouse Media announced a new Stamford hub with 450 new jobs. PricewaterhouseCoopers designated its Stamford office as its new tax division headquarters and will add 400 new jobs on top of the 575 employees already in the office. Bank of America will also relocate a portion of its New York City operations this fall into the 115,000-square-foot RBS building.

In our view, Stamford has consistently maintained income levels that are significantly higher 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 the city's 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 preparing its annual budget, Stamford performs a comprehensive review of historical trends to develop revenue and expenditure assumptions. Financial officials review annual budget requests with city 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 finances.

During the fiscal year, management shares quarterly budget-to-actual reports and year-end projections with the city's board of finance and board of representatives. 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 changes. Its capital plan includes the current year and five subsequent ones, 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 Stamford 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 provides projections for the effects of proposed issuances. The 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 no more than 5% of general fund expenditures.

Strong budgetary performance

Stamford's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 0.5% of expenditures after adjustments, and balanced results across all governmental funds of 0.3% in fiscal 2018. General fund operating results have been stable over the past three years, with results of 0.3% in 2017 and 0.7% in 2016.

Fiscal 2018 results include adjustments for recurring transfers, large one-time capital expenditures, and other one-time capital expenditures paid for with bond proceeds across total governmental funds.

According to officials, the fiscal 2018 general fund deficit was primarily due to a one-time planned transfer of the city's general fund balance toward its capital non-recurring fund. While Stamford elected to transfer about $7.3 million from the general fund to its capital non-recurring fund, this was partially offset by an excess in revenues over expenditures of about $3.2 million. Although the city experienced lower-than-budgeted revenues, with the exception of property taxes, it had more than $4.7 million in cost savings for the year. In addition, officials indicate the city was able to budget conservatively enough where it did not need to make any major adjustments on revenues or expenditures due to midyear decreases in state aid as a result of the late state budget adoption in fiscal 2018.

For fiscal 2019, the city estimates to have ended the year with a $9.9 million general fund surplus. Although Stamford experienced some higher-than-anticipated expenditures, particularly related to school department costs, management also indicates the city had positive variances in various revenue items, particularly state grants, building permits, and conveyance tax. The fiscal 2020 budget totals $592.1 million (not including on-behalf state payments). The budget represents a 5% increase over the fiscal 2019 budget and contains a tax increase of 3.24% but no fund balance appropriations toward operations. The main sources in the budget increase for fiscal 2020 are retirement benefits, a $4.4 million lease payment toward the rental of a facility, and increases in debt service costs. Although the city continued to budget conservatively on state aid given past uncertainties regarding this revenue item, officials indicate the adopted state budget provides the full amount of state aid Stamford budgeted for in fiscal 2020.

Overall, given the city's historically positive financial operations and projected balanced operations for fiscal 2019 and beyond, coupled with a predictable and stable revenue base, we expect Stamford's budgetary performance to remain strong. Property taxes account for 84% of general fund revenues, followed by intergovernmental at 12.4%, which includes on-behalf state payments for teacher pension contributions. Tax collections remain strong, averaging 98% over the past three years.

Strong budgetary flexibility

Stamford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 4.9% of operating expenditures, or $29.8 million. In addition, the city has the 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 $937,000 in fiscal 2018. For fiscal 2019, it estimates to have ended with an increase in reserves as a result of positive financial operations. Furthermore, the city did not appropriate any fund balance toward the fiscal 2020 budget.

While Stamford has historically chosen to maintain available reserves below 8%, we believe the city has additional budgetary flexibility to tap into its wealthy tax base and raise sufficient revenues if it were to experience any sudden increases in expenditures or unexpected circumstances. 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 an unlimited basis when necessary. Stamford raised its adjusted annual levy by about 2.9% in 2016, by 2.7% in 2017, and by 2.9% in fiscal 2018, with additional increases in fiscal 2020, 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 2019 and sustain, at least, balanced operations for fiscal 2020, 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 19.5% of total governmental fund expenditures and 2.5x governmental debt service in 2018. 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 deposit, and short-term investments. 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 have any variable-rate or direct-purchase debt. Finance officials also confirmed that Stamford does not 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.

Very strong debt and contingent liability profile

In our view, Stamford's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.9% of total governmental fund expenditures, and net direct debt is 57% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 69% 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 $501.5 million of total direct debt outstanding. Of this amount, the city had approximately $95.4 million of tax-secured enterprise debt secured by net revenue from its water pollution control authority operations. Furthermore, it has neither overlapping nor underlying debt. The city expects to issue approximately $65 million over the next two years for various capital purposes.

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 other postemployment benefit (OPEB) contributions totaled 7.4% of total governmental fund expenditures in 2018. Of that amount, 3.4% represented required contributions to pension obligations, and 4.0% represented OPEB payments. The city made its full annual required pension contribution in 2018.

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

- Classified Employees Retirement Fund (CERF), funded at 79.5%;
- Policemen's Pension Trust Fund, funded at 81%;
- Firefighters' Pension Trust Fund, funded at 68%; and
- Custodians' and Mechanics' Retirement Fund, funded at 82.7%.

On a combined basis, the fiduciary net position of all funds is $647.2 million, with a total pension liability of $835 million, for a combined funded ratio of 77.5% and a net pension liability of $187.8 million. The city has steadily reduced its assumed rate of return in recent years, with all plans currently maintaining an assumed rate of return of 7.2%; all plans are expected to continue to reduce the assumed rate of return. We also note the city adopted an ordinance to fully fund its actuarially determined contributions annually.

Stamford also provides OPEBs, and it has made a recent practice of contributing 100% of its actuarially required contributions. The city's unfunded actuarial accrued liability was $247.8 million as of July 1, 2018, representing a funded ratio of 31.9%. 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 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 from its direct access to the Bridgeport-Stamford-Norwalk MSA. In addition, we expect Stamford 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 Stamford'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 it was spurred by accelerating costs associated with labor or retirement costs--leading to a deterioration of available reserves and constraints on liquidity.

Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments
- 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