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Ratings

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Summary:

Stamford, Connecticut; General Obligation

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Credit Profile		
US$40.0 mil GO bnds ser 2020 A due 08/01/2040		
Long Term Rating	AAA/Stable	New
US$11.075 mil GO rfdg bnds ser 2020 B due 04/01/2033		
Long Term Rating	AAA/Stable	New
Stamford GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Stamford, Conn.'s series 2020 A general obligation (GO) and B GO refunding bonds. 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 2020 bonds. Officials will use proceeds from the series 2020 A bonds to provide funds for various capital projects, and B bonds to refund several bond maturities for present value savings.

Credit overview

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 over time. Coupled with its strong management conditions, this should allow it to maintain positive financial operations and stable reserve levels despite the current recession. In addition, we believe the city's fixed costs and retirement liabilities should remain manageable and not add significant pressure to the budget.

While we note significant uncertainty around certain revenue shortfalls and potential state aid cuts that could weaken the city's performance as it heads into fiscal year 2021, we understand management has already taken measures to cushion the effects of potential revenue shortfalls and has additional measures at its disposal that it could implement should significant cuts happen. Lending further stability to the rating and the outlook are the city's very strong liquidity and stable revenue mix, with the predominant revenue stream of property taxes, which have historically been collected upward of 98% during the fiscal year payable. That said, given that there is still much uncertainty related to the potential effects of COVID-19 and the ensuing economic recession on the city's finances, we will continue to monitor for any material adverse effects throughout the outlook period. For more information on the coronavirus' effect in U.S. Public Finance, please see our reports titled "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions" (published April 2, 2020 on RatingsDirect) and "The U.S. Faces A Longer And Slower Climb From The Bottom" (published June 25, 2020).

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), Stamford has a predominantly locally derived revenue source, with approximately 83% of general fund revenue coming from property taxes in fiscal 2019. The city also has independent taxing authority and independent treasury management from the federal government.

The rating further reflects our view of the city's:

- 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;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 5.3% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 19.6% 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 61.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

We evaluated the city's environmental, social, and governance (ESG) factors relative to its economy, financial measures, management, and debt and long-term liability profile. We acknowledge, absent the implications of COVID-19, that we consider the city's social risks in line with those of the sector. We view environmental risks and their potential effect on taxable properties as slightly above average relative to peers given Stamford's coastal exposure. Management, however, has been proactive in addressing these risks and has undertaken a coordinated response to local climate resilience, including working with local businesses. Governance factors generally align with the sector as a whole. We note the city's positive efforts to protect itself from cyberattacks.

Stable Outlook

Downside scenario

We could lower the rating if the city were to experience a substantial weakening of budgetary performance beyond current projections, in particular, if it was due to accelerating costs associated with labor or other retirement costs, leading to a deterioration of available reserves and constraints on liquidity.

Credit Opinion

Very strong economy

We consider Stamford's economy very strong. The city, with a population of 128,049, 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.

The county unemployment rate was 4.0% in 2019. Despite this very low figure, rapidly evolving economic conditions due to the pandemic have significantly affected the labor market (see "U.S. Jobs Market Buckles Under The Coronavirus Pandemic," published April 2, 2020). While the regional economy showed resilience in the past recession, high unemployment, particularly if it exceeds 10%, is a risk we are monitoring.

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. Prior to the pandemic, more than 3,100 residential units were under construction or approved by the city to begin construction. A few of the projects under construction or approved include a 435-unit residential complex at Harbor Points, 32 cityhome units known as West Gate Cityhomes, 187 residential units in the downcity area by Garden Homes, and new single-family homes and cityhouses 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. Demand outpaced the prior year despite several companies downsizing over the past few years, reducing the need to lease or own an entire building. 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 2,500 new jobs. Several media companies and financial firms have also announced plans to expand in the city or relocate operations there. In the past year, 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 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 steady 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.

Adequate budgetary performance

Due to the sudden rapid economic deterioration, we have revised our budgetary performance assessment to adequate from strong. This assessment incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures. The city had operating surpluses of 2.3% of expenditures in the general fund and 2.3% across all governmental funds in fiscal 2019. General fund operating results of the city have been stable over the last three years, with results of 0.5% in 2018 and 0.3% in 2017.

Prior to the pandemic, the city had strong financial performance as demonstrated by management's conservative budgeting practices, particularly its careful budget planning and in-year performance monitoring. For fiscal 2019, results were positive. On a budgetary basis, the city realized a $9 million positive revenue variance, reflecting good tax levy collections and conservative state aid estimating. On the expenditure side, Stamford realized a positive variance of $7 million, again suggesting prudent budget management.

For fiscal 2020, despite certain revenue shortfalls in the fourth quarter, the city estimates it will close with better-than-expected operations and is anticipating approximately a $5.3 million budgetary surplus, which reflects revenues coming in well over budget prior to the pandemic. Throughout the pandemic, the city has implemented several cost-containment measures, with any savings rolled into any potential shortfalls in fiscal 2021.

The 2021 budget totals $562 million, a 5% reduction in general fund revenues than what was budget in 2020. Due to the recession, city leaders elected to maintain the tax rate flat and further reduced the property tax collection assumption to 93%. Moreover, although the state has not indicated any reductions to state aid for fiscal 2021, the city has reduced its state grants by 25% given the uncertainty related to the pandemic. Finally, as a preventative measure, management has received authorization to issue a $15 million line of credit with a bank as a contingency if property taxes were to decline more than expected. These actions indicate proactive budget management.

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 steady. 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 2019 of 5.3% of operating expenditures, or $31.6 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. For fiscal 2020, it estimates to have ended with an increase in reserves as a result of positive financial operations.

While Stamford has historically chosen to maintain available reserves below 8% (levels we consider strong), 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 has increased the tax levy each year and maintains a reasonably affordable tax rate. We believe its demonstrated commitment to increase taxes, and relative capacity to do so, provides additional flexibility despite lower reserve balances.

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.

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 61.8% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and approximately 67.2% 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 $521.8 million of total direct debt outstanding. Of this amount, the city had approximately $89 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 additional debt over the next few years, but 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.

Pension and OPEB liabilities

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Stamford despite lower funding levels and our expectation that costs will increase overtime.
- The city continues to fund OPEBs at its actuarial amount and maintains a solid balance in its trust funds.

Stamford's combined required pension and actual OPEB contributions totaled 8.0% of total governmental fund expenditures in 2019. Of that amount, 4.0% represented required contributions to pension obligations, and 4.0% represented OPEB payments. The city made 100% of its annual required pension contribution in 2019.

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

- Classified Employees Retirement Fund (CERF), funded at 81.5% and a net pension liability (NPL) position of $51.3 million
- Policemen's Pension Trust Fund, funded at 77% with a NPL position of 62.6 million
- Firefighters' Pension Trust Fund, funded at 68% and a NPL position of $67.3 million
- Custodians' and Mechanics' Retirement Fund, funded at 86% and a NPL position of $11.3 million

On a combined basis, the fiduciary net position of all funds is $660 million, with a total pension liability of $853 million, for a combined funded ratio of 77.4% and a NPL of $192 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 7.1%; all plans are expected to continue to reduce the assumed rate of return, although timing for further adjustment is uncertain. We also note the city adopted an ordinance to fund its actuarially determined contributions annually. For its largest plans, we note it has been contributing both minimum and static funding, suggesting it is making progress in addressing the long-term liability.

Stamford also provides OPEBs, and it has made a recent practice of contributing 100% of its actuarially required contributions. The city's net OPEB liability was $286 million as of July 1, 2019, representing a funded ratio of 32.7%. We believe it actively manages 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.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of July 9, 2020)		
Stamford GO forward rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Stamford GO rfdg		
Long Term Rating	AAA/Stable	Affirmed
Stamford GO rfdg		
Long Term Rating	AAA/Stable	Affirmed
Stamford GO rfdg bnds iss ser 2016 due 08/01/2027		
Long Term Rating	AAA/Stable	Affirmed