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Summary:

Stamford, Connecticut; General Obligation

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US$34.5 mil GO Bnds ser 2021B due 06/15/2041		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Stamford, Conn.'s series 2021B general obligation (GO) 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 bonds. Officials will use proceeds for various public improvement projects.

Credit overview

Supporting the rating opinion is 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 ongoing challenges related to the pandemic. In addition, we believe the city's fixed costs and retirement liabilities should remain manageable and not add significant pressure to the budget.

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, with collections upward of 98% during the fiscal year payable. To date, the city has not observed any considerable disruption to its main revenues, and because of its strong budgetary assumptions and strong measures taken during the height of the pandemic, it is estimating a general fund surplus for the close of fiscal 2021 upward of $10 million. The city's 2022 budget is balanced and we believe that upward of about $50 million in pending funds from the American Rescue Plan (ARP), conservative revenue estimates incorporated into the budget, and the city's economic diversity and strength amid the pandemic will provide credit stability over the outlook period.

The GO rating is above the sovereign rating 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% of general fund revenue coming from property taxes in fiscal 2020. 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 metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2020 and another general fund surplus projected for fiscal 2021;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 7.4% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 19.8% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 7.5% of expenditures and net direct debt that is 65.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67% 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 consider its 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. 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 129,285, is in Fairfield County in the Bridgeport-Stamford-Norwalk MSA, which we consider broad and diverse. It has a projected per capita effective buying income of 156% of the national level and per capita market value of $242,723. Overall, market value grew by 1.5% over the past year to $31.4 billion in 2021.

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, making it a regional employment hub.

In our view, Stamford has consistently had income levels that are significantly higher than national medians for a city of its size and continues to see steady growth in its taxable base, spurred by a healthy mix of residential and commercial development. Moreover, according to management, the pandemic has not materially affected construction activity in the city. Prior to the pandemic, more than 3,100 residential units were under construction or approved by the city to begin construction.

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. Recently, ITV America and Wheelhouse Media announced a new Stamford hub with 450 new jobs. In addition, PricewaterhouseCoopers designated its Stamford office as its new tax division headquarters and will add 400 new jobs on top of the 575 employees already there. Bank of America will also relocate a portion of its New York City operations into the 115,000-square-foot RBS building.

Stamford is a big part of the Fairfield County economy, which is well-diversified and has proved somewhat resilient during the pandemic. The county unemployment rate was 3.7% in 2019, although it increased significantly because of the stay-at-home orders, peaking at 10.5% in July 2020. It declined to 7.3% in April 2021, although these levels remain above average compared with previous years.

IHS Markit forecasts Fairfield County's real gross county product (GCP) fell by 5.2% in calendar 2020, which we note is worse than the state's 4.3% decline. The forecast suggests that economic activity will return to pre-pandemic levels in mid-to-late 2021, increasing 5.9% in 2021 and 4.3% in 2022. The pace of recovery is stronger than the state, but slightly weaker than S&P Global Economics' U.S. base-case forecasts. (For more information on S&P Global Ratings' economic outlook, please see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021.)

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 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. Management reports investment holdings and earnings 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 surplus operating results in the general fund of 2.1% of expenditures, and slight surplus results across all governmental funds of 1.2% in fiscal 2020 and is estimating another general fund surplus in 2021. General fund operating results of the city have been stable over the last several years, with results of 2.3% in 2019, and 0.5% in 2018, and 0.3% in 2017.

We do not expect Stamford's budgetary performance to weaken in fiscal year 2022. We base this on the city's historically positive financial operations, coupled with a predictable and stable revenue base that to date has been relatively steady, and given the prospect for substantial receipts of stimulus from the ARP and other stimulus packages.

Amid the sudden rapid economic deterioration in 2020, the city was able to make budgetary modifications and implemented cost-containment measures that helped bring budgetary stability to operations. Prior to the pandemic, it had strong financial performance as demonstrated by management's conservative budgeting practices, particularly its careful budget planning and in-year performance monitoring. 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. Receipts of property taxes have remained strong and state aid revenues have also been stable.

The effects of the pandemic did not severely disrupt revenues and COVID-19-related expenditures were reimbursable by either insurance proceeds or by CARES Act funding grants and so had minimal budgetary effect. For fiscal 2021, given the rapid rise in unemployment an onset of the pandemic, city leaders elected to maintain the tax rate flat and further reduced the property tax collection assumption to 93%, markedly below its 98% average. Moreover, although the state elected to keep state aid level for fiscal 2021, the city initially reduced its state grants assumption by 25%, given the uncertainty related to the pandemic at the onset of its budget adoption. Finally, as a preventative measure, management 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. The city did not have to tap into the credit line as revenues collections performed better than expectations; nevertheless, these actions illustrate proactive budget management and why we believe operations will likely remain stable as the city heads into fiscal 2022.

The fiscal 2022 budget is $634.4 million. The budget includes $1.5 million of anticipated revenue from the ARP. The operational budget includes restoration of certain positions and services and reflects the change required to continue

and manage budgetary risks in a post-COVID-19 world. The proposed budget has a 2.4% increase of the tax levy over the prior year.

Strong budgetary flexibility

Stamford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 7.4% of operating expenditures, or $45.7 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. While Stamford has historically chosen to maintain available reserves below 8% (a level 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. 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 19.8% of total governmental fund expenditures and 2.6x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

The city generally invests cash in money market funds, certificates of deposit, and short-term investments with little risk of volatility. It 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.

Strong debt and contingent liability profile

In our view, Stamford's debt and contingent liability profile is strong. Total governmental fund debt service is 7.5% of total governmental fund expenditures, and net direct debt is 65.1% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and approximately 67% of the direct debt is payable within 10 years, which are, in our view, positive credit factors.

Stamford has approximately $548 million of total direct debt outstanding. Of this amount, the city had approximately $69 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 other postemployment benefit liabilities:

- We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate source of credit

pressure for Stamford despite lower funding levels and our expectation that costs will increase over time.

- 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 2020. Of that amount, 3.7% represented required contributions to pension obligations, and 4.3% represented OPEB payments. The city made 100% of its annual required pension contribution in 2020.

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

- Classified Employees Retirement Fund (CERF), funded at 78% and a net pension liability (NPL) position of $63 million.
- Policemen's Pension Trust Fund, funded at 78% with a NPL position of 97 million.
- Firefighters' Pension Trust Fund, funded at 62% and a NPL position of $85 million.
- Custodians' and Mechanics' Retirement Fund, funded at 86% and a NPL position of $12.9 million.

On a combined basis, the fiduciary net position of all funds is $653 million, with a total pension liability of $912 million, for a combined funded ratio of 77% and a NPL of $258 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 6.95%; 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

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020