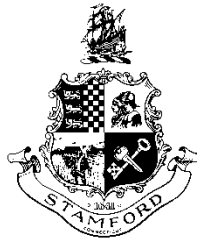


Mayor
DAVID R. MARTIN



DIRECTOR OF ADMINISTRATION
MICHAEL E. HANDLER

Phone: (203) 977-4182
FAX: (203) 977-5657
Email: mhandler@stamfordct.gov

CITY OF STAMFORD
OFFICE OF ADMINISTRATION
888 WASHINGTON BOULEVARD
P.O. BOX 10152
STAMFORD, CONNECTICUT 06904-2152

December 15, 2016

David R. Martin, Mayor
Members of the Board of Finance

Mayor Martin and Members of the Board of Finance:

Section 8-20-3 of the Charter of the City of Stamford requires the Director of Administration to annually report upon the amount and nature of expenditures which, in his/her opinion, the City may incur safely for capital projects during each of the next six succeeding years, and the effect of such expenditures upon the current budgets for each of those years. In analyzing the amount of debt that the City may safely incur, a number of factors must be considered. Some of those factors are:

- Capital needs of the community
- Legal debt limitations
- Overall debt position
- Impact of the proposed plan on debt position and credit rating
- Impact of the plan on future operating budgets

In my capacity as Director of Administration the safe debt limit I am recommending is a capital-spending plan, net of direct grants and non-general obligation (G.O.) bonds, of \$25 million for Fiscal Year 2017-18. As I indicated in prior years, Fiscal Years 2015-16 and 2016-17 were unique in that we funded two major capital projects—a new inter-district magnet school and a new police headquarters. My recommendation for fiscal year 2017-18 demonstrates, not just a return to “normalized” capital spending, but rather a more disciplined level of capital spending given the dramatic increases we experienced as a result of these two large capital projects. My recommendation is supported by the financial projections contained in this report.

INTRODUCTION

By far, the largest portion of the City of Stamford’s net assets reflects its investment in capital assets such as land, buildings, machinery, equipment, and infrastructure. In analyzing the amount of debt that the City may safely incur, a number of factors must be considered. Those factors are identified in this report along with supporting documentation and information.

The capital requests submitted by municipal departments, Board of Education, enterprise fund operations, and outside agencies for next fiscal year were significant, as in recent years. The largest components of these requests were for infrastructure improvements on City roadways/sidewalks/bridges and school construction related to renovation and code compliance issues.

In last year's safe debt letter, I noted "...that financing and managing not one, but two significant capital projects along with the customary capital needs of the City is a challenging task – one that is only possible because of the strong financial position of the City. As I have stated repeatedly, I would not recommend anything that I believe would jeopardize the fiscal strength of the City or our credit ratings. To the contrary, I believe that now is the appropriate time for the City to address the critical issues of inequity and overcrowding in our schools and an outdated and deteriorating police department headquarters." With funding for our two largest capital projects largely behind us, we now must return to a more austere capital improvement program.

Debt ratios and metrics are a significant factor in determining the level of debt that is sustainable for a city of our size. However these metrics must be analyzed concurrently with the ability of the citizens to incur any additional tax burden. The rating agencies including Standard & Poor's and Moody's have stated that the City's existing credit rating is AAA/Aa1 with a stable outlook. In their report dated August 2, 2016, Standard & Poor's highlighted the following:

- The GO rating on Stamford is rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario.
- Strong budgetary performance and flexibility
- Very strong liquidity with total government available cash at 14% of total governmental fund expenditures and 1.6x governmental debt service.
- Strong debt and contingent liability profile with net debt that is 72.8% of total governmental fund revenue and low overall net debt at less than 3% of market value of taxable property.

The report goes on to conclude that the stable outlook reflects Standard & Poor's view of the City's consistent financial performance and economy which is supported by strong management.

Taking into consideration the magnitude of our aggregate capital needs along with the debt ratios presented later in this report, I believe the amount recommended is both warranted and fiscally responsible.

UPDATE ON OUR TWO MAJOR CAPITAL PROJECTS

Progress continues on our new Stamford Police Headquarters project. Most importantly, continual air monitoring of the existing headquarters is ongoing in order to ensure the safest possible conditions for personnel in the building. All land acquisitions have been completed and the law office building has been remediated and demolished. The Hoyt-Barnum House has been successfully relocated to 1508 High Ridge Road, adjacent to the Historical Society. Given the immense care and effort put into the restoration process of the Hoyt-Barnum House, we are confident that it will remain listed on the National Park Service's National Register of Historic Places. It is anticipated that this important piece of our City's history will open to the public in the spring of 2017 and be enjoyed by future generations. The vehicle maintenance division and various specialized teams have been temporarily relocated off-

site and environmental remediation and demolition of the vehicle maintenance garage is underway. Completed architectural designs have been successfully bid and a contract for construction of the new headquarters building and parking garage has been executed. We anticipate construction of the new headquarters to begin in early 2017, immediately following the completion of remediation and demolition efforts. The \$60 million for this project has been fully funded and we are confident that we will come in within the budget and have an anticipated completion date of December, 2018.

As you are aware, the City’s new inter-district magnet school (an expansion of the Rogers School located at 200 Strawberry Hill Ave.) opened for kindergarten and first grade classes this past September. It is anticipated that the review of construction documents by the State will be completed shortly and the construction component of Phase 2 will go out to bid in late January, 2017. Ongoing work continues with the State on securing reimbursement for the project and we anticipate substantial completion of Phase 2 by August, 2018—just in time for second graders to have third grade classrooms.

PROPOSED CAPITAL SPENDING PLAN

**Capital Needs and Financing Plans
For Fiscal Year 2017-18 and the subsequent 5 years**

City Capital Budget		
Fiscal Year	G.O. Bond¹	BAN²
2017-18	\$25 million	\$25 million
2018-19	\$25 million	\$25 million
2019-20	\$25 million	
2020-21	\$30 million	
2021-22	\$30 million	
2022-23	\$30 million	

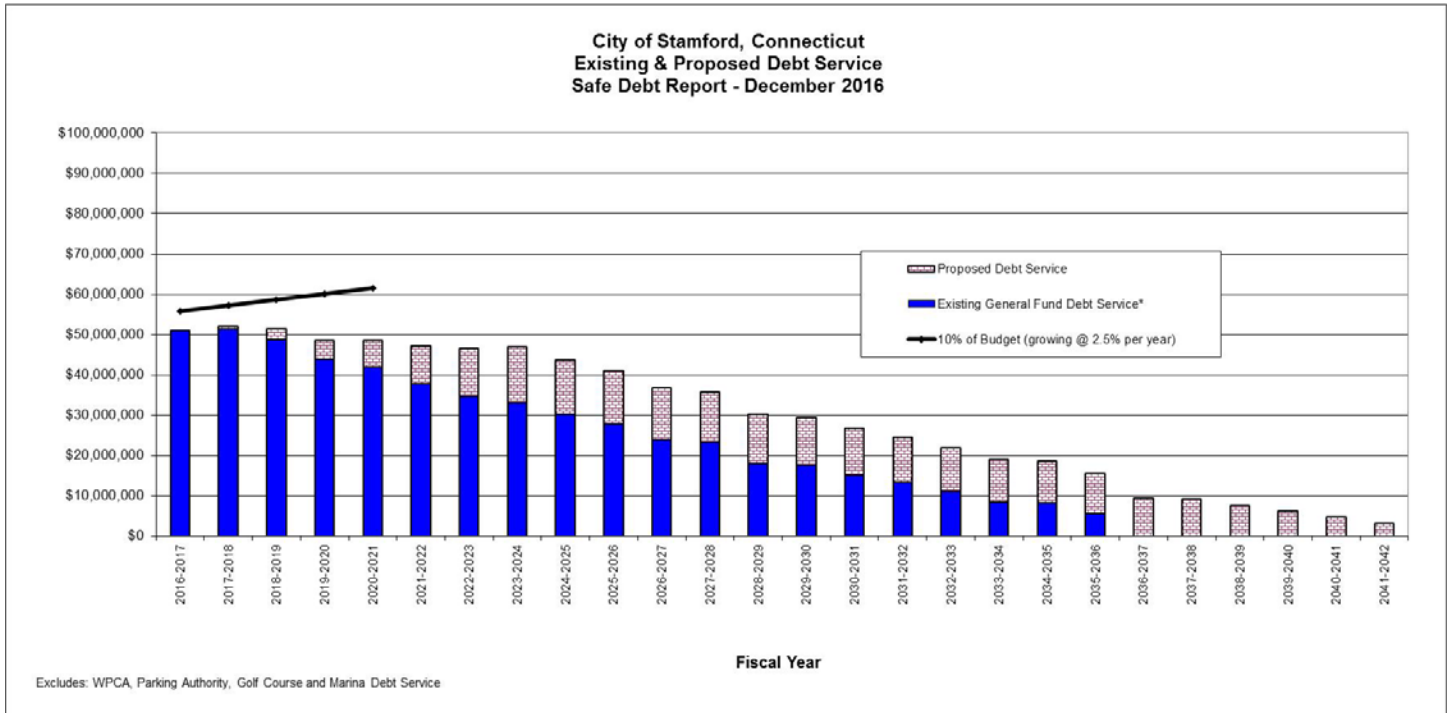
¹Net of all grants

²BANs or Bond Anticipation Notes may be used to fund the construction of the new school and repaid with grants from the State of Connecticut

Impact on Debt Service:

The impact our proposed financing plans would have on our annual debt service is an important factor to consider and is a major limiting factor in the amount of debt that the City can safely issue. As a rule, I strive to maintain our annual debt service below 10% of the City’s annual operating budget. This is necessary for two reasons: First, debt service levels above 10% tend to crowd out other vital operating expenses which could either limit the services the City can adequately provide or force upward pressure on property taxes; and second, rating agencies tend to use 10% as an upward limit for AAA-rated municipalities.

In FY 2016-17 the City’s annual debt service was \$50,553,065 or 9.6% of our annual operating budget, below the 10% threshold. In FY 2017-18, our projected debt service is expected to increase to \$52,205,069 or 9.6% of our annual operating budget. For planning purposes, I assume a City (inclusive of the BOE) operating budget increase of 2.5% per year.



Capital Needs of the Community

As stated previously, the capital needs of the City and BOE are significant. Faced with an aging complement of City buildings and roadways coupled with various amounts of deferred maintenance, the City has seized the opportunity to take advantage of a historically low interest rate environment. Over the past five years, the City has issued \$255 million in long-term new money general obligation bonds to invest in prime areas where immediate attention was paramount and deferred maintenance would only result in higher costs in future years. It was imperative that these investments be made in projects that support the safety and well-being of residents and have a positive impact on the reduction of operating costs. This capital planning improved the quality of our schools and serves to replace a police department building that is conservatively 15 years past its useful life and potentially unsafe in its current form. Equally as important, the City capitalized on this unprecedented period of low interest rates by refunding over \$103 million of general obligation bonds. In aggregate, these refundings led to savings in excess of \$13 million or 13.2% of the bonds refunded. It continues to be our practice to capture these savings equally in each of the remaining term years and in some cases the savings were more heavily weighted in the out years.

Legal Debt Limitations

The State of Connecticut imposes legal limits on the amount of debt that the City is authorized to issue. Under Connecticut General Statutes, municipalities are not permitted to incur indebtedness through the issuance of bonds that will cause aggregate indebtedness by class to exceed the following:

General Purposes:	2.25 times annual receipts from taxation
School Purposes:	4.50 times annual receipts from taxation
Sewer Purposes:	3.75 times annual receipts from taxation
Urban Renewal Purposes:	3.25 times annual receipts from taxation
Pension Obligation Bonds	3.00 times annual receipts from taxation
Total - All Purposes:	7.00 times annual receipts from taxation

Under these statutory limits, the City is permitted to incur indebtedness of over \$3.0 billion. From a practical standpoint, however, the City could never approach this level of indebtedness. If the City were to incur this magnitude of debt we would surely find our credit rating in the junk bond category. For this reason, the legal debt limit in Connecticut is of no practical consequence for the City of Stamford.

Overall Debt Position

The City's overall debt position remains quite modest. For purposes of this discussion, the rating agencies look at net debt, meaning they exclude any "self-supporting" debt. Within the City of Stamford, self-supporting debt includes debt for the WPCA, Parking Fund, E.G. Brennan, Marina Fund, and most recently the Mill River Collaborative. As of December 15, 2016, the City's outstanding General Obligation debt (exclusive of interest and self-supporting debt) was approximately \$438 million.

Impact of the Proposed Plan on Debt Position and Credit Rating

Stamford is in elite company with an AAA bond rating—the highest available—from Standard & Poor's and Aa1 from Moody's. Of the over 4,000 local governments covered, less than 10% carry an AAA general obligation rating from Standard & Poor's. In assigning credit ratings, the rating agencies analyze four broad rating factors in a community: Economic Factors (wealth levels, tax base, employment, regional economy, etc.); Financial Factors (operating results, financial reserves, contingent obligations, etc.); Administrative Factors (experience of the management team, financial management track record, etc.); and Debt Factors (debt as a percent of full value, per capita debt, debt service as a percent of budget, etc.). The City's capital plan must recognize the importance of debt factors in the evaluation of the City's credit by the rating agencies. Provided below is a comparison of Stamford's ratios with selected cities in Connecticut and with selected other AAA cities in the country.

Debt Ratio Benchmarks

Connecticut Benchmarks: extracted from each municipality's 6/30/15 audit report.

City	S&P Rating	Population	Debt Per Capita	(Debt Burden) Debt to Fair Market Value	Undesignated Fund Balance as % of Expenditures
Stamford (as of 6/30/16)*	AAA	128,278	3,415	1.4%	4.2%
Bridgeport	A-	147,340	4,408	8.2%	2.4%
New Haven	A-	130,612	3,948	5.3%	0.3%
Hartford	AA-	124,795	4,110	7.5%	3.5%
Waterbury	AA-	109,551	4,031	7.7%	5.4%
Norwalk	AAA	87,701	2,467	1.3%	12.3%
Danbury	AA+	83,476	1,495	1.2%	9.4%
West Hartford	AAA	63,288	2,359	1.6%	8.2%
Greenwich	AAA	62,434	2,089	0.3%	6.6%
Fairfield	AAA	61,016	2,966	1.1%	8.2%
Average		96,690	3,097	3.8%	6.3%

* Includes \$23 million in the Rainy Day Fund as of June 30, 2016

National Benchmarks: extracted from each municipality's 6/30/15 audit report

City	S&P Rating	Population	Debt Per Capita	Debt to Fair Market Value	Unassigned Fund Balance as % of Revenues
Alexandria, VA	AAA	150,575	3,854	1.51%	8.2%
Belleue, WA	AAA	134,400	5,273	1.72%	8.6%
Cambridge, MA	AAA	105,162	2,749	0.96%	37.5%
Cary, NC	AAA	149,851	2,987	1.96%	40.6%
Chandler, AZ	AAA	247,552	2,240	1.90%	44.8%
Huntsville, AL	AAA	188,226	3,664	3.26%	10.5%
Naperville, IL	AAA	146,128	1,156	0.94%	26.5%
Overland Park, KS	AAA	187,730	764	4.73%	40.2%
Scottsdale, AZ	AAA	228,300	2,736	12.07%	23.8%
Winston-Salem, NC	AAA	273,905	290	0.40%	17.4%
Average		181,183	2,571	2.94%	25.81%

While Stamford's per capita debt is above the average for medium sized cities in the State of Connecticut, it is lower than some of the AAA-rated national benchmarks. Stamford is located in a state without county government and where local Board of Education debt is included with the City debt. In many AAA communities, counties take responsibility for sewers and roads on the capital side of the budget and some social service, health, and safety functions as part of their operating budget. In Stamford, all of the funding responsibility is borne by the City. These issues must be taken into consideration when examining the debt per capita ratios.

One of the most important debt ratios for rating agencies is debt as a percentage of fair market value of all taxable property in the municipality. Stamford compares very well in this category. Stamford's average debt to fair market value of 1.4% compares favorably to the 3.2% average within the State and

2.2% average of AAA cities outside the State of Connecticut. Please note that self-supporting funds (funds other than general fund) incur additional capital project authorizations. The project ratios will be mitigated as a portion of the new bonds will be allocated to the self-supporting funds. It is important to note that while no single ratio determines a credit rating, the City's debt burden remains low compared to most other AAA rated communities.

Rainy Day Fund Balance – The last ratio identified is the unassigned fund balance plus the balance assigned for Rainy Day purposes as a percent of operating expenditures. This is not a debt ratio; however, it is a critical financial measure that is used by the rating agencies to gauge the ability of a municipality to react to unexpected financial emergencies or events such as natural disasters or the recent upheaval in the financial markets. In general, the rating agencies expect that AAA credits will maintain this balance in the range of 5-10% of annual expenditures and many of our benchmarks have fund balances well in excess of this range. The City's Charter Revision of 2005 first permitted the City to maintain a general fund "Rainy Day Fund" up to 5% of its annual operating budget. Over the past five years, the City has made a concerted effort to contribute towards our future financial stability and today the current "Rainy Day Fund" balance is \$23 million, roughly 4.3% of the City's 2016-17 operating budget.

Impact of the Plan on Future Operating Budgets

When approving capital spending plans it is important to realize that this spending results in a direct impact on the City's future operating budgets and tax rates. Not only must future taxpayers fund the original appropriation, but it also must be repaid with interest.

Keeping this in mind, it is very clear that the coming fiscal year will be a challenge. The dramatic increase in structural costs such as pension contributions, insurance costs, and Other Post Employment Benefit (OPEB) liabilities and the erosion of non-tax revenue coupled with slower than ideal growth in the local economy will press the current administration to prepare a fiscally conservative budget with the underlying premise that the taxpayers of the City of Stamford cannot absorb a tax increase of significant proportions.

It is important to note, and for clarification purposes to discuss, the current and following fiscal year debt service contributions from the general fund to the debt service fund. First and foremost, principal and interest payments are made from the debt service fund. The general fund is one source, albeit the primary source, of financing for bonds.

Total Debt Service FY 2016-17 (Current Year):	\$51,140,549
Total Debt Service FY 2017-18 (Projected):	\$52,205,069
Year-over-year Variance in Debt Service:	\$1,064,520

(See attached)

Pay-as-you-go Financing – Financing a portion of the City's capital projects with current revenue is a financially prudent and conservative financing practice. Most AAA credits finance at least a portion of their capital plan through a pay-as-you-go mechanism. In FY 2014-15, the City used \$4.3 million of

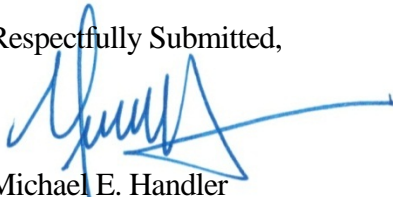
cash from Capital Non-Recurring (CNR) to purchase capital items such as vehicles, technology equipment, and software systems. In FY 2015-16 the City used \$4.4 million of cash from CNR towards capital projects and in FY 2016-17 we anticipate using close to \$5 million. These were major first steps towards increased financial flexibility and a practice that we plan to continue. I have proposed designating \$1 million from last year's operating surplus to go into the CNR fund for projects typically financed with shorter term debt such as police vehicles and technology. By moving away from borrowing for these items, we are reducing our future general fund debt service obligations.

In addition, the City is in the process of beginning an Energy Improvement District (EID) project. This project involves LED light conversions in the government center and in 14 of our public schools, as well as a cooling system upgrade at AITE. The total gross cost of the project is approximately \$7 million. After a rebate of \$1.6 million, the net cost is \$5.4 million. It is anticipated that the reduction in utility costs will pay for these projects within 7 years. If possible, we anticipate using cash from CNR to fund this project, rather than going to the capital markets. Should we decide to issue short-term debt to fund all or a portion of this project, it would be considered self-supported debt as the reduction or avoidance of energy costs will be used to pay the debt service.

CONCLUSION

In my capacity as Director of Administration the safe debt limit I am recommending is a capital-spending plan, net of direct grants and non-general obligation (G.O.) bonds, of \$25 million for Fiscal Year 2017-18. I trust the information and recommendations provided in this report will assist you in your deliberations regarding the City's future debt position. This proposal is consistent with the long-term strategy outlined in prior years and adequately addresses the vital needs of our vibrant city, while maintaining financial strength and discipline.

Respectfully Submitted,



Michael E. Handler
Director of Administration

**City of Stamford Debt Service Analysis
Existing & Proposed Debt Analysis
Safe Debt Report for Fiscal Year 2017-18**

(A) (B) (C) (D) (E) (F) (G) (H) (I) (J) (K) (L) (M) (N) (O) (P) (Q) (R) (S)

====> Proposed New Bond Issues Projected borrowing rates

NET GENERAL FUND DEBT SERVICE EXCLUDES SELF-SUPPORTING FUNDS							1.00%	1.00%	3.25%	3.50%	3.75%	4.00%	4.25%	4.35%	Total Proposed Debt Service	Total Existing & Proposed Debt Service	Annual Change	Fiscal Year
Fiscal Year	Principal	Interest	Total Debt Service	Less Interest Subsidies	NET Total	Annual Change	\$25M BANs	\$25M BANs	\$25M	\$25M	\$25M	\$30M	\$30M	\$30M				
							Jul - 2017 Interest	Jul - 2018 Interest	Jul - 2017 Debt Service	Jul - 2018 Debt Service	Jul - 2019 Debt Service	Jul - 2020 Debt Service	Jul - 2021 Debt Service	Jul - 2022 Debt Service				
2016-2017	36,398,662	15,549,026	51,947,688	(807,139)	51,140,549	-	-	-	-	-	-	-	-	-	-	51,140,549	-	2016-2017
2017-2018	37,418,980	14,891,004	52,309,984	(761,165)	51,548,819	408,270	250,000	-	406,250	-	-	-	-	-	656,250	52,205,069	1,064,520	2017-2018
2018-2019	36,358,297	13,167,201	49,525,498	(711,779)	48,813,720	(2,735,099)	-	250,000	2,042,188	437,500	-	-	-	-	2,729,688	51,543,407	(661,661)	2018-2019
2019-2020	33,004,120	11,645,058	44,649,178	(659,200)	43,989,979	(4,823,741)	-	-	2,001,563	2,103,125	468,750	-	-	-	4,573,438	48,563,416	(2,979,991)	2019-2020
2020-2021	32,335,098	10,238,773	42,573,872	(604,177)	41,969,694	(2,020,284)	-	-	1,960,938	2,059,375	2,164,063	600,000	-	-	6,784,375	48,754,069	190,653	2020-2021
2021-2022	29,572,782	8,876,304	38,449,086	(547,977)	37,901,109	(4,068,585)	-	-	1,920,313	2,015,625	2,117,188	2,670,000	637,500	-	9,360,625	47,261,734	(1,492,335)	2021-2022
2022-2023	27,534,488	7,661,111	35,195,599	(491,042)	34,704,557	(3,196,552)	-	-	1,879,688	1,971,875	2,070,313	2,610,000	2,743,125	652,500	11,927,500	46,632,057	(629,677)	2022-2023
2023-2024	27,080,402	6,613,662	33,694,064	(433,716)	33,260,348	(1,444,209)	-	-	1,839,063	1,928,125	2,023,438	2,550,000	2,679,375	2,772,375	13,792,375	47,052,723	420,666	2023-2024
2024-2025	25,104,722	5,650,793	30,755,515	(375,995)	30,379,519	(2,880,829)	-	-	1,798,438	1,884,375	1,976,563	2,490,000	2,615,625	2,707,125	13,472,125	43,851,644	(3,201,079)	2024-2025
2025-2026	23,505,060	4,736,903	28,241,963	(317,069)	27,924,894	(2,454,625)	-	-	1,757,813	1,840,625	1,929,688	2,430,000	2,551,875	2,641,875	13,151,875	41,076,769	(2,774,875)	2025-2026
2026-2027	20,380,000	3,960,330	24,340,330	(256,826)	24,083,504	(3,841,390)	-	-	1,717,188	1,796,875	1,882,813	2,370,000	2,488,125	2,576,625	12,831,625	36,915,129	(4,161,640)	2026-2027
2027-2028	20,340,000	3,239,408	23,579,408	(195,321)	23,384,087	(699,417)	-	-	1,676,563	1,753,125	1,835,938	2,310,000	2,424,375	2,511,375	12,511,375	35,895,462	(1,019,667)	2027-2028
2028-2029	15,660,000	2,604,965	18,264,965	(131,473)	18,133,492	(5,250,595)	-	-	1,635,938	1,709,375	1,789,063	2,250,000	2,360,625	2,446,125	12,191,125	30,324,617	(5,570,845)	2028-2029
2029-2030	15,635,000	2,072,309	17,707,309	(65,569)	17,641,740	(491,752)	-	-	1,595,313	1,665,625	1,742,188	2,190,000	2,296,875	2,380,875	11,870,875	29,512,615	(812,002)	2029-2030
2030-2031	13,725,000	1,589,144	15,314,144	(16,211)	15,297,933	(2,343,807)	-	-	1,554,688	1,621,875	1,695,313	2,130,000	2,233,125	2,315,625	11,550,625	26,848,558	(2,664,057)	2030-2031
2031-2032	12,250,000	1,194,531	13,444,531	-	13,444,531	(1,853,402)	-	-	1,514,063	1,578,125	1,648,438	2,070,000	2,169,375	2,250,375	11,230,375	24,674,906	(2,173,652)	2031-2032
2032-2033	10,250,000	870,313	11,120,313	-	11,120,313	(2,324,219)	-	-	1,473,438	1,534,375	1,601,563	2,010,000	2,105,625	2,185,125	10,910,125	22,030,438	(2,644,469)	2032-2033
2033-2034	8,000,000	576,250	8,576,250	-	8,576,250	(2,544,063)	-	-	1,432,813	1,490,625	1,554,688	1,950,000	2,041,875	2,119,875	10,589,875	19,166,125	(2,864,313)	2033-2034
2034-2035	8,000,000	341,094	8,341,094	-	8,341,094	(235,156)	-	-	1,392,188	1,446,875	1,507,813	1,890,000	1,978,125	2,054,625	10,269,625	18,610,719	(555,406)	2034-2035
2035-2036	5,500,000	140,000	5,640,000	-	5,640,000	(2,701,094)	-	-	1,351,563	1,403,125	1,460,938	1,830,000	1,914,375	1,989,375	9,949,375	15,589,375	(3,021,344)	2035-2036
2036-2037	-	-	-	-	-	(5,640,000)	-	-	1,310,938	1,359,375	1,414,063	1,770,000	1,850,625	1,924,125	9,629,125	9,629,125	(5,960,250)	2036-2037
2037-2038	-	-	-	-	-	-	-	-	1,270,313	1,315,625	1,367,188	1,710,000	1,786,875	1,858,875	9,308,875	9,308,875	(320,250)	2037-2038
2038-2039	-	-	-	-	-	-	-	-	-	1,271,875	1,320,313	1,650,000	1,723,125	1,793,625	7,758,938	7,758,938	(1,549,938)	2038-2039
2039-2040	-	-	-	-	-	-	-	-	-	-	1,273,438	1,590,000	1,659,375	1,728,375	6,251,188	6,251,188	(1,507,750)	2039-2040
2040-2041	-	-	-	-	-	-	-	-	-	-	-	1,530,000	1,595,625	1,663,125	4,788,750	4,788,750	(1,462,438)	2040-2041
2041-2042	-	-	-	-	-	-	-	-	-	-	-	-	1,531,875	1,597,875	3,129,750	3,129,750	(1,659,000)	2041-2042
2042-2043	-	-	-	-	-	-	-	-	-	-	-	-	-	1,532,625	1,532,625	1,532,625	(1,597,125)	2042-2043
	438,052,613	115,618,178	553,670,790	(6,374,658)	547,296,132		250,000	250,000	33,531,250	34,187,500	34,843,750	42,600,000	43,387,500	43,702,500	232,752,500	778,516,007		