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OFFICE OF ADMINISTRATION

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December 16, 2013

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
- Impact of the proposed plan on debt position and credit rating
- Impact of the plan on future operating budgets
- Level of authorized but unissued debt
- Economic environment and financial market conditions
- Projected drawdown schedule and financing strategy

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 $30 million for Fiscal Year 2014-15.

If you recall, last year, due to the favorable interest rates on municipal bonds and the significant backlog of school projects, the City and elected Boards prudently accelerated the capital plan for City schools. The result of this acceleration funded all authorized Board of Education capital projects which totaled approximately $12.1 million and also added another $12.9 million in new projects for a total of $25 million.

This recommendation is supported by financial projections contained in this report. As this report will verify, the City of Stamford has a history of conservative long-term debt management.

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. 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.

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 Moody's Investors Service and Standard & Poor's have stated that the City's existing rating is Aa1 with a stable debt outlook. Lastly, the agencies, affirmed that our debt position remains "manageable".

Given the magnitude of our aggregate capital needs along with the debt ratios presented later in this report, I believe the amount recommended is warranted.

Bonding Requirements for the Coming Year:

Two important factors to take into consideration is the debt service burden on next year's general fund and the level of authorized but unissued debt (AUI). Historically, the number and aggregate value of capital projects financed by local tax dollars has exceeded the dollar value of bonds sold on a year to year basis.

As previously stated, last year, the City executed a $50 million bond sale to significantly address the City's level of Authorized but Unissued Debt of $58.2 million leaving a new AUI of $8.2 million at the close of the 13/14 fiscal year.

Subsequently, on July 1, 2013, the FY 13/14 Capital Budget increased bond authorizations by $28.7 million in addition to supplemental capital appropriations totaling $1.8 million. After netting out closeouts, the AUI increased to $38.1 million.

The projects which constitute the $38.1 million are authorized; however, at this time there are no bonded funds to finance the projects. The dilemma occurs when the new-year budget is approved and additional authorizations are added.

If, for example, a capital budget financed by G.O. bonds for fiscal year 2014-15 is approved for $30 million; the AUI would increase to $68.1 million on July 1, 2014 ($38.1 million balance plus $30 million in new authorizations). As such, the Office of Administration continues the process of realigning the existing AUI and projected additional G.O. debt for future years as follows:

- The Office of Administration has established a practice of closing or reducing funding authorizations for inactive or projects of lower priority when requesting new authorizations. This is being done to avoid escalating the AUI and maintain a spending discipline at the capital level

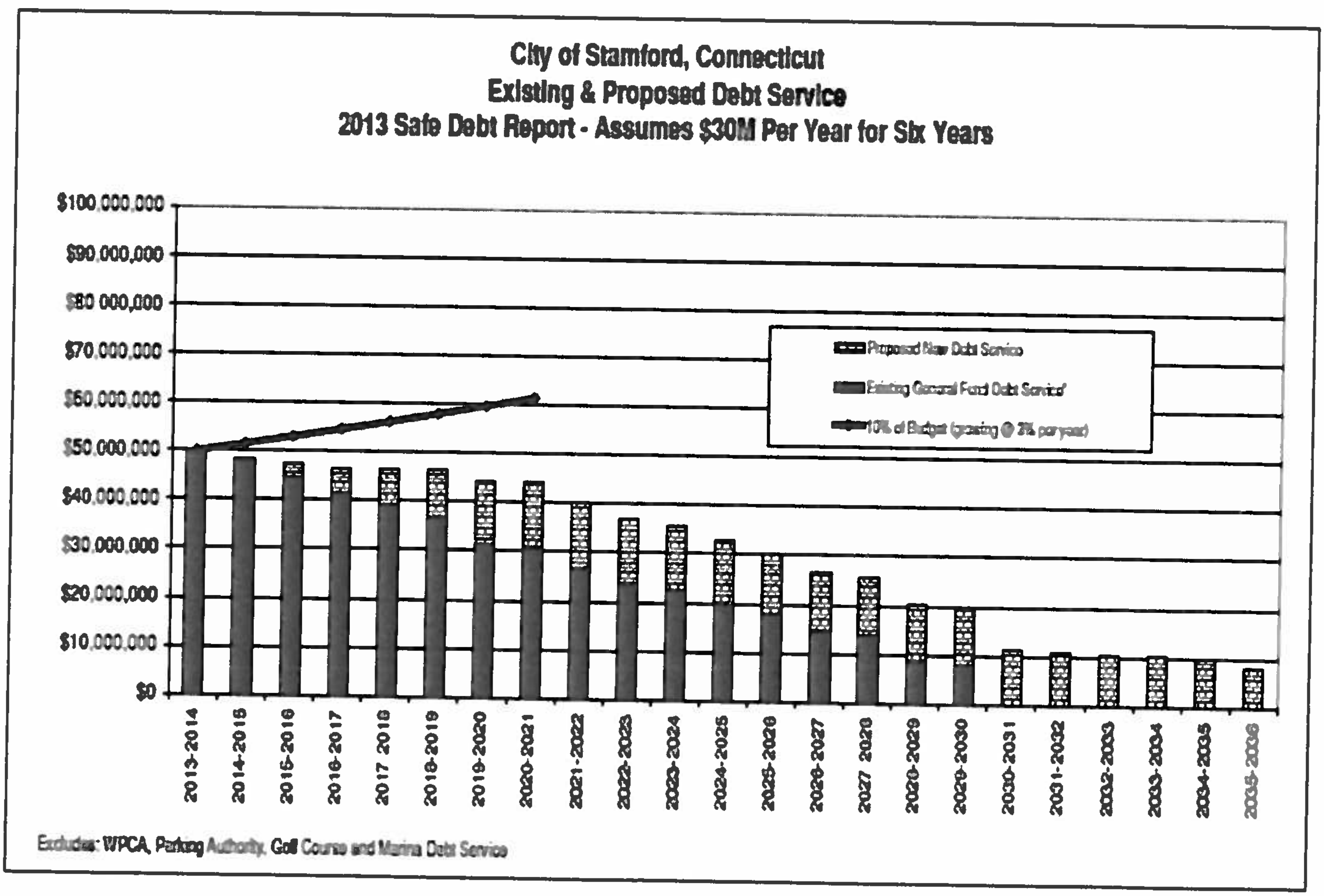
- The ultimate goal is to approve a capital budget of approximately $30 million for fiscal year 2014-15. In time, and as needed, the City will finance the $30 million in new projects and work to mitigate the existing AUI through rigorous review of existing and proposed capital projects and alternative non-bonding financing such as prior year fund balance.
- The end goal for future capital budgets is for bonds sold to match the adopted capital budget to be financed with G.O. bonds on a project specific basis thus eliminating the AUI concept.

<u>Overall Debt Position/Financing:</u>

The recommendation made in this report includes short-term financing using general obligation bonds with maturities up to ten years. These projects/items must meet current capital criteria which includes a useful life of at least five years and a value of at least $50,000. The short-term funding categories include: vehicle replacement, equipment replacement and technology replacement.

Regarding the City's overall debt position, the City's outstanding General Obligation debt (exclusive of interest payments) as of July 1, 2013 was approximately $390 million.

The recommendation I am making is to issue $30 million in debt next year and every year thereafter for the next five years. The impact of this debt would be favorable in that the annual debt service would decline each year – except for FY 20/21 which would have positive variance of $121,897 or 0.3%.



The City has fully implemented the practice of budgeting and repaying the debt for capital projects outside the general fund using self-sustaining debt. There are two special revenue funds and two enterprise funds for which capital projects are undertaken and debt is issued by the City. The special revenue funds are the Marina Fund and the Parking Fund. The enterprise funds are the E. Gaynor Brennan Fund and the WPCA. Past practice has been to allocate debt service for their capital projects to them, based on their share of each individual bond issue. This process will continue and be supplemented by separate budgeting within the capital planning process for projects supported by each fund. The debt for these projects is not considered in this recommendation of a safe debt limit for general fund debt.

Capital Needs of the Community

The capital needs of the community are an important consideration when developing a comprehensive spending plan. As I previously stated, all capital requests are important, however in times of fiscal uncertainty, the conservative approach is to address projects which have an immediate need, such as street reconstruction and sidewalk replacements, and defer or reduce the scope of projects that will have little or no short term impact on the health safety and welfare of the City's residents and visitors. While making this determination, it is important to establish which of the City's capital assets require immediate attention as not to incur unnecessary future debt by deferring necessary repairs.

The Stamford Public Schools Facilities Needs Assessment for all schools encompasses three areas of consideration; life safety, technology, energy efficiency and a miscellaneous category (paving/tile replacement/misc. renovations). The most recent needs assessment identified capital needs of $174 million over a seven year term or roughly $24.9 million per year. This amount is significant in comparison with roadway improvements and resurfacing, sidewalk replacement, storm water management and improvements to Parks and City facilities. These are prime areas where immediate attention is paramount and deferred maintenance will only result in higher costs in future years. It is imperative that investments be made in projects that will support the safety and well being of residents and have a positive impact in the reduction of operating costs.

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 $3.1 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.

Impact of the Proposed Plan on Debt Position & Credit Rating

Stamford is in elite company with a triple A bond rating—the highest available—from Standard & Poor's and AA1 from Moody's. Of 4,000 local governments covered only 338 or 8.5% carry an AAA general obligation bond 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 % of full value, per capita debt, debt service as a % 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 triple A cities in the country.

Connecticut Benchmarks: extracted from State of Connecticut, Fiscal Indicators Report

City	S&P Rating	Population	Debt Per Capita	Debt to Fair Market Value	Undesignated Fund Balance as % of Expenditures
Stamford* (as of 6/30/12)	AAA	122,643	3,156	1.6%	2.8%
Bridgeport	BBB+	144,355	4,723	7.0%	2.0%
New Haven	BBB+	129,926	4,205	6.2%	1.9%
Hartford	A	123,875	3,110	4.3%	4.2%
Waterbury	AA-	109,150	3,900	6.1%	5.1%
Norwalk	AAA	86,544	2,750	1.2%	10.1%
Danbury	AA+	81,235	1,850	1.4%	10.0%
West Hartford	AAA	63,402	2,242	1.9%	7.7%
Greenwich	AAA	61,200	1,340	0.2%	7.6%
Fairfield	AAA	59,567	3,325	1.2%	5.9%
Average		**95,473**	**3,049**	**3.3%**	**6.1%**

* $18.1 million in the Rainy Day Fund as of June 30, 2013

National Benchmarks: Extracted from Standard & Poor's Review of AAA Rated Municipalities
Standard & Poor's

City	S&P Rating	Population	Debt Per Capita	Debt to Market Value	Undesignated Fund Balance as % of Expenditures
Overland Park, KS	AAA	168,600	3,588	3.23%	32.6%
Pasadena, CA	AAA	145,700	3,133	2.31%	33.5%
Naperville, IL	AAA	140,800	3,044	2.32%	23.1%
Alexandria, VA	AAA	144,100	2,933	1.25%	14.2%
Coral Springs, FL	AAA	123,400	1,031	0.88%	50.5%
Cary, NC	AAA	141,300	3,222	2.98%	48.0%
Cambridge, MA	AAA	106,500	2,350	1.20%	33.7%
Rochester, MN	AAA	100,400	2,887	3.20%	41.4%
Santa Monica, CA	AAA	89,800	4,022	2.20%	27.3%
Thousand Oaks, CA	AAA	126,100	3,122	2.20%	33.3%
Average		**128,670**	**2,933**	**2.18%**	**33.76%**

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. That may be due in part to Stamford's location in a state without county government. 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 1.6% compares favorably to the 3.3% average within the state and 2.18% 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.

Another debt ratio listed above is debt service as a percentage of expenditures. The City is currently 9.6%. The debt plan proposed will remain at about the same percentage. This assumes a growth in the municipal operating budget of 3%. Please note that Standard and Poor's rating agency has indicated that a debt burden is considered high when debt service payments represent 15-20% of operating expenditures. While we have been striving to maintain our debt to expenditure ratio at about 10%, Standard and Poor's now suggests a more appropriate level to be 15%.

The last ratio identified is the undesignated fund balance (accumulated surplus) as a percent of operating expenses. 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. Until Charter Revision in 2005, the City was not allowed to maintain a general fund "Rainy Day Fund", which caused concern from the rating agencies. The current undesignated fund balance is $10.9 million and the balance in the "Rainy Day Fund" is $18.1 million for a total general fund and Rainy Day Fund unreserved fund balance of $29.0 million.

In general, the rating agencies anticipate that triple A credits will maintain an undesignated fund balance in the range of 5-10% of annual operations, and a many of our benchmarks have fund balances well in excess of this range. An important factor of our debt and credit strategy in the coming years is fully funding the Rainy Day Fund at the Charter defined limit of 5% of annual operations. This is achievable compared to other Connecticut AAA communities, however it is an almost impossible task to accomplish when compared to the 33.76% of average undesignated fund balances of Cities outside of Connecticut.

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, 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. As previously stated, I have recommended the issuance of $30 million in G.O. bonds in the first quarter of FY 2014. This will result in a projected cost of $375,000 for one interest payment for fiscal year 2014-2015.

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. The current year debt service is $50,069,567. After applying the drawdown of $2.3 million from the debt service fund balance, the adopted net general fund debt service budget for the City and Board of Education is $47,769,567.

Total Debt Service 2013-14:	$50,069,567
Total Debt Service 2014-15:	$48,314,864
Variance in Debt Service 2014-15 :	($1,754,703)

(See attached)

Projected Drawdown Schedule and Financing Strategy

Determining the likely drawdown schedule for any new authorizations plays a significant role in the development of a financing strategy, and ultimately determines when the City budget will be affected by new capital projects. As previously stated, the current AUI is $38.1 million. Next year the City will issue $30 million bonds for those projects ready to move forward.

Grant-Funded Projects- It is obviously preferable for the City to finance needed capital projects from grants, when grant funding is available for this purpose. Projects, which are funded from grants or from current revenue generally, should not be counted when considering the funding recommendations contained in this report. Many major school construction projects are eligible for a school building subsidy in the range of 25%. The state-financed portion of these projects is excluded from the City's safe debt limit calculation.

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 triple A credits finance at least a portion of their capital plan through a pay-as-you-go mechanism. Any significant expansion in the size of the City's gross capital budget would certainly require that a major commitment be made to the use of pay-as-you-go financing. One possible scenario however could be to allocate a portion of prior year fund balance to the capital non-recurring fund for projects typically financed with shorter term debt such as police vehicles and technology. By moving away from borrowing for these items, in time the general fund debt service obligations will lesson.

CONCLUSION

I trust the information and recommendations provided in this report will assist you in your deliberations regarding the City's future debt position. While the proposal is moderate, it continues to provide a stable source of funding over the next six years to truly address the City's capital needs. As with the $30 million per year, I believe the City can accommodate this additional debt without jeopardizing its financial position or excellent credit rating.

Respectfully Submitted,

Michael Handler
Director of Administration

City of Stamford Debt Service Analysis

For Safe Debt Report

Existing & Proposed Debt Analysis

These amounts have been reduced by Sequestration

===> Proposed New Bond Issues

Projected borrowing rates

NET GENERAL FUND DEBT SERVICE EXCLUDES SELF-SUPPORTING FUNDS

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)		(M)	(N)	(O)	(P)
							2.50%	2.75%	3.00%	3.25%	3.50%	3.75%				
							$30M	$30M	$30M	$30M	$30M	$30M				
Fiscal Year	Principal	Interest	Total Debt Service	Less Interest Subsidies	NET Total	Annual Change	Jul - 2014 Debt Service	Jul - 2015 Debt Service	Jul - 2016 Debt Service	Jul - 2017 Debt Service	Jul - 2018 Debt Service	Jul - 2019 Debt Service	Total Proposed Debt Service	Total Existing & Proposed Debt Service	Annual Change	Fiscal Year
2013-2014	35,996,131	14,715,389	50,711,520	(970,968)	49,740,552		-	-	-	-	-	-	-	49,740,552		2013-2014
2014-2015	35,146,966	13,740,391	48,887,356	(947,493)	47,939,864	(1,800,688)	375,000	-	-	-	-	-	375,000	48,314,864	(1,425,688)	2014-2015
2015-2016	33,143,087	12,557,122	45,700,210	(921,582)	44,778,628	(3,161,236)	2,231,250	412,500	-	-	-	-	2,643,750	47,422,378	(892,486)	2015-2016
2016-2017	30,909,377	11,354,903	42,264,279	(884,051)	41,380,228	(3,398,399)	2,193,750	2,304,375	450,000	-	-	-	4,948,125	46,328,353	(1,094,024)	2016-2017
2017-2018	29,783,805	10,057,761	39,841,566	(833,697)	39,007,869	(2,372,359)	2,156,250	2,263,125	2,377,500	487,500	-	-	7,284,375	46,292,244	(36,109)	2017-2018
2018-2019	28,762,463	8,654,831	37,417,294	(779,604)	36,637,690	(2,370,180)	2,118,750	2,221,875	2,332,500	2,450,625	525,000	-	9,648,750	46,286,440	(5,805)	2018-2019
2019-2020	25,453,520	7,461,747	32,915,267	(722,015)	32,193,252	(4,444,438)	2,081,250	2,180,625	2,287,500	2,401,875	2,523,750	562,500	12,037,500	44,230,752	(2,055,688)	2019-2020
2020-2021	24,785,498	6,382,025	31,167,523	(661,749)	30,505,774	(1,687,478)	2,043,750	2,139,375	2,242,500	2,353,125	2,471,250	2,596,875	13,846,875	44,352,649	121,897	2020-2021
2021-2022	21,707,782	5,353,873	27,061,655	(600,194)	26,461,461	(4,044,313)	2,006,250	2,098,125	2,197,500	2,304,375	2,418,750	2,540,625	13,565,625	40,027,086	(4,325,563)	2021-2022
2022-2023	19,534,488	4,495,848	24,030,337	(537,834)	23,492,503	(2,968,958)	1,968,750	2,056,875	2,152,500	2,255,625	2,366,250	2,484,375	13,284,375	36,776,878	(3,250,208)	2022-2023
2023-2024	19,200,402	3,817,799	23,018,201	(475,045)	22,543,157	(949,346)	1,931,250	2,015,625	2,107,500	2,206,875	2,313,750	2,428,125	13,003,125	35,546,282	(1,230,596)	2023-2024
2024-2025	17,244,722	3,126,080	20,370,802	(411,824)	19,958,978	(2,584,179)	1,893,750	1,974,375	2,062,500	2,158,125	2,261,250	2,371,875	12,721,875	32,680,853	(2,865,429)	2024-2025
2025-2026	15,660,060	2,489,503	18,149,563	(347,282)	17,802,281	(2,156,698)	1,856,250	1,933,125	2,017,500	2,109,375	2,208,750	2,315,625	12,440,625	30,242,906	(2,437,948)	2025-2026
2026-2027	12,580,000	1,935,993	14,515,993	(281,299)	14,234,694	(3,567,587)	1,818,750	1,891,875	1,972,500	2,060,625	2,156,250	2,259,375	12,159,375	26,394,069	(3,848,837)	2026-2027
2027-2028	12,555,000	1,430,021	13,985,021	(213,934)	13,771,088	(463,606)	1,781,250	1,850,625	1,927,500	2,011,875	2,103,750	2,203,125	11,878,125	25,649,213	(744,856)	2027-2028
2028-2029	7,660,000	926,526	8,586,526	(144,001)	8,442,526	(5,328,562)	1,743,750	1,809,375	1,882,500	1,963,125	2,051,250	2,146,875	11,596,875	20,039,401	(5,609,812)	2028-2029
2029-2030	7,635,000	611,371	8,246,371	(71,817)	8,174,554	(267,972)	1,706,250	1,768,125	1,837,500	1,914,375	1,998,750	2,090,625	11,315,625	19,490,179	(549,222)	2029-2030
2030-2031	5,725,000	345,706	6,070,706	(17,755)	6,052,951	(2,121,604)	1,668,750	1,726,875	1,792,500	1,865,625	1,946,250	2,034,375	11,034,375	17,087,326	(2,402,854)	2030-2031
2031-2032	4,250,000	170,000	4,420,000		4,420,000	(1,632,951)	1,631,250	1,685,625	1,747,500	1,816,875	1,893,750	1,978,125	10,753,125	15,173,125	(1,914,201)	2031-2032
2032-2033	2,250,000	67,500	2,317,500	-	2,317,500	(2,102,500)	1,593,750	1,644,375	1,702,500	1,768,125	1,841,250	1,921,875	10,471,875	12,789,375	(2,383,750)	2032-2033
2033-2034	-	-	-	-	-	(2,317,500)	1,556,250	1,603,125	1,657,500	1,719,375	1,788,750	1,865,625	10,190,625	10,190,625	(2,598,750)	2033-2034
2034-2035	-	-	-	-	-	-	1,518,750	1,561,875	1,612,500	1,670,625	1,736,250	1,809,375	9,909,375	9,909,375	(281,250)	2034-2035
2035-2036	-	-	-	-	-	-	-	1,520,625	1,567,500	1,621,875	1,683,750	1,753,125	8,146,875	8,146,875	(1,762,500)	2035-2036
2036-2037	-	-	-	-	-	-	-	-	1,522,500	1,573,125	1,631,250	1,696,875	6,423,750	6,423,750	(1,723,125)	2036-2037
2037-2038	-	-	-	-	-	-	-	-	-	1,524,375	1,578,750	1,640,625	4,743,750	4,743,750	(1,680,000)	2037-2038
2038-2039	-	-	-	-	-	-	-	-	-	-	1,526,250	1,584,375	3,110,625	3,110,625	(1,633,125)	2038-2039
2039-2040	-	-	-	-	-	-	-	-	-	-	-	1,528,125	1,528,125	1,528,125	(1,582,500)	2039-2040
	389,983,303	109,694,390	499,677,692	(9,822,144)	489,855,548		37,875,000	38,662,500	39,450,000	40,237,500	41,025,000	41,812,500	239,062,500	728,918,048		