



**CITY OF STAMFORD
OFFICE OF ADMINISTRATION**

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December 15, 200~~6~~⁵

Dannel P. Malloy, Mayor
The Members of the Board of Finance

Ladies and Gentlemen:

Section 8-20-3 of the Charter of the City of Stamford requires me to report annually upon the amount and nature of expenditures that, in my 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 General Fund budgets for each of those years. I am pleased to transmit my report herewith.

INTRODUCTION

In analyzing the amount of debt that the City may safely incur, we must consider several distinct factors. Among the items that must be considered are the following:

- Capital Needs of the Community
- Legal Debt Limitations
- Impact of the Proposed Plan on Debt Position & Credit Rating
- Impact of the Plan on Future Operating Budgets
- Level of Authorized But Unissued Debt
- Projected Drawdown Schedule and Financing Strategy
- Alternative Funding Options

After considering each of the above factors, I am recommending that Stamford continue the multi-year financing plan proposed last year, with some adjustment made to accommodate large projects in 2006-07, as discussed below. My recommendation reflects what I believe to be the appropriate balance between Stamford's considerable capital needs and our desire to avoid future debt service and the taxes that must be levied to support it. In formulating this recommendation, I have considered the capital improvements that have been identified as critical to the long-term success of the Stamford community. Some of these improvements, such as a new public safety radio

system, the rebuilding of the Ferguson Library and the expansion and rehabilitation of Stamford and Westhill High Schools are already underway and should be completed as expeditiously as possible. Others, like road paving, sidewalks, or vehicle replacement, require our ongoing support if we are to avoid the social and financial costs of deferring our obligations.

My recommended level of safe debt is supported by the conservative financial projections detailed later in this report. The underlying bases for Stamford's robust debt capacity are the City's long-term fiscal responsibility in the area of debt management, local economic strength, particularly with respect to the City's grand list, and historically low interest rates achieved in recent borrowings and refundings – significantly lower than earlier projections had assumed.

To meet the significant capital needs of Stamford, I am recommending that up to \$40 million be authorized in 2006-07 as previously recommended. However, I am also recommending that the safe debt limit be increased for 2006-07 only to accommodate financing for the entire public safety radio system. Bids for completion of this project are due in January. However, the project is estimated to require additional funding between \$10 million and \$15 million. For the purpose of the quantitative analysis on which this recommendation is based, the public safety radio system is assumed to require an additional \$15 million.

For the following five years, I continue to recommend up to \$36 million each year within the safe debt limit. This recommendation reflects a commitment to Stamford's future and an acknowledgment of the duty of stewardship that we share. It is a recommendation based on a fundamental confidence in Stamford as a government, an economy, and a vibrant community. It is also, in my opinion, sustainable within our current budget framework.

The City's outstanding General Obligation debt on July 1, 2005 was approximately \$317 million, including \$277 million attributable to General Fund projects and \$40 million attributable to projects in self-sustaining funds. During FY 2005-06, I project that the City will add \$59 million in debt intended to finance capital expenditures through the summer of 2007. In addition, the City will amortize \$25 million of debt during the year. Based on the projections presented in this report, the recommendation will increase outstanding debt for general fund projects by \$35 million over 6 years, less than 2% per year.

The projections contained in this report assume that the average interest rate on future borrowings will be 4.75%. The current average interest cost paid by the City on its outstanding debt is 4.4%. Current bond rates are just over 4%, and most economists are predicting stable or gradually rising interest rates. However, the last year has been marked by steady increases in short-term interest rates driven by the Federal Reserve Bank's actions, coupled with essentially unchanged long-term rates. Only in the last few months have long term rates crept up slightly. This atypical interest rate curve coupled with mixed signals about the state of the national economy, make long-term predictions about interest rates especially problematic.

This Safe Debt Limit recommendation reflects and incorporates several practices with respect to the City's capital program that have been introduced in recent years. These practices, which were described in greater detail in prior years' recommendations, include:

- The addition of a short-term financing component, financed using general obligation bonds with maturities up to seven years. These projects include vehicle replacement, equipment replacement, and technology replacement. They include items with an expected life of 5 to 10 years, and the intention of this program is to match the financing to that useful life. The remainder of the capital budget will be financed using 20-year maturity general obligation bonds, grants, and, in the case of projects outside the City's General Fund, self-sustaining debt.
- With this Safe Debt recommendation and the Capital plan that will follow it in the spring of 2006, the City will have fully implemented the practice of budgeting and repaying the debt for capital projects outside of the General Fund using self-sustaining debt. There are two special revenue funds and three 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 Smith House Fund, the E. Gaynor Brennan Fund, and the WPCA. In the past, the debt service for capital projects within these funds has been allocated to them, based on the share of each individual bond issue that was utilized for those projects. This will continue, and be supplemented by separate budgeting within the capital planning process for projects supported by each fund.
- As a result of Public Act 02-6 of the May Special Session, we have changed our appropriation practice with respect to school construction projects that are eligible for partial State reimbursement. For instance, in the 2004-05 capital budget we appropriated \$34,213,000 for Stamford High School, but set a drawdown schedule within the budget that includes actual spending of \$12,820,000 in 2004-05, \$13,813,000 in 2005-06, and \$7,580,000 on 2006-07. These drawdown amounts will be counted toward compliance with the safe debt limit in those respective years. In essence, for Safe Debt Limit purposes, we now recognize appropriations for school projects over the expected term of capital outlay to support construction.

ANALYSIS OF DEBT LIMIT RECOMMENDATION

A) Capital Needs of the Community

The capital needs of the City are of primary importance in developing a recommended spending plan. Just as it is inappropriate to propose capital spending simply because of a perceived excess in capital capacity, so too is it inappropriate to establish a Safe Debt Limit without consideration for the City's essential capital needs. Favorable debt ratios are meaningless, if they come at the expense of deferred maintenance, or if long-term

investments are not made in projects that reduce operating costs, foster economic growth, or ensure the quality of life demanded by voters.

The capital needs of the City of Stamford are staggering, and cannot be adequately supported without an ambitious capital program:

- School construction projects continue to comprise the largest single portion of the City's capital budget. \$50 million has already been committed to expansion and renovation projects at Stamford and Westhill High Schools alone. \$20 million of that remains to be drawn down in 2006-07 and 2007-08.
- The City faces a costly but overdue replacement of its public safety radio system. Proposals to complete this project will be evaluated in February, 2006, after the submission of this report. However, our preliminary cost estimate is approximately \$17 million, of which \$2.4 million has already been budgeted.
- Our unprecedented success at obtaining federal funds to support necessary transportation projects in Stamford increases the need for local matching funds for projects including railroad bridge replacement and a new train station on the East side. We continue to push for greater State participation in matching these Federal funds, but nevertheless need to recognize the importance of moving these time-consuming, complex and expensive projects forward while the Federal Government is willing to pay for 80% of the costs. The Stamford Urban Transitway has already been fully funded, both with 80% Federal funds and 20% local match.
- Public facilities continue to require our attention. Projects underway or under consideration include the Ferguson Library, a new East Side Fire Station, land for leaf and brush collection activities, and continued upgrading of parks.
- There is overwhelming public support for additional soccer and other athletic facilities to accommodate growing leagues and utilization.
- There remains a backlog of drainage, paving and sidewalk projects that have been deferred because of restraint in the capital plan, despite recent increases in funding for these necessary but less glamorous projects.
- City vehicles and equipment need to be replaced in an orderly cycle or we jeopardize our ability to provide public services and drive up costs.

I believe that this recommended safe debt limit will provide adequate resources to begin to address these matters in a timely way.

B) 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 in excess of \$1.8 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 and we would be saddled with annual debt service payments of \$150 million per year. For this reason, the legal debt limit in Connecticut is of no practical consequence for the City of Stamford.

C) 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 both major rating agencies. Only sixty-six (66) local governments carry a AAA rating from Standard & Poor’s.

The importance of maintaining Stamford’s triple-A rating is financial as well as symbolic. A reduction to a double-A rating (the next lower rating) would result in an increase in borrowing costs of approximately 1.4%. If our entire bond portfolio had been issued at that rating rather than as triple-A debt, we would pay hundreds of thousands of dollars more per year in interest costs.

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.) Both Moody’s and Standard & Poor’s have described Stamford’s debt position as moderate in their most recent ratings. Both agencies viewed the segregation of sewer-related borrowing into revenue-backed debt as positive to our debt position.

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.

While Stamford’s per capita debt is above the average for medium sized cities in the State of Connecticut, it is lower than a number of the AAA-rated national benchmarks. It should also be noted that Stamford’s population is lower than the average population of the other AAA rated communities. As noted in Exhibit A, the recommended capital plan will cause Stamford’s per capita debt to increase to just \$2,791 by FY 2011-12. However, wealth levels that are significantly higher than the state and national averages mitigate Stamford’s per capita debt levels. Additionally, Stamford’s per capita income is significantly higher than the level for the State of Connecticut. All of these benchmarks are a reflection of Stamford’s unique characteristics as an important

regional business center with a relatively small population, above average wealth levels, and high property values.

Debt Ratio Benchmarks

City	S&P Rating	Population	Per Capita Debt	Debt to FMV	Undesignated FB as a % of Expenditures
Stamford (As of 12/01/05)	AAA	120,107	2,306	1.15%	3%

Connecticut Benchmarks - extracted from State of Connecticut, Office of Policy & Management, Fiscal Indicators Report, 1998-2003					
Bridgeport	BBB+	139,664	4,455	10.9%	8.8%
Hartford	A	124,387	1,198	2.4%	5.9%
New Haven	A-	124,662	3,485	7.7%	3.5%
Waterbury	BBB	108,130	1,428	3.2%	6.6%
Norwalk	AAA	84,170	1,150	0.8%	7.5%
Danbury	AA	77,353	855	0.8%	7.3%
Greenwich	AAA	61,972	790	0.2%	4.5%
West Hartford	AAA	61,424	1,449	1.3%	7.0%
Fairfield	AAA	58,407	2,104	1.2%	8.8%
Average		93,352	1,879	3.2%	6.7%

National Benchmarks

Source: Review of AAA Rated Municipalities, Standard & Poor's Rating Service, June 2005

City	S&P Rating	Population	Per Capita Debt	Debt to FMV	Undesignated FB as a % of Expenditures
Alexandria, VA	AAA	134,000	1,907	1.1%	17%
Cambridge, MA	AAA	101,355	1,268	0.6%	29%
Charlotte, NC	AAA	614,330	2,602	2.6%	16%
Greensboro, NC	AAA	235,262	3,048	3.5%	16%
Irving, TX	AAA	196,750	6,111	8.6%	12%
Minneapolis, MN	AAA	382,618	3,768	4.2%	24%
Naperville, IL	AAA	138,802	2,331	2.2%	33%
Omaha, NE	AAA	399,357	2,207	4.5%	12%
Average	AAA	275,309	2,905	3.4%	19.9%

The single most important debt ratio for rating agencies is debt as a percentage of full market value of all taxable property in the municipality. By this measure, Stamford compares very well. The City's large and diverse tax base results in an extremely favorable 1.15% ratio. This is significantly lower than the average of 3.4% for the triple-A rated cities illustrated in the chart. Over the life of the recommended capital plan, this ratio is expected to remain relatively constant, in the range of 1.25 percent or below. Projected changes in this ratio are outlined in Exhibit A. Although no one

single ratio determines a credit rating, the City should seek to maintain this ratio at a low level.

The third ratio listed above is debt service as a percent of expenditures. The City is currently below 10%, and the recommended capital plan projects this to peak at approximately 10.1%. Ratios between 5 - 10% are generally considered moderate and anything over 15% is considered high. Although Stamford's ratios are in the high end of the moderate range, they are lower than a number of the other individual triple A-rated cities including Charlotte, NC (23.0%), Irving, TX (12.0%) and Minneapolis, MN (24.0%). Stamford should seek to keep this ratio at or near the 10% range. Projected debt service as a percent of budget for the next six years is outlined in Exhibit B.

The final ratio noted above is undesignated fund balance (accumulated surplus) as a percent of operating expenses. Although this is not a debt ratio, it is a critical financial measure that the rating agencies use to gauge the ability of a municipality to deal with unexpected financial emergencies and unfavorable operating events (natural disasters, economic slowdowns, etc). Until the passage of a charter revision in 2004, the City was not allowed to maintain an undesignated fund balance, and this prohibition was a perennial concern of rating analysts.

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 many of our benchmarks have fund balances well in excess of this range. An important part of our debt and credit strategy in the coming years should be full funding of the new Rainy Day Fund at the charter-defined limit of 5%.

D.) 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. The recommended plan will result in the City's annual debt service payable from the City's general fund increasing from approximately \$34.8 million in FY 2005-06 to \$44.8 million in FY 2011-12. Based on the City's current grand list, this \$10 million increase equals less than a one-mill increase spread over 6 years.

E.) Authorized But Unissued Debt

The City currently has approximately \$65 million of Authorized but Unissued Debt (prior capital authorizations to be financed with GO Bonds which have not yet been financed). In addition, there is \$148 million in grant-funded projects still outstanding. This analysis assumes that \$12 million of the outstanding bond authorizations will be financed with the proceeds of a new money issue in the spring of 2006.

F.) 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. For analysis purposes, we have made some general assumptions concerning the speed with which new authorizations will be expended. We have assumed that the City will require 70% of the locally-financed portion within one year of authorization, an additional 20% within two years of authorization, and the final 10% within three years of authorization.

Exhibit C presents a Proposed Financing Schedule for both the Authorized But Unissued Debt, and the proposed new debt contained in the recommended capital plan. The financing plan is consistent with the anticipated drawdown schedules. The plan makes use of level principal serial bonds issued with a twenty-year maturity.

The schedule of issuance reflected in Exhibit C includes issues approximately every 18 months. However, variation in the cash needs of ongoing projects, as well as changes in the interest rate environment, may prompt changes to this schedule, including the issuance of Bond Anticipation Notes.

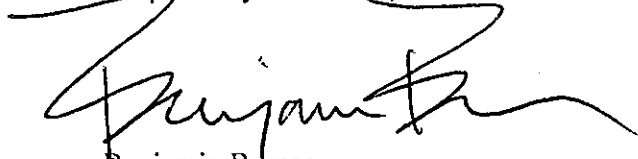
Grant-Funded Projects- It is obviously preferable for the City to finance needed capital projects from grants, when grant funding is available for this purpose. Projects, which are funded from grants or from current revenue generally, should not be counted when considering the funding recommendations 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. However, it should be noted that a transition to significant pay-as-you-go financing would be extremely expensive. To fund the entire capital budget with current tax revenues while funding current debt service would add approximately 3 mills to the tax rate, more than a 10% increase. It should also be noted that the benefits of capital expenditures are enjoyed both by taxpayers today and by taxpayers decades into the future. Provided that the City's debt program is prudently managed, using bonds to finance capital improvements is as sound a practice as taking a mortgage to purchase a home.

CONCLUSION

I hope that the observations made in this report are helpful to the various bodies responsible for the approval of the City's capital budget and six year capital plan. The recommended funding level of \$235.0 million over the next six years is a conservative plan that balances the City's significant capital needs within our financial capability to assume new debt. While this plan will increase the City's outstanding indebtedness modestly and will result in an additional debt service burden, I believe the City can accommodate this additional debt without jeopardizing its financial position or excellent credit rating.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Benjamin Barnes", with a long, sweeping underline that extends to the right.

Benjamin Barnes
Director of Administration

EXHIBIT A

TOTAL PROJECTED GENERAL OBLIGATION DEBT

FY 2003-04 THROUGH 2009-10

Description	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Gross Debt: Beginning of FY*	317,321,900	352,716,372	323,977,337	344,304,991	375,686,637	340,174,838	359,954,524
Less: Amortization - Existing Debt							
Long Term Bonded Debt	(24,370,000)	(24,640,000)	(24,450,000)	(24,450,000)	(24,460,000)	(23,740,000)	(21,755,000)
Clean Water Fund Debt (GO)	(340,528)	(343,772)	(347,083)	(350,459)	(353,904)	(357,419)	(361,005)
Plus: Proposed New Debt							
Long Term Debt -- General Fund	59,350,000	0	45,620,000	62,290,000	0	53,380,000	51,160,000
Long Term Debt -- Other Funds	755,000	0	3,260,000	680,000	0	1,195,000	0
Less: Amortization - Proposed Debt							
Long Term Debt -- General Fund	0	(3,755,263)	(3,755,263)	(6,787,895)	(10,697,895)	(10,697,895)	(14,138,947)
Long Term Debt -- Other Funds		(39,737)	(181,842)	(211,316)	(247,105)	(271,842)	(270,263)
Projected Gross Debt: End of FY	352,716,372	323,977,337	344,304,991	375,686,637	340,174,838	359,954,524	374,869,572
GO Debt Allocated to Other Funds							
WPCA	18,933,814	16,779,221	14,865,747	12,950,828	11,099,286	9,530,857	8,087,714
Smith House Fund	2,865,049	3,104,891	3,328,417	3,288,786	3,249,154	3,309,522	3,277,786
E.G. Brennan Fund	684,598	596,887	561,093	682,873	478,296	506,107	527,064
Marina Fund	796,567	2,983,409	2,904,462	2,822,883	2,738,672	2,651,830	2,575,514
Parking Fund	16,360,000	15,983,421	15,297,105	14,715,263	13,772,105	13,280,000	12,321,053
Projected Net General Fund Debt: End of FY	313,076,344	284,529,508	307,348,167	341,226,004	308,837,325	330,676,208	348,070,442
Projected Per Capita** Net Debt	2,586	2,339	2,514	2,777	2,501	2,664	2,791
Gross Debt as a % of Fair Market Value***	1.15%	1.25%	1.13%	1.17%	1.25%	1.11%	1.16%
<p>* Includes outstanding GO bonded debt for schools, public improvements, and for sewers (\$16.3 million financed prior to 2003), plus \$4.5 million in Permanent Loan Obligations to the State Clean Water Fund which rely on a GO pledge. Figures reflect results of 8/05 refunding.</p> <p>** Population estimated at 120,449 in 2004-05, and projected to increase by 0.5% annually thereafter.</p> <p>*** FMV estimated at \$27 billion in 2004-05, and projected to increase by 2% annually thereafter</p>							

EXHIBIT B

PROJECTED ANNUAL GENERAL OBLIGATION DEBT SERVICE PAYMENTS

FY 2005-06 THROUGH FY 2011-12

<u>Debt Service Payments</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2010-12</u>
Current GO Bond Debt Service	38,245,641	37,347,966	36,061,607	34,915,998	33,765,932	31,868,654	28,881,349
Clean Water Fund Obligations (GO)	428,815	426,219	421,624	418,028	413,447	413,447	413,448
Proposed Capital Program	0	5,511,749	5,372,703	9,489,440	14,884,935	15,249,270	19,799,659
TOTAL DEBT SERVICE--	<u>38,674,456</u>	<u>43,284,934</u>	<u>41,855,834</u>	<u>44,823,465</u>	<u>49,064,313</u>	<u>47,531,371</u>	<u>49,094,455</u>
<i>principal</i>	24,710,528	28,739,035	28,552,346	31,588,354	35,511,799	34,795,314	36,254,952
<i>Interest</i>	13,963,928	14,545,899	13,303,487	13,235,112	13,552,515	12,736,057	12,839,503
Debt Service Allocated to Other Funds							
<i>Smith House Fund</i>	286,733	414,828	404,623	392,388	468,634	437,017	429,284
<i>E.G. Brennan Fund</i>	75,064	79,747	68,210	81,474	68,986	66,831	69,028
<i>Marina Fund</i>	66,561	418,896	550,583	526,576	595,766	558,610	530,964
<i>Parking Fund</i>	638,714	1,011,528	1,348,268	1,393,060	1,447,540	1,482,058	1,492,325
<i>WPCA</i>	2,818,958	2,763,563	2,622,917	2,535,409	2,383,903	2,018,545	1,834,579
TOTAL Other Funds	3,886,031	4,688,563	4,994,601	4,928,906	4,964,829	4,563,060	4,356,180
Net Debt Service to General Fund	<u>\$34,788,426</u>	<u>\$38,596,372</u>	<u>\$36,861,233</u>	<u>\$39,894,559</u>	<u>\$44,099,484</u>	<u>\$42,968,311</u>	<u>\$44,738,275</u>
Net Debt Service as % of General Fund Expenditures	9.29%	9.91%	9.10%	9.47%	10.07%	9.43%	9.44%

EXHIBIT C

PROJECTED FINANCING SCHEDULE

FY 2005-06 THROUGH FY 2011-12

DESCRIPTION	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Recommended Capital Budget	40,000,000	40,000,000	36,000,000	36,000,000	36,000,000	36,000,000	36,000,000
<i>plus Public Safety Radio System Financing</i>		15,000,000					
Authorized But Unissued Debt:							
BONDS - 8/2004, 03/2006, 09/2007	12,000,000		2,000,000				
Proposed Capital Program:							
BONDS - 03/2006	47,350,000						
BONDS - 09/2007			43,620,000				
BONDS - 3/2009				62,290,000			
BONDS - 09/2010						53,380,000	
BONDS - 03/2012							51,160,000
BONDS - 09/2013							
TOTAL BONDS BY FISCAL YEAR	59,350,000	0	45,620,000	62,290,000	0	53,380,000	51,160,000
<p>Note: Schedule assumes steady project financing requirements. If these requirements fluctuate, or if favorable market conditions arise, the City may opt to issue Bond Anticipation Notes in advance of bond issues, or in order to postpone bond issues. The City Charter limits BANs to one year maturity</p>							