



CITY OF STAMFORD
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December 15, 2006

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 and the impact of deferring action thereon;
- 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 to emphasize development and replacement of our infrastructure and facilities through a prudently managed comprehensive capital program. This is necessary to maintain the level of service we currently provide and also to achieve new efficiencies in those efforts. At the same time, we should adjust the scope of our long-term debt program recommended last year to reflect the unprecedented increases in land and construction

costs. This inflationary environment argues for earlier completion of large projects and land acquisition that you identify as critical to Stamford's future.

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 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. Others will benefit residents and taxpayers over their lives through reduced operating costs and increased quality of service.

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. Indeed, the average cost of City general obligation debt stands at 4.49%, with an average life of 7 years.

To meet the significant capital needs of Stamford, I am recommending that up to \$44 million be authorized in 2007-08 and for the following five years 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, as an economy, and as 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, 2006 was approximately \$361 million, including \$322 million attributable to General Fund projects and \$39 million attributable to projects in self-sustaining funds. During FY 2006-07, I project that the City will incur no additional general obligation debt and will amortize \$26 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 \$55 million over 6 years, less than 3% per year.

The projections contained in this report assume that the average interest rate on future borrowings will be 4.75%. This is slightly higher than current rates, and is a plausible and conservative assumption given the difficulty in predicting bond rates in an uncertain economy.

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.
- The City has 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.

Despite recent efforts to complete the capital needs of the City of Stamford, financing several major projects remain 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. Over \$60 million has already been committed to expansion and renovation projects at Stamford and Westhill High Schools alone. Six million of that remains to be drawn down in 2007-08.
- The City last year financed a costly replacement of its public safety radio system.
- 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 continue to address these and other 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 AAA 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.

**Connecticut Benchmarks: extracted from State of Connecticut, Office of Policy & Management
Fiscal Indicators Report, 1999-2004**

City	S&P Rating	Population	Debt Per Capita	Debt/ Fair Market Value	Undesignated Fund Balance as % of Expenditures
Stamford (as of 6/30/06)	AAA	120,045	2,451	1.2%	2.6%*
Bridgeport	BBB+	140,132	4,651	9.1%	7.8%
Hartford	AA-	125,053	1,139	2.2%	5.0%
New Haven	A-	125,012	3,864	7.2%	3.5%
Waterbury	BBB	108,487	1,327	2.9%	5.8%
Norwalk	AAA	84,412	1,502	0.8%	9.2%
Danbury	AA	78,221	835	0.9%	7.4%
Greenwich	AAA	62,317	680	0.1%	4.6%
West Hartford	AAA	61,392	1,705	1.4%	6.7%
Fairfield	AAA	57,861	3,027	1.3%	5.2%
Average		93,654	2,081	2.9%	6.1%

* includes \$6.8 m in undesignated fund balance in the General Fund plus \$2.8 in the Rainy Day Fund.

**National Benchmarks: Extracted from Standard & Poor's Review of AAA Rated Municipalities
Standard & Poor's Rating Service, October
2006**

City	S&P Rating	Population	Debt Per Capita	Debt/ Fair Market Value	Undesignated Fund Balance as % of Expenditures
Alexandria, VA	AAA	139,000	2,209	0.93%	15.1%
Cambridge, MA	AAA	101,000	3,099	0.73%	38.4%
Cary, NC	AAA	111,000	1,865	2.39%	66.5%
Charlotte, NC	AAA	614,000	2,204	2.87%	28.3%
Greensboro, NC	AAA	238,000	2,029	2.31%	14.0%
Irving, TX	AAA	197,000	919	7.48%	12.8%
Minneapolis, MN	AAA	383,000	3,473	3.59%	17.7%
Naperville, IL	AAA	140,000	686	2.23%	34.7%
Omaha, NE	AAA	404,000	1,200	4.74%	12.2%
Santa Monica, CA	AAA	90,000	2,456	2.82%	21.4%
Average		241,700	2,014	3.01%	26.11%

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 1.2% ratio. This is significantly lower than the average of 3% 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 remain in that range. Note that this figure fluctuates based on the timing of individual bond issues and that actual levels have generally been lower than forecast. 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 \$38.5 million in FY 2006-07 to \$52.4 million in FY 2012-13. Based on the City's current grand list, this \$10 million increase equals less than a one-mill increase spread over 6 years.

E.) 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 \$264.0 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,

Benjamin Barnes
Director of Administration

EXHIBIT A

TOTAL PROJECTED GENERAL OBLIGATION DEBT

FY 2006-07 THROUGH 2012-13

Description	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Gross Debt: Beginning of FY*	361,290,000	334,783,070	361,130,830	385,931,423	349,622,782	387,085,626	411,631,464
<u>Less: Amortization - Existing Debt</u>							
Long Term Bonded Debt	(24,900,000)	(27,700,000)	(27,700,000)	(27,710,000)	(26,990,000)	(25,005,000)	(24,285,000)
Clean Water Fund Debt (GO)	(343,772)	(347,082)	(350,459)	(353,904)	(357,419)	(361,005)	(364,663)
<u>Plus: Proposed New Debt</u>							
Long Term Debt -- General Fund	0	51,855,000	56,795,000	0	71,760,000	62,040,000	0
Long Term Debt -- Other Funds	0	3,803,000	680,000	0	1,295,000	525,000	0
<u>Less: Amortization - Proposed Debt</u>							
Long Term Debt -- General Fund	(1,263,158)	(1,263,158)	(4,623,947)	(8,244,737)	(8,244,737)	(12,653,158)	(12,653,158)
Long Term Debt -- Other Funds	(39,737)	(181,842)	(213,421)	(249,211)	(273,947)	(285,526)	(339,737)
Projected Gross Debt: End of FY	<u>334,783,070</u>	<u>361,130,830</u>	<u>385,931,423</u>	<u>349,622,782</u>	<u>387,085,626</u>	<u>411,631,464</u>	<u>374,328,643</u>
<i>GO Debt Allocated to Other Funds</i>							
<i>WPCA</i>	16,779,221	14,865,747	12,950,828	11,099,286	9,530,857	8,087,714	6,532,244
<i>Smith House Fund</i>	2,755,690	2,979,216	2,939,585	2,899,953	2,960,322	2,928,585	2,883,690
<i>E.G. Brennan Fund</i>	616,795	588,513	701,495	491,580	544,254	578,766	526,317
<i>Marina Fund</i>	2,983,409	2,904,462	2,822,883	2,738,672	2,651,830	2,562,356	2,470,251
<i>Parking Fund</i>	15,983,421	15,337,105	14,713,158	13,770,000	13,277,895	12,318,947	11,792,368
Projected Net General Fund Debt: End of FY	295,664,534	324,455,786	351,803,475	318,623,291	358,120,469	385,155,095	350,123,772
Projected Per Capita** Net Debt	2,451	2,676	2,887	2,602	2,910	3,114	2,817
Gross Debt as a % of Fair Market Value***	1.20%	1.09%	1.15%	1.20%	1.07%	1.16%	1.21%
<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 120,045 in 2005-06, and projected to increase by 0.5% annually thereafter.</p> <p>*** FMV\$30.2 billion in FY 07 based on preliminary revaluation results, and projected to increase by 2% annually thereafter</p>							

EXHIBIT B

PROJECTED ANNUAL GENERAL OBLIGATION DEBT SERVICE PAYMENTS

FY 2006-07 THROUGH FY 2012-13

<u>Debt Service Payments</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 2011-12</u>	<u>FY 2012-13</u>
Current GO Bond Debt Service	40,999,354	42,695,094	41,387,085	40,074,519	38,014,741	34,864,936	32,995,718
Clean Water Fund Obligations (GO)	425,219	421,624	418,028	414,433	410,837	407,242	403,646
Proposed Capital Program	1,692,124	1,900,197	6,296,206	11,237,103	11,564,116	17,578,541	23,580,726
TOTAL DEBT SERVICE	<u>43,116,697</u>	<u>45,016,915</u>	<u>48,101,319</u>	<u>51,726,055</u>	<u>49,989,694</u>	<u>52,850,719</u>	<u>56,980,089</u>
<i>principal</i>	26,506,930	29,310,240	32,674,407	36,308,641	35,592,156	38,019,163	37,302,821
<i>interest</i>	16,609,767	15,706,675	15,426,912	15,417,414	14,397,538	14,831,556	19,677,269
Debt Service Allocated to Other Funds							
Smith House Fund	354,905	371,375	366,381	429,043	382,307	376,011	438,954
E.G. Brennan Fund	79,437	73,361	87,432	72,728	70,287	74,310	80,116
Marina Fund	412,782	636,360	583,331	637,841	576,425	563,285	607,390
Parking Fund	1,028,193	1,373,260	1,429,078	1,491,481	1,524,744	1,541,377	1,622,691
WPCA	2,763,564	2,622,917	2,535,410	2,384,888	2,015,935	1,828,374	1,876,010
TOTAL Other Funds	4,638,880	5,077,274	5,001,632	5,015,981	4,569,698	4,383,355	4,625,161
Net Debt Service to General Fund	<u>\$38,477,817</u>	<u>\$39,939,642</u>	<u>\$43,099,686</u>	<u>\$46,710,075</u>	<u>\$45,419,997</u>	<u>\$48,467,364</u>	<u>\$52,354,928</u>
Net Debt Service as % of General Fund Expenditures	9.82%	9.73%	10.03%	10.38%	9.64%	9.83%	10.14%

EXHIBIT C

PROJECTED FINANCING SCHEDULE

FY 2006-07 THROUGH FY 2012-13

DESCRIPTION	<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 2011-12</u>	<u>FY 2012-13</u>
Capital Budget	40,000,000	44,000,000	44,000,000	44,000,000	44,000,000	44,000,000	44,000,000
plus Public Safety Radio System Financing	15,000,000						
<u>Authorized But Unissued Debt:</u>							
BONDS - 8/2004, 03/2006, 09/2007		2,000,000					
<u>Proposed Capital Program:</u>							
BONDS - 03/2006							
BONDS - 09/2007		49,855,000					
BONDS - 3/2009			56,795,000				
BONDS - 09/2010					71,760,000		
BONDS - 03/2012							62,040,000
BONDS - 09/2013							
TOTAL BONDS BY FISCAL YEAR	0	51,855,000	56,795,000	0	71,760,000	62,040,000	0
<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>							