

11 JUL 2022

Fitch Rates Stamford, CT's \$40MM GO Bonds 'AAA'; Outlook Stable

Fitch Ratings - New York - 11 Jul 2022: Fitch Ratings has assigned a 'AAA' rating to \$40 million of general obligation (GO) bonds, issue of 2022, to be issued by the city of Stamford, CT.

The bonds are expected to sell competitively on July 27, 2022 and are being issued to provide financing for various city and school capital projects. In addition, Fitch has affirmed the 'AAA' rating on the city's Issuer Default Rating (IDR) and outstanding rated GO bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are backed by Stamford's full faith and credit and unlimited taxing power.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO bond rating reflect Fitch's expectation for Stamford to maintain healthy financial flexibility through future downturns, consistent with a history of strong operating performance and sound reserves. The city's strong financial profile reflects its moderate fixed-cost burden, unlimited legal ability to raise revenues and a demonstrated ability to reduce expenditures during economic downturns. Fitch expects long-term liabilities to remain low as a percentage of personal income based on manageable capital needs and a commitment to full funding of its city-managed pension plans.

Economic Resource Base

Stamford covers an area of 40 square miles and is located on the Long Island Sound between Greenwich to the west and New Canaan and Darien to the east. It is about one hour from New York City by rail or highway transportation. Stamford recently became Connecticut's second-largest city, with an estimated 2021 census population of approximately 136,300 for an increase of over 11% since 2010, a rate faster than the state and national average.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Stamford's primary source of revenue is property taxes. Fitch expects natural general fund revenue growth to be above long-term inflation but below U.S. GDP when considering changes in tax base values from future five-year revaluation results, improvements and new development. Local governments in Connecticut have unlimited taxing authority.

Expenditure Framework: 'aa'

Fitch expects the natural pace of spending growth to be generally in line with revenue growth over time. Fixed carrying costs for debt service, pensions and other post-employment benefits (OPEB) represented a moderate 16% of fiscal 2021 total governmental spending. The city has adequate controls over employee headcount and wages and has demonstrated the flexibility and willingness to cut spending during economic downturns.

Long-Term Liability Burden: 'aaa'

The city's overall debt, including the current issuance, plus Fitch-adjusted net pension liabilities (NPL) are low at 5% of residents' estimated personal income. Fitch expects the burden to remain low based on a manageable capital plan, a rapid pace of principal amortization, and city ordinances in place requiring full funding of its annual pension actuarially determined contributions (ADC).

Operating Performance: 'aaa'

Prudent fiscal policies and conservative budgeting practices have resulted in generally positive operating results and maintenance of sound general fund and capital reserve levels. Based on Stamford's solid level of expenditure flexibility and unlimited legal revenue raising ability, Fitch expects management will continue to maintain a high level of financial flexibility in order to withstand future economic downturns in a manner consistent with the current rating level.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Upgrades are not applicable for issuers rated 'AAA'.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A sustained decline in general fund reserves due to budgetary imbalances to a level that materially weakens financial resilience;

--Weakening of revenue growth prospects to a level that lags the rate of inflation.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Stamford ended fiscal 2021 (June 30 FYE), with a sizable general fund net operating surplus of \$14.8 million, which increased unrestricted reserves to \$74 million, or 11.6% of spending. Positive results were supported by property tax collection rates around 99%, which were well in excess of a conservative budget assumption of 93.9% adopted near the onset of the pandemic. Increases in building permits, conveyance taxes, and spending levels in line with budget also supported positive operating results.

The fiscal 2022 adopted budget totaled \$572 million and included a tax rate increase of 2.3%. Preliminary unaudited estimates indicate the continuation of positive revenue trends, with continued strength in conveyance taxes and building permits. Management reports expenditures were modestly under budget, primarily due to vacancy savings across departments. Given favorable revenue and expenditure variances, management expects year-end results to reflect a moderate budgetary surplus of about \$11 million.

The fiscal 2023 adopted budget totaled \$578 million, a modest 1% over the prior year's adopted budget. The budget includes a tax rate increase of about 1%, which is intended to provide funding for a new \$20 million school construction capital reserve. The city has been allocated about \$49 million in American Rescue Plan Act (ARPA) funds. ARPA funding is expected to be utilized for a variety of eligible uses, including capital spending for HVAC and stormwater improvements.

CREDIT PROFILE

Stamford is the state's largest business center and has a strong and diverse business base, including a high number of national and international corporate headquarters. Major employers across multiple industry sectors include healthcare, banking, insurance, pharmaceuticals, retail, and media and information technology. Major employers, apart from the city and schools, include Stamford Hospital, Indeed.com, Gartner Inc., Charter Communications and Deloitte.

Office vacancy rates have remained high in recent years following the reduced presence of several large companies including RBS, UBS and Pitney Bowes. According to Cushman and Wakefield, the 2021 vacancy rate for the Stamford Central Business District was 35% and the vacancy rate for the Stamford Non-Central Business District was 38% (up from 2020 rates of 31% and 37%, respectively) based on an inventory of approximately 15.9 million square sf in the city. Although the pandemic appears to have exacerbated pre-existing trends of weakening in the commercial tax base, the city reports it is not experiencing pressure on commercial sector property tax collections.

Conversely, demand for new residential/apartment housing has been strong, which has supported new development activity in the city, particularly within its Downtown and South End neighborhoods. The city's proximity to New York City, a highly educated regional employment base and its housing and apartment options have attracted new companies to Stamford as well as continued new residential and office development, despite the reductions mentioned above. UConn's Stamford campus, located downtown, has recently expanded and launched a technology incubator to support expansion of data science related activity in the region.

Revenue Framework

The city's primary source of revenues is property taxes, which represent approximately 92% of fiscal 2023 budgeted general fund operating revenues (net of state on-behalf payments primarily for teachers' pensions).

Given continued population growth, trends in annual building permits, and new development underway, Fitch expects future natural revenue growth will increase at a rate exceeding long-term inflation but below U.S. GDP growth.

The city's tax base underwent a statutorily required five-year revaluation as of Oct. 1, 2017 (effective for the fiscal 2019 budget year) resulting in 8.5% growth in net taxable values to \$21.4 billion. In between revaluations, assessed values will change from new development or appeals activity, but tax base values are not adjusted for sales of real property or changes in lease rental rates. The next five-year revaluation will be effective Oct. 1, 2022 for the fiscal 2024 budget year. Fitch expects the revaluation to show significant growth due to appreciation in property values and robust sales activity in the region.

Management has the independent legal ability to raise taxes without limit and has made regular increases in its tax levy as needed to meet expenditure growth.

Expenditure Framework

Stamford's spending is primarily for school and city employee salaries and benefits. Fitch expects expenses to grow in line with, to slightly above, revenues without consideration of policy action.

Management has successfully negotiated changes in employee health insurance plan contributions and deductibles for its city workers and continues to seek additional cost savings. Stamford and its schools have been successful in moving most new employees (excluding teachers) into defined contribution plans. These actions are helping to control growth in these benefit costs.

Fixed costs for debt service, pension and OPEB represented a manageable 16% of fiscal 2021 total governmental spending. Debt service costs are managed not to exceed 10% of general fund spending. Future projections, inclusive of planned debt issuances over the next five years, indicate continued adherence to this policy.

Management established an OPEB trust in fiscal 2009, and the city and board of education have gradually increased contributions each year, achieving 100% of actuarially determined contributions in fiscal 2017. Utilizing an investment rate of return assumption of 6.95%, the trust had a balance of \$247 million as of June 30, 2021, equal to 56% of its accrued OPEB liability and up from \$168 million the prior year.

The city has the ability to reduce expenses tied to its services, including reducing staff at any time if necessary. Union contracts are subject to arbitration, but an initial decision may be rejected by a two-thirds vote from the city's board of representatives. A new arbitration panel would then be appointed by the state, and their subsequent decision is binding, but the panel's decisions are required to take

into consideration the financial capability of the city.

Long-Term Liability Burden

Long-term liabilities for debt, including the overlapping debt from the city's tax increment financing district, and Fitch-adjusted NPLs represent a low 5% of residents' estimated personal income. Fitch expects liability levels to remain low given manageable borrowing plans, rapid amortization of existing debt (71% of principal paid over 10 years) and full funding of its ADC for pensions, as required by city ordinance.

The city administers four single-employer defined benefit pension plans, and the reported aggregate ratio of assets to liabilities was 88% as of June 30, 2021 based on the city's 6.95% discount rate of return. The Fitch-adjusted ratio declines to 79% based on a 6% discount rate of return, and the Fitch-estimated aggregate NPL is \$220 million (about 1% of residents' personal income).

Operating Performance

Fitch expects Stamford will continue to maintain a high level of financial resilience throughout economic cycles given its superior inherent budget flexibility in the form of its unlimited legal revenue raising flexibility and solid spending control. The city has demonstrated a commitment to restoring reserves during periods of recovery, including the continued practice of funding non-general fund reserves as appropriate, including capital and its medical insurance fund. The city charter limits the rainy day fund held as assigned in the general fund to 5% of spending.

Management's combination of conservative budgeting and careful management of changes in tax rates have helped support reserve stability and balanced operations in recent years. Fitch expects that management will continue to utilize conservative budget management practices to navigate through future economic downturns.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Stamford (CT) [General Government]	LT IDR	AAA	Affirmed	AAA

- Stamford
(CT)
/General
Obligation_{LT}
-
Unlimited
Tax/
1 LT
- | | | | | |
|--|--|-----|----------|-----|
| | | AAA | Affirmed | AAA |
|--|--|-----|----------|-----|

RATINGS KEY OUTLOOK WATCH

POSITIVE



RATINGS KEY OUTLOOK WATCH

NEGATIVE	●	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Stamford (CT) EU Endorsed, UK Endorsed

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