

**Summary:**

**Stamford, Connecticut; Water/Sewer**

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## Summary:

# Stamford, Connecticut; Water/Sewer

### Credit Profile

US\$15.7 mil wtr poll cntl sys & fac rev bnds ser 2019 due 04/01/2049

*Long Term Rating* AA+/Positive New

Stamford wtr

*Long Term Rating* AA+/Positive Affirmed

## Rationale

S&P Global Ratings has assigned its 'AA+' rating to the Stamford, Conn. water pollution control authority's (SWPCA) 2019 issue of water pollution control system and facility revenue bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on SWPCA's outstanding water pollution control bonds.

The outlook on the rating is positive, and reflects our expectation of an at least one-in-three chance of the ratings being raised within the next two years. Our expectation is based on our view of the following:

- That positive financial trends should continue to be realized, supported by what we view as conservative budgeting practices. It is our understanding that SWPCA's projections are used primarily to demonstrate compliance with bond covenants and internal policies, and that actual financial performance regularly exceeds projected levels.
- Although projections show the all-in debt service coverage (DSC) ratio, which compares net operating revenues (adding back in depreciation, and including special assessments, connection charges, interest earnings, while subtracting transfers to the city of Stamford) to annual debt service from all liens, falling to levels below recent trends, as long as SWPCA continues to experience positive variances to budget in both revenues and expenses we believe that higher DSC ratios are likely. Given the recent history of positive budget variances, we believe that DSC ratios that routinely meet or exceed 1.5x are likely.
- In addition, we expect available liquidity from SWPCA's operating and capital reserve funds to continue rising, as indicated in its projections. As with the all-in DSC ratio, we expect positive variances to also be realized over time with days' cash equivalent rising to over two years' cash over the next several years.
- Most of SWPCA's capital costs over the next six years will occur through the end of the 2021 fiscal year, with additional capital needs falling significantly after that.
- Because the service territory serves Stamford and the neighboring town of Darien, we believe that the service base should continue to benefit from both income levels well above national averages and access to employment in the greater New York metropolitan statistical area (MSA).
- Our view that both operational and financial policies will remain strong, supported by internal budget controls, long-term planning, strong asset management, and a commitment to have an engineering study performed at least once every two years by an outside party which provides, among other things, an assessment of SWPCA's asset inventory and financial projections.

The system has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the system's revenues. This, coupled with operating expense flexibility, limits exposure to federal revenues.

We view the bond provisions as a credit neutral, although we believe they are somewhat weak due to the allowance of built-up surplus revenues to meet these tests. The rate covenant calls for net revenues to cover 1.15x revenue bond debt service and 1.00x general obligation (GO) bond and other debt service. The additional bonds test requires historical net revenues--adjusted for annualized rate increases or the acquisition of additional customers--to cover maximum annual debt service (MADS) on existing and proposed bonds 1.15x. The flow of funds is closed, with all excess revenues flowing into the surplus fund; however, there are transfers to the city that represent shared service costs.

We note that if SWPCA needed to use surplus revenues to meet the bond covenant tests, the rating would likely be lowered.

The rating reflects our opinion of the combination of an extremely strong enterprise risk profile and a very strong financial risk profile.

The enterprise risk profile reflects our view of SWPCA's:

- Participation in the broad and diverse Bridgeport-Stamford-Norwalk MSA economy;
- Very low industry risk, as a monopolistic service provider of an essential public utility;
- Rates that we consider affordable, with average monthly-equivalent sewer rates of \$42.50 (usage averages 850 cubic feet), benchmarking well against Fairfield County's 9% poverty rate and median household effective buying income levels in Stamford and Darien that are 137% and 293%, respectively, of the national average; and
- Strong operational management practices and policies, in our view, including: a fully separated sanitary and stormwater system compliant with all environmental permits; engineering reports that include, among other things, reviews and updates of previous condition assessments; consistent treatment performance enabling SWPCA to benefit financially from the state's nitrogen credit exchange; and a demonstrated willingness to raise rates consistently.

The financial risk profile reflects our view of SWPCA's:

- Historical all-in DSC that has been around 1.5x since 2014 and projections that should produce similar or better performance, while our calculation compares net operating revenues (adding back in depreciation, and including special assessments, connection charges, interest earnings, while subtracting transfers to the city of Stamford) to annual debt service from all liens;
- Available liquidity that has climbed to \$17.2 million at the fiscal year ended June 30, 2018, or 459 days' cash, that management expects to continue increasing;
- A manageable capital improvement plan (CIP), totaling \$62 million from fiscal years 2020-2025, which SWPCA expects to fund primarily through revenue bonds (95%), and we note that the debt-to-capitalization ratio as of 2018 was 54% and that \$41 million of the CIP is scheduled to be funded by 2021; and
- Strong financial management practices and policies, including: maintenance of a pooled cash arrangement with the

city that helps SWPCA benefit from the interest earnings and cost sharing with Stamford but originates invoicing solely with SWPCA; at least quarterly financial updates provided to the SWPCA board; a minimum 120-day liquidity policy combined with a two-year capital reserve replenishment requirement if that reserve is reduced; both operating and capital plan forecasts that are both continuously updated; and both regular and transparent financial reporting.

The SWPCA system is mature with a stable customer base of about 19,600 in 2018. The share of residential customers, about 88%, has likewise been consistent. Overall, the customer count includes those within the city and in Darien, the authority serving the latter through an interlocal agreement. Stamford encompasses approximately 40 square miles in southwestern Connecticut, and is within commuting distance of New York City. It has about 125,000 residents and is home to more than 6,000 businesses, including the headquarters and corporate offices of prominent companies.

The system's wastewater treatment facility has permitted average daily capacity of 24 million gallons per day (mgd), which compares favorably with the actual average daily flow in 2018 of 17.5 mgd. We also consider the system very diverse, with the 10 customers representing only 8.5% of consumption.

## Outlook

The positive outlook reflects our expectation that the rating could improve within the next several fiscal years if our expectation for a minimum 1.5x DSC and two years of cash are realized and we believe that these metrics would be financially sustainable in the long run. Along with these financial benchmarks, we would also expect the other economic factors, financial measures, and SWPCA's operating policies we examine would either remain in place or become stronger.

### Downside scenario

We could revise the rating outlook back to stable if SWPCA's capital and debt needs rise significantly, which could place pressure on both DSC and liquidity. Also, if the authority's conservative budgeting practices do not end up translating to financial ratios that we consider consistent with a higher rating, we would most likely revise the outlook to stable. Barring significant negative economic or financial trends, we do not foresee the rating being lowered within the next two years.

## Related Criteria And Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 24, 2018
- U.S. Municipal Water And Sewer Utilities 2019 Sector Outlook: Stable, Although Potential Disruptions Are Not Making Planning Easy, Jan. 15, 2019

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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