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# Economic Environment

March 23, 2010

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## Background:

- Worst recession in 50+ year...”new normal”?
- High unemployment...Slow, “jobless” recovery likely...low inflation
- Asset values depressed
- Consumers overextended....very cautious
- Massive Federal deficit...consequences looming...
- States--including CT--in poor financial health

**National economic picture fairly well understood...**

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## Stamford:

- Unemployment: **8.4%** (vs. 3.7% in '07)...worsening?
- Significant loss of high-value jobs
- Commercial vacancy rates: CBD: **23.4%**; Non-CBD: **25.1%**
- Home prices: **(10%+)**
- High tax rates (127% of CT avg. per capita; EMR=4th highest)
- City finances under severe pressure

**Local economic “realities” more severe than widely perceived**

# Major Challenges

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- **Weak economy/difficult environment**
- **Rising structural costs**
- **Onerous/Expensive labor agreements**
- **Costly infrastructure**
- **Comparatively high taxes**
  - Taxpayers demanding fiscal restraint
- **Financial condition under pressure**

**Challenges are complex...no “quick fixes”**

# Structural Costs: City



\$M	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010E</u>	<u>2011B</u>	'11B vs. '10E
Pensions	\$3.4	\$3.2	\$2.3	\$4.9	\$9.4	\$4.5
OPEB	--	--	.2	2.2	3.9	1.7
Medical	15.3	22.2	24.3	24.3	29.4	5.1
Insurance	<u>6.6</u>	<u>6.9</u>	<u>7.9</u>	<u>9.0</u>	<u>9.3</u>	<u>.3</u>
Total	<u>\$25.3</u>	<u>\$32.3</u>	<u>\$34.7</u>	<u>\$40.4</u>	<u>\$52.0</u>	<u>\$11.6</u>

## Comments:

- Structural costs projected to increase by \$11.6M (29%) in 2011
- Rising pension costs reflect recent poor market performance
- Structural costs have doubled since 2007 (to '11B) and are projected to reach nearly \$70M in 2012!

Rising “structural costs” pose significant financial challenge

# Financial Challenges



- **Insufficient fiscal discipline in recent years...**
  - Record spending in FY'08, '09, 1H'10 amid recession

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>1H'09</u>	<u>1H'10</u>
City	\$155.5M	\$174.5M	\$175.0M	\$103.2M	\$117.8M
BOE	202.8	208.4	218.5	104.1	109.2
Debt Srvcs.	<u>34.0</u>	<u>38.6</u>	<u>45.2</u>	<u>45.2</u>	<u>34.0</u>
<b>Total</b>	<b>\$392.3M</b>	<b>\$421.5M</b>	<b>\$438.7M</b>	<b>\$252.5</b>	<b>\$261.5M</b>

- **City's financial condition has come under pressure...**

	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/10E</u>
Total Gov't. Funds (unrestricted)	\$34.7M	\$30.9M	\$26.1M	\$25.8M	\$25.4M
<b>Total Gov't. Funds/Op Rev</b>	<b>8.8%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.8%</b>	<b>5.7%</b>

**Increased fiscal discipline and financial accountability needed**

# Financial Condition



\$ Millions

<u>Financial Trend:</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010E</u>
General Fund (GAAP)	\$19.2M	\$19.0M	\$15.5M	\$8.4M	\$4.8M
“Rainy Day Fund”	2.8M	3.8M	4.6M	4.8M	7.0M
<b>Total</b>	<b><u>\$22.0M</u></b>	<b><u>\$22.8M</u></b>	<b><u>\$20.1M</u></b>	<b><u>\$13.2M</u></b>	<b><u>\$11.8M</u></b>
<b>GF + RDF/Rev</b>	<b>8.8%</b>	<b>5.9%</b>	<b>4.6%</b>	<b>2.9%</b>	<b>2.7%</b>

Benchmark Data:

AAA-rated Cities in CT:

<u>Average Ratio:</u>					10.4%
<u>Suggested Minimum:</u>					5.0%

Comments:

- Decline in a key financial ratio a concern of Rating Agencies
- In particular, Moody’s has been increasingly vocal about the unfavorable trend...

Key ratio reflecting City’s financial condition has steadily declined since 2006

# Credit Rating: Moody's



## Moody's Investor's Service: July 21, 2009 Report

- “... the City's financial position has weakened over the past three years...”
- “The CT AAA median for unreserved General Fund balance and undesignated General Fund balance are 8.4% and 8.1% of revenues, well above the City's current reserve levels.”  
--as of 6/30/09 City's ratios were 1.0% and 0% , respectively
- “The estimated fiscal 2009 available reserves are significantly lower compared to fiscal 2006 when the balance was a sound 8.8% of General Fund revenues. If the City does not take active measures to improve its financial position... there could be negative rating pressure.”  
--as of 6/30/09 City's ratio was 5.8%

**City's Aaa rating by Moody's at risk since 2007**

# Summary

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- Municipalities, including Stamford, severely impacted by recession
- City's finances expected to remain under extreme pressure
- Cant count on Federal or State govt for \$\$ help...
- Must impose deliberate fiscal restraint to mitigate rising costs
- Cant afford to postpone corrective actions

As fiduciaries, need to confront economic reality..