

Tax Supported
New Issue

Meriden, Connecticut

Ratings

| | |
|---|----|
| New Issue General Obligation Bonds, Issue of 2008 | A- |
| Outstanding Debt General Obligation Bonds | A- |

Rating Outlook

Stable

Analysts

Alexandra Knight
+1 212 908-9181
alexandra.knight@fitchratings.com

Jessalynn K. Moro
+1 212 908-0608
jessalynn.moro@fitchratings.com

New Issue Details

Sale Information: Approximately \$33,050,000 General Obligation Bonds, Issue of 2008, scheduled for competitive sale July 24.
Security: General obligations of the city of Meriden, for which the full faith, credit, and taxing power are pledged.
Purpose: Fund various general purpose projects and permanently finance a portion of bond anticipation notes maturing Aug. 1, 2008.
Final Maturity: Aug. 1, 2028.

Related Research

- *State of Connecticut, June 3, 2008*
- *Meriden, Connecticut, July 24, 2006*

Rating Rationale

- Meriden’s overall debt levels are moderately low and amortization of principal is very rapid.
- City officials have demonstrated a willingness to raise recurring revenues.
- Financial flexibility is limited, as exemplified by low fund balance levels.
- Meriden’s economic base is narrow, although this concern is partially offset by ongoing and expected economic development projects that should improve the tax base and employment opportunities over the long term.

Key Rating Drivers

- Economic growth will be sustained, allowing for expansion of the employment and tax base, despite the national economic softening.
- Sound budgeting practices and financial management are expected to continue producing stable operating results and improved fund balance levels.
- Formalization of financial and debt policies, as well as continued improvement to the capital planning process, will allow management to measure fiscal performance.

Credit Summary

The ‘A-’ rating reflects Meriden’s continued improvement in liquidity and financial reserves, a moderately low debt profile with rapid amortization of principal, and some success in economic development initiatives, which somewhat mitigates the historically weak economic base. The city has demonstrated a willingness to raise recurring revenues, and efforts to formalize financial and debt policies and improve the capital planning process should provide for enhanced fiscal monitoring. Sound budgeting practices and financial management are expected to continue producing stable operating results and improved fund balance levels.

Meriden is situated 20 miles from both Hartford and New Haven and benefits from direct access to major highways in Connecticut. Its location and accessibility bode well for the city’s economic development efforts, which continue to focus on attracting new businesses and reclaiming and rehabilitating existing land and properties for future development. The city is also increasingly focused on transit-oriented development, as the planning process for a commuter rail line from New Haven to Springfield is underway at the state level; commuter rail service would complement the city’s current Amtrak service. Meriden’s net taxable grand list increased a substantial 49.1% during the recent revaluation, effective fiscal 2008, compared to growth of 20.0% during the previous revaluation effective in fiscal 2003. While the growth may be partially attributable to successful economic development efforts in the city, significant increases in taxable value have been common nationwide over the past five years as the housing market has appreciated, and Meriden realized this growth during the revaluation. Although the city’s unemployment rate has been declining on an annual basis since 2003, it remains above average relative to the state and nation. The unemployment rate increased year-over-year to an above-average 6.1% in April 2008, consistent with the national economic trend. Meriden’s population has increased

Rating History

| Rating | Action | Outlook/ Watch | Date |
|--------|----------|-------------------|---------|
| A- | Affirmed | Stable | 7/22/08 |
| A- | Upgraded | Stable | 7/19/06 |
| BBB+ | Assigned | Positive | 7/26/04 |

roughly 2% since the 2000 census and income levels are below those of the county, state, and nation.

The city's financial position has improved in recent years, marked by increased reserve levels and enhanced efficiency in governmental operations. Fiscal 2007 ended with an unreserved general fund balance of 2.1% of expenditures, transfers out, and other uses. The city is considering a formalized fund balance policy that would target a reserve level of 10% of spending, with the unreserved, undesignated balance to equal 5% of spending. The city has improved collections of its primary revenue source, property taxes, and continues to demonstrate a willingness to raise recurring revenues. City officials undertook an operational review during fiscal 2008, identifying numerous spending cuts and increased efficiencies that are expected to provide recurring savings. While not currently available, audited results for fiscal 2008 are expected to show a small surplus in the general fund.

Meriden's moderately low debt burden is one of its key credit strengths. Direct debt is \$1,524 per capita and 1.7% of market value. While the city's capital needs appear manageable and steps have been taken to improve the planning process, the multiyear capital improvement plan (CIP) only shows funding of projects in the first year. The city continues to work on a more detailed CIP with multiyear funding sources. The debt service burden on the budget remains affordable at 7.9% of spending, despite rapid debt amortization, with 84.6% of principal retiring in 10 years.

Debt

Overview

Meriden's debt profile continues to be a key credit strength. Direct debt levels are moderately low at \$1,524 per capita and 1.7% of market value based on the equalized grand list for fiscal 2009. The city has no overlapping debt. The debt burden is also affordable as debt service payments claim a moderate 7.9% of spending, despite a rapid principal amortization rate of 84.6% retiring in 10 years.

While the state's statutory debt limit for municipalities is 7.0 times annual tax receipts, Meriden

adheres to a more stringent self-imposed debt limit in the form of a city council resolution. The issuance of bonded debt for general government purposes (excluding those for schools and enterprise funds) is not to exceed 50% of the principal amount retired in the preceding fiscal year, unless approved by two-thirds of the city council. Although potential borrowings over the next few years may increase debt service payments, the city's debt service burden is becoming increasingly affordable, at 7.9% of budgeted spending for fiscal 2009, down from the peak of 13.4% of spending recorded for fiscal 1999. Given the rapid principal amortization rate, the projected debt service burden should somewhat improve the city's financial flexibility by limiting the budgetary impact of planned new borrowings on the city's future financial resources.

In addition to the current issuance, outstanding long-term debt of the city includes general obligation bonds and bonded debt related to the city's three enterprise funds: the water

Debt Statistics

(\$000)

| | |
|---------------------------|---------------|
| This Issue | 33,050 |
| Outstanding Debt | 57,187 |
| Direct Debt | 90,237 |
| Overlapping Debt | 0 |
| Total Overall Debt | 90,237 |

Debt Ratios

| | |
|---|-------|
| Direct Debt per Capita (\$) ^a | 1,524 |
| As % of Market Value ^b | 1.7 |
| Overall Debt per Capita (\$) ^a | 1,524 |
| As % of Market Value ^b | 1.7 |

^aPopulation: 59,225 (2007 estimate).

^bMarket value: \$5,227,434,000 (fiscal 2009).

Note: Numbers may not add due to rounding.

fund; the sewer authority; and the golf course fund. Fitch Ratings considers debt of the water fund and the sewer authority to be self-supporting from operating revenues.

Capital Planning

The CIP for fiscal years 2009–2013 totals roughly \$332 million: approximately 64% is allocated for schools; 25% is for general government purposes, such as highway and garage projects, parks and recreation, and public safety; and 11% is for the water and sewer system needs, which are self-supporting from user fees and charges. Similar to other municipalities in Connecticut, Meriden receives proportional progress payments toward eligible school construction costs and, therefore, issues bonds only for the net share of project costs. The total amount for schools included in the CIP is \$179 million, of which the city expects state funding of approximately 70%. While the projects have not yet been approved by the state, this level of funding is consistent with the historical rate. If the state does not approve the projects, the city will have to scale back the total scope of education capital projects significantly.

Although the CIP currently spans five fiscal years, projects are typically approved on an annual basis and the only funding sources identified are currently authorized bond issues. The city continues to work on its CIP process with a goal of more accurately calculating future capital costs and more clearly identifying funding sources. While changes to the capital planning process are not yet complete, the timeline for the CIP has been adjusted to coincide with that of the annual budget, which should help foster positive changes in capital planning.

Pension Plans and Other Post-Employment Benefits

Meriden administers three defined-benefit pension plans — the Firefighters' Pension, the Police Pension, and the Employees' Pension for city employees and police and fire employees hired after March 1, 2003. As of June 30, 2006, the plans were funded at 70.8%, 67.2%, and 112.3%, respectively. City officials have expressed a commitment to improving the funding levels of the fire and police plans and contributed at least 100% of the annual required contributions in fiscal years 2007 and 2008. Teachers in the city's school system are members of a plan administered by the Connecticut State Teachers' Retirement Board.

In addition to a pension, the city also provides retirees with medical, prescription drug, and some dental benefits. These benefits are fixed by contract but may be amended by union negotiations. In order to comply with GASB Statement No. 45, the city has completed an actuarial study to determine its OPEB liability. According to the valuation, dated July 1, 2006, the total liability equals approximately \$124 million, with an annual required contribution (ARC) of \$11 million. The city is currently in the process of establishing a trust and anticipates gradually increasing funding levels to reach 100% of the ARC in five years. In order to prudently manage the size of the liability, city officials have been proactive in negotiating benefit changes with unions, specifically discussing cost-sharing percentages, co-pays, and spousal benefits.

Finances

Overview

The city's financial position and credit quality have improved in recent years, marked by increased reserve levels, liquidity levels, and overall financial flexibility, after remedial action in fiscal 2004 corrected a legacy of qualified audit opinions. For many years, the city's financial reserves were inflated due to a prolonged omission of a liability for compensation associated with teachers' salaries earned at year end but paid subsequent to year end. As a result, negative general fund balances, the product of an inherent unwillingness to raise recurring revenues, were misstated as positive.

The full recognition of this liability in fiscal 2004 reduced the general fund balance from 6.3% of total expenditures, transfers out, and other uses to 2.2%. Since then, the city has managed surplus operations in each year and continues to work on rebuilding fund balances.

A draft fund balance policy, planned for consideration by the city council in fiscal 2009, targets total reserves at 10% of spending and undesignated reserves equal to 5% of spending. The draft policy contains strong compliance provisions, such as the requirement to budget 15% of the difference between the target and current fund balance until the target is reached and the restriction on spending the fund balance except in the case of fiscal emergency as declared by a two-thirds vote of the city council. If approved in its current form, and adhered to, in combination with other initiatives taken thus far, the city could achieve greater fiscal stability in coming years.

Financial Performance

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

| | 2004 | 2005 | 2006 | 2007 |
|---|----------------|----------------|----------------|----------------|
| Property Taxes | 88,259 | 91,365 | 95,956 | 103,735 |
| Intergovernmental | 59,810 | 59,251 | 60,209 | 62,905 |
| Charges for Services | 6,139 | 6,145 | 5,649 | 5,630 |
| Other Revenues | 6,130 | 5,729 | 5,568 | 6,411 |
| Total Revenue | 160,338 | 162,490 | 167,382 | 178,682 |
| Expenditures | 157,219 | 160,618 | 167,041 | 176,660 |
| Net Transfers and Other Sources/(Uses) | (100) | 4,750 | (142) | (340) |
| Net Income | 3,019 | 6,622 | 199 | 1,682 |
| | | | | |
| Total Fund Balance | 3,516 | 9,612 | 9,812 | 11,494 |
| As % of Expenditures, Transfers Out, and Other Uses | 2.2 | 6.0 | 5.9 | 6.5 |
| Unreserved Fund Balance | 1,825 | 1,833 | 3,009 | 3,644 |
| As % of Expenditures, Transfers Out, and Other Uses | 1.2 | 1.1 | 1.8 | 2.1 |

Note: Numbers may not add due to rounding.

Fiscal 2007 ended with a net general fund surplus of \$1.7 million and an unreserved general fund balance of \$3.6 million, equal to 2.1% of expenditures, transfers out, and other uses. While this reserve level was low, fund balances have improved since fiscal 2004 when the city took corrective action to remediate misstated fund balances. Property taxes and state and federal funds accounted for the largest sources of revenue, representing 58% and 35% of total revenues, respectively, in fiscal 2007. Meriden's budgetary dependence on intergovernmental aid, primarily state education assistance and payments-in-lieu-of-taxes, has lessened over the years, declining from 42.1% of general fund revenues in fiscal 1999 to 36.0% for fiscal 2007. Despite reductions in federal and state aid, improved property tax collections, conservative budgeting, and the city's efforts in expanding its tax base should help restore fiscal stability.

The city completed an operational review in fiscal 2008, eliminating approximately 25 full-time equivalents and targeting increased efficiency across all departments and throughout the city's school system. As a result, the city projects that audited results for fiscal 2008 will show a small general fund surplus, despite state funding for education being below budgeted levels.

The adopted budget for fiscal 2009 is balanced and totals roughly \$177 million. Partially the result of savings realized in the operational review, city officials were able to address all expenditures and service needs in the fiscal 2009 budget without

implementing a property tax rate increase. As a result of the revaluation, effective for fiscal 2008, the rate of \$27.96 per \$1,000 of assessed valuation for fiscal years 2008 and 2009 is significantly lower than the \$40.43 implemented in fiscal 2007.

Tax Base

Meriden underwent a property revaluation in October 2006, impacting revenues in fiscal 2008, yielding a substantial 49.1% increase in the city's net taxable grand list compared to growth of 20.0% during the previous revaluation effective fiscal 2003. The tax base will grow by 1.4% in fiscal 2009, which compares favorably to average annual growth of 1.0% between the revaluations effective in 2003 and 2008. While growth in the tax base may be partially attributable to successful economic development efforts in the city, significant increases in taxable value have been common nationwide over the past five years as the housing market has appreciated, and Meriden realized this growth during the revaluation.

Because of more aggressive collection procedures, collections rates have improved, with 97% of the tax levy collected on a current basis for fiscal 2007, up from 93.3% recorded for fiscal 1999. On a total basis, collections rates are very strong, consistently more than 99% for fiscal years 2002–2006. The city currently budgets for collections of 97%.

Economy

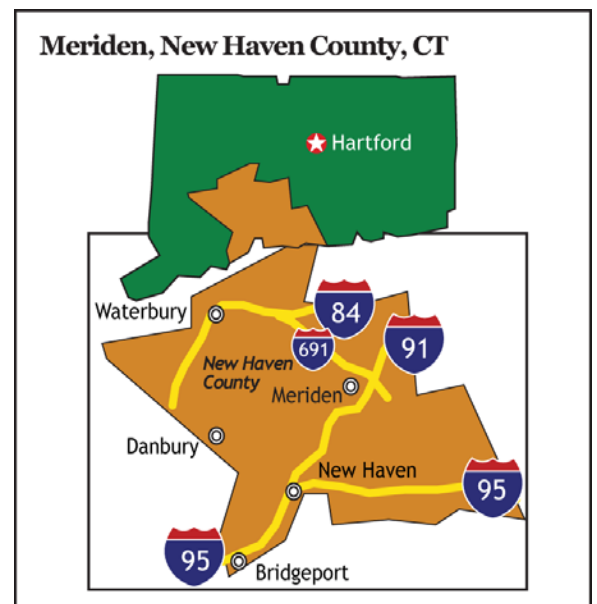
Overview

Situated halfway between the cities of Hartford and New Haven in New Haven County, Meriden is at the crossroads of major highways. The city is also easily reached via Amtrak rail service. The city's location and accessibility bode well for its economic development efforts, which continue to focus on attracting new business presence and reclaiming and rehabilitating existing land and properties for future development. The city is also in the process of updating its plan of conservation and development, with the final version scheduled for completion in November 2008. Revisions and focal points include land use, economic development, open space, infrastructure, and other aspects of city life.

Economic Development

As part of its economic development effort, Meriden established an information technology (IT) zone, providing tax incentives to property owners who improve their buildings to accommodate IT companies. Additionally, the city has a state-designated enterprise zone that provides tax incentives to manufacturers and warehousing and distribution companies locating into the zone, with 50% of the tax abatements reimbursed by the state.

Complementing the tax incentive programs, the city encourages economic expansion through a targeted marketing campaign focusing on business retention and development. Commercial, industrial, and retail development efforts undertaken so far should help diversify the city's economic and employment bases in the coming years.



Accel International Holdings Inc., a manufacturer of steel wire and related products, is in the process of relocating its corporate center to the former TI Automotive facility, which closed in 2006. The city's planning efforts are also focused on redevelopment of the downtown and, specifically, the conversion of the Meriden Mall site to a park. The city is also considering several transit-oriented development opportunities, as Meriden was identified as a key station stop along the proposed New Haven to Springfield commuter rail line; rail service along this corridor is currently provided by Amtrak. While plans for the commuter rail line have not been finalized, city officials anticipate completion of the project during 2012 and are targeting build-out for the intermodal transit center at the same time.

Employment and Income Levels

Meriden's economy remains somewhat limited and is currently represented by health care, telecommunications, and manufacturing. Since 2004, the city's labor force and employment base have grown an average of 1.4% and 1.5%, respectively, each year. This expansion is an improvement over the previous five years, during which the city's labor market grew or contracted marginally. The city's unemployment rate has been declining on an annual basis since 2003, although it remains above average relative to the state and nation. The unemployment rate increased year-over-year to an above-average 6.1% in April 2008, consistent with the national economic trend. Income levels still remain below those of the county, state, and nation. Per capita income was \$20,597 according to the 2000 census, which was below the averages of the county, state, and nation, which were 16%, 28%, and 5% higher, respectively.

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