Moody's Investors Service

Global Credit Research
New Issue
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New Issue: Meriden (City of) CT

MOODY'S ASSIGNS A3 RATING TO MERIDEN'S (CT) $33M G.O. BONDS, ISSUE OF 2008

RATING APPLIES TO $112.6 MILLION IN PARITY DEBT, INCLUDING CURRENT OFFERING

Municipality
CT

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Issue of 2008	A3

Sale Amount	$33,050,000
Expected Sale Date	07/24/08
Rating Description	General Obligation Unlimited Tax

Opinion

NEW YORK, Jul 23, 2008 -- Moody's Investors Service has assigned an A3 rating to the City of Meriden's $33 million General Obligation Bonds, Issue of 2008. Concurrently, Moody's has affirmed the A3 rating assigned to the city's outstanding general obligation debt, affecting $79.5 million in previously rated bonds. The bonds are secured by the city's general obligation, unlimited tax pledge and will permanently finance outstanding Bond Anticipation Notes (BANs) dated August 3, 2007 and provide new money to finance various capital projects. The A3 rating reflects the city's improved financial position with the expectation that the city will continue to run operating surpluses and replenish reserves, large tax base with expected growth in the medium-term and an average debt burden.

IMPROVED FINANCIAL POSITION EXPECTED TO CONTINUE, ALBEIT RESERVES REMAIN MODEST

Moody's expects the city will continue to benefit from recent improvements in financial operations due to prudent management practices. In fiscal 2007, the city recorded a healthy $1.2 million operating surplus increasing the General Fund balance to $11.5 million (a satisfactory 6.4% of General Fund revenues). However, undesignated General Fund balance remains narrow at $3.6 million (2% of General Fund revenues). Positive operations were due to revenues exceeding budget projections, specifically investment income and a tax payment from Meriden Gas Turbines, LLC coupled with expenditure savings from health insurance and vacant positions. Currently, uncertainty surrounds a long-term tax agreement the city has with Meriden Gas Turbines, LLC. The agreement includes annual payments of around $3 million and, despite the recent uncertainty, city officials report all payments to date have been received on schedule.

Preliminary fiscal 2008 figures indicate the city will generate a modest operating surplus of $85,000, despite a $1.8 million short fall of intergovernmental revenue. Officials report the operating surplus was generated from similar sources as in fiscal 2007. In addition, management is reviewing a Fund Balance Policy that would require the city to maintain the level of total fund balance equal to 10% and undesignated equal to 5% of the General Fund budget. Of note, the total General Fund balance and undesignated General Fund balance state median for A3 rated credits is 12.7% and 8.9%, respectively. Although the city has an improved financial position reserve levels are well below similarly rated credits. Moody's will take into account in future rating reviews the city's ability to meet its General Fund target over the near-term.

The adopted fiscal 2009 budget is $1.2 million less than the prior year, due to the reduction of 25 full time positions over the past two years as well as decreased debt service and healthy insurance costs. The main revenue sources balancing the budget are property tax and intergovernmental revenues. Approximately 35.2% of fiscal 2007 revenues were from intergovernmental sources while local taxes make up the bulk of revenues, or 58.1% in fiscal 2007.

Despite funding at the annual required contribution (ARC), the city still faces challenges with its Workers Compensation Fund. The fund had a $2.8 million deficit at the end of 2007 which is a solid improvement from a high of $3.6 million in fiscal 2005. Officials have implemented an action plan and are committed to improve the fund's position. Importantly, the net funding of the city's internal services funds, in the aggregate, is positive. Of additional note, the city has identified its $123.7 million unfunded other post employment benefits (OPEB) liability, including an $11.3 million annually required contribution (ARC), up from the current $5.3

million pay-go expenditure. Management has established an OPEB reserve and plans to fund the ARC over a five-year period. The city's pension system remains well funded and will continue to make 100% of its ARC payment. Moody's believes that the city's conservative approach to budgeting, continued positive reserve replenishment and its willingness to increase taxes will result in increased financial flexibility, all key factors in the A3 rating.

CITY ENCOURAGING FUTURE GROWTH OPPORTUNITIES WHILE WORKING TO MANAGE A LOW WEALTH TAX BASE

The city's large $5.7 billion equalized net grand list (ENGL) will continue to exhibit growth as a result of management's efforts to reclaim and redevelop vacant or underutilized properties. Comprised mainly of residential (62%) and commercial/industrial properties (22%), the ENGL expanded at an average annual 12.4% over the last five years (inclusive of the 2006 revaluation). This compares favorably to the state's growth rate which increased at an annual average 10.9% over the same time frame. This growth is balanced between residential and commercial/industrial development and has resulted in a greater retail presence in a challenged downtown area as well as growth in and around the regional mall. Recent additions to commercial development include Lowe's (rated sr. unsecured A1/stable outlook), Ocean State, Circuit City, Best Buy (rated Baa2/stable outlook) and Dick's Sporting Goods.

The city has numerous developments under construction which are scheduled to be completed within the year including, an addition to the MidState Medical Center and a 42,000 square foot addition to Ragozzino Foods Incorporated's existing facility, and are estimated to generate approximately $653,000 in new property tax revenue. The downtown area is benefiting from office and residential redevelopment and continued enrollment growth at the community college. Further, the city has been selected as the site for a new Metro North train station for which complete construction is scheduled by 2012. A challenge for the city is the continuing decline in resident wealth levels relative to the state. Full value per capita is well below-average at $95,492 when compared to the state median of $147,414.

ABOVE AVERAGE DEBT POSITION

Moody's anticipates that Meriden's average debt burden (2.6% overall and 1.6% adjusted) will remain manageable when considering rapid amortization of principle (83% in 10 years) and a growing tax base. The city has a comprehensive five-year Capital Improvement Plan (approximately $331 million) that includes major projects such as the construction of two new high schools. However, given the city's rapid rate of retirement, no anticipated issuance over the next three years and expected state assistance (roughly 70% of approved school projects), this additional debt is expected to be easily afforded by the city. In addition, the city expects to actively pursue grant funding and the final amount of issuance over the next five years to be much less than the full $331 million.

KEY STATISTICS

2006 population: 59,439

2007 Equalized Net Grand List (ENGL): $5.7 billion

2007 ENGL Per Capita: $95,492

1999 Census Per Capita Income (as % of state and U.S.): $20,597 (71.6%/ 95.4%)

1999 Census Median Family Income (as % of state and U.S.): $52,788 (80.6%/105.5%)

Direct Debt burden (adjusted): 1.6%

Payout of Debt (10 years): 83%

2007 General Fund balance: $11.5 million (6.4% of General Fund revenues)

2007 Undesignated General Fund balance: $3.6 million (2% of General Fund revenues)

Post-sale parity debt outstanding: $112.6 million

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