Summary:

Meriden, Connecticut; General Obligation

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Credit Profile		
US$10.0 mil GO rfdg bnds (Bank Qual) ser 2012 due 08/01/2028		
Long Term Rating	AA-/Stable	New
Meriden GO		
Long Term Rating	AA-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to Meriden, Conn.'s 2012 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AA-' rating on the city's existing GO debt. The rating outlook is stable.

The rating reflects our view of the city's:

- Economic base that includes health care, services, and manufacturing and distribution, and is expected to benefit from the state's rail infrastructure project;
- Sizable and diverse property tax base with good income indicators and high unemployment;
- Strong financial position and strong management team as evidenced by comprehensive planning;
- Active funding of its other postemployment benefit (OPEB) liability, tempered by the underfunded status of two of three pension plans; and
- Low debt burden with a sizable, but largely grant-funded, capital improvement plan.

The city's full faith and credit GO pledge secures the bonds. We understand bond proceeds will refund certain maturities of GO bonds issued in 2002. The city's plan is to take the savings in fiscal 2014 and 2015 so that debt service is level when new money is issued in early 2013.

Meriden, with a population of about 60,000, covers 24 square miles in New Haven County, midway between New Haven and Hartford. We believe it benefits from its location on Interstate 91 and public transportation alternatives. The city is in the early stages of a number of economic development and redevelopment projects that are focused on expanding and revitalizing its downtown, the largest of which centers on a rail project. The state of Connecticut is expected to invest $20 million in rail infrastructure in Meriden as part of the $467 million New Haven-Hartford-Springfield commuter rail program, with service scheduled to begin in 2016. In anticipation of heavy demand, the city plans to develop a full transit center that includes a high density mixed-use development. The city is also undergoing a major flood control project that would involve a public park and other amenities. If successfully implemented, we believe the efforts could positively reshape the city center.

The city is also proactive in economic development and provides various tax incentives to companies and property owners in its Enterprise and Information Technology Zones. In an attempt to expand and retain the city's manufacturing base, it also offers financing incentives to manufacturers for real estate acquisition or improvements.

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Approximately 25% of employment opportunities are in education, health care, and services, while 15% remains in manufacturing and 12% in retail trade. Leading employers include MidState Medical Center (1,293 employees), AT&T Corp. (653), and Hunter's Ambulance & Transportation (462). Meriden's unemployment rate has historically been, and continues to be, higher than state and national averages. It was 10.8% in calendar 2011 and 10.3% in October 2012.

In our opinion, income levels are good with median household and per capita effective buying income at 99% and 90%, respectively, of national levels. The city's fiscal 2013 assessed value (AV) declined 10.7% year-over-year to $3.2 billion and reflects a revaluation. We understand that the revaluation triggered the filing of many appeals, some of which involve significant value. Generally, in past years, management reports assessment appeals have been settled without significant reductions. Market value is $4.6 billion, or about $80,000 per capita, which we consider very strong. In our opinion, the tax base is also diverse, with the 10 leading taxpayers accounting for just 8.9% of AV.

The city's financial position is strong, in our view, despite a $1 million drawdown (0.5% of expenditures) in fiscal 2012 (June 30 year-end) after $242,000 of capital outlay and a $3.5 million contribution to the city's OPEB trust (above and beyond the pay-go requirement). The $16.6 million total available balance at year-end represented a strong 8.6% of expenditures. Real property taxes are the city's largest revenue source at 57%, followed by federal and state aid (39%). Current tax collections remain, in our opinion, strong, averaging 97%.

The fiscal 2013 budget includes a $1.2 million reserve appropriation, which is slightly higher than the $1.1 million used in 2012.

Standard & Poor's considers Meriden's management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable. The city revised its general fund reserve policy to conform with Governmental Accounting Standards Board statement No. 54; its unassigned balance must equal the average of one month's budgeted annual operating expenditures and other financing uses (transfers out) for the prior audited fiscal year.

The city's debt burden, net of $49 million of self-supporting enterprise debt, is $1,000 per capita, or 1.3% of market value, which we consider low. Carrying charges accounted for 5.6% of overall expenditures in fiscal 2012. Amortization is also above average, in our opinion, with officials planning to retire 65% of debt over 10 years. The city's capital improvement plan (CIP), covering fiscal years 2013-2018, totals $321 million. About 62% of the CIP will be funded by federal/state grants. We understand the city plans to issue roughly $25 million of debt in the first quarter 2013 and that the projects could be revised if the grant funding is reduced or eliminated.

The city administers three defined-benefit public employee retirement system plans: the employees' retirement plan (funded at 105% as of July 1, 2010), the police pension plan (63%), and the firefighters' pension plan (68%). Each plan was funded at 100% of the annual required contribution in fiscal 2012. The city also provides postemployment health care benefits, the funding of which is shared between the city and current as well as retired beneficiaries. A trust was established in fiscal 2009 with a $500,000 general fund contribution. The OPEB actuarial accrued liability of $104 million was 4.9% funded as of July 1, 2010. The combined pension and OPEB cost represented 6% of total governmental expenditures in fiscal 2012.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city should be able to continue to maintain its good financial position through balanced financial operations while funding retirement obligations. The city's low debt burden and rapid amortization are also stabilizing rating factors. The diversifying local economy and good income levels further support the outlook. We do not expect to change the rating within the two-year outlook horizon.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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