Fitch Rates Meriden, CT's GO Bonds 'AA-'; Outlook Stable

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Fitch Ratings-New York-20 August 2014: Fitch Ratings assigns a rating of 'AA-' to the following general obligation (GO) bonds of the City of Meriden, Connecticut (the city):

--$50,305,000 tax exempt GO bonds, issue of 2014 - lot A;
--$3,494,000 taxable GO bonds, series of 2014 - lot B.

The bonds will be sold competitively on Aug. 26. Proceeds will finance various general government, school, wastewater, water, and golf course projects in the city.

In addition, Fitch affirms the 'AA-' rating on the following outstanding GO bonds of the city:

--GO bonds, series 2006, 2008, 2013 and GO refunding bonds, series 2012.

The Rating Outlook is Stable.

SECURITY

The bonds are a general obligation of the city backed by its full faith and credit and unlimited taxing power.

KEY RATING DRIVERS

MODERATE FINANCIAL RESERVES: General fund reserves are maintained at one-month of spending as per the city's formal fund balance policy. Reserves are viewed as moderate by Fitch, but satisfactory considering the city's track record of stable financial performance.

STABLE OPERATING PERFORMANCE: General fund operations remain structurally balanced and are largely funded by property taxes which are not subject to any cap or limitation. The city has demonstrated a willingness to enact moderate tax increases to help maintain fiscal balance and offset the relatively stagnant performance of the tax base.

PRUDENT RETIREE BENEFIT FUNDING: The city's pension plans are adequately funded and recently closed to new hires. Other post-employment benefits (OPEB) are likewise eliminated for new hires, and the city has made considerable funding commitments to the unfunded OPEB liability. The city has successfully implemented other retiree benefit reforms that are expected to yield both near-and-long-term savings.

MODERATE DEBT: The city's debt burden is expected to remain moderate based on future issuance plans and capital needs. Debt amortizes at a healthy pace and the cost of servicing the city's debt, pension, and OPEB represent a moderate portion of the annual operating budget.

STRAINED ECONOMIC CONDITIONS: Fitch views the city's economic profile as an area of weakness based on its stagnant employment levels, history of high unemployment, and mixed income indicators. Some development is evident, but has not translated to tax base growth to date.

RATING SENSITIVITIES

Fitch expects the city's debt and financial performance will remain stable. Improved economic performance, including employment and income growth, could support consideration for a higher rating over the intermediate term.

CREDIT PROFILE

Meriden covers an area of 24 square miles in central Connecticut approximately 15 miles east of Waterbury, 20 miles south of Hartford, and 20 miles north of New Haven. The city is situated at the intersection of I-91, I-691 and the Merritt Parkway. The city has a fairly stable population estimated at 60,456 in 2013.

MODERATE RESERVES MAINTAINED

Fitch views the city's fund balance position as moderate. In fiscal 2013, the general fund unrestricted fund balance totaled $16.4 million or the equivalent of 8.3% of operating expenditures and transfers out. The city's formal reserve policy requires an unassigned fund balance equal to one month of budgeted annual spending for the prior audited fiscal year. Reserves were maintained at a very low 1% to 2% from fiscal 2004-2008, but improved significantly in fiscal 2009 due to the receipt of $11.1 million in reimbursements from the Connecticut Resource Recovery Authority (CRRA) as a result of the conclusion of a 20-year contract for the operation of the Wallingford trash-to-energy plant.

Fitch expects the city's financial position will remain relatively stable over the near term. Unaudited results for fiscal 2014 show a $425,871 addition to fund balance on a budgetary basis, and the city adopted a balanced budget for fiscal 2015 that does not rely on existing reserves or other non-recurring resources.

STABLE OPERATIONS DRIVEN BY PROPERTY TAX REVENUE

Fitch considers the city's stable operating performance an important credit factor given the moderate level of fund balance maintained. Fiscal 2014 would mark the fourth time in the last five years the city achieved a net surplus after transfers in the general fund. A deficit in fiscal 2012 equal to $1 million or 0.5% of spending was driven by pre-funding of the city's OPEB liability.

The fiscal 2015 general fund budget is largely funded by property taxes (63%) and intergovernmental aid (33%). The city enacted moderate tax rate increases in the range of 1%-3% per year to compensate for a grand list that has remained fairly stagnant, increasing just 0.2% for fiscal 2015 after a 0.9% loss in fiscal 2014. Importantly, neither the city's tax levy nor tax rate is subject to a statutory or charter limitation. There is no significant taxpayer concentration. Connecticut Light & Power (CL&P) is the largest payer at 1.9% of the tax digest; CL&P has a long-term Issuer Default Rating of 'BBB+' with a Stable Outlook by Fitch.

SOUND APPROACH TO FUNDING RETIREE LIABILITIES

The city's pension liabilities are manageable and its efforts to fund pension and OPEB liabilities are viewed as prudent. As of July 1, 2012, the aggregate funded position of the three city pension plans for general employees, police, and fire, was 79.7% with an unfunded actuarial accrued liability (UAAL) of $67.6 million, equal to 1.4% of market value. The UAAL widens to an estimated $104.3 million or 2.3% adjusting the city's assumed 8% rate of return to 7%. Effective July 1, 2011, new hires will participate in a defined contribution or hybrid pension plan (for police) which should control growth of the pension liability going forward.

Retiree health benefits were also eliminated for new hires and higher employee contributions were negotiated for both pension and OPEB. The city continues to fund the full ARC for pensions and has contributed a total of $17.5 million from fiscal years 2009-2015 into an OPEB trust. The trust has a current estimated balance (inclusive of investment earnings) of $20.3 million, providing 25% funding of the $81 million actuarial accrued OPEB liability as of July 1, 2012.

MODERATE DEBT POSITION

Fitch estimates the city's debt burden at a moderate 3.8% of market value or $2,879 per capita. Future capital needs are manageable, largely driven by high school renovation projects which are expected to be 77% funded through the state school building grant program. The city plans to sell up to $11 million in bonds for the local share of the school projects and $4 million for water system improvements over the next two years.

Debt amortization is healthy with 63% of outstanding debt repaid in 10 years ($9 million to $13 million in principal per year). Debt service costs have been in decline reflecting the city's conservative debt policies, but are scheduled to spike temporarily beginning in fiscal 2016 which Fitch does not believe will represent a material budget challenge. Funding for debt service in addition to pension and OPEB are projected to consume a reasonable 12% of governmental spending.

ECONOMY AND HOUSING STILL LOOKING TO GAIN TRACTION

Meriden's economy continues to exhibit a relatively high level of joblessness following very modest declines in annual employment from 2011-2013. Employment statistics as of June 2014 are more positive, however, the city's 8.1% rate of unemployment still compares unfavorably to the state and national rates of 6.4% and 6.3%, respectively, as has been the case historically.

The city has a fairly high level of exposure to the manufacturing sector in addition to retail and healthcare. The city's manufacturing base is moderately diverse with product lines varying from electronic components, lighting fixtures, and biopharmaceuticals. The largest employers in the city include the Midstate Medical Center (1,200), Hunter's Ambulance Service (440), Canberra (317), AT&T (653), Bob's Stores (320), and Target (230). The city's central location in the state and proximity to major highways offer residents access to larger employment centers in the state. Proximity to Hartford and New Haven should contribute to stability over time but neither region is viewed as having particularly strong growth prospects.

The city's median household income (MHI) still registers 102% of the national average but has declined at a 1.4% annual rate from 2008-2012 and is considerably below that of the wealthy state. The housing market remains slow to recover as well with existing median sales prices down 5% to 6% on the year to roughly $140,000 according to Zillow and Trulia. Median sales prices peaked at $190,000 to $200,000 prior to the recession.

Favorably, the city has experienced an uptick in permit activity the last several years as it continues to aggressively pursue site acquisition, zoning regulations and development incentives available through various state and federal programs to stimulate growth. Among the more prominent recent projects is the development of the $467 million New Haven/Hartford/Springfield rail line. The project will include a $20 million station in the city entirely funded by the Connecticut Department of Transportation. The project is under construction with rail operations scheduled to begin late 2016.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, and IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status