S&P Global Ratings

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Summary:

Meriden, Connecticut; General Obligation

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Credit Profile		
US$68.240 mil GO rfdg bnds ser 2016A due 05/01/2036		
Long Term Rating	AA/Stable	New
Meriden GO		
Long Term Rating	AA/Stable	Affirmed
Meriden GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to Meriden, Conn.'s series 2016A general obligation (GO) bonds. At the same time, we affirmed our 'AA' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook on all ratings is stable.

The bonds are GOs of the city, for which it has pledged its full faith and credit to levy ad valorem taxes on taxable property without limit as to rate or amount. We understand bond proceeds will be used to fund capital projects outlined in the city's capital improvement plan (CIP). The majority of the funding will be used for school construction.

The rating reflects our view of the following factors for Meriden, specifically its:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 at 8.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 15% of total governmental fund expenditures and 2.9x governmental debt service, as well as access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.1% of expenditures and net direct debt at 87.5% of total governmental fund revenue; and
- Very strong institutional framework score.

Adequate economy

We consider Meriden's economy adequate. The city, with an estimated population of 60,928, is in New Haven County midway between New Haven and Hartford. It is in the New Haven-Milford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 90.9% of the national level and per capita market value of $75,707. Overall, market value was stable over the past year at $4.6 billion in 2017. The county unemployment rate was 6.1% in 2015.

Meriden has undertaken a number of economic development and redevelopment projects focused on expanding and revitalizing its downtown, the largest of which centers around a significant rail project. The city has encouraged development by providing various tax incentives to companies in the hope of furthering expansion. We note its employment base is very diverse, with the 10 leading taxpayers accounting for 8.8% of total assessed value (AV). 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, Canberra Industries (a radiation detector manufacturer), and Cox Communications.

More broadly, we recognize economic expansion across the state has been minimal due to well-established demographic factors, including a stagnant population and lower labor force growth rates. Employment growth has been fairly weak at just 1%, or 17,000 new jobs through projected through 2019. Given these factors, we anticipate tax base growth to be fairly modest over the next several years.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In our opinion, the city maintains conservative revenue and expenditure assumptions as it relies on property taxes as its primary revenue source. Historical trend analysis is used in creating the budget and the city has done well adjusting for lower state revenues in its budget. The city council receives monthly budget-to-actual reports and may amend the budget throughout the year for major variances. The city also maintains formal financial projections and a robust five-year capital improvement plan that is updated annually with departmental projects. Capital costs are specified within its annual budget and throughout the plan forecast period. The city has a debt management policy and a robust investment policy adhering to state investment guidelines with monthly reviews of holdings. The city's policy is to maintain at minimum one month's budgeted annual operating expenditures in reserve. The policy also specifies replenishment provisions, such as a plan to build fund balance to policy levels in three years if reserves decline below target.

Strong budgetary performance

Meriden's budgetary performance is strong, in our opinion. The city had balanced operating results in the general fund at 0.1% of expenditures, but a slight deficit result across all governmental funds at 0.9% in fiscal 2015. General fund operating results have been stable over the past three years, with results of 0.1% in 2014 and 0.1% in 2013.

In our calculation, we adjust for nonrecurring revenues and expenditures in the city's bonded project fund.

The city's financial profile has been very stable. Property taxes represent the largest revenue source and collections have been historically stable. Meriden has responded well to lower state revenues by budgeting conservatively. It has continually budgeted for all of its required contributions for its pensions and has also been aggressive in budgeting revenues to fund its other postemployment benefit (OPEB) obligations.

For fiscal 2016, the city is anticipating a budgetary surplus for the fourth consecutive year. The 2017 budget is structurally balanced and assumes a modest tax increase in line with years past. We anticipate budgetary performance will remain strong given Meriden's stable revenues and proactive budget planning, particularly in addressing its spending and long-term liabilities.

Strong budgetary flexibility

Meriden's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 at 8.1% of operating expenditures, or $16.3 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 8.2% of expenditures in 2014 and 8% in 2013.

Budgetary flexibility has historically been stable at these levels and we do anticipate any deterioration over the near term. As stated, the city maintains strong reserves in keeping with its policy. As it has historically adhered to its reserve targets, we don't anticipate any significant drawdown of reserves given its record of surpluses.

Very strong liquidity

In our opinion, Meriden's liquidity is very strong, with total government available cash at 15.0% of total governmental fund expenditures and 2.9x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

In our calculations, we have included general fund investments with maturities of less than one year.

In our view, Meriden maintains strong access to external liquidity as it has issued GO bonds regularly in the past several years. We understand it has not entered into any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Meriden follows state investment guidelines, and we do not consider its investments aggressive as nearly all are considered safe securities. The city has consistently maintained a strong liquidity profile and we do not expect this to change in the near term.

Adequate debt and contingent liability profile

In our view, Meriden's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.1% of total governmental fund expenditures, and net direct debt is 87.5% of total governmental fund revenue.

The total direct debt following this issue will be roughly $230 million, of which we calculate 27.1 million to be eligible for self-support pursuant to our criteria.

This bond issue will address the city's major capital needs for several years. The main project will be the construction and rehabilitation of some schools. The CIP outlines needs in order of priority. The main projects include capital maintenance which the city will fund on a pay-as-you-go basis with grants and budgetary revenues.

Meriden's combined required pension and actual OPEB contributions totaled 7.2% of total governmental fund expenditures in 2017. Of that amount, 4.6% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The city has budgeted to make its full annual required pension contribution in 2017.

Meriden administers three defined-benefit public employee retirement system plans: the employees' retirement plan, the police pension plan, and the firefighters' pension plan. The plans have a combined unfunded liability of $81 million and a combined funded ratio of 77% as of 2015. The largest single plan (the employee retirement fund) is funded at 94%. Meriden also provides OPEBs, the funding of which it shares with employees and retired beneficiaries. The city established an OPEB trust in fiscal 2009 and has been extremely active in funding to the annual required contribution.

As of the last valuation, the OPEB trust was funded at 23% with an unfunded liability of $68 million.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The stable outlook reflects our view of Meriden's very strong management practices and policies, contributing to strong budgetary performance and budgetary flexibility, and very strong liquidity. We do not expect to change the rating in our two-year horizon.

Upside scenario

We could consider a positive rating action should economic metrics improve significantly to the level of higher rated peers, coupled with strong operating performance.

Downside scenario

We could lower the rating should a structural imbalance cause reserves to fall to a level commensurate with a lower rating. A material deterioration in the local economy that results in weak income and wealth levels could also put downward pressure on the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015