

Meriden, Connecticut

General Obligation Bonds New Issue Report

Ratings

New Issues

General Obligation Bonds,
Issue of 2013

AA-

Outstanding Debt

General Obligation Bonds

AA-

Rating Outlook

Stable

New Issue Details

Sale Information: \$25,480,000 General Obligation Bonds, Issue of 2013, selling competitively on or about Jan. 31.

Security: The bonds are a general obligation of Meriden (the city), backed by its full faith, credit, and unlimited taxing authority.

Purpose: To finance various general purpose, school, sewer, and water projects of the city.

Final Maturity: Feb. 15, 2033.

Key Rating Drivers

Sound Financial Performance: The city's prudent and conservative budgeting practices have resulted in sound operating results, somewhat offsetting pressure from potential reductions in state aid and increased costs for education and public safety.

Mixed Socioeconomic Indicators: Wealth levels are above average, and unemployment is high relative to the state and nation.

Low Debt Burden: Debt levels are low, with above-average amortization of principal.

Manageable Retiree Costs: The city has been making 100% of required contributions to its pension plans and prudently increased annual contributions for its other post-employment benefits (OPEB) obligation. These liabilities are currently at manageable levels.

Related Research

[Fitch Rates Meriden, CT GO Bonds 'AA-'](#)
[Outlook Stable \(January 2013\)](#)

Analysts

Leora Lipton
+1 212 908-0507
leora.lipton@fitchratings.com

Kevin Dolan
+1 212 908-0538
kevin.dolan@fitchratings.com

Rating History

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	1/23/13
AA-	Affirmed	Stable	12/14/12
AA-	Upgraded	Stable	3/31/11
A+	Revised	Stable	4/30/10
A-	Affirmed	Stable	7/22/08
A-	Upgraded	Stable	7/19/06
BBB+	Assigned	Positive	7/26/04

Credit Profile

Meriden is located in northeast New Haven County, midway between New Haven and Hartford, with a 2011 population of 60,770. The city benefits from a somewhat diverse tax base and stable population.

Mixed Socioeconomic Indicators

The city is home to MidState Medical Center, a full-service hospital, the Meriden campus of Middlesex Community College, a major mall, and a number of manufacturing firms with diversified product lines. The top 10 taxpayers represent a moderate 8% of the net taxable grand list. The city continues to focus on attracting new businesses and reclaiming and rehabilitating existing land and properties for future development.

The city's tax base was revalued on Oct. 1, 2011, as part of the statutorily required five-year revaluation (effective for the fiscal 2013 budget). The city's fiscal 2013 market value is currently \$4.6 billion and has decreased 10.7% from the prior fiscal year. The city prudently increased property tax rates by four mills to maintain revenue neutrality. Wealth levels exceed national levels but are below the strong state of Connecticut levels. The city's October 2012 unemployment rate was 10.3%, slightly elevated from 10% a year prior, and higher than both the state (8.6%) and national (7.5%) rates.

Sound Financial Management

The city's finances are well managed. The city's fiscal 2011 unrestricted general fund balance (the sum of committed, assigned, and unassigned as per GASB 54) totaled \$17.3 million, or a sound 9.6% of spending. Results were marginally above the city's recently adopted formal policy calling for the average of one month's budgeted spending from the prior fiscal year (8.3% for fiscal 2011).

Fiscal 2012 posted a small deficit (0.5% of spending) after three years of operating surpluses. This was due primarily to the city's increased OPEB funding, to 50.7% of the annually required contribution from 29.6% in fiscal 2011. Fitch Ratings views the increased contribution as a credit positive in conjunction with the city's stated commitment to adhere to its fund balance policy.

Annual property tax increases have supported revenue growth, offsetting minor shortfalls in nontax revenues and state aid. Expenditure performance has matched revenues, declining 2.2% on average between fiscal years 2008 and 2012, reflecting the city's flexibility in adjusting spending. The 7.3% increase in fiscal 2012 spending was one time in nature, driven by employee and education costs related to special revenue funds (the American Recovery and Reinvestment Act). The city's fiscal 2012 unrestricted general fund balance totaled \$16.6 million, equal to a sound 8.6% of spending and in compliance with the city's fund balance policy.

The city's fiscal 2013 general fund budget of \$183.6 million is up by a slight 1.4% from fiscal 2012. The budget includes a 4% increase in property tax revenues (equal to approximately \$4 million) to support increases in public safety, highway improvements, and insurance costs. The budget includes a \$1.2 million appropriation of fund balance to once again support increased contributions to its OPEB trust. Beginning in fiscal 2014, management has said that OPEB contributions will become structured into the budget, which Fitch views as a credit positive.

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

General Fund Financial Summary

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

	2007	2008	2009	2010	2011	2012
Property Tax Revenue	103,735	102,505	104,179	106,583	108,759	109,910
Charges for Services	5,631	4,982	4,619	3,970	4,365	3,892
Intergovernmental Revenue	62,905	96,756	69,492	61,269	62,682	74,931
Other Revenue	6,411	5,330	9,549	3,266	7,167	3,114
General Fund Revenue	178,682	209,573	187,839	175,088	182,973	191,847
General Government	26,056	28,279	28,564	28,072	29,921	34,352
Public Safety Expenditures	18,608	19,512	20,083	20,323	21,324	21,209
Public Works Expenditures	6,038	6,191	7,128	6,798	6,835	7,017
Health and Social Services Expenditures	2,930	2,903	3,067	2,840	2,743	2,806
Culture and Recreation Expenditures	3,756	3,714	3,877	3,845	3,935	4,020
Educational Expenditures	99,267	133,750	106,176	99,310	101,978	111,434
Capital Outlay Expenditures	0	0	463	418	784	242
Debt Service Expenditures	18,064	16,984	14,201	14,399	12,597	12,196
Other Expenditures	1,941	0	0	0	0	0
General Fund Expenditures	176,660	211,333	183,559	176,005	180,117	193,276
General Fund Surplus	2,022	(1,760)	4,280	(917)	2,856	(1,429)
Extraordinary and Special Items	0	0	0	0	0	0
Transfers In	100	156	714	812	599	435
Other Sources	0	0	0	36,259	0	0
Transfers Out	440	414	218	63	10	15
Other Uses	0	0	0	36,040	0	0
Other Net Adjustments	0	0	0	0	0	0
Net Transfers and Other	(340)	(258)	496	968	589	420
Net Surplus/(Deficit)	1,682	(2,018)	4,776	51	3,445	(1,009)
Total Fund Balance	11,494	9,475	14,252	14,303	18,266	17,257
As % of Expenditures, Transfers Out, and Other Uses	6.5	4.5	7.8	6.7	10.1	8.9
Unreserved Fund Balance ^a	3,644	3,961	13,267	13,321	—	—
As % of Expenditures, Transfers Out, and Other Uses	2.1	1.9	7.2	6.3	—	—
Unrestricted Fund Balance ^b	—	—	—	—	17,308	16,603
As % of Expenditures, Transfers Out, and Other Uses	—	—	—	—	9.6	8.6

^aPre-GASB 54. ^bReflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

Debt Levels Up But Expected to Remain Low

Debt levels remain low after the current issuance, with debt per capita at \$1,426 and debt to full market value at 1.9%. GO debt amortizes at an above-average rate, with 60.8% of principal amortized in 10 years. Including the new issue, debt service as a percentage of general fund expenditures will approximate 8.4% of the fiscal 2013 budget compared to 6.2% in fiscal 2012, and is above the enacted goal of 5.0% of spending. While Fitch views noncompliance with policies as a credit negative, the debt service burden remains affordable and the city continues to adhere overall to its conservative debt policies. Fitch does not expect debt levels to rise following the current issue, as the remaining \$322 million, five-year capital plan is largely funded through grants and user fees.

Manageable Retiree Costs

The city administers three pension plans for its general, fire, and police employees. In accordance with its policy, it has made 100% of its annual required contributions (ARC) for the past five years for each of these plans. Contributions in fiscal 2012 for all three plans totaled \$8.5 million (4.4% of general fund spending).

As of July 1, 2010, the general employees' plan was 105% funded, the police plan was 62.9% funded, and the fire plan was 68.4% funded. Using Fitch's more conservative 7% discount rate assumption, the plans would be funded 94.6%, 56.5%, and 61.6%, respectively. The combined unfunded liability for the police and fire plans totaled \$60.1 million. The city has established a defined contribution plan for nonsafety employees hired as of July 1, 2011, which is expected to reduce future pension obligations.

The city's fiscal 2012 OPEB contribution was \$5.6 million (51% of its ARC), equal to a manageable 3% of spending. The unfunded OPEB liability was \$99.2 million as of July 1, 2010. Management is projecting a decline in the future OPEB ARCs due to agreed increases in employees' contributions toward future benefits. The city will not be providing OPEB benefits for new employees hired after July 2009.

Debt Statistics

(\$000)	
This Issue	25,480
Outstanding Direct Debt — Net of Refunding	111,483
Self-Supporting	50,286
Total Net Direct Debt	86,677
Overlapping Debt	0
Total Overall Debt	86,677
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	1,426
As % of Full Market Value ^b	1.9
Overall Debt Per Capita (\$) ^a	1,426
As % of Full Market Value ^b	1.9

^aPopulation: 60,770 (2011). ^bMarket value: \$4,640,825,714 (fiscal 2013). Note: Numbers may not add due to rounding.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2013 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.