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Summary:

Meriden, Connecticut; General Obligation

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Credit Profile		
US$50.305 mil GO bnds Iss ser 2014 LOT A due 09/01/2035		
Long Term Rating	AA/Stable	New
US$3.494 mil GO bnds Iss ser 2014 LOT B due 09/01/2024		
Long Term Rating	AA/Stable	New
Meriden GO		
Long Term Rating	AA/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Meriden, Conn.'s general obligation (GO) debt one notch to 'AA' from 'AA-' based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

Standard & Poor's also assigned its 'AA' rating and stable outlook to Meriden's series 2014 lot A and lot B GO bonds.

The city's full-faith-and-credit-GO pledge secures the bonds. We understand officials intend to use bond proceeds to finance capital projects around the city.

The rating reflects our opinion of the following factors for the city, specifically its:

- Strong economy that participates in the Hartford-West Hartford-East Hartford and New Haven-Milford metropolitan statistical areas (MSAs),
- Adequate budgetary flexibility with fiscal 2013 audited available reserves of 8% of governmental expenditures,
- Strong budgetary performance with a projected operating surplus for fiscal 2014,
- Very strong liquidity due to the city's strong access to external liquidity and very strong cash,
- Very strong management conditions with "strong" financial management policies and practices under our Financial Management Assessment (FMA) methodology, and
- Adequate debt and contingent liabilities due mostly to net direct debt of 625% of revenue and overall net debt equal to a moderate 3.1% of total market value.

Strong economy

We view Meriden's economic profile as strong. Meriden, with a population estimate of 60,838, is a suburban municipality in New Haven County with a land area of 24 square miles, midway between New Haven and Hartford. We recognize the city has recently launched a number of economic development and redevelopment projects focused on expanding and revitalizing its downtown area, the largest of which centers on a rail project. The city is also proactive in economic development, and it provides various tax incentives to companies and property owners in its enterprise and information technology zones. In an attempt to expand and retain its manufacturing base, Meriden offers financing incentives to manufacturers for real estate acquisition or improvements. The employment base is very diverse with the 10 leading taxpayers accounting for 8.5% 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.

As the economy continues to improve, unemployment has decreased to 7.1% in June 2014, which still trailed the national level of 6.3%. The city benefits from its participation in the broad and diverse Hartford-West Hartford-East Hartford MSA and the New Haven-Milford MSA, contributing to wealth and income we consider strong. Projected per capita effective buying income is 97% of the national level. In fiscal 2012, Meriden underwent a property revaluation that increased AV to $3.2 billion in fiscal 2013 and market value to $4.6 billion, or $76,244 per capita, a level we view as strong.

Adequate budgetary flexibility

We view budgetary flexibility as adequate. Meriden has a history of maintaining, in our view, adequate available fund balances. At fiscal year-end 2013, available funds were 8% of expenditures. With an expected surplus in fiscal 2014, city projections have available fund balance increasing to, what we consider, a strong 8.9% of expenditures.

Strong budgetary performance

In our view, budgetary performance is strong. Besides a planned reserve drawdown in fiscal 2012, Meriden has achieved surpluses in eight of the past nine fiscal years. It ended fiscal 2013 with a $241,000 general fund surplus and an available fund balance of $15.7 million. Unaudited fiscal 2014 results indicate Meriden will achieve a surplus of $426,000, increasing available fund balance to $16.2 million, or, in our opinion, a strong 8.9% of expenditures. Meriden is budgeting to break even in fiscal 2015, maintaining a stable available fund balance. Management indicates it expects to raise the tax millage to 35.73 mills in fiscal 2015 from 34.99 mills in fiscal 2014. In fiscal 2013, property taxes generated 47.8% of revenue and government sources accounted for 46.2%.

Very strong liquidity

In our view, Meriden maintains very strong liquidity, providing, what we consider, adequate cash to cover debt service and expenditures. Total available cash is 22.8% of total governmental funds expenditures, and debt service is nearly 460%. We believe Meriden has strong access to external liquidity because it has issued GO debt in the past. City officials report no significant issues with tax appeals, and collections have been what we consider strong at more than 97% over the past five years. Officials also report cash levels are relatively stable throughout the course of the fiscal year, and we understand the city does not borrow for cash flow purposes.

Very strong management practices

In our opinion, Meriden's management practices are very strong with "strong" financial management practices under our FMA methodology, indicating practices are strong, well embedded, and likely sustainable.

Adequate debt and contingent liabilities profile

We view Meriden's overall net debt profile as adequate with fiscal 2013 debt service of 5% of total governmental funds expenditures and net direct debt of 62.5% of total governmental funds revenue. We consider principal debt amortization above average with officials planning to retire 57.3% over 10 years. Overall net debt equals 3.1% of market value, a level we consider moderate. Meriden administers three defined-benefit public employee retirement system plans: the employees' retirement plan, the police pension plan, and the firefighters' pension plan. We understand the city funded each plan at 100% of the annual required contribution in fiscal 2013. Meriden also provides other postemployment benefits (OPEB), the funding of which the city shares with employees and retired beneficiaries. The city established an OPEB trust in fiscal 2009 with a $500,000 general fund contribution. Management expects to 100% fund the OPEB actuarial accrued liability of $70 million at the next valuation. The combined pension and OPEB cost represented 6.2% of total governmental expenditures in fiscal 2013.

Very strong Institutional Framework

We consider the Institutional Framework score for Connecticut cities very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Meriden's access to the broad and diverse economies of Hartford and New Haven; very strong liquidity; and strong history of budgetary surpluses, evidenced by "strong" financial management policies and practices. We expect Meriden to maintain its reserves and record of budgetary surpluses. We do not expect to change the rating further within the two-year outlook period. If budget pressure were to occur, resulting in decreased reserves or liquidity, however, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Connecticut Local Governments

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