

## **Meriden CT**

### **Rating Action**

Associated criteria: 202, 214, 256, 263

S&P Global Ratings revised its outlook to stable from negative on the City of Meriden, Conn.'s general obligation (GO) bonds outstanding and affirmed the 'AA' rating on the city's GO debt. At the same time, S&P Global assigned it 'AA' long-term rating to the Meriden's series 2022A (\$31.6 million) and series 2022B (\$15.8 million) GO refunding bonds.

The outlook revision to stable reflects the city's improved financial trend, including three years of audited surpluses plus an expected surplus in fiscal 2022, resulting in increased reserves and greater financial flexibility. Furthermore, we understand the local economy continues to see moderate growth, which should help support revenue growth.

The city's full-faith-and-credit pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds.

The bonds will refund a portion of the city's previously issued GO bonds for interest savings with total net present value savings equal to more than \$3.0 million. There is no extension of maturities.

### **Credit overview**

Currently supporting the 'AA' rating, as well as a revision of the outlook back to stable from negative, are the city's well-embedded financial management policies, predominantly in the areas of budgeting and planning. These financial policies, which the city has maintained throughout the pandemic, have supported strong financial performance particularly over the last three fiscal years, leading to a material increase in available reserves. Available reserves at the end of fiscal 2021 totaled \$21.4 million, equal to 10.6% of expenses, a level we consider strong, and a high-water mark for the city over the last decade.

Furthermore, according to management, fiscal year 2022 general fund operating margins and reserves will remain in line with expectations. Management has been able to maintain surplus operations throughout the pandemic due in part to the limited impact the pandemic has had on city revenues in addition to the city remaining very conservative in its estimates in light of revenue and expense uncertainty. Given much of this uncertainty has been resolved and given the city has received ample federal funds primarily through the American Rescue Plan Act, we believe the city is positioned well to maintain strong financial operations.

Additional rating factors include our view of Meriden's:

- Diverse employment base with below average wealth and income indicators;
- Strong management conditions supported by formalized financial policies and practices, in addition to a strong Institutional Framework score;
- Improved financial performance in recent years, resulting in increased general fund reserves
- Low debt and contingent liability costs in addition to affordable retirement costs.

## **Environmental, social, and governance factors**

We consider the city's social risks in line with those of the sector, although we believe Meriden's high property tax rate poses some social capital affordability challenges relative to its below-average socio-economic metrics.

Environmental risks consist mainly of flooding relating to Harbor Brook, which runs through the center of the city. To address this flooding, the city with the aid of a consultant prepared the Harbor Brook Flood Control and Linear Trail Master Plan, which addresses flooding problems within the city through the construction of a critical bridge and channel improvements along Harbor Brook. When complete, we understand the Master Plan reduces the 100-year floodplain from 225 to 95 acres, and removes over 225 properties from the 100-year floodplain, including several key redevelopment sites.

We analyzed the city's governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that both are in line with our view of the sector standard.

## **Stable Outlook**

### **Downside scenario**

Although not expected over the next fiscal year based on current trends, we could lower the rating should budgetary pressure arise requiring the city to spend down reserves to levels no longer commensurate with the current rating.

### **Upside scenario**

We could take a positive rating action if the city's economic profile were to materially improve, particularly in the form of higher wealth and income levels, all other factors remaining equal, including maintaining at least strong available reserves.

## **Credit Opinion**

### **Diverse employment base with below average wealth and income indicators**

Meriden, with a population of 60,850, is located in New Haven County in the New Haven-Milford MSA, which we consider broad and diverse. Despite the onset of COVID-19, Meriden continues to see a number of economic development and redevelopment projects focused on expanding and revitalizing its downtown, the largest of which centered around a significant rail project. The city historically has encouraged development by providing various tax incentives to companies in the hope of furthering expansion.

Meriden's employment base is very diverse, with the 10 leading taxpayers accounting for 9.5% of total assessed value (AV). However, we also note that some of the city's employment base is vulnerable to economic pressures in our view. Specifically, approximately 25% of employment opportunities are in education, health care, and services, while 15% remain in manufacturing and 12% in retail trade. The latter are proportionately higher than the state average. Leading employers include MidState Medical Center, Canberra Industries (a radiation detector manufacturer), and Cox Communications.

The county unemployment rate remained resilient during the pandemic, averaging 8.0% in 2020. In addition, the county's unemployment rate has continued to improve and stood at just 4.7% as of December 2021.

More broadly, we recognize that economic expansion across the state has been minimal due to well-established demographic factors, including a stagnant population and lower labor-force growth rates.

Given these factors, we anticipate tax base growth in the city and region may remain below average over the next several years, even as the overall macro-economy rebounds from the pandemic.

### ***Strong management conditions supported by formalized financial policies and practices***

In our opinion, the city maintains conservative revenue and expenditure assumptions as it relies primarily on property taxes and state aid as its primary revenue source. Management performs historical trend analysis when creating the budget and the city has done well adjusting for lower state revenues in its budget in the past. The city council receives monthly budget-to-actual reports and may amend the budget throughout the year for major variances. Meriden maintains a robust five-year capital improvement plan (CIP), in which management updates departmental projects and costs annually. The city has a debt management policy and a robust investment policy adhering to state investment guidelines with monthly reviews of holdings.

The city also maintains a long-established reserve and liquidity policy. Currently, the policy requires it to maintain at minimum one-month's budgeted annual operating expenditures in reserve. It also specifies replenishment provisions, such as a plan to build fund balance to policy levels in three years if reserves decline below target. In addition, according to management, there is the intention of providing multiyear forecasts for the fiscal 2021 year to complement already strong intrayear budgetary monitoring.

### ***Improved financial performance in recent years, resulting in increased general fund reserves***

Property taxes represent the largest revenue source and collections have been historically stable. In 2021, they accounted for nearly 60% of general fund revenues, followed by federal and state aid (33%), and charges for services (2%). Meriden 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 year 2021, the budget remained relatively flat relative to the prior year to be conservative given the onset of COVID. Throughout the pandemic, the city remained conservative and implemented a hiring and discretionary spending freeze in order to reduce expenses and offset any potential shortfalls should there be reductions in state aid. As a result the city was able to realize a \$1.7 million positive expense variance, while revenues came in much stronger than expected. In particular, property taxes and conveyance taxes were very strong. Included in the budget is a 97% property tax collection rate, which the city has been able to historically outperform and which was not impacted by the pandemic. As a result, the city was able to generate a sizeable \$5.3 million surplus, increasing available reserves to \$21.4 million, or what we view as a strong 10.4% of expenses.

For fiscal 2022, the city increased expenses by a modest 1.3% and management indicates it continued to maintain conservative budget estimates for the year that for the first half of fiscal 2022, the city continues to outperform. As a result, we understand the city expects to end the year with a surplus that could reach as much as \$3.1 million. In addition, the city's financial position has been significantly enhanced by the allocation of \$36.4 million in federal funding from the American Rescue Plan Act of 2021. We understand these funds will be used for a range of one-time projects.

### ***Manageable debt and contingent liability profile and retirement costs***

The total direct debt following this refunding will be roughly \$199 million, of which we calculate \$66.7 million to be eligible for self-support pursuant to our criteria.

The city's CIP, which totals \$237.8 million in years 2022-2026, outlines needs in order of priority. The main projects relate primarily to the city's utilities, including sewer (\$63.2 million), Drainage (\$45.6 million) and water (\$45.0 million). We understand the city will fund these projects primarily with user fees (46%), in addition to federal and state grants (17%). The city plans to fund the remaining portion (37%) through city funds including pay-as-you-go spending. Ultimately we do not believe the city's debt profile will materially change as a result of its capital plans.

#### ***Pension and other postemployment benefits***

- We view pension and OPEB liabilities as a source of credit pressure for Meriden, given that costs represent a moderate portion of the budget, combined with our expectation that they will increase.
- While the city's funding discipline mitigates the risks of escalating contributions; because of low plan funded ratios, Meriden could face a sudden increase in pension costs if certain underlying assumptions are not met.
- Furthermore, OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. While the city has some legal flexibility to alter OPEB benefits, it cannot prefund these costs, increasing the risk they could create budgetary stress.

Meriden administers three defined-benefit public employee retirement system plans reported as of fiscal year 2021:

- The employees' retirement plan, with a plan fiduciary net position of 73.5% and a net pension liability (NPL) of \$58.4 million
- The police pension plan, with a plan fiduciary net position of 61.0% and a NPL of \$48.0 million
- The firefighters' pension plan, with a plan fiduciary net position of 61.4% and a NPL of \$35.1 million.
- The plans have a combined unfunded liability of \$141.5 million and a combined funded ratio of 69%. Meriden also provides OPEBs, the funding of which it shares with employees and retired beneficiaries. As of the last valuation, the OPEB trust was funded at 50% with an unfunded liability of \$45.8 million.

The city made 100% of its annual required pension contribution in 2021 and makes its actuarially determined contribution annually. We note, however, the adopted funding schedule for its largest plan (the employees' plan) achieves full funding in a 19-year closed period, ending in 2039, and the second-largest plan (the police plan) achieves full funding in a 24-year period, ending in 2044. We also note that the system lowered its discount rate to 7.25% for all its plans. However, in the most recent year, the pension plans met neither our static nor our minimum funding progress calculation, indicating that they may not be fully addressing current costs or making headway addressing unfunded liabilities. Moreover, with a discount rate of 7.25%, we see some risk of market volatility.

#### ***Strong institutional framework***

The institutional framework score for Connecticut municipalities is strong.