FitchRatings

FITCH UPGRADES CITY OF MERIDEN, CT GOS TO 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-31 March 2011: As part of its continuous surveillance effort, Fitch Ratings takes the following rating actions on the city of Meriden, CT's (the city) general obligation (GO) bonds:

--$14.91 million GO bonds, series 2002, upgraded to 'AA-' from 'A+';
--$0.50 million GO refunding bonds, series 2003, upgraded to 'AA-' from 'A+';
--$19.16 million GO bonds, series 2004, upgraded to 'AA-' from 'A+';
--$12.54 million GO bonds, series 2006, upgraded to 'AA-' from 'A+';
--$29.74 million GO bonds, series 2008, upgraded to 'AA-' from 'A+'.

The Rating Outlook is Stable.

RATING RATIONALE:
--The rating upgrade from 'A+' to 'AA-' reflects the city's strong management practices, newly enacted fiscal policies and improved financial flexibility as reflected in solid reserve levels.
--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 personnel.
--Meriden's overall debt levels are moderate to low with above-average amortization of principal and a declining debt service burden. Future borrowings are planned for recurring capital maintenance and replacement costs but debt policies should keep ratios in acceptable ranges.
--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.
--The city wealth levels are slightly below state levels, but exceed the national averages.
--Unemployment levels remain above average.

KEY RATING DRIVERS:
--Continued strong financial management practices.
--Ability to maintain strong reserve levels consistent with the rating category in light of uncertainty regarding future state aid and unsettled labor contracts.

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

CREDIT SUMMARY:
Meriden is located in northeast New Haven County, midway between New Haven and Hartford and benefits from a somewhat diverse tax base and stable population. The city is home to Midstate Medical Center, a full- service hospital that recently completed a 100,000 square foot expansion, Middlesex Community College, a major mall and a number of manufacturing firms with diversified product lines. The top ten taxpayers represent a moderate 7.9% of net taxable grand list. The city continues its focus on attracting new businesses and reclaiming and rehabilitating existing land and properties for future development. The city's market value is currently $5.5 billion and has increased marginally since the last revaluation in 2006. Wealth levels exceed national levels but are slightly below the strong state of Connecticut levels. Unemployment levels remain high at 11.8% as of February 2011 compared to 12.2% a year prior and exceed the state's rate of 9.0%.

The city's financial position has strengthened due to prudent budgeting decisions but primarily from 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. The city ended fiscal 2009 with a $13.27 million unreserved fund balance, up from $4 million at fiscal end 2008, due in part to the receipt of its initial disbursement from the CRRA of $5.9 million and the release of $3 million in litigation reserves. For fiscal 2010, results remained adequate with the city generating a small $51,000 surplus resulting in a general unreserved fund balance of $13.32 million, or 7.6% of spending. While the city had appropriated the use of $1 million of fund balance for an increased contribution for OPEB, cost controls implemented by management to offset a decline in property tax collections and investment income and savings from lower health insurance claims allowed the city to maintain fund balance levels. For fiscal 2011, management report revenues are trending better than budgeted and most expenditures are on budget with the exception of snow removal costs. With an additional, and final, $4.2 million disbursement from CRRA, management expects to end the year with a $2.8 million surplus and an unreserved fund balance of $15.5 million, or an estimated 9.04% of spending, above the city's fund balance policy of 1 month operations or approximately 8.3%. The city had budgeted the use of $1 million in fund balance for its planned $2 million OPEB contribution, but instead used a portion of the CRRA disbursement. Fitch notes that management's goal to maintain its unreserved fund balance in accordance with its fund balance policy to ensure financial flexibility is a key rating factor. For the fiscal 2012 budget the city anticipates a 1.6% mill rate increase and expects to budget the use of $1.5 million in fund balance, up from $1 million in fiscal 2009 and 2010, to help offset its planned increase in its OPEB contribution to $3.5 million. The city is using conservative state aid assumptions and does not anticipate any new hires or layoffs in the budget for fiscal 2012.

Debt levels remain moderate to low with debt per capita at $1,537 and debt to market value at 1.6%. GO debt is amortized very quickly with 50% of principal amortized in five years and 75% in ten years. Debt service as a percentage of general fund expenditures has been declining and was 8.1% in 2010 compared to 10.7% in 2007 and is projected to decline to 7.4% in 2011 and 6.6% in 2012, closer to its newly enacted goal of 5% of spending. The city enacted additional conservative debt policies in February 2010 which it is currently adhering to. As part of its newly enacted fiscal policies, the city established a five-year capital improvement plan with the bulk of the needs pertaining to water infrastructure, engineering and school improvements. The city anticipates the issuance in 2013 of approximately $25 million-$30 million in new debt for school and general improvement purposes. The new debt issuance should not heighten the city's debt burden materially as it plans to adhere to its conservative debt policies and the state has historically reimbursed the city for 77% of school related debt 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 last five years for each of these plans. Contributions in fiscal 2010 for all three plans totaled $6.4 million (3.6% of general fund spending). As of July 1, 2008 the general employees' plan was 114% funded; the police plan was 68% funded; and, the fire plan was 73% funded. Using Fitch's more conservative 7% discount rate assumption, the plans would be funded 103%, 61% and 66%, respectively (see Fitch's report dated Feb. 17, 2011, 'Enhancing the Analysis of U.S. State and Local Government Pension Obligations'). The combined unfunded liability for the police and fire plans totaled $47.8 million. The city has established a defined contribution plan for non-safety employees hired as of July 1, 2011 which is expected to reduce future pension obligations. The city has increased its annual contributions towards its OPEB liability as mentioned above and total contributions in fiscal 2010 were $3.2 million or 30% of its ARC. The unfunded OPEB liability was $99 million as of July 1, 2008 assuming an 8% return. Management is projecting a decline in the future OPEB ARCs due to a newly agreed increase in employees' contributions toward future benefits and the elimination of retiree health care benefits for newly hired non-safety employees.

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In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, LoanPerformance, Inc., and IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 16, 2010.
--'U.S. Local Government Tax-Supported Rating Criteria', dated Oct. 8, 2010;
-- 'Enhancing the Analysis of U.S. State and Local Government Pension Obligations' dated Feb. 17, 2011.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564566
Enhancing the Analysis of U.S. State and Local Government Pension Obligations
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=604785