STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

New Haven, Connecticut; General Obligation

Primary Credit Analyst:
Timothy Barrett, New York (1) 212-438-6327; timothy_barrett@standardandpoors.com

Secondary Contact:
Linda Yip, New York (1) 212-438-2036; linda_yip@standardandpoors.com

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New Haven, Connecticut; General Obligation

Credit Profile		
US$46.99 mil GO bnds issue of 2012 ser B due 11/01/2022		
Long Term Rating	A-/Negative	New
US$46.06 mil GO rfdg bnds issue of 2012 ser A due 08/01/2032		
Long Term Rating	A-/Negative	New

Rationale

Standard & Poor's Ratings Services has revised the outlook on New Haven, Conn.'s existing general obligation (GO) bonds to negative from stable.

The outlook revision reflects our assessment of the city's structural fiscal imbalances in recent years, which have led to reliance on one-time revenues to balance operations, resulting in a thin reserve position that is well below targeted levels. The negative outlook also reflects a significant drawdown expected by management in general fund reserves in fiscal year 2012, due, in part, to revenue shortfalls, as well as expenditure cuts that did not fully materialize.

At the same time, Standard & Poor's has assigned its 'A-' long-term rating to New Haven's series 2012A GO refunding bonds and 2012B GO bonds. In addition, Standard & Poor's affirmed its 'A-' long-term and underlying (SPUR) ratings on the city's existing GO debt.

The rating reflects our view of the city's:

- Large and very diverse property tax base, bolstered by a strong higher education presence (Yale University and others), health care, pharmaceuticals, and a growing biotechnology industry; and
- Sizeable ongoing economic developments that should continue to bolster the property tax base, and strong property tax collections.

Somewhat mitigating these strengths, in our opinion, are the city's:

- Historical reliance on one-time revenues generated by city asset sales to balance operations;
- Declining reserves following a significant drawdown expected for fiscal year 2012, coupled with negative balances in its self-insurance and education funds;
- Above-average historical unemployment as well as merely adequate income levels, partially attributable to the city's large student population;
- Moderately high debt burden as a percent of market value, which could increase due to a sizable capital improvement plan (CIP); and
- Large unfunded pension and other postemployment benefit (OPEB) liabilities.

New Haven's full-faith-and-credit pledge secures the bonds. We understand officials plan to use the series 2012A bond proceeds to refund all or a portion of the city's outstanding series 2002B and 2004 bonds, with projected savings of $5.5 million. There is no extension of maturities. The series 2012B proceeds will be used to finance capital improvement and school construction projects within the city. The city also plans to use approximately $6 million of bond proceeds to finance a portion of the $20.7 million deficit in their internal services fund associated with legal settlements and other medical claims.

The city of New Haven has a history of structural imbalances and reliance on one-time revenues and the use of its reserves to close budget gaps. The city has utilized one-time capital asset sales of $3.5 million, $3.8 million, and $4.5 million to help close budget gaps in fiscals 2011, 2010, and 2009, respectively. Additionally, the city maintains a negative balance in its internal service funds totaling negative $20.7 million. In order to help make the funds whole, the city developed a plan to increase its annual appropriation to its self-insurance fund as well as deficit finance a portion of the fund. Specifically, appropriations to the fund have increased each year to $4 million in fiscal 2011 from $2.5 million in fiscal 2006. Furthermore, $6 million of the bond proceeds will be used to deficit finance a portion of the outstanding balance. It is our understanding that management will finance an additional $2 million in each of the next three years to help close the self-insurance fund deficit.

Management indicates that the 2013 budget will be $486.8 million, which represents an $11.4 million, or 2.4%, increase over the 2012 budget. According to management, the budget is balanced without an appropriation of reserves or reliance on one-time revenues from the sale of city assets. Management balanced the budget through a property tax revenue increase and a strict expenditure controls program, including a freeze on personnel hiring, energy procurement and conservation, a review of capital project balances, stricter oversight on police and fire overtime spending, and pre-approval of all non-personnel spending. However, we believe New Haven's financial performance remains pressured due to implementation risks associated with $1.7 million in budgetary savings that are contingent on labor group concessions. The concessions include changes to pension benefits, medical benefits, longevity, and work rules. Should the city not be successful at negotiating these concessions, it could face another structural imbalance and have to revert to the use of one-time measures or the use of reserves to close out fiscal 2013. Management expects to close out fiscal 2013 with breakeven operations and maintenance of $6.4 million in unrestricted reserves.

In fiscal 2012, management anticipated a balanced budget without appropriation of fund balance or the sale of one-time assets. However, labor concessions that were anticipated to be $5.3 million for the year did not materialize as expected. In addition, higher-than-expected police overtime spending and less-than-expected parking and building permit revenues have led to a projected deficit of $7.5 million for the year, which would decrease the unassigned fund balance to $2.3 million, or a low 0.5% of expenditures. However, as part of this current bond issuance, it is our understanding that management expects to repay the $4 million general fund that was previously advanced to the internal services fund to help mitigate the negative fund balance. As such, management expects its ending fund balance to increase to roughly $6.4 million following this repayment, or roughly 1.3% of budget, a level we consider adequate, albeit thin.

New Haven is home to Yale University and has a population of 126,656. It encompasses approximately 21 square miles in south-central Connecticut, on the northern shore of the Long Island Sound.

Standard & Poor's considers New Haven's management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Highlights of the city's management practices include strong monitoring and reporting of monthly budget performance, including year-end projections; a five-year capital improvement plan; and strong investment policies. The city does, however, lack a formal fund balance reserve policy.

The city's overall net debt burden remains what we consider moderately high at 8.6% of market value and $4,490 per capita. The city's debt service carrying charge is 10.3% of budget.

Outlook

The negative outlook reflects our view of the city's fiscal imbalances in recent years and the sizeable projected drawdown in fiscal 2012. If the city's finances do not stabilize and improve as projected by management and if the city cannot achieve structural balance in its budget, a negative rating action is likely to occur. However, should the city achieve structural balance in its finances without reliance on one-time revenue sources and restore general fund reserves closer to its 5% target level, the outlook may return to stable. In addition, progress towards funding the city's pension liability could also serve as a positive credit factor.

Audited Fiscal 2011: Revenue Shortfalls, Expenditure Cuts

In fiscal 2011, the city experienced a number of revenue shortfalls, including a deal that fell through that was expected to monetize parking revenues and generate roughly $8 million. Other revenue shortfalls included $3 million in less-than-budgeted building permit revenues.

Management responded by implementing a number of expenditure cuts, including sizeable staffing cuts, a stringent non-personnel control program, an expansive review of previously approved capital project programs, and the sale of city assets. As a result of these measures as well as the receipt of school construction reimbursements from the state totaling $11.2 million, which the city originally expected to occur over a few fiscal years, the city closed fiscal 2011 with a minimal general fund operating surplus of $650,000. This increased the unassigned fund balance to $9.8 million, or what we consider an adequate 2% of operating expenses. Tax collections remain, in our opinion, very high, with current collections consistently at or above 98%.

New Haven's largest general fund revenues come from property taxes (45.4% of fiscal 2011 general fund revenues). Education (39.3%), employee benefits (21.6%), and public safety (15%) are the city's leading expenditures. While the city has no formal general fund balance policy, its informal target is to maintain a reserve equal to 5% of expenditures. Although the city's reserves currently remain below this target, management is focused on rebuilding reserves to this targeted level.

Economy: Education And Medical Sectors Add To Stability

New Haven, with a population estimate of 126,656, encompasses approximately 21 square miles in south-central Connecticut, on the northern shore of the Long Island Sound. The city is a major educational, medical, and cultural center in the area. It has channeled its recent significant academic, scientific, and medical resources through a private state-and-local-university joint venture to stimulate the area's growing pharmaceutical and biotechnology firms, and the city has experienced significant investment in these areas as a result. Historically, Yale University (the city's leading employer with 11,674 employees) and five other area universities have stabilized the regional economy. Yale-New Haven Hospital (6,972 employees), with ties to Yale Medical School, and the Hospital of St. Raphael (3,853) anchor the city's strong health care sector. City unemployment is historically above state and national rates; as of May 2012, unemployment was 11.6% compared with state and national averages of 8.1% and 8.3%, respectively.

Wealth levels are, in our view, adequate, which management partially attributes to New Haven's large student population. The city's 2011 median household effective buying income equaled 58% and 69% of state and national averages, respectively. New Haven's fiscal 2013 gross taxable grand list (assessed valuation (AV)) totals $6.0 billion, up by 50% since fiscal 2007. The estimated corresponding market (full) value totals $6.6 billion for fiscal 2012, or what we consider an adequate level at $52,501 per capita. The property tax base is, in our view, diverse with the 10 leading taxpayers accounting for 17.5% of AV.

Debt: Moderately High, With Sizable Capital Improvement Plan

The city's overall net debt burden remains what we consider moderately high at 8.6% of market value. We understand it will likely remain moderately high due to a sizable CIP. Debt service carrying charges remained, in our view, a moderate 10.3% of total expenditures in fiscal 2011. We view amortization as above average, with officials planning to retire more than 75% of principal over 10 years and 100% over 20 years. We expect the city's debt burden to remain elevated, due, in part, to its existing debt burden and large CIP. The 2013-2017 CIP totals $363.4 million and comprehensively includes both necessary capital needs over the next five years and department wish lists. While the CIP is large, education ($188.5 million) is the largest spending category, nearly 75% of which management expects Connecticut to reimburse. In total, management expects state and federal funding to account for roughly $170.6 million (46.9%) of the total CIP. The city does not have any variable-rate debt, and it does not engage in any swaps.

Pension And OPEB: Significant Liabilities

New Haven's underfunded pension plans (non-teacher public employees and police and fire pensions) remain, in our view, a credit weakness. As of June 30, 2010, the city's pension plans were 46.5% and 52.1% funded, respectively, with a total unfunded liability of $470.8 million. We understand the city's OPEB plan totals $414 million. In fiscal 2011, the city paid $18.7 million for current-year claims. The city indicates it is committed to developing a long-term action plan to mitigate future OPEB liabilities. Toward this end, the city has established its irrevocable Post Employment Benefit Plan Trust Fund. At the close of fiscal 2011, the assets of the trust fund totaled what we consider a modest $275,000. However, management points to the establishment of the fund as evidence of its commitment to mitigating the liability. Furthermore, management indicates it is currently in labor negotiations with its bargaining units, which could significantly aid the overall OPEB liability.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

Ratings Detail (As Of July 25, 2012)		
New Haven GO		
Long Term Rating	A-/Negative	Outlook Revised
New Haven GO (wrap of insured) (AMBAC & AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Negative	Outlook Revised
New Haven GO (FGIC)		
Unenhanced Rating	A-(SPUR)/Negative	Outlook Revised
New Haven GO		
Unenhanced Rating	A-(SPUR)/Negative	Outlook Revised

Many issues are enhanced by bond insurance.