FitchRatings

FITCH RATES NEW HAVEN, CT'S GOS 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-12 July 2011: Fitch Ratings assigns the following rating to New Haven, Connecticut's (the city) bonds:

--$44.5 million general obligation (GO) bonds, series 2011B rated 'A+'.

In addition, Fitch has affirmed the 'A+' rating on the city's $498 million of outstanding GO bonds.

The Rating Outlook is Stable.

RATING RATIONALE:
--The city's financial flexibility is limited and reserve levels are very slim. The Stable Outlook is based on the expectation that the city will maintain its financial flexibility at current levels.
--New Haven's economy benefits from the presence of higher educational and healthcare institutions, including Yale University and Yale-New Haven Hospital, which continue to attract development and investment from biotechnology, pharmaceuticals and life-science companies. However, several economic indicators, including unemployment rates and wealth levels, continue to trend below state and national averages.
--The debt burden is above average and pension obligations are poorly funded, despite the city continuing to contribute 100% of its annual required contribution, while pension costs have increased markedly in recent years.

KEY RATING DRIVERS:
--Weaker financial operations or depletion of reserves could put downward pressure on the rating.
--The city's ability to develop a realistic plan to address its pension obligations given the rising retiree benefit costs and large Unfunded Actuarial Accrued Liability (UAAL) will be a key rating driver.

SECURITY:
The bonds are general obligations secured by the city's full faith and credit and unlimited taxing power.

CREDIT SUMMARY:
New Haven serves as a regional center for higher education, healthcare, transportation and the arts. The presence of Yale University and Yale-New Haven Hospital (the city's top employers) provide stability to the economy and attract development and investment from biotechnology, pharmaceuticals and life-science companies. New development is providing some growth in the otherwise stable property tax base, leading to moderate assessed property base gains for the past two years despite the city's decision to halt the phase-in of growth from its most recent property valuation, as allowed by state statute. The continued development of the Downtown Crossing project is expected to add significant additional property value over the next few years.

Several economic indicators remain below average. Total employment continues to decline with a 0.7% year over year decrease, increasing the unemployment rate to a high 13.4% for May 2011 from 12.8% a year prior, while wealth levels are below state and national averages. City projections for the next revaluation expect market value of the existing tax base to decline roughly 7% while assessed value is not expected to decline due to the city's decision over the past three fiscal years to not phase in growth from the last revaluation.

The city continues to experience pressure on its financial operations. Fiscal 2010, the most recent audited year, ended with a $1.7 million surplus, driven by $3.8 million in one-time revenue from an asset sale. Despite the surplus, audited results showed a $7 million decline in the unreserved fund balance, lowering it to $9.2 million, equal to a slim 1.9% of spending. The city's new auditor reclassified amounts held in the unreserved fund as advances to the self-insurance fund ($4 million) and advances to the city's education fund ($3 million) in anticipation of food service costs which are reimbursed by the state. According to management these advances would return to the general unreserved fund when paid back by the respective funds.

Current projections for fiscal 2011 indicate up to a $4 million reduction in reserves, although this may be offset by $5 million of encumbered money which has been appropriated but not yet spent as well as an anticipated state aid payment. The city has been notified by the state that it will receive a state aid payment for school construction. The amount is currently unknown as is the timing of the payment, which could result in it being collected during the accrual period for fiscal 2011 or during fiscal 2012. Total revenues are estimated to come in under budget with the largest shortfall coming from a budgeted $8 million monetization agreement with a third party for future parking meter revenues not being approved by the Board of Aldermen. The city was able to offset a portion of these revenue shortfalls through personnel reductions, monitoring expenses, limiting capital expenditures and the sale of city assets. If the full $4 million projected use of fund balance is used, the unreserved fund balance would decrease to roughly $5.2 million, equal to a very low 1.1% of spending.

The adopted fiscal 2012 budget is balanced with no use of one-time revenues and no increase in the city's millage rate. However, Fitch is concerned that the budget includes over $4 million in projected savings from union concessions stemming from current labor negotiations. While the amount is less than 1% of budgeted revenues, if the city were not to realize these savings and is not able to offset this through other means, it could potentially bring the city's unreserved fund balance to minimal levels. The city monitors revenues and expenditures monthly and has been effective at achieving favorable expenditure budget variances in recent years.

While Fitch expects the city's prudent oversight of expenditures to continue, it notes that revenue projections have historically been less accurate. Additionally, with the exception of the millage rate, which is set at the beginning of the fiscal year, and potential savings related to ongoing union negotiations, the city's remaining revenue and expenditure flexibility is becoming limited as alternate revenue streams have already been utilized and significant personnel reductions have been made over the past few years.

The city's self-insurance fund ended fiscal 2010 with an accumulated deficit of $16.1 million, including $8.8 million of reserves for outstanding litigation. A surplus of $1.8 million is estimated for fiscal 2011, lowering the deficit to $14.3 million. Two of the larger lawsuits have been settled, which allow the city to lower the amount kept in reserves. The city is planning to bond out for the remaining operating deficit of approximately $8 million to $9 million, bringing the fund out of an operational deficit although reserves for pending litigation are expected to result in moderate net asset deficits.

Debt levels are above average and are expected to remain stable over the next few years as additional planned debt will be offset by the amortization of existing principal. General fund debt service accounts for an above-average 13.3% of general fund spending. The district's fiscal 2012-2016 CIP totals $178 million, although actual spending is anticipated by the city to be less as lower priority projects are expected to be pushed back or cancelled. The current plan includes $139.9 million of total city funding while the city plans on issuing between $30 million and $40 million annually in new money. This includes school related issuances as well as the potential issuance to fund the remaining operating deficit in the self-insurance fund.

Pension funded levels are low even though the city regularly funds 100% of its annual required contribution (ARC). The city maintains two single-employer defined benefit plans for general city employees and police and fire personnel. The most recent actuarial report, dated February 2011, shows the funded levels for the plans decreasing to 46.5% (general) and 52.1% (police and fire), using the plans' 8.5% assumed investment return rate. Adjusting to Fitch's more conservative 7% discount rate, the funded levels decline further to 39.9% and 44.7%, respectively. Pension costs have been escalating rapidly in recent years including a 26% increase for fiscal 2012, despite the budgeted savings from union concessions. However, pension costs as a percent of total spending still remain manageable at 9.2% for the current budget. The city has set up an irrevocable trust to fund future obligations but currently funds obligations on a pay-as-you-go basis. An additional $25,000 contribution to the trust is budgeted for fiscal 2012.

Contact:

Primary Analyst
Rachel Barkley
Director
+1-212-908-0514
Fitch, Inc.
One State Street Plaza
New York, NY

Secondary Analyst
Kevin Dolan
Director
+1-212-908-0538

Committee Chairperson
Karen Krop
Senior Director
+1-212-908-0661

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

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

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.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

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