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July 18, 2011

Summary:
New Haven, Connecticut; General Obligation

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Credit Profile		
US$44.50 mil GO bnds ser 2011 B dtd 07/13/2011 due 08/01/2031		
Long Term Rating	A-/Stable	New
New Haven GO		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating and stable outlook to New Haven, Conn.'s series 2011B general obligation (GO) bonds and affirmed its 'A-' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's existing GO debt.

The rating reflects our view of the city's:

- Stable economy, bolstered by a strong higher education presence (Yale University and others), health care, pharmaceuticals, and a growing biotechnology industry;
- Large, growing, and very diverse property tax base;
- Adequate reserves, despite a significant drawdown expected for fiscal 2011; and
- Stable management with a focus on long-term planning.

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

- Historical and recent reliance on one-time revenues generated by city asset sales to balance operations;
- Merely adequate income levels, partially attributable to the city's large student population;
- Above-average historical unemployment;
- Moderate debt burden as a percent of market value, coupled with 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 bond proceeds from this sale to finance capital improvement and school construction projects.

New Haven, with a population estimate of 127,400, 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 December 2010, unemployment was 13% compared with state and national averages of 8.6% and 9.1%, respectively.

Wealth levels are, in our view, adequate, which management partially attributes to New Haven's large student population. The city's 2010 median household effective buying income equaled 57% and 68% of state and national averages, respectively. New Haven's fiscal 2011 gross taxable grand list (assessed valuation (AV)) totals $4.98 billion, up by 24.5% since fiscal 2007 as a result of the gradual five-year phase-in of the city's most recent fiscal 2006 reassessment. The estimated corresponding market (full) value totals $7.3 billion for fiscal 2011, or what we consider a strong level at more than $57,366 per capita. The property tax base is, in our view, diverse with the 10 leading taxpayers accounting for 16.5% of AV.

We believe New Haven's financial performance remains adequate. As a result of continued expenditure-control programs and some use of one-time asset sales to enhance revenues, the city closed fiscal 2010 with a minimal general fund operating surplus of $152,000. Nonetheless, because of $7 million in advances to the education grants fund and internal service funds from the general fund, the unreserved fund balance declined to $9.2 million, or what we consider an adequate 1.9% of expenditures. Management implemented expenditure cuts for fiscal 2011, including layoffs of 82 employees in February. Since February, management indicates it reduced staff by an additional 65 employees. However, we understand fiscal 2011 revenues came in lower than expected, primarily attributable to a deal that fell through which would have monetized some parking revenues and was expected to generate roughly $8 million. Management thus anticipates a $6.3 million drawdown for the year. Despite the drawdown, reserves should remain at what we view as adequate levels. Given expenditure reductions implemented in fiscal 2011 that should be fully realized in fiscal 2012, management indicates no budget gap for fiscal 2012 and that the city should generate at least breakeven operations. 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 (43.3% of fiscal 2010 general fund revenues). Education (40.5%), employee benefits (20.4%), and public safety (14.8%) 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. The city's reserves currently remain below this target.

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.

The city's overall net debt burden remains what we consider moderately high at 7.8% of market value. We understand it will likely remain high due to a sizable CIP. Debt service carrying charges remained, in our view, a moderate 13.8% of total expenditures in fiscal 2010. We view amortization as above-average with officials planning to retire more than three quarters of principal over 10 years and 100% over 20 years. We expect the city's debt burden to remain elevated, partially caused by its existing debt burden and large CIP. The 2012-2016 CIP totals $178 million and comprehensively includes both necessary capital needs over the next five years and department wish lists. While the CIP is large, after economic development ($50.2 million), education ($41.3 million) is the second-largest spending category, of which management expects Connecticut to reimburse a generous 80%. In total, management expects state and federal funding to account for roughly $38 million (21.3%) of the total CIP. The city does not have any variable-rate debt, and it does not engage in any swaps.

New Haven's underfunded pension plans (nonteacher 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 $393.7 million. We understand the city's OPEB plan totals $414 million. In fiscal

2010, the city paid $19.8 million for current-year claims, and management expects the fiscal 2011 OPEB cost to total roughly $20 million. 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 an irrevocable Post Employment Benefit Plan Trust Fund. At the close of fiscal 2011, the assets of the Trust Fund totaled 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.

Outlook

The stable outlook reflects Standard & Poor's expectation that New Haven will maintain at least adequate financial performance, partially evidenced by its maintenance of adequate reserves. The stable outlook also reflects our expectations that the city's property tax base will likely continue to grow and that the city will maintain sound property tax collections. Meaningful progress toward funding the city's pension liability, in addition to achieving structural balance without the need for reliance on one-time revenue sources, could serve as positive credit factors. However, if the city cannot achieve structural balance in its budget and draws significantly on its reserve levels, the negative rating action might result.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of July 18, 2011)		
New Haven GO		
Long Term Rating	A-/Stable	Affirmed
New Haven GO (wrap of insured) (AMBAC & AGM) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
New Haven GO (FGIC)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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