FitchRatings

Tagging Info

Fitch Affirms New Haven, CT's GOs at 'A-'; Outlook Remains Negative

Ratings Endorsement Policy
17 Oct 2013 9:48 AM (EDT)

Fitch Ratings-New York-17 October 2013: Fitch Ratings assigns its 'A-' rating to the following city of New Haven, CT (the city) general obligation (GO) bonds:

--$37.75 million GO bonds, series 2013B.

In addition, Fitch affirms its 'A-' rating on the city's approximately $510 million in outstanding GO bonds.

The Rating Outlook remains Negative.

SECURITY

The bonds are general obligations of the city backed by its full faith, credit, and unlimited taxing power.

KEY RATING DRIVERS

FINANCIAL FLEXIBILITY REMAINS LIMITED: The Negative Outlook reflects the city's current limited financial flexibility. Finances remain pressured by a dependence on state aid, exposure to school deficits, negative balances in special revenue and internal service funds and increasing pension costs.

BALANCED AND CONSERVATIVE BUDGET: The city's fiscal 2014 budget is balanced through an increase in recurring revenues, the use of more conservative estimates, and no one-time revenues. The budget also benefits from savings generated from recently negotiated labor concessions.

ABOVE-AVERAGE DEBT RATIOS: The city's debt ratios are above average but are expected to remain stable as new issuance is expected to replace rapidly amortizing existing debt.

HIGH FUTURE RETIREE COSTS: Although the city has historically funded 100% of its pension actuarially required contribution (ARC), pension and other post-employment benefit (OPEB) unfunded liabilities are high. Carrying costs are about average but will continue to grow.

INSTITUTIONAL PRESENCE DRIVES ECONOMY: New Haven's economy benefits from the presence of higher education and healthcare institutions, including Yale University and Yale-New Haven Hospital. These institutions continue to attract development and investment from biotechnology, pharmaceuticals and life-science companies.

BELOW-AVERAGE WEALTH LEVELS: Wealth levels continue to trend below state and national averages, and unemployment rates are high even with a declining labor force.

RATING SENSITIVITIES

STRUCTURAL BALANCE; RESTORATION OF RESERVES: Management's inability to achieve structural balance in both city and school operations will likely result in a further rating downgrade. Restoration of reserves closer to historical levels is paramount to maintaining the rating.

CREDIT PROFILE

New Haven is located on the north shore of the Long Island Sound and is about 75 miles north of New York City. The city's population grew an average of 0.5% annually from 2000 to 2010 and stands at roughly 130,000.

LIMITED FINANCIAL FLEXIBILITY; RESERVES REMAIN LOW

The city continues to experience pressure on its financial operations. The city's revenue base relies primarily on state aid (42%) and property taxes (49%). Expenditure growth continues to outpace revenue growth with declines in state aid largely negating the city's annual increases in the property tax levy as a result of tax base growth, or more recently, tax rate increases.

For fiscal 2012, the city experienced a general fund operating deficit after transfers of $8 million, reducing its unrestricted fund balance to a low $3.8 million or 0.7% of spending from $9.8 million, or 1.9% of spending the prior fiscal year.

The bulk of the decline is due to budgeted union concession savings that were not realized fully or were realized later than anticipated in the fiscal year due to lengthy union negotiations. Other factors contributing to the use of reserves include higher than anticipated medical benefit and police overtime costs, as well as lower than expected building permits, parking fees, and state college and hospital payment-in-lieu-of-tax (PILOT) fees.

FISCAL 2013 GENERAL FUND DEFICIT WIDENS

The adopted $486 million fiscal 2013 general fund budget was a 2.4% increase over the fiscal 2012 budget. No tax increase was implemented but additional property tax revenue of $7.5 million was realized due to tax base growth. General operating projections through August now reflect a $4.5 million deficit, up $1 million from the $3.5 million deficit projected through June.

The increase reflects the $1 million loss in anticipated municipal revenue sharing surplus from the state. The final transfer of surplus revenues to municipalities was eliminated as part of the governor's final approved fiscal 2014-2015 budget bill. The original projected deficit of $3.5 million, from operations, stems primarily from a reduction in state PILOT fees which were unknown at the time of budget completion. This projected deficit would deplete unrestricted general fund reserves and result in a negative balance of $0.7 million (0.14% of budget).

DEBT RESTRUCTURING PROVIDES FOR PARTIAL RESTORATION OF RESERVES

The city will begin restoration of unrestricted general fund balance by applying savings from a modest restructuring of its fiscal 2014 and 2015 debt service achieved with the August series 2013A refunding. Management reports that total net savings and premiums of $4.1 million (0.8% of budget) were deposited to the unassigned general fund last month and premiums generated from the current issue are planned to be managed in the same way. Although these types of restructurings are not considered to be financially prudent by Fitch, the city's very high debt amortization rate mitigates the future budget effect of the debt service restructuring.

BOARD OF EDUCATION (BOE) OVERSPENDS BUDGET

The BOE develops and operates within its own city board of alderman approved budget, although reported in the city's general fund. The city's BOE overspent its budget by $600,000 (0.3%), an amount included in the projected $3.5 million general fund operating deficit. Additionally, the BOE did not make a $2.8 million budgeted contribution to the food service fund resulting in a $3.6 million operating deficit in this fund (2% of BOE budget). City auditors have designated $3.6 million of general fund balance as un-spendable to offset this deficit. A new superintendent and food services director have been hired, and Fitch expects a plan to reduce these deficits within the year.

FISCAL 2014 BUDGET BALANCED

City officials identified a preliminary $12.3 million budget gap assuming state aid remains flat to the reduced fiscal 2013 level, equal to 2.4% of the $497 million fiscal 2014 general fund budget. The gap reflects one-time asset sale revenues from the prior year, unrealized prior year budgeted employee concessions, and increases year over year in employee and debt costs. To mitigate this gap and a $0.9 million (0.2%) reduction in state aid as a result of the governor's recently approved biennium budget, management prudently approved a 2.27% increase ($11.1 million) in the property tax levy through a 4.9% millage increase. The levy increase combined with 1.5% growth in the city's 2012 grand list resulted in additional revenues to close this gap.

The budget contains no one-time revenue sources or projected labor negotiated savings, as was a practice in prior year budgets. Notably, the budget includes a $3 million increase in school funding and a $1.1 million increase in fire overtime.

On a positive note, management has made strides in achieving employee contract concessions with certain of its bargaining units, including police, resulting in pension plan changes and medical benefit cost savings. Management reports that a tentative agreement has been reached with fire personnel with terms similar to those agreed to by police members earlier in the year. In addition to modest budget relief, pension and OPEB valuations should improve. Negotiations with three of its other bargaining units are ongoing. Other expenditure increases were experienced in insurance, salaries and debt service although somewhat offset by the savings achieved with union concessions.

INTERNAL SERVICE FUND DEFICITS

The city's medical and self-insurance fund ended fiscal 2012 with an aggregate deficit of $19 million, including $8.4 million of case reserves for outstanding litigation. The city will use $6 million of the proceeds from its August 2012 bond issue to cure a portion of the self-insurance-fund deficit and plans to debt finance an additional $6 million of the deficit in equal increments over three years beginning in fiscal 2014. In addition, it plans to continue to make regular appropriations from its operating budget and increase employee contributions to reduce these internal service fund deficits. The projected fiscal end 2013 combined deficit balance is a still high, but improved $13.1 million, and reflects the $6 million deposit of bond proceeds and a projected medical fund deficit of $1.3 million generated in fiscal 2013. The deficit of $13.1 million represents a moderate 1.85% of total government spending.

ABOVE-AVERAGE DEBT BURDEN

Overall debt levels, net of state school construction reimbursements, are above average at approximately $4,021 per capita and 6% of market value. Debt levels are expected to remain stable over the next few years as additional planned debt will be partially offset by the very rapid amortization of existing principal (76% in 10 years).

The current debt plan anticipates the delivery of $30 million to $50 million annually in new money debt over the next five years including school related issuances as well as the potential borrowing to fund the operating deficit in the self-insurance fund.

LOW PENSION FUNDING LEVELS

Pension funded levels are low despite the city continuing to fund 100% of its ARC. The city maintains two single-employer defined benefit plans for general city employees and police and fire personnel. The most recent actuarial valuation as of June 30, 2012 shows an unfunded liability of $541 million (a high 6.2% of market value) and funded levels for the plans at 43% (general) and 48% (police and fire), using the plans' 8.25% assumed investment return rate. Adjusting to Fitch's more conservative 7% discount rate, the funded levels are a low 37% and 42%, respectively, and down from the respective 40% and 44% levels, a year prior.

Pension costs represented a slightly high $41.2 million, or 8.5% of the fiscal 2013 budget. Notably, the increase in fiscal 2014 pension costs will only be $800,000 as opposed to the original actuarially projected $2.7 million due to recent contract settlements reached with certain unions. Fitch anticipates the recent changes will also improve funded levels going forward.

The city's unfunded OPEB liability was $444 million as of July 1, 2011, the most recent data available. The city has set up an irrevocable trust to fund future obligations, but currently funds obligations on a pay-as-you-go basis. The city contributed $22.5 million in fiscal 2012, 58% of the ARC and 4.4% of fiscal 2012 general fund spending.

Total combined carrying costs for debt service, pension contributions and OPEB pay-go represent a moderate 17.5% of fiscal 2012 governmental spending.

MIXED SOCIOECONOMIC INDICATORS

New Haven serves as a regional center for higher education, health care, transportation and the arts. The presence of the city's top two employers, Yale University and Yale New Haven Hospital, provide stability to the economy and continue to attract development and investment from biotechnology, pharmaceuticals and life-science companies.

Significant new developments have contributed to the city's tax base growth and a number of projects are in the pipeline. These projects are expected to increase employment opportunities and continue to attract new businesses to the city. The most recent property revaluation, effective October 2011, showed an increase in the city's market value of 16% to $8.6 billion. Net taxable values as of October 2012 were up 1.5%.

Several economic indicators remain below average despite the recent development. The city's unemployment rate remained unchanged year over year through July at 12.4% and still above the state's level of 8.3%, resulting from a decline in both employment and labor force. Wealth levels are below state and national averages as has historically been the case. The city's poverty rate is a very high 26.3%.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, and the National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status

Moody's downgrades New Haven's GO rating to A3; outlook remains negative

Assigns A3 to $37.8M GO Bonds

Moody's Investors Service has downgraded to A3 from A2 the rating on the city of New Haven's (CT) outstanding general obligation bonds, affecting approximately $510 million of outstanding debt. The outlook remains negative. Concurrently, Moody's has assigned an A3 rating to $37.75 million General Obligation Bonds, Issue of 2013, Series B. This issue, as well as all of the city's outstanding general obligation bonds are secured by an unlimited tax pledge.

SUMMARY RATINGS RATIONALE

The downgrade reflects the continued deterioration of the city's financial position resulting from a deficit in fiscal 2012 and a larger-than-anticipated deficit in fiscal 2013. The A3 rating also incorporates the city's sizeable tax base which is anchored by higher education and healthcare, and a highly leveraged debt burden. Further, the rating factors the city's sizeable liabilities for pension and OPEB benefits.

The negative outlook reflects the possibility of further credit weakening should the city be unable to restore fiscal stability in the near term and begin to augment its narrow reserve levels after two consecutive years of decline. Moody's expects that the city will remain challenged to do so, given its high fixed costs structure, ongoing expenditure demands for education, and limited revenue raising flexibility. The outlook also incorporates the city's high debt burden and sizeable Internal Service Fund deficit.

STRENGTHS

-- Tax base anchored by stable health and higher education sector

-- Demonstrated ability to reduce expenditures

CHALLENGES

-- Narrow General Fund balance

-- Expected General Fund deficit in fiscal 2013

-- High fixed cost structure, including required contributions for pension and OPEB

-- Socioeconomic indices trail the national average

DETAILED CREDIT DISCUSSION

EXTREMELY STRAINED FINANCIAL POSITION; MODEST IMPROVEMENT EXPECTED IN FISCAL 2014

Moody's anticipates that the city will remain challenged to restore fiscal stability in the near term, due to depletion of its reserve levels caused by a sizeable operating deficit in fiscal 2012, as well as an estimated deficit for fiscal 2013 that is larger than initially anticipated. In addition, a sizeable deficit remains in the city's Internal Service Fund.

After several years of positive operations, the city ended fiscal 2012 (June 30) with an $8 million General Fund operating deficit. The primary drivers of the deficit were budgeted savings from union concessions which were not fully realized as well as overspending for police overtime. In addition, the city's revenues were roughly $2.5 million under budget. At year end, total General Fund balance declined to $8.8 million, or a narrow 1.7% of revenues. Unassigned General Fund balance was $3.8 million, or a very slim 0.8% of revenues, which is a significant decline from 2011 levels of $9.8 million, or 2% of revenues.

The city's fiscal 2013 budget included a 2.4% increase in spending, balanced with additional levy growth and no appropriation of reserves. The city is estimating that fiscal 2013 will end with a $4.5 million operating deficit, an increase from initial estimates of $1 million to $3.5 million. The deficit was a result of a reduction in state and local PILOT payments, unbudgeted expenses for storm cleanup costs, and overspending of the education budget. Further straining operations, the State of Connecticut (GO Rated Aa3/stable outlook) cut the city's revenue sharing by $1 million near the close of the fiscal year. The city was able to reduce the projected deficit by approximately $3 million due to a one-time payment from Yale University (revenue bonds rated Aaa/stable outlook) for the purchase of two previously city-owned streets. Incorporating the expected deficit in fiscal 2013, Total General Fund balance will decline to $4.3 million, or approximately 0.9% of 2013 revenues. Due to overspending of the school budget, the city has recognized a negative receivable in its general fund balance of approximately $5 million. As a result, unassigned General Fund balance is expected to fall to a negative $4.7 million, or -1% of revenues.

The fiscal 2014 budget includes a 2.3% increase in spending, and will be balanced with a 4.9% tax rate increase and no use of reserves. In addition, the city has increased its budget for police and fire overtime, two items that have represented significant budgetary pressures in prior years. In September of 2013, the city sold $39.5 million in restructuring bonds to achieve cash flow savings in fiscal 2014 and 2015. Prudently, the city has voted to appropriate $4.1 million of those savings towards fund balance replenishment in fiscal 2014.

SIZEABLE INTERNAL SERVICE FUND DEFICIT; MODEST IMPROVEMENT EXPECTED

The city's accumulated Internal Service Fund deficit increased to $18.9 million at the end of fiscal 2012, representing the second consecutive year of deficit growth. The fund includes a self-insurance reserve (general liability insurance), a medical insurance reserve, and a worker's compensation reserve. The majority of the 2012 accumulated deficit is attributable to the city's self-insurance reserve ($17.8 million), which includes settlement estimates for outstanding litigation. In addition, the medical self insurance fund has a $1.2 million deficit, and the worker's compensation fund maintains a narrow positive net asset position of $35,000. Favorably, estimated fiscal 2013 results show significant improvement in the self insurance fund deficit to $10.7 million, due to the application of $6 million in bond proceeds. The city currently plans to cure the deficit by fiscal 2016 through the appropriation of $2 million annually.

LARGE UNIVERSITY & HEALTH CARE PRESENCE; RECOVERY EXPECTED TO BE SLOW

The city's economy will continue to benefit from Yale University's large academic and medical presence and its commitment to investing significant capital funds for new construction and area improvements, much of which is not included in the city's $6.8 billion fiscal 2012 equalized net grand list (ENGL). While Yale and the Yale-New Haven Hospital (revenue bonds rated Aa3/stable outlook) have mitigated the impact of the recession, the downturn in New Haven remains significant, with high unemployment rates, at 12.4% (as of July 2013), as compared to the state (8.3%) and the nation (7.7%).

Taxable grand list growth has remained relatively stable, increasing by 16.2% for its most recent valuation in fiscal 2013 from the prior year. Recently, the city has benefited from development at the Yale-New Haven Smilow Cancer Center, a fully taxable $80 million office development and $50 million parking garage and office center that is in close proximity to the hospital site. Further, the city has also benefited from the private and fully taxable 360 State Street project (a mixed-use development) which is currently in year 3 of a 5-year assessment phase-in. The city has begun a large-scale redevelopment project in the downtown crossing area which will result in the elimination of a portion of Route 34, in order to make way for several new developments, including a new office tower. Highlighting Yale's strong presence in the city is the university's recent announcement that it will construct two new residential colleges as a result of a $250 million donation. The expansion would be the first since 1969, and is expected to increase enrollment by 15%.

Partially reflective of the significant student population, with combined total enrollment exceeding 30,000, the city's per capita income lags that for the state and nation, at 56% and 75% of state and national levels, respectively. Nearly 25% of the city's population is classified as below poverty. When considering only the taxable ENGL, the equalized value per capita is low at $52,314. However, when including the nearly $4 billion in tax-exempt property, this ratio improves but still remains below-average for Connecticut at $83,335.

DEBT POSITION WILL REMAIN HEAVILY LEVERAGED

Despite significant state assistance for planned building projects, we expect the city's debt position to remain heavily leveraged for the foreseeable future. New Haven's adjusted debt burden, at 8.8% of ENGL, is well above the median level for similarly-sized cities. Debt service in fiscal 2012 represented an elevated 13% of expenditures, and amortization of principal is average with 76.4% retired within 10 years. The city's current projections show debt service peaking in 2015 and remaining around current levels as a percent of expenditures. The city's five-year (FY13-FY17) $363.4 million capital plan includes approximately $30-35 million of new money borrowing annually. All of the city's debt is fixed rate and the city is not party to any derivative agreements.

LIABILITIES FOR PENSION AND OPEB REMAIN SIGNIFICANT

The city has a high employee pension burden, based on unfunded liabilities for two multi-employer, defined benefit retirement plans. The city's combined annual required contribution (ARC) for the plans was $39.5 million in fiscal 2012, or 7.7% of General Fund expenditures. The city's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $848 million, or an elevated 1.72 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

The city currently funds its other post-employment benefits (OPEB) obligation on a pay-as-you-go basis. The pay-as-you-go cost for fiscal 2012 was $22.5 million, representing 4.4% of expenditures. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is $444 million, as of June 30, 2011.

Positively, in conjunction with the recently settled labor contract, the city's police employees will now contribute 1.25% of their base pay towards the unfunded OPEB liability. The city has been aggressively pursuing cost saving measures with respect to health benefits for both active employees and retirees, including the transfer to high deductible plans.

OUTLOOK

Insert rationale

WHAT COULD MAKE THE RATING GO UP (REMOVAL OF NEGATIVE OUTLOOK)

-- Return to structurally balanced operations, with increased reserve levels

-- Improvement of the city's financial position, including its Internal Service Fund

-- Strengthening of tax base and demographic profile to levels more consistent with higher rating categories

WHAT COULD MAKE THE RATING GO DOWN

-- Protracted structural budget imbalance

-- Further reduction of General Fund balance

-- Deepening of Internal Service Fund deficit

-- Deterioration of the city's tax base and demographic profile

KEY STATISTICS:

2010 Population: 129,779 (5% increase from 2000)

2012 Equalized Net Grand List (ENGL): $6.8 billion

2012 Equalized Value Per Capita: $53,314

2010 Per Capita Income: $21,789 (60% of CT, 80% of U.S.)

2010 Median Family Income: $47,432 (56% of CT, 75% of U.S.)

Fiscal 2012 Total General Fund Balance: $8.8 million (1.7% of revenues)

Fiscal 2012 Unassigned General Fund Balance: $3.8 million (0.8% of revenues)

Adjusted Debt Burden: 8.3%

Payout of Principal in 10 Years: 76.5%

Post-sale Long-Term Parity Debt Outstanding: $520 million

STANDARD
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RATINGS SERVICES

RatingsDirect®

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Summary:

New Haven, Connecticut; General Obligation

Credit Profile		
US$37.75 mil GO bnds, iss ser 2013 B due 08/01/2033		
Long Term Rating	BBB+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' long-term rating to New Haven, Conn.'s series 2013B general obligation (GO) bonds. At the same time, Standard & Poor's affirmed the 'BBB+' underlying rating (SPUR) and long-term rating on the city's parity debt. The outlook is stable.

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

The rating reflects our assessment of the following factors for the city, specifically its:

- Weak management conditions with standard policies and practices but an inability to maintain balanced budgets;
- Very weak budgetary flexibility with 2012 adjusted reserves at negative 1.2% of adjusted general fund expenditures;
- Weak budgetary performance due to deficits in both the general fund and total governmental funds in fiscal 2012 and another general fund deficit projected for 2013; and
- Very weak debt and contingent liabilities position due, in part, to sizable pension and other postemployment benefit (OPEB) liabilities.

Our view of strengthening factors include the city's:

- Strong liquidity providing very strong cash levels to cover both debt service and expenditures; and
- Adequate economy, with participation in the broad-and-diverse New Haven-Milford metropolitan statistical area (MSA) and Yale University serving as a stabilizing institution.

Weak management

We view the city's management conditions as weak with standard financial practices. The city's general fund has been structurally imbalanced for some time, though the deficits in fiscal 2010 and 2011 were masked by one-time asset sales, and has resulted in the near-depletion of reserves at 2012 year-end. Management projects another drawdown for 2013. The fiscal 2014 budget totals $497 million and, unlike past years, does not include one-time revenue or significant projected expenditure savings contingent on labor group concessions. It also includes the first tax increase since fiscal 2011. Should revenues and expenditures come in as expected, officials project a $4.1 million surplus at year-end due to debt service savings related to already-executed refundings. While the 2014 budget appears to be based on sound assumptions and is structurally balanced, there remains uncertainty over management's ability to continue the practice.

Very weak budget flexibility

In our opinion, the city's budgetary flexibility is very weak with reserves at negative 1.2% of expenditures at the close of fiscal 2012. The total available general fund balance was $3.8 million at year-end but Standard & Poor's adjusted this figure down by the amount due to the general fund from the internal service fund. At the same time, general fund expenditures were adjusted upward to account for the internal service fund. The adjustments were made because the internal service fund captures the city's self-insurance activities and has had a deficit balance for the past several years.

Weak budgetary performance

Budgetary performance is weak overall with deficits of 2.7% for the general fund in fiscal 2012 and 7.8% for the total governmental funds. Standard & Poor's adjusted the general fund and total governmental funds revenues and expenditures to take into account the spending in the internal service fund. Approximately 47% of the city's general fund revenue is state aid and 45% is property taxes.

Current projections for fiscal 2013 indicate a $4.5 million general fund drawdown that, if realized, would turn the available general fund balance negative. We understand the largest expenditure variance was due to a snowstorm that resulted in $1.1 million of additional costs, and that the deficit was largely related to revenue shortfalls. Management reports state payments in lieu of taxes (PILOT) for colleges and hospitals were $2.5 million under budget due to a change in the allocation formula that was not communicated to the city. The second-largest shortfall was in contributions from the Yale New Haven Hospital and totaled $1.6 million. The hospital makes voluntary payments to the city based on a formula involving the number of beds and employees. The city expected the hospital to recalculate the contribution in fiscal 2013 because of its acquisition of St. Raphael's Hospital, but the adjustment was not performed. Finally, a state aid payment in summer was about $1 million under budget. One-time sources of revenue realized in 2013 - including the sale of Wall Street and High Street to Yale University for $3 million and the sale of the Martin Luther School to a charter group for $1.5 million - were insufficient to close the budget gap.

Strong liquidity

Supporting the city's finances is what we consider to be very strong liquidity with total government available cash at 6.9% of adjusted total governmental fund expenditures and 82.2% of total governmental fund debt service. We adjusted the governmental fund expenditures by including the internal service fund expenditures. We believe the city has strong access to external liquidity as it has issued GO bonds frequently over the past 15 years.

Adequate economy

We consider New Haven's economy to be adequate with participation in the broad and diverse New Haven-Milford MSA. The county's unemployment rate averaged 9.2% in calendar 2012. Per capita market value for the city was $67,000 for fiscal 2014. The city's net grand list was revalued effective fiscal 2013, resulting in a 16.2% year-over-year increase. A smaller 1.5% increase in fiscal 2014 brought the net taxable grand list to $6.1 billion. The presence of Yale University and three other educational institutions stabilizes the regional economy, although the large student population depresses income indicators. Accordingly, the city's projected per capita EBI is just 69.6% of the U.S.

Very weak debt and contingent liability profile

In our opinion, the city's debt and contingent liabilities profile is very weak with total governmental funds debt service at 8.4% of total governmental funds adjusted expenditures and net direct debt at 80.2% of total governmental funds adjusted revenue. Amortization is rapid, with 77% of principal scheduled to be retired over the next 10 years.

New Haven's underfunded pension plans (nonteacher public employees and police and firefighters) remain, in our view, a credit weakness. As of July 1, 2012, the plans were 42.5% and 47.5% funded, respectively, with a total unfunded liability of $540 million. The city's unfunded OPEB liability as of July 1, 2011, was also large at $444 million. Combined, pension and OPEB contributions in fiscal 2012 represented 8.8% of total governmental expenditures and were up about 26% year-over-year.

Very strong institutional framework

We consider the Institutional Framework score for Connecticut cities very strong.

Outlook

The stable outlook reflects our view of the city's adoption of a more realistic budget for fiscal 2014 and potentially small surplus for that year. We do not anticipate changing the rating in our two-year outlook horizon for this reason. Upward movement would likely follow a record of structural balance in the general fund assuming all else equal. The city's continued participation in the broad and diverse MSA of New Haven-Milford provides rating stability.

Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: Connecticut Local Governments

Ratings Detail (As Of October 11, 2013)		
New Haven GO		
Long Term Rating	BBB+/Stable	Affirmed
New Haven GO (wrap of insured) (AMBAC & AGM) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
New Haven GO (FGIC)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
New Haven (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
New Haven GO		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.