FitchRatings

FITCH RATES NEW BRITAIN, CT'S GOS 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-21 October 2010: Fitch Ratings has assigned its 'AA-' rating to the following City of New Britain, CT (the city) general obligation (GO) bonds:

--$7.065 million GO bonds, 2010 subseries B;
--$18.00 million GO bonds (federally taxable-issuer subsidy-Build America Bonds), 2010 subseries C;
--$9.935 million GO bonds (federally taxable-issuer subsidy-Recovery Zone Economic Development Bonds), 2010 subseries D;
--$1.90 million GO bonds, 2010 subseries E.

The bonds are scheduled to sell via negotiation on Oct. 28, 2010.

In addition, Fitch affirms its ratings on the city's outstanding bonds as follows:

--$46.1 million GO taxable pension bonds, series 1998 at 'AA-';
--$2 million, GO bonds, series 2000A, at 'AA-';
--$1.7 million GO refunding bonds, series 2002, at 'AA-';
--$1.2 million taxable GO pension bonds, series 2005, at 'AA-'.

The Rating Outlook is Stable.

RATING RATIONALE:
--The city benefits from its diversified tax base consisting of governmental, healthcare, higher education, manufacturing and financial services.
--The city's reserves are adequate but provide limited financial flexibility; the revenue base includes a significant proportion of economically sensitive intergovernmental aid.
--The city's debt burden is above-average and expected to grow marginally due to planned future issuances, but pension and OPEB liabilities are manageable.
-Wealth levels are below average and unemployment rates exceed state and national averages.

KEY RATING DRIVERS:
--Management's ability to sustain positive financial operations and increase its fund balance to the city's policy target of 5%;
--The city's management of derivatives and variable rate debt exposure.

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

CREDIT SUMMARY:
New Britain, with a population of 70,486, is located at the geographic center of the state, approximately eight miles from the state's capital city of Hartford, and a two hour drive from New York or Boston. The city's large and diversified tax base, with a fiscal 2009 market value of $4.2 billion, is 62% residential and 22% commercial/industrial. Top 10 taxpayers represent a moderate 5.6% of taxable value, with Connecticut Light and Power the largest at 1.44%. The city's major employers include the state and the city as well as the 436-bed Hospital of Central CT (3,600) and 200 bed Hospital for Special Care (1,396). Stanley Works, the tool company, maintains its world headquarters in the city and has 780 employees. Celebration Foods and TD Bank have located their corporate headquarters in the city, and Webster Bank maintains offices there as well. The city is also home to Central Connecticut State University, located in the city since 1849.

The city's unemployment rate continues to register above the state and national levels, and was a high 13% as of August 2010, the same rate as a year prior. This compares to the state at 9.3% and nation at 9.5% in August. The city's wealth levels are well below the state and nation with median household income of $40,342 equivalent to 48% and 64% of state and national levels, respectively. Foreclosures levels are slightly above the nation and MSA averages but tax collection rates averaged 96.2% for the last four years.

The city's financial position remains stable. Revenues are comprised mostly of property taxes and intergovernmental support from the state, and represented 47% and 49% of fiscal 2009 general fund revenues, respectively. Fiscal year end results for 2009 resulted in an unbudgeted and unplanned draw on the reserve fund of $3 million due to the cancelled sale of land that the city had posted an accounts receivable for fiscal 2008. The city ended the year with an unreserved fund balance of $7.2 million, equivalent to 3.2% of spending and transfers, down from $9.48 million in fiscal 2008. For fiscal 2010, the city's revenues came in below budget by $3.45 million, due primarily to a combination of a reduction in grants and a postponement of sale of assets. To mitigate this reduction in revenues, the city aggressively reduced expenses, instituted a hiring freeze and has negotiated wage concessions with its bargaining units. The city anticipates a moderate surplus of $441,000 in fiscal 2010, increasing its unreserved fund balance to $7.65 million. City officials report a stable outlook for fiscal 2011 and will institute further cost controls if results should begin to fall short of projections. The city has a fund balance policy that requires maintenance of an unreserved fund equivalent to 5% of its budget. The policy also requires the city to replenish any shortfall by 15% each year until compliance is reached. The city's fiscal 2011 budget includes an amount equivalent to 23% of the shortage required for fund balance maintenance.

The city's debt ratios are above-average at $4,095 per capita and 6.9% of market value. Included in the total debt is $40 million of variable rate demand bonds supported by a letter of credit which expires in April 2011. The city entered into an interest rate swap to fix its interest rate cost on the bonds and such swap currently has a negative mark-to-market value. Fitch recognizes that the city could incur additional future liquidity costs in order to manage these obligations but consider the city's management of these risks sufficient. The city's debt amortization rate is slightly above-average at 62%, but it has various improvement projects planned that will likely require moderate additional future borrowing. Included in those future debt plans are $32.5 million in bond anticipation notes that mature in March 2011.

The city has made 100% of the annual required contributions (ARC) to its city run pension for police and fire employees and its combined annual pension cost for this plan was a marginal $296,000 in fiscal 2010. The city issued $106 million in pension obligation bonds in 1998 to fund its liability for this pension plan. The city has contributed $3.63 million in fiscal 2008 and $4.4 million in fiscal 2009, representing 97% and 112%, respectively, of its ARC for OPEB obligations. The city's unfunded OPEB liability was a manageable $43 million as of July 1, 2007.

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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, LoanPerformance, Inc., IHS Global Insight, and William Blair & Company, the underwriter on the bonds.

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