Moody's Rating Agency Report 3/23/2007

MOODY'S AFFIRMS THE A3 UNDERLYING RATING ON THE CITY OF NEW BRITAIN'S
(CT) GENERAL OBLIGATION BONDS

AFFIRMATION AFFECTS $147.2 MILLION IN OUTSTANDING GENERAL OBLIGATION
DEBT

New Britain (City of) CT
Municipality
Connecticut

NEW YORK, March 23, 2007 -- Moody's Investors Service has affirmed the City of New Britain's (CT) A3 underlying rating, affecting $147.2 million in rated debt; there is no outlook. The rating reflects city's improved but still narrow financial position with additional means of financial flexibility incorporated into the budgeting process, lower than average wealth characteristics, and a moderating but still above average debt burden. The rating also considers the city's sizeable equalized net grand list that is expected to experience above average economic development activity in the medium term.

NARROW RESERVE POSITION ENHANCED BY BUDGETING MECHANISMS AND STRONG
MANAGEMENT

Through conservative budgeting and strict expenditure control, the city has improved its reserve position in each of the last five years. New Britain's undesignated general fund balance position improved to $9.0 million (4.2% of general fund revenues) in fiscal 2006 from a slim $5.2 million (2.9% of general fund revenues) in fiscal 2002. The city's undesignated general fund balance goal is to maintain at least 5% of the operating budget in this reserve. Currently, the city is just below this level at 4.4% of fiscal 2006 budgeted revenues compared to the Connecticut state median undesignated general fund balance which approaches 10% of general fund revenues. The improved margins resulted from budgeting at 100% staffing, conservative tax revenues estimates (budgeting 96.6% versus actual total collection rates of 98%), and tightly monitored expenditures.

The city's narrow reserve position is somewhat mitigated by the use of a contingency line-item incorporated into the budget and by large annual transfers out of the general fund in support of capital financing. These additional sources of financial flexibility are especially important when considering the city's reliance on intergovernmental income, which comprises a large approximate 45% of general fund revenues. Annually, the city budgets between $800,000 and $1.0 million of a contingency line-item into the budget.
In a tight fiscal year, the city could use this money for operations, if needed. Additionally, between fiscal 2002 and 2006, New Britain

transferred an aggregate $10.1 million to the capital non-recurring fund (CNRF) for pay-as-you-go capital purchases from the general fund, which otherwise could have been used to bolster the general fund balance. The city demonstrated its ability to absorb unforeseen events with these additional means of financial flexibility during fiscal 2003 when municipalities received unanticipated mid-year state aid cuts; the city reduced its transfer out of the general fund to the CNRF by $227,000 and suffered no general fund balance reserve draw.

The general fund balance position is expected to marginally increase at year-end fiscal 2007. As has historically been the case, the city did not use general fund balance to supplement revenues in fiscal 2007. Through employing the previous budgeting practices, the undesignated general fund balance is expected to increase by at least $500,000. During the current year, an other post-employment benefit (OPEB) unfunded liability of $43 million was identified. The city expects to fund the annually required contribution in its entirety in 2008, but no specific amount or plan has been established at this time. The current pay-as-you-go expense for retiree benefits approximates $850,000. The fiscal 2008 budget process is still in the preliminary stages, and management expects no use of general fund balance and an additional receipt of $8.1 million in state aid revenue for educational costs.

## SWAPS MITIGATE VARIABLE RATE EXPOSURE

Moody's believes New Britain's variable rate exposure is mitigated by its demonstrated ability to manage its variable rate debt through executed swap agreements. New Britain has hedged its variable rate portfolio in order to achieve lower overall borrowing costs than if it had issued just fixed rate obligations. The total notional amount of the six swaps outstanding is $122.7 million, of which $40 million is a basis swap; the balance are interest-rate swaps. All swaps are on parity with fixed-rate general obligation (GO) bonds and the city is the only party with optional termination rights. There are no circumstances under which the city is required to post collateral. Per the individual contracts, each counterparty must maintain a rating of at least A3; all counterparties are currently rated Aa3 or greater.

The city maintains a comprehensive swap policy. This policy requires that the city's interest rate exchange contracts will not exceed 50% of the city's total GO debt, excluding the pension obligations; current exchange contracts (net pension obligations) to total GO debt outstanding are 19%. Also, according to the city's swap policy, net variable rate exposure will not exceed 50% of the city's GO debt. The pension debt represents New Britain's only unhedged debt and accounts for 25% of outstanding GO debt. New Britain will also make every effort to avoid collateral-posting requirements for any transaction, and to secure "one-way" collateral agreements from its counterparties. At least once per fiscal year the city will conduct a comprehensive review of each of its interest rate exchange contracts.

In addition, the city has entered into a swaption agreement with the

Bank of Montreal with a notional amount of $58.8 million whereby the bank has the option to execute a swap with the city every February 1st and August 1st through 2008. Under the terms of the agreement, the city would receive a 5.5% interest rate and would pay 1 month LIBOR. New Britain received a $1.0 million payment for entering into the contract.

SIZEABLE EQUALIZED NET GRAND LIST WITH ABOVE AVERAGE COMMERCIAL AND
INDUSTRIAL COMPONENTS; DEMOGRAPHIC PROFILE REFLECTS NATURE OF CITY'S
MANUFACTURING AND INCREASING RESIDENTIAL DEVELOPMENT

Throughout the medium term, Moody's expects the city will benefit from above-average economic development as some long-planned projects come to fruition. This development is expected to increase the taxable value, and hence equalized net grand list (ENGL) while improving the unemployment rate.
New Britain is favorably located close to Interstates 91 and 84. At the turn of the century, the town was heavily concentrated in metal production.
Manufacturing and industrial properties still account for an above average 22% of the $2.1 billion tax base ($4.1 billion ENGL). As the city continues to transition into more of a residential community, the tax base is expected to strengthen at a higher rate than experienced since 2005 (a weak annual average of 0.4%) Additionally, 23% of the tax base, primarily representing two regional non-profit hospitals and a state university for which the city receives payments in lieu of taxes from the state, are exempt from property taxes. Currently several large-scale projects are planned, such as a 300-unit housing development and sports arena, which are expected to generate additional taxable revenue. Additionally, an expansion to the nonprofit local hospital is expected to add to the already $8.4 million annual payment-in-lieu of taxes form the state. Throughout the longer-term, New Britain plans to maximize its designation as one of the state's select 14 enterprise zones, which enables the city to offer tax benefits for approximately five years. The state, in turn, reimburses the city for 100% of forgone taxes. Through this program, New Britain has already attracted several businesses and expects South Street Industrial Park to expand throughout the medium term. Finally, though construction plans are not immediate, with state financing, the city expects to complete the "Hartford Busway," a public transportation link between the city and Hartford (rated A2/stable outlook), making New Britain a more attractive location for residents and commuters.

The planned economic development activity is expected to improve the currently above average unemployment rate and weak socioeconomic profile. New Britain's unemployment rates are nearly 157% of the state, largely due to weakness in the manufacturing sector. Additionally, the 1999 per capita (PCI) and median family (MFI) incomes as a percent of the state medians were just 85% and 82%, respectively. These income levels trail the Connecticut A3 medians for PCI and MFI of 104% and 123%, respectively. The $57,565 ENGL value per capita is similarly significantly below that of the Connecticut A3 median of $101,479. Moody's believes the city's prospective economic development activity will aid in generating additional general fund revenue and improving the socioeconomic profile of the city.

DEBT BURDEN EXPECTED TO MODERATE BUT REMAIN ABOVE AVERAGE

Moody's expects the city's debt position will moderate but remain above average when considering amortization of existing principal, moderate debt issuance plans, and expansion in the equalized net grand list (ENGL). The city's direct and adjusted overlapping debt ratios, which are inclusive of
$94.5 million in previously issued pension obligation bonds (POBs), are above average at 6.1% and 5.5%, respectively, of the ENGL. Net of the POBs, the debt ratio is lower at 3.8%, but still above-average. The city's five-year capital improvement plan addresses various economic development, road infrastructure, and capital equipment purchases, which in the aggregate are less than general obligation debt to be issued. This, coupled with a moderate 59% of principal retirement in 10 years, and expansion in the ENGL is expected to improve the direct and adjusted debt burdens; but, these figures are expected to remain above average throughout the medium term.

KEY STATISTICS:

2006 Total General Fund Balance: $12 million (5.6% of General Fund revenues)

2006 Unreserved General Fund Balance: $9 million (4.2% of General Fund revenues)

2000 Census Population: 71,538

2005 Estimated Population: 71,254

2006 ENGL: $4.1 billion

ENGL per capita: $57,565

1999 Per Capita Income: $18,804 (85% of the U.S.)

1999 Median Family Income: $41,056 (82% of the U.S.)

Direct Debt Burden: 6.1%

Adjusted Overall Debt Burden: 5.5%

Payout of Principal in 10 Years: 59%

Rated Long-Term Debt Outstanding: $147.2 million

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