New Issue: MOODY'S ASSIGNS A1 AND NEGATIVE OUTLOOK TO NEW BRITAIN'S (CT) $34 MILLION G.O. BONDS, ISSUE OF 2012 AND A MIG 1 TO $23.8 MILLION OF BOND ANTICIPATION NOTES

Global Credit Research - 08 Mar 2012

AFFIRMS A1 RATING ON $196.7 MILLION OUTSTANDING G.O. DEBT; OUTLOOK IS REVISED TO NEGATIVE

NEW BRITAIN (CITY OF) CT
Cities (including Towns, Villages and Townships)
CT

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Issue of 2012		A1
Sale Amount	$34,015,000	
Expected Sale Date	03/15/12	
Rating Description	General Obligation	
General Obligation Bond Anticipation Notes		MIG 1
Sale Amount	$33,135,000	
Expected Sale Date	03/15/12	
Rating Description	Note: Bond Anticipation	

Moody's Outlook NEG

Opinion

NEW YORK, March 08, 2012 --Moody's Investors Service has assigned an A1 rating and negative outlook to the City of New Britain's (CT) $34 million of General Obligation Bonds, Issue of 2012 and a MIG 1 rating to $33.1 million of General Obligation Bond Anticipation Notes. Concurrently, Moody's has affirmed the A1 rating and assigned a negative outlook to the city's $196.7 million outstanding general obligation debt. The bonds are secured by the city's unlimited general obligation pledge. Proceeds from the bonds and notes will be used to school and infrastructure improvements as well as the termination payment ($2.7 million) for the city's 2012 forward swap.

SUMMARY RATING RATIONALE

The A1 reflects the city's narrow reserve levels, stable tax base, below average wealth levels, and high debt burden. The negative outlook reflects multiple years of structurally imbalanced operations resulting in decreases to the city's already narrow reserves with sizable budgetary gaps for fiscal 2012. Future rating reviews will consider management's ability to realign its cost structure with recurring revenues.

The MIG 1 rating is based on the city's long-term credit quality and history of market access through annual negotiated bond and note sales.

STRENGTHS

- Sizable and stable tax base

- Financial flexibility unhindered by tax caps

CHALLENGES

- Structural imbalance and narrow reserve levels

- High debt burden

- Below-average wealth levels

DETAILED CREDIT DISCUSSION

DEMONSTRATED MARKET ACCESS

The city is a frequent issuer debt with a demonstrated historical of market access through negotiated sales. Based on this history, Moody's expects the city to continue to experience favorable access to the capital markets, if necessary, at the March 2013, maturity.

SLIGHT RECOVERY OF RESERVES IN FISCAL 2011, BUT STRUCTURAL IMBALANCE REMAINS FOR FISCAL 2012 AND 2013

Financial flexibility is expected to remain challenged over the near term as the city aims to realign its cost structure with current revenues after three consecutive years of budgetary imbalance causing the city to be below its 5% fund balance policy in fiscal years 2009 and 2010. In fiscal 2011, reserves improved by $3 million due to a number of one-time revenue enhancements including $1 million in an upfront swap payment to suspend its 2008C constant maturity swap and a $5 million transfer from its Water Enterprise Fund. This increased total General Fund balance to $12 million, or 5.5% of revenues from a low of $9 million, or 4.2% of revenues in fiscal 2010. Per the implementation of GASB 54, unassigned fund balance for fiscal 2011 stood at $11.6 million, or 5.3% of revenues, an improvement from an estimated $7.2 million, or 3.5% of revenues for fiscal 2010 if the accounting standard were retroactively applied.

The adopted fiscal 2012 budget assumed a 1% increase in spending, no tax increases, and a $10 million funding gap to be filled throughout the year with reductions in personnel costs and the sale of assets. While some savings were realized through the implementation of an early retirement incentive, city officials now intend to fill the gap through another $10 million in transfers from the Water Fund, which had $14.5 million in unrestricted cash at the end of the fiscal 2011 in exchange for debt service payments on the enterprise's $10.5 million of general obligation-backed debt. After this transfer, city officials project stable General Fund reserves.

According to preliminary budget discussions, city officials have identified a $10 million gap for fiscal 2013, representing about 4.6% of fiscal 2012 spending. About $4.7 million of the gap will be filled through savings achieved through the early retirement incentives in the prior year, increases in recurring revenues, and rental payments from the Water Fund. Additionally, officials have identified approximately $5 million in excess reserves in its Worker's Compensation Fund. Currently, management intends to maintain stable General Fund reserves and achieve full structural balance by fiscal 2014.Future rating reviews will consider management's ability to maintain adequate financial flexibility by offsetting rising expenditure pressures while ensuring structural balance. Inability to do so would likely exert downward rating pressure as it would represent an erosion of the district's financial credit profile.

The city maintains two well-funded pension plans due to the issuance of pension obligation bonds (POBs) in 1998 and 2008, of which there is $79.6 million outstanding. According to the city's July 1, 2010 valuation, the city's fire and police pension liabilities were 99% and 92% funded, respectively, and have a combined unfunded liability of $6.7 million. The city continues to make its full annually required contribution (ARC), which totaled $1.1 million across both funds in addition to debt service on its POBs. In addition, the city established a trust to pre-fund its other post employment benefit (OPEB) liability in fiscal 2010. As of fiscal 2011, the trust has a funded ratio of 2% with an unfunded liability of $47.2 million. The city currently pays approximately 90% of its $4.2 million OPEB ARC.

STABLE TAX BASE WITH BELOW AVERAGE WEALTH LEVELS

Located approximately 10 miles from Hartford (G.O. rated A1/stable outlook) and 30 miles from New Haven (G.O. rated A1/negative outlook), the city's sizable $4 billion equalized net grand list (ENGL) benefits from easy access to Interstates 84 and 91. Reflecting changes in the state's equalization ratio and softening of the regional housing market, ENGL declined by 0.4% on average from fiscal 2007 through 2011. Importantly, the net taxable grand list on which property taxes are levied increased by 7.1% on average over the same time period, inclusive of a fiscal 2009 revaluation that experienced a 41% annual increase. Current economic development efforts of focused on the recently New Britain/Hartford Busway, which will begin construction shortly in the downtown area and the Pinnacle Heights Economic Zone to revitalize the city's industrial sector.

Wealth levels are below average with per capita income at 64% and 85% of state and national averages, respectively. Unemployment for the city has improved from the prior year decreasing to 10.5% as of December 2011, compared to 12.6% in December 2012 but remains above the state (8.6%) and national (8.3%) levels.

HIGH DEBT BURDEN WITH VARIABLE RATE EXPOSURE

The city's debt burden is high at 7.2% of ENGL due to the issuance of POBs of which there is $79.6 million outstanding. Net of the POBs, however, debt ratios are still elevated at 5.2% of ENGL, but is expected to moderate due to minimal future debt needs. Amortization of the city's debt is slightly below average, with 70.2% of principal retired over 10 years. The city plans to fund the majority of its current $23.5 million five-year capital improvement plan is through state grants.

After this sale, 17% ($40 million, Series 2008C) of the city's debt is variable rate and has been hedged with two swaps, both of which are connected to the city's Series 2008C POBs. The counterparty for both of these swaps is Deutsche Bank (rated Aa3/on review for downgrade) and neither has collateral posting requirements for the city. The first is a fixed payer swap and is backed by a letter of credit from JP Morgan Chase (rated Aa1/Review for possible downgrade) that expires on March 1, 2014. Under this swap agreement, the city pays 6.371% and receives a rated equal to 1 month of LIBOR. As of December 8, 2011, the mark to market was a negative $17.7 million to the city. The second swap is a constant maturity swap which city elected to suspend through 2017 in fiscal 2011 in exchanged for a $1 million upfront payment. Under this agreement, the city pays a rate equal to one month of LIBOR and receives a rate equal to 78% of the 10-year LIBOR. Termination events for both swaps include the normal events of default.

OUTLOOK

The negative outlook reflects sizable budget gaps for fiscal 2012 and 2013 which is expected to pressure the city's already narrow reserves. Future rating reviews will consider management's ability to addressing increasing expenditure pressures and return to structurally balanced operations.

WHAT COULD MAKE THE RATING GO UP

- Substantial improvement in the city's financial reserves

- Strengthening of tax base and demographic profile to levels

WHAT COULD MAKE THE RATING GO DOWN

- Inability to achieve structurally balanced operations leading to depletion of reserves

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

KEY STATISTICS

2010 Population: 73,206 (2.3% increase from 2000)

Per capita income: $18,404 (64% of state, 85.3% of nation)

Median Family Income: $41,056 (62.7% of state, 82% of nation)

2011 ENGL (Full Value): $4 billion

2011 ENGL per capita: $54,811

Net direct debt: 7.2% of ENGL (5.2%of ENGL net of pension obligation bonds)

10-Year Payout: 70.2%

Post-Sale Long Term G.O. Debt: $231.4 million

Fiscal 2011 Total General Fund Balance: $12 million (5.5% of revenues)

Fiscal 2011 Unassigned General Fund Balance: $11.7 million (5.3% of revenues)

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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