New Britain, Connecticut

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RatingsDirect Publication Date
March 19, 2008

Credit Profile		
US$43.15 mil GO bnds ser 2008 A & B dtd 03/01/2008 due 04/01/2035		
Long Term Rating	A/Stable	New
US$19.255 mil BANs dtd 03/31/2008 due 04/01/2009		
Short Term Rating	SP-1+	New
New Britain GO		
Long Term Rating	A/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A' standard long-term rating to New Britain, Conn.'s series 2008A and 2008B general obligation (GO) bonds and affirmed its 'A' standard long-term rating and underlying rating (SPUR) on the city's GO parity bonds. The outlook is stable. The rating service also assigned its 'SP-1+' short-term rating to the city's GO bond anticipation notes (BANs).

The ratings reflect the city's:

- Demonstrated market access for bonds and notes;
- Continued positive financial performance, which has allowed for steady growth in reserves toward the city's stated fund balance policy;
- Consistent budget practice of funding capital and nonrecurring spending at year-end; and
- Average debt burden, including pension obligation bonds.

Factors constraining the rating include the city's below-average wealth and income levels; above-average unemployment; and static local economy, which has recently experienced limited property tax base growth and economic development.

The city's full faith and credit pledge secures the bonds and notes. Officials will use series 2008A bond and note proceeds to finance a variety of capital projects, including improvements to the high school and other public improvements. Officials will use proceeds from the 2008B bonds to refund the city's outstanding water revenue bonds dated April 8, 2005; GO bonds dated April 12, 2000; and GO bonds dated April 13, 1999.

New Britain, with an estimated population of 71,203, is located five miles southeast of Hartford ('A' GO debt rating, stable outlook), at Connecticut's geographic center. The local economy has traditionally been associated with manufacturing and includes the headquarters for Stanley Works, a manufacturer of construction materials and hardware. Additional employers, particularly in the educational, health, social, and public services sector, which account for roughly 25% of employment, provide additional stability. Unemployment has historically been above average and was 6.4% in 2006. In addition, the city's income levels are below average: Its 2007 median household and per capita effective buying income are 78% and 80% of the national averages, respectively. Following a revaluation of the grand list for fiscal 2009, the city's market value increased by 135% to $8.4 billion, producing an above-average per capita market value of $118,894.

New Britain's financial performance remains sound, despite reserve levels being below average relative to similarly rated credits across the U.S. Fiscal 2007 closed with a $1.1 million operating deficit, its first since 1999, decreasing total fund equity to $10.8 million (6% of expenditures). Of that amount, $8.9 million was unreserved, which is equal to roughly 4.3% of operating expenditures. Transfers to the capital projects fund factored into the decrease in general fund equity for the year. Despite the decrease, city officials continue to work toward the city's 5% unreserved fund balance policy, which they hope to achieve following this fiscal year. Currently, city officials estimate balanced operations, with no significant variance in recurring revenues or expenditures. The city is well regarded for conservative budgeting and planning, which allow it to operate with below-average reserve levels. It continually keeps margins narrow by appropriating available funds at fiscal year-end for one-time capital needs and toward its capital budget. New Britain derives roughly 45% of its revenues from property taxes, while state aid accounts for roughly 46%. Tax collections are done semiannually and remain stable, averaging a 96.5% current collection rate.

New Britain's debt burden is above average but manageable. The city recently began building and financing several school construction projects. New Britain receives a 78% reimbursement from the state for its school construction costs. After offsets for school construction costs and self-supporting water and sewer debt, overall net debt is a moderate $2,774 per capita, or 2.3% of total market value.

Debt ratios include the city's pension obligation bonds, issued in 1998, of which $91.8 million is still outstanding. If debt associated with the city's pension obligation bonds were not included, the debt burden would decline to $1,484 per capita, or just 1.2% of market value. As of the latest actuarial valuation, completed in January 2007, the city's pension fund was overfunded. Amortization of existing debt is above average, with 55% of total debt being retired by 2017 and 100% by 2035. Additional capital needs are manageable. The capital improvement program (CIP) totals $22.5 million through fiscal 2013.

Following this issuance, the city anticipates refunding the $40 million series 1998 variable-rate demand pension bonds before May 23, 2008, the date on which the liquidity facilities expire. Failure to do so could result in the bonds becoming "bank bonds", which would have an accelerated principal repayment and possibly increased interest rates. At this time, the city has approved a resolution to refund the 1998 bonds.

Outlook

The stable outlook reflects the expectation that New Britain's will manage and maintain reserves equal to its 5% fund balance goal. Historically, management's conservative budget practices have provided the city with the revenue flexibility to fund capital and nonrecurring spending annually. While economic development will likely be modest, the stability of the city's property tax base will be an important factor in maintaining structural balance between revenues and expenditures. City managers project additional manageable capital needs, with bonding at levels that will not significantly change the city's current debt position. In addition, the stable outlook also assumes that the city will successfully manage its debt portfolio, as it has historically done.

Local Economy

The long-term economic downturn in manufacturing in the nation's northeast region has had an effect on the local economy through steady employment contractions and lower personal property valuation. According to 2000 U.S. Census data, manufacturing still accounts for 19.5% of city employment. Stanley Works has reduced its employment in New Britain by 60% over the past five years. However, more recently, the company has reversed that trend by expanding its workforce to roughly 850, down from a high of 1,200 a few years ago. Additional leading employers—including state and local governments, three health care facilities, and Central Connecticut State University—provide more stability to the city's employment base. The Hospital of Central Connecticut is the city's leading private employer, and expanded by roughly 1,300 employees to 3,600 over the previous year. Unemployment in 2006 was well above-average at 6.4% compared with the state's 4.3% rate and nation's 4.6%; however the rate has come down from as high as 7.7% in 2004.

New Britain's net grand list reached $2.08 billion in fiscal 2008, up a moderate 1.7% since 2004. More recently for 2009, following a revaluation, the net grand list increased by 183% to $5.9 billion. The city's estimated full market value, following the revaluation, is above-average at $118,894. The tax base is diverse; the 10 leading taxpayers comprise 8.8% of the net grand list. City officials estimate that future tax base growth will come from multiple planned projects, including the redevelopment of several properties within downtown as well as several industrial lots. The projects are ongoing in several stages of development. As of Dec. 31, 2007, building permits were valued at $23.4 million, compared to $36.0 million for fiscal 2007, and $35.8 million for fiscal 2006.

Financial Management Assessment: 'Good'

New Britain's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of good indicates financial practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. The FMA is designed to measure a city's management policies and procedures as it oversees day-to-day operations.

Management practices include the city's:

- Formal process for budget assumptions, using multiyear trend analysis;
- Monthly budget monitoring, which is part of the city charter;
- Investment policy that includes quarterly review by the finance director, which is also part of the city charter;
- Six-year CIP that is updated annually; and

- Formal reserve and liquidity policy limiting the unreserved general fund to 5% of expenditures.

Debt Derivative Profile: '1'

The city anticipates terminating three swaps in connection with the refunding of the bonds. In addition, the city has entered into three forward starting swap agreements that swap to a variable-rate debt that New Britain will issue in 2009, 2010, and 2011.

Following a review of all of the city's swap and swaption agreements, Standard & Poor's has assigned the city an overall Debt Derivative Profile (DDP) score of '1' on a scale of '1' to '4', with '1' representing the lowest risk and '4' the highest risk. The overall score of '1' reflects our view that the swap portfolio poses a minimal risk to New Britain's credit quality.

Key determinants behind the DDP score include the city's:

- Adoption of a formal swap management policy;
- Low counterparty risk, due to the credit strength of the city's three counterparties;
- Swap portfolio's above-average economic viability over stressful economic cycles, which reduces basis risk; and
- Minimal termination risk.

In January 2008, New Britain entered into a series of forward-starting swaps with Deutsche Bank AG **(AA)** to swap its variable-rate debt to be issued in 2009, 2010, and 2011. The city uses these agreements as a way to lock in borrowing costs in advance to provide certainty to its CIP and as a hedge against changes to the yield curve. The city entered into a similar agreement in September 2005, but because long-term interest rates remained relatively low, the city decided to terminate its 2006, 2007, and 2008 forward-starting swap***s***.

As part of the refunding issue, the city will be terminating three out of four swaps that were entered into as floating-to-fixed agreements with Ambac Financial Services L.P. ('AAA', based on a guarantee from Ambac Assurance Corp.) The swap payments are a GO of the city; the three swap agreements that will be terminated will pertain to the city's 1999 GO bonds, 2000B GO bonds, and series 2005 water revenues bonds, with the termination payment rolled into the refunding principal. The remaining swap agreement ***with AMBAC*** pertains to the city's pension obligation bonds, of which it anticipates terminating the swap and issuing fixed-rate bonds, sometime before May 23.

New Britain has also entered into a constant maturity basis swap with Deutsche Bank AG. Under the constant maturity swap, the city will pay the counterparty a one-month LIBOR in return for 84% of five-year LIBOR. The city has the option to terminate the agreement at any time and makes the counterparty post collateral before its rating is lowered to 'BBB+'. ***The city must post collateral if its rating is lowered to 'BBB-'***. In return for entering into the swap, the city received a $1.8 million up-front payment. Approximately $250,000 of this amount was set aside in a swap payment reserve. This amount is the city's estimate of the maximum net swap payment it could owe the counterparty over a single year, based on historical analysis of interest rate curves. The swap settles on an annual basis in February, starting in February 2008, with a six-month settlement period. This allows the city to budget for any net payment it could owe during the city's annual budget process.

In November 2005, New Britain entered into a fixed-to-variable swaption with the Bank of Montreal concerning the city's 1998 $66 million GO pension bonds. In return for the option to enter into the swap agreement on Aug. 1, 2006; Feb. 1, 2007; Aug. 1, 2007; Feb. 1, 2008; and Aug. 1, 2008, the city received a roughly $1 million up-front payment from the counterparty. New Britain officials used the $1 million premium for one-time capital purposes. If the counterparty strikes the option to enter into the swap, city officials will make payments based on the one-month LIBOR in return for a 5.5% fixed rate. The ***city must post collateral if its rating is lowered to 'BBB+'***.

Ratings Detail (As Of 19-Mar-2008)		
New Britain GO (AMBAC)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Britain GO (FGIC)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Britain GO (FSA)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.