STANDARD &POOR'S

PUBLIC FINANCE

New Britain, Connecticut

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Credit Profile		
US$18.685 mil GO BANs dtd 04/05/2007 due 04/04/2008		
Short Term Rating	SP-1+	New
US$13.575 mil GO bnds ser 2007 dtd 04/05/2007 due 04/15/2022		
Long Term Rating	A/Stable	New
New Britain GO		
Long Term Rating	A/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A' standard long-term rating to New Britain, Conn.'s series 2007 GO bonds, with a stable outlook.

At the same time, Standard & Poor's assigned its 'SP-1+' short-term rating to the city's GO BANs and affirmed its 'A' rating and underlying rating (SPUR) on the city's GO bonds.

The ratings reflect the city's:

Continued positive financial performance, which has allowed for steady growth in reserves toward the city's stated fund balance policy;

- Favorable financial position, with modest reserves that are sufficient to meet liquidity requirements;
- Consistent budget practice of funding capital and nonrecurring spending at year-end, which contributes to significant revenue-generating flexibility; and
- Moderate-to-high debt burden, including pension obligation bonds.

Factors constraining the rating include the city's:

Below-average wealth and income levels; 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 used bond proceeds to finance a variety of capital projects, including $6.60 million for school renovation projects and $4.75 million for the environmental remediation of land to be redeveloped. They will use note proceeds primarily for road repair in expectation of state grants, infrastructure needs at the city's industrial parks, and renovations to the city's high school facility. All school construction projects are eligible for a 78% reimbursement from Connecticut.

New Britain, with a population of 72,395, is 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. 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. More recently, however, 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, employing 2,300. Unemployment in 2005 was a well above-average 7.8% compared with the state's 5.0% rate. New Britain's total assessed valuation has reached $2.07 billion in fiscal 2007, up by 38% over the past five years. Wealth and income levels are below average. New Britain's median household effective buying income was 65% and 80% of state and national averages, respectively, in 2003.

New Britain's financial position is satisfactory. The city's experienced management, long-term capital planning, and conservative budgeting have contributed to a sustained trend of operating surpluses and incremental increases to reserves. On a budgetary basis, the city's general fund operations have yielded positive balances for the past 19 years, based on the city's analysis, going back to 1989. On a GAAP basis, the city's history of consecutive operating surpluses extends back to fiscal 1999, based on past audited financial statements. This trend of stable, positive results helps offset New Britain's thin reserve position. Fiscal 2006 closed with a $2.8 million operating surplus, the city's eighth consecutive surplus. Total fund equity increased to $11.9 million. Of that amount, $8.9 million was unreserved, which is equal to roughly 4.4% of operating expenditures. The city's general fund had a roughly $1.1 million operating surplus at fiscal year-end 2005. The unreserved general fund increased to $7.9 million, or 4% of total operating expenditures. Management is working toward a stated unreserved fund balance target of 5% of expenditures. New Britain derived half of its fiscal 2006 revenues from property taxes while state assistance accounted for 45%. Tax collections, which are semiannual, remain strong. The first installment of property tax revenues is due July 1, the first day of the city's fiscal year, which helps with liquidity. Conservative budgeting and planning have contributed to the city's consistent financial performance. Management keeps margins narrow and appropriates some available funds at fiscal year-end for onetime capital needs. City officials say they transferred or appropriated roughly $10.5 million of available funds at year-end over the past five years to bolster reserves. Had these funds not been appropriated, New Britain's unreserved general fund would have averaged a balance equal to 9% of expenditures from fiscals 2002-2006 based on projections. The actual unreserved fund balance average was 3.5% over that period.

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 capital improvement program (CIP) that is updated annually; and
- Informal reserve and liquidity policy.

New Britain's debt burden is moderate to high and 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 $2,491 per capita, or 7% of total market value. Debt ratios include the city's pension obligation bonds, issued in 1998, of which $94.5 million is still outstanding. If debt associated with the city's pension obligation bonds were not included, the debt burden would decline to $1,185 per capita, or just 2.4% of market value. As of the latest actuarial valuation, completed in March 2005, the city's pension fund was overfunded at 110%. Amortization of existing debt is above average, with 57% of total debt being retired over 10 years and 100% over 20 years. Additional capital needs are manageable. The CIP totals $26 million through fiscal 2012. The city's GO debt plans include $10.6 million in fiscal 2008.

Outlook

The stable outlook reflects the expectation that New Britain's trend of surplus financial operations will continue, allowing the city to 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.

Debt Derivative Profile: '1'

With this issuance, New Britain has terminated one of its forward-starting swaps that it had entered into in 2005 as an interest rate lock. 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, with a guarantee of two-way swap payments by Ambac Assurance Corp. (AAA) on four swaps and one-way collateral posting for the remaining swap and swaption;
- Swap portfolio's above-average economic viability over stressful economic cycles, which reduces basis risk; and
- Minimal termination risk.

In September 2005, 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 2006, 2007, and 2008. The city uses these agreements as rate locks, allowing management to lock in borrowing costs in advance to provide certainty to its CIP and as a hedge against changes to the yield curve. Because long-term interest rates have remained relatively low, the city has decided to terminate its 2007 forward-starting swap, as it did in 2006, and instead issue fixed-rate bonds. As of this termination, the city has a total of eight current interest-rate swap agreements.

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 has the counterparty post collateral before 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 onetime 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 four other swaps that New Britain has entered into are 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; one swap, however, pertains to the city's pension obligation bonds and another pertains to water revenue bonds (A). The notional amount of current swaps almost fully hedges all of the city's variable-rate debt; just 3% of total GO debt is variable rate. New Britain has adopted a swap-management policy that meets Standard & Poor's criteria. The policy has provisions that include the semiannual valuation of contracts, a counterparty diversification and minimum ratings policy, and one-way collateral or insurance policies.

Ratings Detail (As Of 20-Mar-2007)		
New Britain GO BANs dtd 04/05/2007 due 04/04/2008		
Short Term Rating	SP-1+	New Rating
New Britain GO (AMBAC)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Britain GO (FGIC)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.