

Fitch Affirms New Britain, CT's GOs at 'A+'; Outlook Remains Negative

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed its 'A+' rating on the following outstanding New Britain, CT (the city) general obligation (GO) bonds:

--\$36 million in GO taxable pension bonds, series 1998;

--\$0.4 million in GO refunding bonds, series 2002;

--\$0.9 million GO taxable pension obligation bonds, series 2005;

--\$31.5 million in GO public improvement bonds, subseries 2010B-1, 2010B-2, 2010B-3;

--\$0.7 million in GO bonds, subseries 2010C.

The Rating Outlook remains Negative.

Additionally, Fitch has withdrawn the 'A+' rating on the city's proposed series 2010D taxable GOs (issuer subsidy recovery zone economic development bonds) and series 2010E GOs, as these bonds were not sold.

SECURITY

The bonds are general obligations of the city backed by its full faith, credit, and unlimited taxing power.

KEY RATING DRIVERS

LIMITED FINANCIAL FLEXIBILITY DRIVES OUTLOOK: The maintenance of the Negative Outlook reflects Fitch's concern about maintenance of general fund balance levels and improvement in deficit balances outside the general fund. The city's historical reliance upon one-time revenues to solve structural imbalances and restore reserves has pressured operations and reduced overall financial flexibility.

BELOW-AVERAGE ECONOMIC INDICATORS: Income levels are well below average, and the city has a very high poverty rate. Unemployment rates remain high and are consistently higher than the state and nation.

HIGH DEBT RATIOS: The city's net debt burden, which includes pension obligation bonds, is high and expected to grow marginally due to planned future issuances. Rapid principal amortization helps offset this risk.

MIXED PENSION PICTURE: The city-administered pension plans are closed and well-funded largely due to the issuance of pension bonds. Carrying costs for debt and pensions are presently manageable, but expected to rise given the significant unfunded liabilities associated with the state's plan and recent reforms aimed at improving its funded status over time.

RATING SENSITIVITIES

STRUCTURALLY BALANCED OPERATIONS: The rating reflects the expected maintenance of adequate reserves through balanced operations without a use of non-recurring revenues as has been a practice in the past.

LACK OF IMPROVEMENT IN DEFICIT BALANCES: Exposure to negative balances in special revenue and internal service funds exacerbates the general fund's marginal, but adequate, reserve position and continues to pressure the budget.

CREDIT PROFILE

The city of New Britain, with a population of 70,261, is located at the geographic center of the state, approximately eight miles from the state's capital, Hartford, and a two-hour drive from New York City and Boston.

LIMITED FINANCIAL FLEXIBILITY

For fiscal 2012 the city was facing a \$10 million structural deficit. To partially solve this imbalance, city council approved a mid-year transfer of \$10 million to the general fund from the city's water fund. The \$10 million represents bond proceeds from the city's series 2005 GO issue earmarked for water treatment plant improvements which were planned to be paid from future water revenues. Additionally, the general fund benefitted from the receipt of \$1.8 million of land sale proceeds. Notably, the city did achieve savings of \$3.7 million through various spending cuts, continued hiring freezes and retirement incentives. Additionally, it increased its original medical self-insurance fund contribution by \$6 million as a result of insufficient contributions by the city's board of education (BOE).

After these transfers the city's audited fiscal 2012 year-end results reflected a marginal operating surplus (after transfers) and ending unrestricted fund balance of \$12.2 million or 5% of spending. The city has a fund balance policy that requires maintenance of an unassigned fund balance equivalent to 5% of its budget which it had not been in compliance with until fiscal year-end 2011. The fund balance policy also requires the city to replenish any shortfall by 15% each year until compliance is reached.

FISCAL 2013 BUDGET EXPECTATIONS

The adopted \$232 million fiscal 2013 general fund budget reflected a 7% increase in spending over fiscal 2012 primarily related to increased debt service, and increased costs in public works (\$3 million) and public safety (\$1 million). The budget included the consolidation of 22 departments down to six resulting in additional savings, and an additional \$2.6 million in revenues from the state for the BOE.

No property tax increase was implemented, similar to fiscal 2012, but additional property tax revenue was realized as a result of new tax-base growth.

Management has indicated that fiscal year-end results are still preliminary and final accruals are being determined, but projections show flat to slightly positive performance. According to management, this is due mostly to positive revenue variances because of better than budgeted property tax collections and salary savings as a result of department consolidations and early retirements.

FISCAL 2014 BUDGET DOES NOT RELY ON EXTERNAL TRANSFERS

The city's fiscal 2014 \$237.5 million general fund budget is an \$11.2 million increase over the prior year's adjusted budget and does not rely on the use of fund balance. The primary increase in funding is attributable to a \$22.6 million increase in BOE funding, highlighted by a planned \$18 million debt borrowing for school supplies/improvements. Overall expenses, excluding the BOE funding increase, are down. The property tax levy was held flat for a third year in a row. Revenues are budgeted to increase by \$11.2 million from the revised fiscal 2013 budget and reflect a \$4 million increase in state cost sharing and notable increases in various fees charged by the city compared to prior year actuals. Management has indicated it will monitor the progress of these revenues and make budget adjustments if necessary to maintain balanced operations. The maintenance of adequate reserves close to the current level is paramount to maintaining the rating.

MEDICAL SELF-INSURANCE AND SPECIAL REVENUE FUND DEFICITS

The city ended fiscal 2012 with a \$2.2 million medical self-insurance fund deficit and certain special revenue fund deficits of \$2.15 million. These include \$1.8 million for the sewer use fund and \$0.35 million for the city's golf course fund. Management has indicated that these deficits should see some improvement in fiscal 2013 and that if operating results within the funds do not improve, future general fund operating surpluses, if generated, would be used to help eliminate these negative balances. Fitch will monitor the progress of the elimination of these deficit balances and would expect improvement in the near term. Maintenance of these negative balances is not considered by Fitch to be fiscally prudent and could lead to future budget pressure if not corrected.

ABOVE-AVERAGE DEBT RATIOS

The city's debt ratios, net of self-supporting debt and state school construction reimbursements, are moderate at \$3,475 per capita but quite high at 7.3% of market value. The debt ratios include the city's \$76 million in outstanding pension obligation bonds which account for approximately 30% of the total debt burden. Fiscal 2012 debt service costs of \$31.8 million represented a manageable 10% of total governmental spending.

Debt ratios include \$40 million of variable-rate demand bonds supported by a letter of credit (LOC) which expires in May 2014. Fitch recognizes that the city could incur higher future LOC costs in order to manage these obligations but consider the city's management of these risks sufficient. The city entered into an interest rate swap to fix its interest rate cost and such swap currently has a reported negative mark-to-market value of \$11.8 million as of Sept. 5, 2013, down from \$18.8 million in October 2012. The city's swap counterparty does not have a termination right associated with the city's rating. The city is required to post collateral at ratings of BBB-/Baa3 or below with a \$0 threshold.

The city's debt amortization rate is very rapid at 73% within 10 years. The city's fiscal 2014-2018 capital improvement plan (CIP) totals a modest \$27 million and includes parks and recreation and water department projects.

FUTURE RETIREE COSTS WELL-FUNDED

The city-managed police and fire pensions are closed to new employees as of 2000 and 1995, respectively. The combined annual required contributions in fiscal 2012 were a modest \$1.5 million and the city contributed \$1.2 million or 75% of the ARC. The city issued \$106 million in pension obligation bonds in 1998 to fund its liability for these pension plans. As a result, the pension plan is very well-funded on a combined basis at 91% as of Jan. 1, 2011 using Fitch's 7% discount rate assumption.

The majority of the city's employees, excluding teachers, participate in the state administered Municipal Employees Retirement Fund. Annual required contributions in fiscal

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2012 were \$6.2 million and were fully funded.

The city's unfunded OPEB liability was a manageable \$47.2 million, or 1.3% of market value as of July 1, 2010. The city contributed a notable 96%, or \$4.4 million, towards its \$4.6 million ARC during fiscal year 2012.

Carrying costs for debt service, pensions and OPEB represent a manageable 13.8% of total fiscal 2012 governmental spending.

BELOW-AVERAGE SOCIOECONOMIC INDICATORS

The city tax base experienced a notable 16.9% decline to \$2.45 billion based on its Oct. 1, 2012 five-year revaluation. On a positive note, the city reports new development activity within the city's downtown area and expects to benefit from the new partially completed \$567 million New Britain to Hartford busway project being financed by the state.

The city's major employers include the state and the city as well as the Hospital of Central Connecticut (3,100 employees) and the Hospital for Special Care (1,554 employees). Stanley Black & Decker, a tool manufacturing company, maintains its world headquarters in the city and has 930 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, with 12,500 students enrolled.

The city's unemployment rate continues to register above the state and national levels, and was a high 11.7% as of July 2013, compared to 12.8% a year prior. This compares to the state at 8.3% and nation at 7.7% as of July 2013. The city's wealth levels are well below the state and nation with a median household income equivalent to 59% and 76% of state and national levels, respectively. Poverty levels reported for 2011 by the U.S. census were a high 20.9%.

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Additional information is available at ' www.fitchratings.com '.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and the National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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