

New Issue: New Bedford (City of) MA

MOODY'S ASSIGNS MIG 1 RATING TO CITY OF NEW BEDFORD'S (MA) \$14.14 MILLION G.O. BOND ANTICIPATION NOTES

Baa1 RATING AND POSITIVE OUTLOOK APPLY TO \$73.7 MILLION IN OUTSTANDING LONG-TERM G.O. DEBT

Municipality
MA

Moody's Rating

ISSUE	RATING
Bond Anticipation Notes	MIG 1
Sale Amount \$14,143,884	
Expected Sale Date 09/21/06	
Rating Description Bond Anticipation Notes	

Opinion

NEW YORK, Sep 20, 2006 -- Moody's Investors Service has assigned a MIG 1 rating to the city of New Bedford's \$14.14 million Bond Anticipation Notes (dated September 29, 2006 and payable February 16, 2007). The notes are secured by the city's general obligation, limited taxing pledge, as debt service has not been exempted from the levy limitations of Proposition 2 ½. Proceeds of this issue provide ongoing financing for the \$46 million Keith Middle School construction project. The highest short-term rating reflects the city's underlying long-term credit characteristics, a history of demonstrated market access and the expectation that the notes not retired by commonwealth school building assistance grants will be permanently financed by State Qualified Bonds entitled to the benefits of the Massachusetts Qualified Bond Program (rated Aa3/stable outlook). At this time, Moody's has also affirmed the city's underlying Baa1 rating and positive outlook, affecting approximately \$73.7 million of outstanding bonded debt.

The Baa1 long-term rating reflects the city's well-managed financial position with healthy reserve levels, a sizeable and diverse tax base with income levels well below state and national medians, and an affordable debt burden mitigated by significant commonwealth school construction grants. The positive outlook incorporates the city's improving financial position, bolstered by consistent operating surpluses and augmented reserve levels, as well as Moody's expectation that the city will maintain balanced operations and reserve levels that keep pace with revenue growth and a manageable debt profile after resolution of collective bargaining and commonwealth school construction grants issues.

DEMONSTRATED MARKET ACCESS

Moody's believes the city will continue to demonstrate satisfactory market access given the frequent issuance of long- and short-term debt that benefits from the city's authorization to issue bonds under the qualified bond program. The city received six and seven bids on the two series of note sales dated February 24, 2006, eight bids on its note sale dated September 29, 2005, and five bids on its note sale dated August 24, 2005. All bids were received from major regional and financial institutions; this history indicates the city's ability to refund the notes, if necessary, at their September 2006 maturity.

The city's access to the market to permanently finance these notes, if necessary, will be further enhanced by qualification of the take-out bonds under the state's qualified bond program. The Aa3 enhanced rating with a stable outlook on state qualified bonds reflects the inherent strength of the direct-pay arrangement authorized by state statute in which the State Treasurer makes debt service payments on qualified bonds to a state approved paying agent. Moody's believes the program's sound mechanics and the state's sizeable annual

aid payments to the city will provide sufficient available resources for timely debt service payments. The qualified bond rating is linked to the Commonwealth of Massachusetts' credit rating of Aa2 with a stable outlook.

IMPROVING FINANCIAL POSITION HIGHLIGHTED BY OPERATING SURPLUSES AND AUGMENTED RESERVE LEVELS

Moody's expects New Bedford's fiscal profile to strengthen as positive operations continue to replenish reserves and increase fund balances. Fiscal 2005 financial statements indicate a third consecutive year of operating surpluses and an increase in general fund balance to a healthy \$24.8 million or 10.2% of general fund revenues, up significantly from \$14.5 million or 6.8% of revenues in fiscal 2002. Available fund balance, which includes unreserved fund balance and stabilization funds, has also increased to a satisfactory 10% at the end of fiscal 2005 from \$14.6 million in fiscal 2001.

Moody's believes that the city's financial profile will continue to improve given conservative budgeting and tight budgetary controls. Due, in part, to \$10 million in additional general fund revenues, including a \$4.7 million increase in state aid and tax levy growth of \$3.4 million, the approved fiscal 2006 budget was balanced without draws on reserves through personnel reductions in city departments and a reduction of the school department's requested appropriation. Most city departments are level-funded but expenditures are projected to rise for health insurance, pension, and salary costs resulting in an overall budget increase of \$10 million or 4.2% over fiscal 2005. Favorably, the city projects an additional surplus of \$1.2 million in fiscal 2006 and reserve levels exceeding those in fiscal 2005, largely due to excess investment income revenues. Although the city has depleted the city stabilization fund in recent years to fund capital improvement projects, a school stabilization fund (unaudited fiscal 2005 balance \$2.4 million) has been maintained to pay future debt service on the Roosevelt Middle School construction project.

Officials report that the city is in negotiations with several collective bargaining units and plans to fund retroactive settlements with one-time revenues reserved in fiscal 2006. The city also expects to benefit from modest unbudgeted one-time revenues in the medium term as new staff addresses the large backlog of over \$17 million in tax liens. Management reports that the city has recently separated its water and airport operations into discrete enterprise funds with the airport fund expected to receive a modest \$34,000 subsidy in fiscal 2006.

MODERATE GROWTH IN SIZEABLE AND DIVERSE TAX BASE

New Bedford, located on Buzzards' Bay on the southeast shore of Massachusetts, is a regional industrial center and a major regional fishing port with a deep water harbor. Moody's believes that the city's tax base will sustain strong growth as the declining trend in equalized valuation that was seen in the early 1990's has now reversed; the city's assessed value has averaged 11.4% annual growth since 2001 with the 2006 value nearly \$5.2 billion. The city has enjoyed annual new growth revenue averaging over \$1.4 million since fiscal 2000 due to steady residential tax base growth and appreciation, commercial growth and industrial expansion as tax increment financing incentives expire. Moody's anticipates that the tax base will continue to expand in all sectors due to expansion of the regional airport, enhancement of the high-speed ferry for passengers and freight to Martha's Vineyard, and extension of the commuter rail from Boston (completion expected in 2015). City officials report appreciation of the existing residential tax base as well as construction progressing in several 100+ unit developments of \$250,000 single-family homes in the city's North End, which provide an affordable residential location for greater Boston (rated Aa1/stable outlook) commuters. Improvements at the city-owned airport will support the vibrant commercial fishing industry by allowing direct shipment of fishing products from the city. Continued growth and the revenues derived therefrom are particularly important to the city's credit profile as new growth generates additional tax revenue and the city has no excess levy capacity.

In the past five years the city's large industrial park has added 10 companies and 700,000 square feet and gained 1,600 employees. Major employers include St. Luke's Hospital (3,300), Polaroid Corporation (1,700) (Sr. Implied rating Caa2) and American Flexible Conduit (550). Management reports that redevelopment of the city's downtown district is underway as older commercial buildings are redeveloped into student housing for nearby University of Massachusetts-Dartmouth facilities. Additionally officials report that recent addition of passenger ferry service to Martha's Vineyard and Nantucket (rated Aa3) is spurring additional development in the waterfront area. The city zoo and new Sea Lab attract regional visitors and provide valuable enrichment for school programs. However, New Bedford socioeconomic indices are significantly weaker than the state as evidenced by per capita income 60% and median family income 58% of state medians. The poverty rate is 20.2% and unemployment consistently exceeds the commonwealth's unemployment rate. The equalized valuation per capita is a modest \$49,874, well below the commonwealth median.

AFFORDABLE DEBT BURDEN WITH LIMITED FUTURE BORROWING PLANS

Moody's anticipates that the city's debt position will remain manageable given moderate current levels of debt, significant commonwealth grants, and limited non-school borrowing plans. The overall debt burden is a moderate 2.0%, which includes a small amount (\$4.1 million) of overlapping regional vocational high school and regional refuse district debt. After significant (90%) anticipated commonwealth school building aid is deducted, New Bedford's overall debt burden drops to an affordable 0.9%. Amortization of long-term debt principal, including \$136 million in wastewater system loans from the Massachusetts Water Pollution Abatement Trust (rated Aaa), is below average at 51.1% in 10 years, and debt service claims a modest level of General Fund expenditures (3.1% in fiscal 2005). Water and sewer rates are adjusted annually to maintain the self-supporting nature of the water and wastewater enterprise funds. The city plans to issue up to \$5 million in long-term debt in fiscal 2007 to retire maturing notes associated with school construction and land acquisition.

City officials have historically issued RANs (\$12 million in fiscal 2006) to allow prepayment of the city's pension obligations, yielding significant savings in avoided interest charges from the retirement system, however, city officials report that preliminary cash flow projections indicate that the city's cash position has improved and that RAN borrowing may be reduced or eliminated in fiscal 2007. School projects represent the vast majority of debt authorizations outstanding, with a total of \$200 million of planned school construction awaiting final commonwealth assistance approval. The city is also evaluating the feasibility of a new police station with an estimated project cost of up to \$30 million and a projected completion date within four years.

KEY STATISTICS

2000 Population: 93,768

2007 Equalized Valuation (proposed): \$6.3 billion

Average Annual Equalized Value Growth (2001-2007): 14.3%

Equalized Value Per Capita: \$67.161

Overall Debt Burden (adjusted): 0.9%

Amortization of Principal (10 years): 51.1%

FY05 General Fund Balance: \$24.9 million (10.2% of General Fund revenues)

1999 Per capita income: \$15,602 (60.1% of the commonwealth median)

1999 Median Family income: \$35,708 (57.9% of the commonwealth median)

General Obligation debt outstanding: \$73.7 million

Outlook

The positive outlook reflects Moody's expectation that New Bedford's tax base will continue healthy growth across all sectors, contributing to a strengthening financial position with satisfactory reserve levels. It is anticipated that the city will resolve outstanding collective bargaining issues without limiting the city's financial flexibility and that the city will implement its established financial policies governing the use of free cash and stabilization fund appropriations to provide an additional cushion against future unanticipated budget pressures.

WHAT COULD CHANGE THE RATING-UP:

"Additional operating surpluses and augmented available reserve levels

"Continued tax base expansion across all sectors

"Change in demographic profile moving closer to commonwealth and national medians

WHAT COULD CHANGE THE RATING-DOWN:

"Operating deficits and reductions in reserve levels

"Flat or negative tax base growth

"Continued decline in income levels relative to commonwealth and national medians

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