



New Issue: MOODY'S ASSIGNS MIG 1 RATING TO NEW BEDFORD'S (MA) \$5.8 MILLION GENERAL OBLIGATION BOND ANTICIPATION NOTES

Global Credit Research - 15 Jun 2011

A1 LONG-TERM RATING APPLIES TO \$94.6 MILLION OF LONG-TERM GOLT DEBT; \$84 MILLION ALSO CARRIES ENHANCED Aa2 RATING WITH STABLE OUTLOOK

Municipality
MA

Moody's Rating

ISSUE		RATING
General Obligation Bond Anticipation Notes		MIG 1
Sale Amount	\$5,800,000	
Expected Sale Date	06/16/11	
Rating Description	Bond Anticipation Notes	

Opinion

NEW YORK, Jun 15, 2011 -- Moody's Investors Service has assigned a MIG 1 rating to the City of New Bedford's (MA) \$5.8 million General Obligation Bond Anticipation Notes (dated June 24, 2011 and payable February 10, 2012). Concurrently, we have affirmed the city's long-term bond rating of A1, affecting approximately \$94.6 million of previously-issued general obligation, limited tax (GOLT) debt. Of the outstanding GOLT bonds, roughly \$84 million also carries the Massachusetts Qualified Bond Program's enhanced rating of Aa2 with a stable outlook.

SUMMARY RATING RATIONALE

Assignment of the MIG 1 rating reflects our expectation that New Bedford is likely to obtain sufficient market access for the current issue, based on the city's history of demonstrated capital market access and our expectation that the notes will be permanently financed by State Qualified Bonds, as well as the city's underlying long-term credit characteristics. The A1 long-term rating incorporates the city's sizeable tax base with below-average wealth and income levels, satisfactory financial position which is expected to narrow over the near term, and affordable debt burden. The notes are secured by the city's general obligation, limited tax pledge, as debt service has not been exempted from the levy limitations of Proposition 2 1/2. Proceeds of the notes provide short-term financing for the purchase of communications equipment, remodeling city buildings and the Lincoln School renovation.

STRENGTHS:

- Satisfactory although narrowing, financial position
- Sizable, mature and diverse tax base with deep water port
- Manageable debt burden

CHALLENGES

- Elevated exposure to state aid
- High unfunded liabilities for pension and OPEB
- Modest demographic profile with a declining population trend

DETAILED CREDIT DISCUSSION

ADEQUATE HISTORY OF MARKET ACCESS

New Bedford has demonstrated a satisfactory history of access to the capital markets. The city's most recent note sale, dated February 11, 2011, received three bids on taxable notes and five bids on tax-exempt notes. On its note sale dated September 24, 2010 four bids were received and for its September 17, 2010 sale four bids were received. All bids were received from major regional and national financial institutions. Based on this history we expect New Bedford to continue adequate access to the capital markets, if necessary, at the February 2012 maturity.

MAJORITY OF DEBT ENHANCED BY MASSACHUSETTS QUALIFIED BOND PROGRAM

The enhanced Aa2 rating and stable outlook assigned to approximately \$84 million of New Bedford's outstanding bonded debt, reflects the credit enhancement provided by the Commonwealth of Massachusetts' Qualified Bond Program. The program is a direct-payment system whereby the Commissioner of Revenue authorizes the State Treasurer to deduct from the city's quarterly state aid payments an amount sufficient to meet the city's debt service on qualified securities. In fiscal 2011 New Bedford is expected to receive aid from the commonwealth totaling more than 22 times the city's maximum projected obligation for debt service on the enhanced bonds. The State Treasurer makes debt service payments directly to a state-approved paying agent on behalf of the city. We believe that the commonwealth's strong commitment to state aid for municipalities and the program's sound payment mechanisms, which do not rely on the trigger of a notice of potential default, enhance the likelihood of full and timely debt service payment. The programmatic rating is linked to the commonwealth's general obligation rating, which is

one rating notch higher at Aa1 with a stable outlook.

OPERATING BUDGET PRESSURED BY STATE AID DECLINES

New Bedford's fiscal profile is expected to remain satisfactory, despite recent reductions in state aid, which represented 57.6% of general fund revenues in fiscal 2010 and is expected to remain a significant revenue stream for the city. Operations in fiscal 2009 were stressed by a mid-year \$2.78 million reduction in local aid from the commonwealth and a \$1 million deficit in local receipts. The state aid cut was addressed mid-year through personnel reductions including 156 layoffs and 24 retirements, and a spending freeze was imposed, which yielded unspent appropriations of roughly \$1 million. Available reserves, combining the city's unreserved general fund and stabilization fund, totaled \$22.6 million, an adequate 8.4% of general fund revenues at year-end, down from \$29.8 million, a more healthy 11% of revenues in fiscal 2007.

A further reduction of \$7.9 million in fiscal 2010 state aid presented a challenge for New Bedford and 90 additional layoffs were imposed in municipal departments. Audited financial statements indicate a slight general fund balance increase in 2010 to a satisfactory \$17.5 million, approximately 6.1% of general fund revenues. Available reserves fell slightly to \$21.6 million, an adequate 7.6% of revenues, due to an unreplenished draw on the stabilization fund. Favorably, the city did not appropriate free cash to balance the operating budget. Fiscal 2010 free cash increased to \$3.2 million, up from a very slim \$485,884 in fiscal 2009.

Approaching the end of fiscal 2011, the city projects a drop in free cash due primarily to a \$1.2 million collective bargaining settlement. The budget was pressured by a further state aid decline of \$3.77 million and elevated snow removal costs. The city and school stabilization fund balances are expected to decline slightly after moderate unreplenished draws, and another decline in available reserves is likely. Of note, the City's adoption of local option meals and hotel occupancy excise taxes have added approximately \$860,000 in revenues. Enterprise operations are projected to be positive, with small increases to unrestricted net assets and elevated claims in the health care trust fund may result in a draw of up to \$200,000 from free cash.

The fiscal 2012 budget has been submitted to the city council for consideration. Expenditures are flat relative to fiscal 2011, however a 2% salary raise is included for most employees. A cut of 19% was made to the school department's non-teaching staff budget, and most other department budgets are level-funded. No free cash or other reserves were used to balance the budget. The fiscal 2012 tax rate will be adjusted to compensate for loss in assessed value and to capture the 2.5% levy increase allowed under Proposition 2 ½, however the city continues to maintain unused property tax levy capacity of roughly \$5 million in an effort to keep commercial property tax rates competitive with other cities in the region. State aid is New Bedford's primary revenue source at 57.2% in fiscal 2010; property tax represented 31.1% of fiscal 2010 revenues and collections have improved to over 96% on a current-year basis, with close to 100% collected within the subsequent fiscal year.

The city's other post employment benefits (OPEB) actuarial study, as of January 1, 2008, identifies an unfunded liability of \$225 million, which is primarily due to retiree health insurance. New Bedford's pay-as-you-go OPEB expense was roughly \$20.5 million in fiscal 2011, significantly lower than the annual required contribution (ARC) of \$30 million, which amortizes the unfunded liability over 30 years, as identified in the study. The city has no plans to establish a trust for OPEB or to fund the unfunded liability. City officials have historically issued RANs (\$12 million in fiscal 2011) to allow prepayment of the city's pension obligations, yielding significant savings in avoided interest charges from the retirement system; city officials project similar levels of RAN borrowing in fiscal 2012.

We expect the city will be challenged to maintain service levels as well as adequate reserves and financial flexibility. Moving forward, maintaining structural balance will be critical to the city's financial strength as free cash and reserve appropriations, if unreplenished, could erode fund balance. New Bedford's ability to maintain adequate financial flexibility while growing reserves, at a minimum on pace with budgetary expansion, will be critical to the city's credit strength.

FAVORABLY LOCATED TAX BASE WITH REDEVELOPMENT POTENTIAL; ASSESSED VALUATION DECLINES CONTINUE IN RESIDENTIAL SECTORS

New Bedford, located on Buzzards Bay on the southeast shore of Massachusetts, is a local industrial center and a major regional fishing port with a deep water harbor. We believe that the city's tax base will sustain additional growth but at a more moderate pace, reflecting both solid new development and regional and national market declines. The fiscal 2011 assessed valuation contracted by 7.4% to \$6 billion, far below the annual average increase of 6.1% since fiscal 2004 but in line with regional trends. The city has enjoyed annual new growth revenue averaging over \$1.7 million since fiscal 2000 due to steady residential tax base growth and appreciation as well as commercial growth and industrial expansion as tax increment financing incentives expire, however fiscal 2011 new growth revenue came in at \$995,000 and is projected to increase slightly in 2012 to \$1.2 million. While continued tax base expansion is anticipated over the longer term, further assessed values declines are likely in the near term due to ongoing weakening in regional residential real estate markets.

Commercial redevelopment projects continue to progress, particularly in former mill properties along the Acushnet River, where site preparation and infrastructure improvements are underway. A proposed extension of the commuter rail from Boston (G.O. rated Aaa/stable outlook), enhancement of the regional airport and improved service offered by the high-speed ferry for passengers and freight to Martha's Vineyard could fuel long-term growth in all sectors. Residential valuations are generally soft and new residential construction has slowed in several 100+ unit developments of \$300,000 single-family homes in the city's North End. However, overall growth continues as shown by a moderate \$995,000 in fiscal 2011 new growth revenue and a satisfactory \$55 million in fiscal 2011 building permit activity, which reflects a healthy increase in new activity since the \$38 million posted in 2009. Improvements at the city-owned airport are expected to support the vibrant commercial fishing industry by allowing direct shipment of fishing products from the city. Continued tax base development and the expected additional property tax revenues are particularly important to the city's credit profile as the city has historically maintained slim excess levy capacity under Proposition 2 ½.

In the past five years the city's large industrial park has added 10 companies and 700,000 square feet of developed property and gained 1,600 employees. Major employers include Southcoast Health System (5,584), Acushnet Company (2,300) and University of Massachusetts--Dartmouth (1,000). Management reports that redevelopment of the city's downtown district is underway as older commercial buildings are redeveloped into student housing for nearby UMass-Dartmouth facilities. However, New Bedford socioeconomic indices are significantly weaker than the state as evidenced by per capita income at 60% and median family income 58% of state medians. The poverty rate is 20.2% and unemployment remains elevated at 13.1% in April 2011, notably high although historically the jobless rate in the city consistently exceeds that of the commonwealth. The equalized valuation per capita is a modest \$70,864, well below the commonwealth and national medians.

MODERATE DEBT BURDEN SUPPORTED BY STATE REIMBURSEMENT FOR SCHOOL PROJECTS

The city's debt position will remain affordable given significant levels of self-supporting debt and anticipated commonwealth grants in support of

school construction projects, as well as limited borrowing plans. New Bedford's overall debt burden is a moderate 1.6% of equalized value, which includes a small amount (\$2 million) of overlapping vocational high school and regional refuse system district debt. After significant (90%) anticipated commonwealth school building aid is deducted, New Bedford's overall debt burden drops to a more manageable 1.4% of equalized value. Amortization of long-term principal, including \$139 million in wastewater system loans from the Massachusetts Water Pollution Abatement Trust (rated Aaa/stable outlook), is average at 71.3% within 10 years, and debt service claims a modest level of General Fund expenditures (4% in fiscal 2010). Water and sewer rates are adjusted annually to maintain the self-supporting nature of the water and wastewater enterprise funds. Water and sewer upgrades (\$115 million) and school projects (\$130 million) represent the majority of the \$283 million in outstanding debt authorizations, however up to \$77 million in outstanding authorizations are no longer needed and are likely to be rescinded. New Bedford has no exposure to variable or auction rate debt or swap agreements.

WHAT COULD MAKE THE RATING GO UP

- Substantial and sustained increase in available reserves
- Improvement in local economy, including tax base valuations and demographics

WHAT COULD MAKE THE RATING GO DOWN

- Decline in available reserves
- Adoption of less conservative approach to budgeting
- Increase in debt burden

KEY STATISTICS

2008 Population (est, US Census): 91,365 (-2.6% from 2000)

2011 Equalized Valuation: \$6.4 billion

Average Annual Equalized Value Growth (2005-2011): 5.5%

2011 Equalized Value Per Capita: \$70,864

Unemployment (April, 2011): 13.1% (MA 7.4%, US 8.7%)

FY10 General Fund Balance : \$17.5 million (6.1% of General Fund revenues)

FY10 Available Reserves: \$21.6 million (7.6% of General Fund revenues)

1999 Per capita income: \$15,602 (60% of MA, 72% of US)

1999 Median Family income: \$35,708 (58% of MA, 71% of US)

Overall Debt Burden (adjusted): 1.4%

Amortization of Principal (10 years): 71.3%

General Obligation long-term debt outstanding: \$94.6 million

State Qualified long-term debt outstanding: \$84 million

The principal methodology used in this rating was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007.

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