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## Summary:

# New Bedford, Massachusetts; Non-School State Programs

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**Summary:**

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| Credit Profile | | |
|---|---|---|
| US$13.785 mil GO st qaul rfdg bnds ser 2016 due 09/01/2034 | | |
| *Long Term Rating* | AA/Negative | New |
| *Underlying Rating for Credit Program* | AA-/Stable | New |
| New Bedford GO st enhancement prog | | |
| *Long Term Rating* | AA/Negative | Affirmed |
| *Underlying Rating for Credit Program* | AA-/Stable | Affirmed |
| New Bedford GO State Enhancement Prog | | |
| *Long Term Rating* | AA/Negative | Affirmed |
| *Unenhanced Rating* | NR(SPUR) | |
| *Underlying Rating for Credit Program* | AA-/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'AA-' rating, and stable outlook, on New Bedford, Mass.' series 2016 general (GO) obligation state qualified refunding bonds.

At the same time, S&P Global Ratings affirmed its 'AA' program rating (negative outlook) and 'AA-' underlying (SPUR) rating, with a stable outlook, on the city's existing state-qualified municipal purpose bonds. We base the 'AA' rating on the bonds' eligibility under the commonwealth's Chapter 44A Qualified Bond Act. Massachusetts' Municipal Finance Oversight Board authorized the city to issue bonds or notes as commonwealth-qualified bonds. The outlook on the program rating is negative, reflecting the credit conditions of the state credit enhancement program.

The city's full faith and credit, subject to the limits of Proposition 2 1/2, secures the current bond issue and existing GO bonds. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. Officials intend to use proceeds from the bonds to advance refund the outstanding balance of the city's series 2008 GO state qualified bonds, as well as the series 2010 GO state qualified bonds.

The 'AA-' rating reflects our opinion of the following factors for the city, specifically its:

- Adequate economy, with a market value per capita of $55,590 and projected per capita effective buying income at 75.1%, that is benefitting from access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;

- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 of 7.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 13.7% of total governmental fund expenditures and 2.3x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 34.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

### Adequate economy

We consider New Bedford's economy adequate. The city, with an estimated population of 95,970, covers 30.1 square miles on the Atlantic coast, 60 miles south of Boston and 32 miles southeast of Providence, R.I. It is in Bristol County in the Providence-Warwick MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 75.1% of the national level and per capita market value of $55,590. Overall, the city's market value grew by 1.9% over the past year to $5.3 billion in 2016. The county unemployment rate was 6.3% in 2015, which historically remains above the commonwealth (4.9%) and national average (5%).

The city's property tax base is primarily residential, generating 79.4% of its assessed value (AV). Commercial and industrial properties are the next-highest land use classification at 17% of AV combined. New Bedford's underlying economy is anchored by a number of private hospitals and other sizable health services employers, with employment estimated at 12,780 employees. St. Luke's Hospital, Southcoast Hospital Radiology, and Community Health Center constitute three of five largest employers in the city. Furthermore, the city is home to a diverse manufacturing base, including golf equipment manufacturer, Acushnet Co., as well as apparel and textile companies, Joseph Abboud and Ahead Inc. According to city officials, including Ahead, Inc. and other existing employers are at various stages of business expansion. The tax base remains diverse with the 10 leading taxpayers accounting for 3.2% of AV.

The local economy, while challenged, is unique, in our view, because it is a hub for several maritime industries in the Northeast since New Bedford is a leading fishing port. The commonwealth has made New Bedford a designated port area, which provides the city with planning and technical assistance from state harbor planning programs. Management expects this program to support its existing maritime industries and could foster additional development over the next decade.

Furthermore, in 2015, Cape Wind ended a lease contract with New Bedford, leaving a recently completed Marine Commerce Terminal without a tenant. The terminal was built specifically to support the construction, assembly, and deployment of wind turbines for offshore projects. Although the project was primarily state-funded, with no financial obligation from the city, New Bedford remains poised to benefit from several spin-off businesses and new private investments in the offshore wind energy industry. City officials remain optimistic that other projects, albeit smaller, will make use of the facility. Furthermore, two proposed pieces of state legislation that would require energy companies to enter into long-term wind power purchase agreements could positively affect three proposed offshore wind projects along New Bedford's coastline.

Following a decline in market values during the recession, the city's market values have increased by nearly 2.1% from $5.23 billion in fiscal 2014 to $5.33 billion in fiscal 2016. According to city officials, there was no single factor or development that led to the increase in market values; rather, it reflected increased development throughout the city. New Bedford officials expect market values to continue to rise based on several anticipated developments downtown and within the business park. Although projects remain in various stages of the development process, the value of new commercial, educational research, and residential projects could exceed $140 million over the next several years.

Based on our regional forecasts, we expect the regional economy to remain stable, yet with lower growth compared with the nation. Still, recent data indicates that the region's median home prices continue to improve and that housing starts will remain positive.

### Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

New Bedford's key budgeting practices include the use of historical data and trend analysis to guide its revenue and expenditure assumptions. In preparing its annual revenue projections, management considers state and county tax assessments and the city estimates non-tax revenues when calculating the annual tax levy. For expenditures, management accounts for principal and interest on debt service and adjustments to contractual obligations. Furthermore, management monitors budgetary performance and reports budget-to-actuals to the city council quarterly, addressing budget trends and variances. Supplemental appropriations and transfers between appropriation items may be made during the course of the fiscal year with approval of the city council.

Furthermore, the city maintains a comprehensive five-year capital improvement plan (CIP) that describes and prioritizes major projects and capital vehicle replacements by municipal department. The plan is prepared annually, in coordination with the budget process, and identifies internal and external funding sources. At the same time, the city has a limited long-term financial plan, and management is working internally and with outside entities to revise and improve it.

New Bedford maintains a formal investment policy in accordance with state statutes. In addition, the city treasurer delivers an earnings and holdings report to the chief financial officer quarterly. New Bedford also has a written debt management policy which identifies debt affordability and capacity targets based on outstanding debt as a percentage of per capita income, outstanding debt as a percentage of assessed valuation (not to exceed 10%)., annual debt service as a percentage of general fund expenditures (not to exceed 10%). The policy also includes a goal to amortize 60% to 70% of tax-supported debt within 10 years. Furthermore, the city's reserve policy targets a stabilization reserve balance of 2%-6% of the current year's general fund budget, and free cash balances of no lower than 1% of the operating budget.

### Adequate budgetary performance

New Bedford's budgetary performance is adequate in our opinion. The city had deficit operating results in the general fund of 1.6% of expenditures, but a surplus result across all governmental funds of 2.4% in fiscal 2015. For analytical consistency, we adjusted for net transfers in to the general fund from other non-major governmental funds. In addition, for the total governmental performance in fiscal 2015, we netted out $31 million spent on capital outlay from bond proceeds.

The negative operating result in the general fund is due to one-time expenditures associated with snow and ice removal, fire department settlement pay, and a delay in delinquent tax collections. The delay in collections was due to a shift to a new software system that resulted in $1.7 million in receivables. These funds were ultimately collected in fiscal 2016. The snow and ice deficit was $461,000 and contract settlements resulted in a $2.5 million payout.

New Bedford approved a balanced fiscal 2016 budget of $281.6 million, or a 2.6% increase over the previous year. At the same time, the city's tax levy grew by $7.6 million, or 7%. The city did not budget the use of reserves, but exercised $3.6 million of its unused levy capacity. Management indicates actual revenues performed approximately $3 million better-than-budgeted, resulting from increases in motor vehicle excise tax receipts, as well as building permit and ambulance fees. Furthermore, in May 2015, the city sold 165 tax liens through a tax title sale, which netted the city approximately $4 million in additional revenue. In addition, management estimates actual expenditures to be nearly $2 million under budget. Although the city experienced an increase in fire department expenses due to the expiration of a federal grant in mid-fiscal 2016, management attributes the overall reduction in expenditures to unexpended departmental appropriations and cost savings measures, specifically lower-than-budgeted health insurance expenditures. At fiscal year-end, city officials conservatively estimate a $5 million positive operating result.

For 2017, the city's balanced $296.7 million budget is an increase of 5.4% over fiscal 2016, but does not appropriate for the use of reserves to balance operations. Like fiscal 2016, management expects to see an increase in its fire department expenditures again in fiscal 2017. However, according to management, the city applied for and will receive a Staffing for Adequate Fire and Emergency Response (SAFER) grant renewal of $4.6 million, which is expected to fund 21 firefighter positions in fiscal 2017 and fiscal 2018. Furthermore, the budget includes a nearly $1 million increase to pension costs, and a $400,000 rise in debt service payments. The budget also plans for an $800,000 annual increase to pay for the city's share of obligations toward charter schools due to reduced state reimbursements, which could place downward pressure on the city's budgetary performance.

We believe the city is somewhat susceptible to state-aid decreases since intergovernmental revenue accounts for 55% of total governmental funds revenue; commonwealth revenue, however, has been stable and management has done well to appropriately budget any changes. We note property taxes generate 33% of revenue, and property tax collections have improved to 96% in fiscal 2015. Due to strengthened collection enforcement practices and policies, management indicates property tax collections improved to approximately 96.9% in fiscal 2016.

### Adequate budgetary flexibility

New Bedford's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 7.1% of operating expenditures, or $21.3 million.

From fiscals 2013 to 2015, the city's available reserves decreased from 8.9% to 7.1% of general fund expenditures. According to city officials, the fund balance drawdown is largely attributed to excess expenditures due to the snow and ice deficit, an arbitration award within the fire department for retroactive pay, and a delay in delinquent tax collections. Despite this planned use of reserves, the city has historically met and sustained its fund balance policy, which sets its stabilization fund level between 2%-6% of general fund expenditures. For fiscal 2015, the stabilization account has a balance of $9.5 million, or 3.2% of operating expenditures.

In fiscals 2016 and 2017, the city plans to rebuild available reserves and management indicates it took measures to do so. Due to better-than-expected budgetary performance in fiscal 2016, coupled with an approved balanced budget in fiscal 2017, we believe that New Bedford will likely sustain reserves at the current level over the next two years.

### Very strong liquidity

In our opinion, New Bedford's liquidity is very strong, with total government available cash at 13.7% of total governmental fund expenditures and 2.3x governmental debt services in 2015. In our view, the city has strong access to external liquidity if necessary.

New Bedford is a regular market participant that has issued debt frequently over the past several years, including GO bonds and bond anticipation notes (BANs). In accordance with commonwealth laws, it does not currently have any variable-rate or direct-purchase debt. Management also confirmed that the city does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Furthermore, city investments are subject to state statutes. New Bedford's formal investment policy allows the city to invest its cash in low-risk assets, including the state's short-term investment funds, certain mutual and money market funds, U.S. securities and municipal obligations, or short-term certificates of deposit. Currently, the majority of its cash is invested in money market funds and certificates of deposits that mature in less than one year. For these reasons, the city's available cash position remains strong and stable, and we expect its liquidity profile to remain very strong over the next two fiscal years.

### Strong debt and contingent liability profile

In our view, New Bedford's debt and contingent liability profile is strong. Total governmental fund debt service is 5.9% of total governmental fund expenditures, and net direct debt is 34.6% of total governmental fund revenue. Overall net debt is low at 2.5% of market value, and approximately 67% of the direct debt, not including BANs, is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issue, New Bedford will have approximately $244.4 million of total direct debt and about $33.8 million of BANs. Of that amount, we calculate $24.9 million is self-supporting debt through user charges from the city's water enterprise fund, and wastewater fund revenue secures roughly $67.4 million. The city will receive an additional $15.03 million in reimbursements from the state for debt issued for school building projects and Massachusetts Clean Water Trust subsidies. In October 2015, New Bedford received $6.5 million in settlement funds for environmental claims, $3.5 million of which the city used to defease existing bonds associated with a rail yard. Over the next two years, the city will likely issue about $15 million in additional debt to finance several capital projects and capital leases, as referenced in the city's CIP. Due to its low overall net debt and rapid amortization of direct debt, we do not expect our assessment of the city's debt profile to weaken over the next two years.

In our opinion, a credit weakness is New Bedford's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. New Bedford's combined required pension and actual OPEB contributions totaled nearly 11% of total governmental fund expenditures in 2015. Of that amount, 6.5% represented required contributions to pension obligations, and 4.4% represented OPEB payments. New Bedford's plan fiduciary net position as a percent of the total pension liability for its city employee pension plan is 44%

According to Governmental Accounting Standards Board Statement No. 68 standards, which the city implemented for financial statements ended June 30, 2015, employers with benefits administered through single-employer plans are to recognize their net pension liability for pension-related activity incurred before July 1, 2014. The city's proportionate share of the net pension liability was approximately $334 million as of the most recent actuarial valuation, December 31, 2014. The city contributed $24.43 million, or 100%, of its actuarially determined contribution (ADC) in fiscal 2015. Management expects to make the full ADC of $25.73 million in fiscal 2016. Historically, the city has funded its ADC in full and continues to do so. The city is on schedule to fund the pension plan in full by 2036.

We acknowledge the city recently completed an exhaustive review of its health care program, with the objective of reducing retiree health care costs. In December 2015, the city council recently voted to establish an OPEB trust fund and has undertaken initial funding within the current fiscal year, totaling $759,483. The OPEB unfunded actuarial accrued liability is $425 million, which is considerably down from the $563 million previously reported. We, however, expect the city's retirement liabilities to remain significant in the short-to-medium term.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

## Outlook

The negative outlook on the program rating reflects the projected decline in reserves at the state level.

The stable outlook reflects our opinion of New Bedford's very strong management, which is supported by the city's emphasis on formalizing plans, policies, and practices. It also reflects the city's ability to sustain its very strong liquidity, in conjunction with at least adequate budgetary performance and flexibility. While New Bedford's economy remains somewhat challenged, we believe the city will maintain adequate wealth and income conditions, which is also strengthened by its participation in the broad and diverse Providence-Warwick MSA. In addition, we expect New Bedford to maintain a strong debt and liability profile based on projected stable debt service costs and net direct debt ratios. For these reasons, we do not expect to change the rating within the next two years.

### Upside scenario

All else being equal, we could raise the rating if the city demonstrates more comprehensive planning to mitigate its long-term liabilities, coupled with strengthening and sustaining available reserves through positive budgetary performance to levels we consider commensurate with its higher-rated peers.

### Downside scenario

We could lower the rating if the city experiences a significant deterioration in budgetary performance, leading to weakened fund balance reserves and liquidity constraints.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.