

# RatingsDirect®

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## Summary:

# New Bedford, Massachusetts; Non-School State Programs; Note

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

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### Credit Profile

US\$14.262 mil GO st qual mun purp loan bnds ser 2016 due 12/01/2043		
<i>Long Term Rating</i>	AA/Negative	New
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
US\$1.312 mil GO bnd antic nts ser 2016 dtd 02/05/2016 due 05/03/2016		
<i>Short Term Rating</i>	SP-1+	New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and 'AA-' underlying rating to New Bedford, Mass.' 2016 state-qualified general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and 'AA-' underlying rating on the city's existing GO debt. The outlook on the underlying rating is stable. The outlook on the long-term rating is negative.

We base the 'AA' ratings on the bonds' eligibility under the commonwealth's Chapter 44A Qualified Bond Act. Massachusetts' Municipal Finance Oversight Board has authorized the city to issue bonds or notes, including this issuance, as commonwealth-qualified bonds. Standard & Poor's recently placed the state rating on negative outlook due to a projected decline in reserves.

Standard & Poor's also assigned its 'SP-1+' short-term rating to the city's bond anticipation notes (BANs), reflecting New Bedford's very strong capacity to pay principal and interest when the notes come due. The city maintains a low market risk profile with strong legal authority to issue long-term debt to take out the notes, and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The city's full-faith-and-credit, subject to the limits of Proposition 2 1/2, secures the bonds and notes. 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. We understand that officials intend to use bond proceeds to finance various capital projects, including upgrades to the high school and renovations of various city buildings. The BANs will be taken out with state reimbursement funds for school building projects.

The underlying rating reflects New Bedford's:

- Adequate economy, with market value per capita of \$55,692 and projected per capita effective buying income at 78.3%, but 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 operating results that we expect could deteriorate in the near term relative

to fiscal 2014, which closed with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level;

- Adequate budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2014 level of 8.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 14.1% of total governmental fund expenditures and 2.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile; and
- Strong institutional framework score.

### **Adequate economy**

We consider New Bedford's economy adequate. The city, with an estimated population of 95,794, is located 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 78.3% of the national level and per capita market value of \$55,692. 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 7.3% in 2014.

The improved market values led to a change in how we evaluate New Bedford's economy from levels we previously considered weak to a level we now view as adequate. According to city officials, there was no one factor or development that led to the increase in market values; rather, it was a result of increased development throughout the city. New Bedford officials expect market values to continue to rise with several anticipated developments downtown and within the business park.

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 off-shore projects. Although the project was primarily state-funded, with no financial obligation from the city, New Bedford was poised to benefit from several spin-off businesses in the wind industry. City officials remain optimistic that other projects, albeit smaller, will make use of the facility.

The property tax base is 80% residential and 17% commercial and industrial. The local economy, while challenged, is unique, in our view, because it is a hub for several maritime industries in the Northeast as New Bedford is a leading fishing port.

The tax base is diverse with the 10 leading taxpayers accounting for 3.2% of assessed value. Based on our regional forecasts, we expect the regional economy to remain stable, yet with lower growth compared with the nation. Still, recent data indicate 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. The improvement in our assessment of the city's management score is a result of the implementation of a five-year long-term financial plan that management plans to update annually, in addition to existing management practices and policies.

Overall, we note New Bedford is conservative in its revenue and expenditure assumptions. Management monitors budgetary performance monthly, ensuring it makes timely adjustments. New Bedford also maintains an investment

policy; a debt management that sets affordability and refunding targets; and reserve policy that targets a stabilization reserve balance of 2%-6% of the current year's general fund budget, as well as free cash balances of no lower than 1% of the operating budget. New Bedford maintains a formal capital improvement plan, linked to the operating budget that the financial team reviews and prioritizes yearly. Management currently has a shell of a long-term financial plan and is working with outside entities to make it more robust.

### **Adequate budgetary performance**

New Bedford's budgetary performance is adequate in our opinion. The city had balanced operating results in the general fund of negative 0.2% of expenditures, and slight surplus results across all governmental funds of 0.5% in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

According to city officials, the balanced general fund performance is due to conservative budgeting and revenues coming in above target. For the total governmental performance in 2014, we netted out \$8.8 million spent on capital outlay from bond proceeds.

We expect budgetary performance to deteriorate in 2015 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 year 2016. The snow and ice deficit was \$461,000 and contract settlements resulted in a \$2.5 million pay out. According to city officials, fiscal 2016 is on track to achieve balanced budgetary results with no budgeted use of reserves. The 2016 budget is \$281.6 million, a 2.6% increase over the previous year.

We believe the city is somewhat susceptible to state aid decreases since intergovernmental revenue accounts for 57% 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 25% of revenue, and property tax collections have improved to 96%.

### **Adequate budgetary flexibility**

New Bedford's budgetary flexibility is adequate, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2014 level of 8.5% of operating expenditures, or \$26.1 million.

For fiscal 2015, reserves declined to \$21 million or 6.7% of expenditures due to a snow and ice deficit, an arbitration award within the fire department for retroactive pay, and a delay in delinquent tax collections. City officials say they are determined to rebuild reserves and took measures within the 2016 budget to do so. The city remains in compliance with its reserve policy, which sets a stabilization fund level of 2%-6% of general fund expenditures. The stabilization account has a balance of \$9.5 million or 3.3% of operating expenditures.

### **Very strong liquidity**

In our opinion, New Bedford's liquidity is very strong, with total government available cash of 14.1% of total governmental fund expenditures and 2.4x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We believe the city's strong access to external liquidity is supported by its regular GO bond and bond anticipation note

issuances. The city has no direct purchase or variable-rate debt, or other contingent liabilities that may put pressure on available cash. New Bedford has consistently had very strong liquidity and we do not anticipate a change to these ratios.

### **Adequate debt and contingent liability profile**

In our view, New Bedford's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 32.5% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is in our view a positive credit factor.

Following this issue, New Bedford will have about \$231 million of total direct debt and about \$11 million of BANs; of that amount, we calculate \$26.9 million is self-supporting debt through user charges from the city's water enterprise fund and wastewater fund revenue secures roughly \$72.8 million. The city will receive an additional \$14.4 million in reimbursements from the state for debt issued for school building projects. 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. City officials expect to issue about \$17 million in new debt in the next two years.

In our opinion, a credit weakness is New Bedford's large pension and other postemployment benefit (OPEB) liability, without a plan in place that we think will sufficiently address the obligation. New Bedford's combined pension and OPEB contributions totaled 10.7% of total governmental fund expenditures in 2015. Of that amount, 6.5% represented contributions to pension obligations and 4.2% represented OPEB payments. The city made its full annual required pension contribution in 2015. The pension funded ratio is 42.0%.

New Bedford contributes to a single-employer, defined-benefit pension plan with an unfunded actuarial accrued liability (UAAL) of \$337 million. 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 addition, the city council recently voted to establish an OPEB trust fund and has undertaken initial funding within the current fiscal year. The OPEB UAAL is \$424 million, which is considerably down from \$563 million previously reported.

### **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 on the underlying rating reflects Standard & Poor's opinion that New Bedford's strong management will likely translate to strong budgetary performance and operating flexibility over the two-year outlook period. In addition, we expect New Bedford to maintain a strong debt and liability profile since debt service costs and net direct debt ratios should remain stable.

We believe what we consider an adequate economy and high pension and OPEB costs constrain the rating. While

pension and OPEB costs will likely remain a long-term budget pressure, and since we expect costs to keep increasing, we believe those costs will likely not pose an immediate budgetary challenge over the next two years. For these reasons, we do not expect to change the rating over the two-year outlook period.

### Upside scenario

A consideration of a higher rating over time would require improved financial flexibility, favorable operating performance, and further work to mitigate the costs associated with the city's long-term liabilities.

### Downside scenario

If budgetary performance weakens, leading to a draw on reserves, we could lower the rating.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of January 19, 2016)		
New Bedford GO st enhancement prog		
<i>Long Term Rating</i>	AA/Negative	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
New Bedford GO State Enhancement Prog		
<i>Long Term Rating</i>	AA/Negative	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed

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