MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 underlying rating and stable outlook and Aa2 enhanced rating to the City of New Bedford's (MA) $4.4 million G.O. State Qualified bonds of 2013 and MIG 1 rating to $22.7 million G.O. BANs

Global Credit Research - 22 Jan 2013

Long-term A1 rating affirmed, affecting $94.5 million of outstanding G.O. bonds

NEW BEDFORD (CITY OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE		UNDERLYING RATING	RATING
General Obligation Municipal Purpose Loan of 2013 Bonds		A1	Aa2
Sale Amount	$4,370,000		
Expected Sale Date	01/24/13		
Rating Description	General Obligation		
Genral Obligation Bond Anticipation Notes		MIG 1	
Sale Amount	$22,750,000		
Expected Sale Date	01/24/13		
Rating Description	Note: Bond Anticipation		

Moody's Outlook STA

Opinion

NEW YORK, January 22, 2013 --Moody's Investors Service has assigned an A1 underlying and stable outlook and an enhanced Aa2 rating to the City of New Bedford's $4.4 million General Obligation Municipal Purpose Loan of 2013 Bonds. Moody's has also assigned a MIG 1 rating to New Bedford's $22.7 million General Obligation Bond Anticipation Notes (BANs), dated February 8, 2013 and payable February 7, 2014. Concurrently Moody's has affirmed the city's long-term A1 general obligation rating, affecting roughly $94.5 million in outstanding general obligation bonds. The bonds and 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 ½. The majority of New Bedford's outstanding G.O. bonds also carry the Massachusetts Qualified Bond Program's enhanced programmatic rating of Aa2 with a stable outlook.

SUMMARY RATINGS RATIONALE

The bond proceeds will be used to redeem a like amount of BANs issued to finance various capital improvement projects. The BANs will renew a like amount of BANs scheduled to mature on February 8, 2013 and were issued to finance contamination clean-up and renovations at the Keith School and upgrades to the city's management information system.

The A1 long-term rating incorporates the city's sizeable tax base with below-average wealth and income levels, satisfactory financial position, and affordable debt burden. The short-term MIG 1 rating incorporates New Bedford's satisfactory long-term credit profile as well as adequate market access at maturity based on both the city's bid history as well as the city's plans to permanently finance the notes with State Qualified Bonds. The enhanced Aa2 rating reflects the additional security provided by the direct payment of debt service by the Commonwealth of Massachusetts (G.O. rated Aa1/stable outlook) under the Qualified Bond Act. The stable outlook reflects the recent balanced operations with improving reserves as well as the sizeable tax base and its importance as the areas local industrial center with a major regional fishing port and deep water harbor.

STRENGTHS:

-Satisfactory history of market access

-Sufficient financial position

-Sizable and mature tax base

-Diverse local economy with deep water port

- Manageable debt burden

CHALLENGES

-Elevated exposure to state aid

-High unfunded liabilities for pension and OPEB

-Modest demographic profile with persistently high unemployment

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 revenue anticipation note sale received five bids and the city's most recent bond anticipation note sale (dated June 15, 2012) received 1 bid. However, prior sales received eight and three bids, respectively, on tax-exempt and taxable note sales (dated February 10, 2012) and four bids (dated August 19, 2011). All bids were received from major regional and national financial institutions. Based on this history we expect New Bedford will continue to have adequate access to the capital markets, if necessary, at the February 2014 maturity.

MAJORITY OF DEBT ENHANCED BY MASSACHUSETTS QUALIFIED BOND PROGRAM

The enhanced Aa2 rating and stable outlook assigned to approximately $94.5 million of New Bedford's outstanding bonded debt reflect 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 2013 New Bedford is expected to receive aid from the commonwealth totaling more than 13 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.

IMPROVING FINANCIAL POSITION; CITY REMAINS HIGHLY DEPENDENT ON STATE AID

New Bedford's fiscal profile is expected to remain satisfactory, despite recent reductions in state aid, which represented 56.2% of general fund revenues in fiscal 2011 and is expected to remain a significant revenue stream for the city. Fiscal 2012 unaudited financials reflect an improvement from prior years with an operating surplus of $8.7 million. The surplus is attributed to positive variance in revenues, primarily departmental and licenses and permits, and approximately $6.7 million in expenditures savings, including departmental turn-backs, and $4 million in health care savings due to over estimates, lower claims and a minimal premium increase. The total General Fund balance increased to $28.9 million (9.7% of revenues) and the unassigned fund balance increased to $19.4 million (6.5% of revenues). Enterprise operations are projected to again be positive with small increases to each funds free cash.

The fiscal 2013 budget increased by a minimal 0.2% and is balanced without an appropriation of free cash, marking the city's efforts to maintain level-funded department operations. The tax rate was adjusted to compensate for loss in assessed value, although the city continues to maintain unused levy capacity of roughly $7.1 million, or approximately 7% of the total tax levy. The city's primary revenue source will continue to be state aid (56.4% of 2012 unaudited revenues) and property taxes (30.8%) with a 96% current-year collection rate. Also, the city expects to fill the vacant chief financial officer position in 2013. Going forward, New Bedford's ability to maintain both service levels and structurally balanced operations while growing reserves, at a minimum on pace with budgetary expansion, will be a key factor in the city's credit strength.

The city's budget has been stressed since a mid-year $2.78 million reduction in fiscal 2009 local aid from the commonwealth and a $1 million deficit in local receipts. Local aid was further reduced by $7.9 million in fiscal 2010, and again by $3.7 million in fiscal 2011, which resulted in a total of 139 city-wide position reductions, through layoffs and attrition. The city implemented significant budget cuts, free cash appropriations were not fully replenished and available reserves steadily declined to $20.2 million in fiscal 2011, or 7.1% of General Fund revenues, significantly lower than the fiscal 2007 peak of $29.8 million, or a stronger 11% of revenues.

The city contributes to the New Bedford Contributory Retirement System, a single-employer defined benefit pension plan. The plan was 41.6% funded as of January 1, 2010. The city is required to fully fund its Annual Required Contribution (ARC), which was $22 million in 2011, representing 7.6% of expenditures. The plan assumes a 7.75% rate of return on investments and should the rate be adjusted downward in the next actuarial valuation, the city's annual contribution and its Unfunded Actuarial Accrued Liability (UAAL) of $318.6 million could increase significantly. Also, the city currently contributes to its OPEB liability on a pay-as-you-go basis. The city contributed 43% of its annual OPEB cost in fiscal 2011, representing $14.9 million. The total UAAL for OPEB is $568.8 million, as of July 1, 2011. The city's total fixed costs for 2011, including pension, OPEB and debt service, represented $45.7 million or 15.9% of expenditures.

TAX BASE EXPANSION DRIVEN BY REDEVELOPMENT IN NEW BEDFORD'S HARBOR AND DOWNTOWN

New Bedford, located on Buzzards Bay on the southeast shore of Massachusetts (G.O. rated Aa1/stable outlook), is a local industrial center and a major regional fishing port with a deep water harbor. The city's tax base will sustain additional development, but overall assessed values continue to decline over the near term as regional and national residential real estate values remain soft. The city's assessed valuation has sustained moderate declines totaling 20.1% since 2009 and averaging -3.2% annually. The city's fiscal 2012 full valuation of $5.8 billion incorporates declines in single and multi-family housing sectors, and relatively stable commercial and industrial values. The city continues to enjoy healthy annual new growth revenue averaging over $1.5 million since fiscal 2000 due to steady residential development as well as commercial growth and industrial expansion as tax increment financing incentives expire. New growth revenue dipped to $839,000 in 2013, down from $1.2 million in 2012 but still well above the $600,000 budgeted. 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.

New Bedford's economic development programs have been effective in the commercial sector, 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 construction of port facilities, including a new South Terminal, which is presently in the final permitting stage, could fuel long-term growth in all sectors. Residential valuations are generally soft and new residential construction is beginning to resume in several 100+ unit developments, which had stalled during the recession. Sales of $300,000 single-family homes continue in the city's North End. 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. Going forward, continued tax base development and the expected additional property tax revenues are particularly important to the city's credit profile.

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. Management reports that redevelopment of the city's downtown district is underway as older commercial buildings are redeveloped. New Bedford socioeconomic indices are significantly weaker than the state as evidenced by per capita income at 60% and median family income 56% of state medians. The poverty rate is 20.2% and unemployment has fallen from the 14.6% peak in 2010 but remains elevated at 11.2% in October 2012, notably high although historically the jobless rate in the city consistently exceeds that of the commonwealth and nation (6.2% and 7.5%, respectively). The equalized valuation per capita is a modest $60,968, well below the commonwealth and national medians.

LOW DEBT BURDEN SUPPORTED BY STATE REIMBURSEMENT FOR SCHOOL PROJECTS

The city's debt profile will remain favorable given significant levels of self-supporting enterprise debt, anticipated commonwealth grants in support of school construction projects and currently limited borrowing plans. New

Bedford's net direct debt burden is a moderate 1.5% of equalized value. In addition, the city has $89.4 million in outstanding revenue bonds it issued to the Massachusetts Water Pollution Abatement Trust which is self-supporting but increases the gross debt burden to 4%. The city's amortizes general obligation principal at an average rate of 69.1% within ten years and debt service for fiscal 2011 represented 3% of expenditures. The city has plans for additional long-term borrowing of an estimated $8.5 million for airport renovations in 2013 and the outstanding BANs will be permanently financed with State Qualified Bonds. Additionally, water and sewer upgrades and school projects represent the majority of the $262 million in authorized but unissued debt, although a portion of the outstanding authorizations are no longer needed and are likely to be rescinded. New Bedford has no exposure to variable rate debt or swap agreements.

OUTLOOK

The stable outlook reflects Moody's expectation that New Bedford will maintain the recent trend of balanced operations with improving reserve levels. The outlook also incorporates the sizeable tax base which represents the areas local industrial center with a major regional fishing port and deep water harbor.

WHAT COULD MAKE THE RATING GO UP

-Substantial and sustained increase in reserves

-Improvement in local economy, including tax base valuations and demographics

WHAT COULD MAKE THE RATING GO DOWN

-Decline in reserve levels

-Adoption of less conservative approach to budgeting

-Increase in debt burden

KEY STATISTICS

2010 Population (US Census): 95,072 (+1.4% from 2000)

2013 Equalized Valuation: $5.8 billion

Average Annual Assessed Value Growth (2009-2013): -3.2%

2013 Equalized Value Per Capita: $60,968

Unemployment (October 2012): 11.2% (MA 6.2%, US 7.5%)

FY11 General Fund Balance: $20.2 million (7.1% of General Fund revenues)

FY11 Unassigned Fund Balance: $12.4 million (4.4% of General Fund revenues)

FY12 General Fund Balance: $28.9 million (9.7% of General Fund revenues)

FY12 Unassigned Fund Balance: $19.4 million (6.5% of General Fund revenues)

Per capita income (as a % of state and US median): $37,914 (60.2% of MA, 74.8% of US)

Median Family income (as a % of state and US median): $45,347 (55.9% of MA, 72% of US)

Net Direct Debt Burden as a % of equalized value: 1.5%

Gross Direct Debt Burden as a % of equalized value: 4.0%

Amortization of Principal (10 years): 69.1%

General Obligation long-term bonds outstanding: $98.6 million

General Obligation long-term debt outstanding: $168 million

The principal methodology used in rating the long term bonds was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. The principal methodology used in rating the enhanced rating was State

Aid Intercept Programs and Financings published in February 2008. The principal methodology used in rating the short term notes was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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