

# RatingsDirect®

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## Summary:

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

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

### Credit Profile

US\$22.335 mil GO bnd anticipation notes ser 2015 dtd 02/06/2015 due 02/05/2016

<i>Short Term Rating</i>	SP-1+	New
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US\$7.878 mil GO St Qual Bnds ser 2015 due 12/01/2043

<i>Long Term Rating</i>	AA/Stable	New
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
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New Bedford GO st qual rfdg bnds

<i>Long Term Rating</i>	AA/Stable	Affirmed
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
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New Bedford GO State Enhancement Prog

<i>Long Term Rating</i>	AA/Stable	Affirmed
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<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and 'AA-' underlying rating (SPUR) for credit program and stable outlook to New Bedford, Mass.' series 2015 general obligation (GO) state-qualified municipal-purpose bonds and affirmed its 'AA' rating and 'AA-' SPUR, with a stable outlook, on the city's existing state-qualified municipal-purpose GO bonds.

Standard & Poor's also assigned its 'SP-1+' short-term rating to New Bedford's bond anticipation notes (BANs).

The short-term BAN rating reflects our view of the city's low market risk profile. New Bedford has the authority to refund the BANs with long-term debt secured by Massachusetts Qualified Bond Act program provisions. We also recognize the city is a regular market participant that provides ongoing disclosure.

The 'AA' rating reflects our assessment of the security provided by the Massachusetts Qualified Bond Act, pursuant to Chapter 44A of Massachusetts General Laws.

The SPUR reflects our opinion of the following factors for the city, specifically its:

- Participation in a broad, diverse economy, coupled with its unique position to take advantage of the emerging offshore wind industry -- Weak per capita effective buying income and per capita market value, however, somewhat temper these economic factors;
- Strong budgetary flexibility with fiscal 2013 audited available reserves in excess of 8% of general fund expenditures and projections that indicate fiscal 2014 results will remain at those levels;
- Strong budgetary performance during the past few fiscal years, coupled with our expectation that performance will likely remain stable, due to an improving economy, conservative budgeting, and additional tax flexibility afforded by

unused levy capacity;

- Very strong liquidity, providing very strong cash to cover debt service and operating expenditures;
- Strong management environment and "good" financial management policies under our Financial Management Assessment (FMA) methodology;
- Strong debt and contingent liabilities, bolstered by a low debt-to-market-value ratio and aggressive amortization, albeit with sizable pension and other postemployment benefits (OPEB) liabilities; and
- Strong Institutional Framework.

The city's full-faith-and-credit pledge secures the bonds. Officials intend to use series 2015 bond and note proceeds to finance various capital projects.

### **Weak economic factor**

We consider New Bedford's economy weak due to its low per capita effective buying income and per capita market value. The city, with a 2013 population estimate of 94,441, is a historic community located along Buzzard's Bay in southern Massachusetts, approximately 56 miles from Boston and approximately 30 miles east of Providence, R.I. New Bedford is part of the broad and diverse Providence-Warwick metropolitan statistical area, which has provided some economic stability.

Projected per capita effective buying income is 69% of the national level. In our view, local unemployment is above average; we, however, acknowledge it has moved considerably lower over the past year as economic activity has picked up. As of November 2014, city unemployment was 9.4%, lower than the 2013 unemployment average of 13.5%. More broadly, we recognize Bristol County unemployment averaged a better 6.8% in September 2014, down over the past year from an average of 9.7% in 2013.

The property tax base is 73% residential and 16% commercial and industrial. The local economy, while challenged, is, in our view, unique because it is a hub for several maritime industries in the Northeast. New Bedford is a leading fishing port. Moreover, the city is poised to take advantage of the emerging offshore wind industry, which we believe will contribute to substantial job growth over the next decade. In May 2013, the city broke ground on construction for the New Bedford Marine Commerce Terminal, the nation's first purpose-built terminal for offshore wind. While we believe economic growth from this sector will be a long process, New Bedford has been active in positioning itself favorably in this emerging industry.

The tax base is \$5.2 billion in fiscal 2015, up by 0.5% from fiscal 2014. Market value is \$54,000 per capita. The tax base is diverse with the 10 leading taxpayers accounting for 3% of assessed value. Based on our regional forecasts, we expect the regional economy to remain stable, albeit 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.

### **Strong budget flexibility**

New Bedford has been able to improve its budgetary flexibility to a level we consider strong due largely to management's willingness to make the necessary budgetary adjustments to offset lower commonwealth and local receipts. At fiscal year-end 2013, available reserves were \$26.7 million, or 8.9% of operating expenditures. Based on fiscal 2014 estimates, we expect similar fiscal 2014 reserves. Over the past three fiscal years, available reserves have ranged between 6% and 9% of expenditures. Currently, available reserves include \$16.8 million of unassigned general fund balance, \$8.8 million of stabilization reserves, and \$1.06 million of assigned general fund balance.

### **Strong budgetary performance**

In our opinion, budgetary performance has been strong. Despite a shortfall in the school department's budget in mid-Fiscal 2013, New Bedford reported a general fund deficit of \$78,000; this followed a general fund surplus of \$8.7 million, or 3% of operating expenditures, in fiscal 2012. Across all governmental funds, after adjusting for capital outlay spent from bond proceeds, in essence, the city produced balanced operations with a surplus of 0.9% of expenditures in fiscal 2013.

In our view, we expect budgetary performance to remain strong. Fiscal 2014 operating results are balanced on a budgetary basis, and we note preliminary results show the school department came in underbudget. Management attributes favorable budgetary performance to, what we regard as, conservative budgeting and a modest recovery in local fees and taxes due to the improving economy. We believe New Bedford is somewhat susceptible to state aid decreases since intergovernmental revenue accounts for 57% of total governmental funds revenue; commonwealth revenue, however, should remain stable. Property taxes generate 25% of revenue, and property tax collections have improved to 96%.

Currently, we expect New Bedford's operating performance to remain strong provided management continues to make the needed adjustments to meet growing expenditure demands. For fiscal 2015, the city is currently projecting positive operating results in the general fund. Based on our macroeconomic forecasts (please see the article, titled "U.S. State And Local Government Credit Conditions Forecast," published Dec. 10, 2014, on RatingsDirect), credit conditions in New England are stable.

New Bedford is undergoing a school reorganization that should help manage costs over time. The city has been successful working with department heads to maximize efficiencies and keep costs low. Finally, management maintains an approximate \$8.5 million of unused levy capacity in fiscal 2015, up from \$34,000 in fiscal 2010. Officials used some unused levy capacity in the fiscal 2015 budget to accommodate school cost increases and other fixed-cost increases. The fiscal 2015 operating budget, excluding enterprise funds, totals \$274 million; management is projecting results in-line with the budget. We expect that the city will likely remain structurally balanced and that performance will likely remain positive.

### **Very strong liquidity**

Supporting New Bedford's finances is liquidity we consider very strong. We calculate available cash at 11.4% of total governmental funds expenditures and 3.2x debt service coverage in fiscal 2013. We expect fiscal 2014 liquidity to be in-line with 13 ratios. Moreover, the city's strong access to external liquidity bolsters our view of its liquidity. New Bedford is a regular market participant since it has issued bonds frequently over the past several years, including GO bonds and short-term BANs. In addition, New Bedford has issued revenue anticipation notes in the past to prepay pension costs for savings; we, however, recognize that due to a change in when the city receives commonwealth appropriations, it no longer needs to issue short-term notes.

### **Strong management conditions**

We view New Bedford's management conditions as strong. A mayor-council form of government governs the city. The current administration has focused on improving financial management policies and practices. Under our FMA methodology, we consider New Bedford's financial management practices "good," indicating that financial practices

exist in most areas but that governance officials might not formalize or regularly monitor all of them. Recently, city management adopted what we believe is a well-defined new investment policy that adheres to commonwealth guidelines and maintains strong reporting and monitoring mechanisms.

Overall, we note New Bedford is conservative in its revenue and expenditure assumptions. Management regularly monitors budgetary performance, ensuring it makes timely adjustments. New Bedford also maintains adopted debt management and reserve and liquidity policies; the former sets affordability and refunding targets while the latter targets a stabilization reserve balance between 2% and 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 also maintains a formal capital improvement plan, linked to the operating budget, that the financial team reviews and prioritizes yearly. Management does not currently perform any long-range financial planning, but it is creating a plan to complement the annual budget process.

### **Strong debt and contingent liabilities**

We consider New Bedford's debt and contingent liabilities strong. Following this issue, New Bedford will have roughly \$243 million of total direct debt and about \$22.2 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 and pays roughly \$77.9 million.

Overall, debt service is 3.5% of total governmental funds expenditures and net direct debt is 35.8% of total governmental funds revenue, levels we consider strong. In our opinion, overall net debt is a low 2.6% of market value. We consider principal debt amortization very aggressive, further bolstering our view of the city's debt profile, with officials planning to retire roughly 72% over 10 years; these amortization figures include wastewater debt.

While debt measures are, in our view, low, New Bedford's pension and OPEB liabilities remain a long-term pressure. While there has been some progress made, the city does not have a sufficient plan to keep these costs from accelerating. Officials recently approved a new health insurance plan that increases deductibles and copayments and brings the city into participation with the employee group waiver program. In addition, New Bedford is exploring the creation of an OPEB liability trust fund. Currently, pension and OPEB costs account for 11% of total governmental funds expenditures.

New Bedford contributes to a single-employer, defined-benefit pension plan with an unfunded actuarial accrued liability (UAAL) of \$337 million; the plan is 42% funded, and the city pays 100% of the annual required amount. New Bedford is on schedule to fund the pension plan in full by 2036. It contributed \$22.6 million in fiscal 2013 and paid \$23.7 million in fiscal 2014.

The OPEB UAAL is \$563 million with a 0% funded ratio. New Bedford pays this liability through pay-as-you-go financing. For fiscal 2014, the city contributed \$19 million. It has budgeted \$24.4 million in fiscal 2015.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Massachusetts cities strong.

## Outlook

The stable outlook reflects Standard & Poor's opinion that New Bedford's strong management environment 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 a weak economy and high pension and OPEB costs that will likely continue to increase and test operations 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 outlook period. Although if budgetary performance and flexibility were to degrade due to management's inability to mitigate the effects of the costs associated with long-term liabilities on the city, we could lower the rating.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011

### Related Research

- 202. U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014
- 214. S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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