STANDARD & POOR'S RATINGS SERVICES
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Summary:

New Bedford, Massachusetts; General Obligation

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Credit Profile		
US$11.336 mil GO BANs dtd 07/31/2014 due 02/06/2015		
Short Term Rating	SP-1+	New
New Bedford GO st qual mun purp loan bnds ser 2014 due 12/01/2034		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to New Bedford, Mass.' series 2014 bond anticipation notes (BANs), maturing Feb. 6, 2015.

In addition, we affirmed our 'AA-' long-term rating and underlying rating (SPUR) on the city's general obligation (GO) bonds, based on our local GO criteria, released Sept. 12, 2013. The outlook is stable.

The short-term rating reflects our view of the city's very strong capacity to pay principal and interest when the notes come due. In our opinion, New Bedford maintains a low market risk profile, because it upholds its strong legal authority to issue long-term debt to take out the BANs; in addition, New Bedford is a frequent issuer that regularly provides ongoing disclosure to market participants.

The 'AA-' rating reflects our assessment of the following factors for the city:

- Participation in a broad, diverse economy, and its unique position to take advantage of the emerging offshore wind industry; tempering economic factors, however, are its weak per capita income and per capita market values;
- Strong budgetary flexibility, with 2013 audited available reserves in excess of 10% of general fund expenditures;
- Strong budgetary performance during the past few years and our expectation that performance will remain stable, due to an improving economy, conservative budgeting, and the additional tax flexibility afforded by its unused levy capacity;
- Very strong liquidity providing very strong cash levels to cover both debt service and operating expenditures;
- Strong management environment and good financial policies; and
- Strong debt and contingent liabilities position bolstered by the city's low debt-to-market value and aggressive amortization, albeit with sizable pension and other postemployment benefit (OPEB) liabilities.

A pledge of the city's full faith credit secures the bonds and BANs. Proceeds will be used to finance various city capital improvement projects.

Weak economy

We consider New Bedford's economy weak, due to its low per capita income levels and per capita market values. The city, with an approximate 2013 population 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. The city is part of the broad and diverse Providence-Warwick metropolitan statistical area, which has provided some economic stability.

The city's projected per capita effective buying income is 69% of the U.S. Local unemployment is high, in our view, with the 2013 average at 13.5%. More broadly, unemployment in Bristol County was better at 9.7% in 2013. County unemployment has remained well-above both state and national averages, however.

The tax base is 73% residential, and 16% commercial and industrial. The city's local economy, while challenged, is unique in our view, as it is a hub of several maritime industries in the Northeast. New Bedford continues to rank as a top fishing port in the nation. 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 U.S.'s first purpose-built terminal for offshore wind. While we believe economic growth from this sector will be a long process, the city has been active in positioning itself favorably in this emerging industry.

The city's tax base stands at $5.2 billion, down 4.6% from the prior year, and 19% from its 2010 valuation. The tax base is diverse, as the 10 leading taxpayers account for 3% of assessed value. Looking ahead, based on our regional forecasts, we anticipate the regional economy will remain stable, but 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, largely due to management's willingness to make the necessary budgetary adjustments to offset lower state and local receipts. At fiscal year-end 2013, available reserves were at $26.7 million or 8.9% of operating expenditures. Over the past three fiscal years, available reserves have ranged between 6% and 9%. Making up available reserves was $16.8 million in unassigned general fund balance, $1.06 million in assigned general fund balance, and $8.8 million in stabilization reserves.

Strong budgetary performance

The city's budgetary performance has been strong. Despite a shortfall in the school department's budget in mid-fiscal-2013, caused by the improper budgeting of positions that were previously grant funded, New Bedford reported a general fund deficit of $78,000. This follows a general fund surplus of $8.7 million, or 3% of operating expenditures the prior year. Across all governmental funds, after adjusting for capital outlay spent from bond proceeds, the city was essentially balanced with a surplus of 0.9% of expenditures.

The city's budgetary performance has been strong over the past three years, in our view. The favorable budgetary performance stems from conservative budgeting and a modest recovery in local fees and taxes due to the improving economy. We believe New Bedford is somewhat susceptible to declines in state aid, as intergovernmental revenues account for 57% of total governmental fund revenues; however, state revenues have been stable recently. Property taxes constitute 25% of revenues, and collections have improved to 96%.

Currently, we anticipate New Bedford's operating performance will remain stable. Based on our macroeconomic forecasts (see "U.S. State And Local Government Credit Conditions Forecast" published July 8, 2014, on RatingsDirect), credit conditions in New England are stable. The 2014 budget totals $300.1 million, and management projects results will come in line with the budget. Looking forward, we expect the city to remain structurally balanced and performance to remain positive. The city is undergoing a school reorganization that should help manage costs over time. The city has also been successful working with department heads to maximize efficiencies and keep costs low. Finally, the city maintains an approximate $8.5 million in unused levy capacity in 2015, up from $34,000 in 2010. The city did utilize some unused levy capacity in the 2015 budget to accommodate increasing school costs, and other fixed-cost increases. The 2015 budget is structurally balanced.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong. We calculate total government available cash at 11.4% of total governmental fund expenditures and at 3.2x total governmental debt service. Bolstering our view of the city's liquidity position is that New Bedford maintains strong access to external liquidity. New Bedford is a regular market participant, having issued bonds frequently over the past several years, including GO bonds and short-term BANs. The city has issued revenue anticipation notes in the past to pre-pay pension costs for savings; however, due to a change in when the city receives state appropriations, it no longer needs to do so.

Strong management conditions

New Bedford is governed by a mayor-council form of government. The current administration has been focused on improving financial management policies and practices.

Under our Financial Management Assessment methodology, we consider New Bedford's financial practices "good," indicating that financial practices exist in most areas, but that officials might not formalize or regularly monitor all of them. The city is conservative in its revenue and expenditure assumptions, in our view, and it regularly monitors budgetary performance, ensuring adjustments are made in a timely manner. New Bedford also recently adopted a debt management policy, and a reserve and liquidity policy. 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. The city also maintains a formal capital improvement plan that is reviewed and prioritized by the financial team yearly, and linked to the city's operating budget. The city currently does not do any long-range financial planning, but management is creating a plan to complement the annual budget process.

Strong debt and liabilities

Following this issue, New Bedford will have roughly $250 million of total direct debt and about $36 million of BANs outstanding. Of that amount, we calculate $26.9 million to be self-supporting through user charges from the city's water enterprise fund, and roughly $78.7 million secured for and paid by revenues of the wastewater fund.

Overall, the city's total governmental funds debt service is 3.5% of total governmental funds expenditures, and net direct debt is 37% of total governmental funds revenue, levels we consider strong. Further bolstering our view of the city's debt profile is that overall net debt is low at 2.8% of market value, and that the city is very aggressive in its debt amortization. Roughly 73% of debt will retire over 10 years. Our amortization figures now include the wastewater debt.

While the city's debt measures are low, in our view, its pension and OPEB liabilities remain a long-term pressure, and the city does not have a specific and credible plan to address them. Pension and OPEB costs account for 11% of total governmental fund expenditures, and we believe costs will continue to rise over the next few years. The city 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 its annual required amount. The city is on schedule to fully fund the pension plan by 2036. It contributed $22.6 million in 2013 and has budgeted to contribute $23.6 million in fiscal year 2014.

The OPEB UAAL is $563 million with a 0% funded ratio. New Bedford pays this liability on a pay-as-you go basis. For fiscal year 2014, the city budgeted to contribute $19 million. The city continues to explore ways to both lower the liability and to also set up a trust fund and begin funding it.

Strong institutional framework

The Institutional Framework score for Massachusetts cities is "strong."

Outlook

The stable outlook reflects our view that New Bedford's strong management environment should translate to strong budgetary performance and operating flexibility over the two-year outlook horizon. In addition, we anticipate New Bedford will maintain a strong debt and liability profile, as debt service costs and net direct debt ratios should remain stable. In our view, constraining the rating is a weak economy, and high pension and OPEB costs that will likely continue to increase and test operations over time. While pension and OPEB costs will remain a long-term budget pressure, and we anticipate costs to keep rising, we believe those costs will not pose an immediate budgetary challenge over the next two years. For these reasons, we do not anticipate changing the rating over the next two years. 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, 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: Bond Anticipation Note Rating Methodology, Aug. 31, 2011

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- 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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