

# RatingsDirect®

---

## Summary:

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

### Primary Credit Analyst:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

### Secondary Contact:

Christina Marin, Boston 617-530-8312; christina.marin@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

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

### Credit Profile

US\$11.22 mil GO BANs dtd 06/17/2015 due 05/05/2015

<i>Short Term Rating</i>	SP-1+	New
New Bedford GO State Enhancement Prog		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New Rating

## Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to New Bedford, Mass.' 2015 general obligation (GO) bond anticipation notes (BANs), payable May 5, 2016. Standard & Poor's also affirmed its 'AA-' long-term rating on the city's existing GO debt. The outlook is stable.

The short-term BAN rating reflects our view of the city's high investment-grade rating and low market risk profile. New Bedford has strong authority to refund the BANs with long-term debt, and it is a regular market participant providing ongoing disclosure.

The city's full-faith-and-credit pledge and ad-valorem taxing power up to the limits imposed by Proposition 2-1/2 secures the bonds and BANs. Officials intend to use BAN proceeds to finance various capital projects.

The long-term rating reflects New Bedford's:

- Weak economy, with projected per capita effective buying income at 70.7% and market value per capita of \$54,874, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 8.5% of operating expenditures;
- Very strong liquidity, with total government available cash of 14.1% of total governmental fund expenditures and 2.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 5.8% and net direct debt that is 36.6% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 65.3% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

### **Weak economic factor**

We consider New Bedford's economy weak. New Bedford, with an estimated population of 95,441, is located in Bristol County in the Providence-Warwick, RI-MA MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 70.7% of the U.S. level and per capita market value of \$54,874. Overall, the city's market value was stable over the past year at \$5.2 billion in 2015. The county unemployment rate was 7.3% in 2014.

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 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 management**

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

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 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 budgetary performance**

New Bedford's budgetary performance is strong in our opinion, with 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 performance results reflect adjustment made for capital outlay spending from bond proceeds. Overall, we expect budgetary performance to remain strong. Fiscal 2015 operating results are balanced on a budgetary basis, and according to management, despite a sizable snow and ice deficit, the city is estimating a general fund surplus. Management attributes favorable budgetary performance to an improving budgetary environment and conservative budgetary assumptions. We note 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 appropriate budget any changes. We note 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 as we believe management will continue to make the needed adjustments to meet growing expenditure demands. For fiscal 2016, the city is proposing a budget (excluding enterprise funds) of \$283.9 million, a 3.5% increase over the prior year. In accommodating the budget growth, the city is anticipated the use of some additional unused levy capacity. In our opinion, based on our macroeconomic forecasts (please see the article, titled "U.S. State And Local Government Credit Conditions Forecast," published April 2, 2015, on RatingsDirect), credit conditions in New England are stable. We therefore believe the budgetary environment is stable and performance should remain in line with years past.

### **Strong budgetary flexibility**

New Bedford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 8.5% of operating expenditures, or \$26.1 million.

For fiscal 2015, we are anticipating reserves will remain in line with current balances. Over the past three fiscal years, available reserves have remained above 8% of expenditures, which illustrates management's commitment to maintaining reserves above its policy targets.

### **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.

Our opinion is that liquidity will remain very strong as there is no significant deterioration of cash balances planned or anticipated.

### **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 5.8% of total governmental fund expenditures, and net direct debt is 36.6% of total governmental fund revenue. Overall net debt is low at 2.7% of market value and approximately 65.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issue, New Bedford will have roughly \$238 million of total direct debt and about \$33 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.

In our opinion, a credit weakness is New Bedford's large pension and 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, the funding of which will be undertaken over the course of fiscal 2016. The OPEB UAAL is \$424 million, which is considerably down from \$563 million previously reported.

### Strong institutional framework

The Institutional Framework Overview: Massachusetts Local Governments municipalities is strong.

## Outlook

The stable outlook 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 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. A consideration of a higher rating over time would require continued economic expansion and improvement and further work to mitigate the costs associated with its long-term liabilities.

## 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: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- 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 May 29, 2015)

New Bedford GO bnd anticipation notes ser 2015 dtd 02/06/2015 due 02/05/2016

<i>Short Term Rating</i>	SP-1+	Affirmed
--------------------------	-------	----------

New Bedford GO st qual rfdg bnds

<i>Long Term Rating</i>	AA/Stable	Affirmed
-------------------------	-----------	----------

Ratings Detail (As Of May 29, 2015) (cont.)		
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
New Bedford GO BANs dtd 06/17/2015 due 05/05/2015		
<i>Short Term Rating</i>	SP-1+	Affirmed

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).