

RatingsDirect®

Summary:

New Bedford, Massachusetts; Non-School State Programs

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Credit Profile

US\$12.67 mil GO st qual rfdg bnds due 09/01/2026

<i>Long Term Rating</i>	AA/Stable	New
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<i>School Issuer Credit Rating</i>	AA-/Stable	New
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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-' issuer credit rating (ICR) and stable outlook to New Bedford, Mass.' series 2014 general obligation (GO) state-qualified municipal-purpose bonds and affirmed its 'AA' rating and 'AA-' underlying rating (SPUR), with a stable outlook, on the city's existing state-qualified municipal-purpose bonds based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

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 'AA-' rating 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 income and per capita market values, however, are somewhat tempering economic factors;
- Strong budgetary flexibility with fiscal 2013 audited available reserves in excess of 10% of general fund expenditures;
- 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 its 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; and
- 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.

The city's full-faith-and-credit pledge secures the bonds. Officials intend to use series 2014 bond proceeds to refund portions of the city's series 2004, 2005, and 2007 bonds for interest rate savings.

Weak economic factor

We consider New Bedford's economy weak due to its low per capita effective buying income and per capita market values. 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.

The city's projected per capita effective buying income is 69% of the national level. In our view, local unemployment is high: 2013 unemployment averaged 13.5%. More broadly, Bristol County unemployment was better at 9.7% in 2013; county unemployment, however, has remained well above commonwealth and national averages.

The property tax base is 73% residential and 16% commercial and industrial. The city's local economy, while challenged, is, in our view, unique because it is a hub for 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, New Bedford has been active in positioning itself favorably in this emerging industry.

The tax base is \$5.2 billion in fiscal 2014, down by 4.6% from fiscal 2013 and 19% from fiscal 2010. 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. Over the past three fiscal years, available reserves have ranged between 6% and 9% of expenditures. 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, caused by the improper budgeting of positions that were previously grant funded, 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, the city was essentially balanced with a surplus of 0.9% of expenditures.

In our view, budgetary performance has been strong over the past three fiscal years. The favorable budgetary performance stems from, 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 decreases in state aid since intergovernmental revenue accounts for 57% of total governmental funds revenue; commonwealth revenue, however,

has been stable recently. Property taxes generate 25% of revenue, and property tax collections have improved to 96%.

Currently, we expect New Bedford's operating performance to remain stable. 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 July 8, 2014, on RatingsDirect), credit conditions in New England are stable. The fiscal 2014 budget totals \$300.1 million, and management is projecting results will be in-line with the budget. We expect the city will remain structurally balanced and performance will remain positive.

New Bedford 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, 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 increasing school costs and other fixed-cost increases. The fiscal 2015 budget is structurally balanced.

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. The city's strong access to external liquidity bolsters our view of its liquidity position. New Bedford is a regular market participant since it has issued bonds frequently over the past several years, including GO bonds and short-term bond anticipation notes (BANs). In addition, the city has issued revenue anticipation notes in the past to prepay pension costs for savings; due to a change in when the city receives commonwealth appropriations, however, it no longer needs to issue short-term notes.

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 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. In our view, the city is conservative in its revenue and expenditure assumptions. Management regularly monitors budgetary performance, ensuring it makes timely adjustments. New Bedford also recently 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 that the financial team reviews and prioritizes yearly, and the plan is linked to the operating budget. The city does not currently perform any long-range financial planning, but management is creating a plan to complement the annual budget process.

Strong debt and contingent liabilities

Following this issue, New Bedford will have roughly \$249 million of total direct debt outstanding and about \$35 million of BANs outstanding; of that amount, we calculate that \$26.9 million is self-supporting debt through user charges from the city's water enterprise fund and that roughly \$78.7 million is secured with, and paid by, revenue of the wastewater fund.

Overall, 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. In our opinion, overall net debt is a low 2.8% of market value and principal

debt amortization is very aggressive, further bolstering our view of the city's debt profile. Officials plan to retire roughly 73% of debt 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 continuing to accelerate. Officials recently approved a new health insurance plan that increases deductibles and copayments and that brings the city into participation with the employee group waiver program. In addition, New Bedford is exploring the creation of an OPEB liability trust. 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. The city is on schedule to fund the pension plan in full by 2036. It contributed \$22.6 million in fiscal 2013, and it has budgeted to contribute \$23.6 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 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 expect 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 expect to change 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: State Credit Enhancement Programs, Nov. 13, 2008

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

Summary: New Bedford, Massachusetts; Non-School State Programs

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