S&P Global Ratings

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Summary:

New Bedford, Massachusetts; General Obligation; Non-School State Programs; Note

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Credit Profile		
US$35.697 mil GO BANs ser 2017 dtd 05/03/2017 due 05/03/2018		
Short Term Rating	SP-1+	New
US$5.009 mil GO st qual mun purp loan bnds ser 2017 due 03/01/2045		
Long Term Rating	AA/Negative	New
Underlying Rating for Credit Program	AA-/Stable	New
New Bedford GO st enhancement prog		
Long Term Rating	AA/Negative	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
New Bedford GO State Enhancement Prog		
Long Term Rating	AA/Negative	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' program rating and 'AA-' underlying rating for credit program to the city of New Bedford, Mass.' general obligation (GO) state qualified municipal purpose bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and 'AA-' underlying rating on the city's debt outstanding. The outlook on the program rating is negative, reflecting the outlook on the state of Massachusetts. The outlook on the underlying rating is stable.

The 'AA' program rating reflects our assessment of the security provided for the bonds by the Massachusetts Qualified Bond Act. Under this act (Massachusetts General Law, Chapter 44A), the state treasurer pays debt service directly to the paying agent and withholds the amount of the payment from the borrower's annual state aid appropriation. Approval is required from the municipal finance oversight board (formerly the state emergency finance board), which oversees and monitors the program. S&P Global Ratings revised the outlook on the state rating to negative in November 2015, due to a projected decline in reserves.

We also assigned our 'SP-1+' rating to New Bedford's short-term debt maturing May 2018. The short-term rating reflects our view that New Bedford maintains a very strong capacity to pay principal and interest when the notes come due. The city maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

New Bedford's full faith and credit, subject to the limits of Proposition 2 1/2, secures the bonds and bond anticipation notes. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. Officials intend to use proceeds for school construction and repair, improvements to city-owned buildings, and parking garage construction, among other capital projects.

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

- Adequate economy, with projected per capita effective buying income at 73.9% and market value per capita of $57,725, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 8.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.5% of total governmental fund expenditures and 3.9x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.7% of expenditures and net direct debt that is 41.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Adequate economy

We consider New Bedford's economy adequate. The city, with an estimated population of 95,970, is located in Bristol County in the Providence-Warwick MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 73.9% of the national level and per capita market value of $57,725. Overall, the city's market value grew by 3.8% over the past year to $5.5 billion in 2017. The county unemployment rate was 6.3% in 2015.

The city's property tax base is primarily residential, generating 80% of its assessed value (AV). Commercial and industrial properties are the next-highest land use classification at 16% of AV combined. New Bedford's underlying economy is anchored not only by its fishing industry, but also by a number of private hospitals and other sizable health services employers, with employment estimated at 12,780 employees. St. Luke's Hospital, Southcoast Hospital Radiology, and Community Health Center constitute three of five largest employers in the city. Furthermore, the city is home to a diverse manufacturing base, including golf equipment manufacturer, Acushnet Co., as well as apparel and textile companies, Joseph Abboud and Ahead Inc. According to city officials, including Ahead, Inc. and other existing employers are at various stages of business expansion. The city recently approved five tax increment financing projects, which officials estimate will generate $18 million in new investment and ensure the retention of 774 jobs, creating at least 77 new jobs. Also, city officials report a renewed interest in the downtown with the opening of a microbrewery, the renovation of a building into a boutique hotel, and the opening of several retail locations. The tax base remains diverse with the 10 leading taxpayers accounting for 3.1% of AV.

The local economy, while challenged, is unique, in our view, because it is a hub for several maritime industries in the

Northeast since New Bedford is a leading fishing port. The commonwealth has made New Bedford a designated port area, which provides the city with planning and technical assistance from state harbor planning programs. Management expects this program to support its existing maritime activities.

The state recently completed a $113 million, 26-acre marine commerce terminal to support the construction, assembly, and deployment of wind turbines for offshore projects. The terminal was built largely to accommodate the Cape Wind project. However, Cape Wind reached an impasse in January 2015 when National Grid and Northeast Utilities pulled out of power purchase agreements, effectively making it impossible for the project to secure the necessary financing. Although the terminal was primarily state-funded, with no financial obligation from the city, New Bedford remains poised to benefit from several spin-off businesses and new private investments in the offshore wind energy industry. City officials remain optimistic that other projects, albeit smaller, will make use of the facility.

Following a decline in market values during the recession, the city's market values have increased by nearly 2.1% from $5.23 billion in fiscal 2014 to $5.5 billion in fiscal 2017. According to city officials, there was no single factor or development that led to the increase in market values; rather, it reflected increased development throughout the city. We expect market values to continue to rise based on several anticipated developments downtown and within the business park. Although projects remain in various stages of the development process, the value of new commercial, educational research, and residential projects could exceed $140 million over the next several years.

Based on our regional forecasts, we expect the regional economy to remain stable, yet with lower growth compared with the nation. Still, recent data indicates that the region's median home prices continue to improve and that housing starts will remain positive.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

New Bedford's key budgeting practices include the use of historical data and trend analysis to guide its revenue and expenditure assumptions. In preparing its annual revenue projections, management considers state and county tax assessments and the city estimates non-tax revenues when calculating the annual tax levy. For expenditures, management accounts for principal and interest on debt service and adjustments to contractual obligations. Furthermore, management monitors budgetary performance and reports budget-to-actuals to the city council quarterly, addressing budget trends and variances. Supplemental appropriations and transfers between appropriation items may be made during the course of the fiscal year with approval of the city council.

Furthermore, the city maintains a comprehensive five-year capital improvement plan (CIP) that describes and prioritizes major projects and capital vehicle replacements by municipal department. The plan is prepared annually, in coordination with the budget process, and identifies internal and external funding sources. At the same time, the city has a limited long-term financial plan, and management is working internally and with outside entities to revise and improve it.

New Bedford maintains a formal investment policy in accordance with state statutes. In addition, the city treasurer delivers an earnings and holdings report to the chief financial officer quarterly. New Bedford also has a written debt management policy which identifies debt affordability and capacity targets based on outstanding debt as a percentage of per capita income, outstanding debt as a percentage of assessed valuation (not to exceed 10%)., annual debt service as a percentage of general fund expenditures (not to exceed 10%). The policy also includes a goal to amortize 60% to 70% of tax-supported debt within 10 years. Furthermore, the city's reserve policy targets a stabilization reserve balance of 2%-6% of the current year's general fund budget, and free cash balances of no lower than 1% of the operating budget. The stabilization reserve is currently 2.9% of operating expenditures.

Strong budgetary performance

New Bedford's budgetary performance is strong in our opinion. The city had slight operating surpluses of 1.5% of expenditures in the general fund and of 1.1% across all governmental funds in fiscal 2016. For analytical consistency, we adjusted for net transfers in to the general fund from other non-major governmental funds. In addition, for the total governmental performance in fiscal 2016, we netted out $22 million spent of capital outlay from bond proceeds.

The positive operating result in the general fund is due to improved tax receipts as a result of a tax lien sale; turn-backs across departments; and cost savings in health insurance. Through the tax title sale, the city sold 165 tax liens, which netted New Bedford, approximately $4 million in additional revenue. In addition, the city used $5 million in unused levy capacity, which contributed to the positive operating result.

New Bedford approved a balanced fiscal 2017 budget of $296.7 million, or a 5.4% increase over the previous year. City officials expect operating results to be at least balanced in 2017. The city experienced some pressure relating to state aid coming in less than expected, as a result of charter school reimbursements. However, any deficit will likely be made up through departmental turnbacks or revenues from new growth.

We believe the city is somewhat susceptible to state-aid decreases since intergovernmental revenue accounts for 55% of total governmental funds revenue; commonwealth revenue, however, has been relatively stable and management has done well to appropriately budget any changes. We note property taxes generate 34% of revenue, and property tax collections have improved to 97% in fiscal 2016. Due to strengthened collection enforcement practices and policies, management indicates property tax collections improved to approximately 96.9% in fiscal 2016.

Strong budgetary flexibility

New Bedford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 8.4% of operating expenditures, or $26.4 million.

The city's fund balance is a $5 million (24%) improvement over the last year, and partially restores reserves to 2013 levels, when they were 8.9% of general fund expenditures. The drawdown between 2013 and 2015 is largely attributed to excess expenditures due to the snow and ice deficit, an arbitration award within the fire department for retroactive pay, and a delay in delinquent tax collections. The city maintains a stabilization account, which has a balance of $9.1 million, or 2.9% of operating expenditures, which is in compliance with their target of 2-6% of operating expenditures. We note the city has $24 million in unused levy capacity, which provides some flexibility in raising revenues.

Due to a concerted effort to grow reserves, coupled with results that are trending on budget in fiscal 2017, we believe that New Bedford will at the very least sustain reserves at their current level over the next two years.

Very strong liquidity

In our opinion, New Bedford's liquidity is very strong, with total government available cash at 22.5% of total governmental fund expenditures and 3.9x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

New Bedford is a regular market participant that has issued debt frequently over the past several years, including GO bonds and bond anticipation notes (BANs). In accordance with commonwealth laws, it does not currently have any variable rate or direct-purchase debt. Management also confirmed that the city does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Furthermore, city investments are subject to state statutes. New Bedford's formal investment policy allows the city to invest its cash in low-risk assets, including the state's short-term investment funds, certain mutual and money market funds, U.S. securities and municipal obligations, or short-term certificates of deposit. Currently, the majority of its cash is invested in money market funds and certificates of deposits that mature in less than one year. For these reasons, the city's available cash position remains strong and stable, and we expect its liquidity profile to remain very strong over the next two fiscal years.

Adequate debt and contingent liability profile

In our view, New Bedford's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.7% of total governmental fund expenditures, and net direct debt is 41.2% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, which is in our view a positive credit factor.

Following this issue, New Bedford will have approximately $180 million of general obligation debt. Additionally, the city has a number of revenue bonds outstanding, which are not supported by the city's full faith and credit pledge. Over the next two years, the city will likely issue about $21 million in additional debt to finance several capital projects and capital leases, as referenced in the city's CIP. We do not expect this additional debt to have a negative impact on the city's debt profile.

In our opinion, a credit weakness is New Bedford's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. However, we recognize the city has taken some steps toward reducing their long-term liabilities. New Bedford's combined required pension and actual OPEB contributions totaled 10.8% of total governmental fund expenditures in 2016. Of that amount, 6.5% represented required contributions to pension obligations, and 4.3% represented OPEB payments. The city made its full actuarial determined contribution in 2016. The funded ratio of the largest pension plan is 44.3%.

The city participates in the New Bedford's Contributory Employees' Retirement System. The city paid $26.9 million toward its pension liability in 2016. The city's proportionate share of the net pension liability was approximately $334 million as of the most recent actuarial valuation, December 31, 2015. Historically, the city has funded its ADC in full and continues to do so. The city is on schedule to fund the pension plan in full by 2034.

We acknowledge the city recently completed an exhaustive review of its health care program, with the objective of reducing retiree health care costs. In December 2015, the city council voted to establish an OPEB trust fund, which currently has a balance of $1.1 million. New Bedford has adopted a policy to contribute at least 10% of surplus funds to the trust each year, which they estimate will be $300,000. The OPEB unfunded actuarial accrued liability is $485 million. We expect the city's retirement liabilities to remain significant in the short-to-medium term.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The negative outlook on the program rating reflects the projected decline in reserves at the state level.

The stable outlook reflects our opinion of New Bedford's very strong management, which is supported by the city's emphasis on formalizing plans, policies, and practices. It also reflects the city's ability to sustain its very strong liquidity, in conjunction with at least adequate budgetary performance and flexibility. While New Bedford's economy remains somewhat challenged, we believe the city will maintain adequate wealth and income conditions, which is also strengthened by its participation in the broad and diverse Providence-Warwick MSA. In addition, we expect New Bedford to maintain a strong debt and liability profile based on projected stable debt service costs and net direct debt ratios. For these reasons, we do not expect to change the rating within the next two years.

Upside scenario

All else being equal, we could raise the rating if the city demonstrates more comprehensive planning to mitigate its long-term liabilities, coupled with strengthening and sustaining available reserves through positive budgetary performance to levels we consider commensurate with its higher-rated peers. We could also raise the rating if the current economic expansion in New Bedford results in improvement to the city's wealth and income indicators.

Downside scenario

We could lower the rating if the city experiences a significant deterioration in budgetary performance, leading to weakened fund balance reserves and liquidity constraints.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.