MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 to New Bedford, MA's $25M GO BANs and A1 underlying and Aa2 enhanced to $10M GO Bonds; outlook is stable

Global Credit Research - 17 Jan 2014

A1 affirmed, affecting $91M outstanding GO long-term bonds

NEW BEDFORD (CITY OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE		RATING
General Obligation State Qualified Municipal Purpose Loan of 2014 Bonds		A1
Sale Amount	$10,000,000	
Expected Sale Date	01/23/14	
Rating Description	General Obligation	
General Obligation State Qualified Municipal Purpose Loan of 2014 Bonds		Aa2
Sale Amount	$10,000,000	
Expected Sale Date	01/23/14	
Rating Description	General Obligation	
General Obligation Bond Anticipation Notes		MIG 1
Sale Amount	$25,183,346	
Expected Sale Date	01/23/14	
Rating Description	Note: Bond Anticipation	

Moody's Outlook STA

Opinion

NEW YORK, January 17, 2014 --Moody's Investors Service has assigned a MIG 1 rating to the City of New Bedford, MA's $25 million General Obligation Bond Anticipation Notes (BANs), dated February 7, 2014 and payable February 6, 2015, and a long-term A1 underlying and Aa2 enhanced rating to $10 million General Obligation State Qualified Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's has affirmed the city's A1 rating, affecting $91 million in outstanding general obligation bonds. The city's outlook remains stable. The notes are secured by the city's general obligation, limited tax pledge, as debt service has not been exempt from the levy limitations of Proposition 2 ½. The majority of New Bedford's outstanding G.O. bonds also carry the Massachusetts Qualified Bond Program's (QBP) enhanced programmatic rating of Aa2 with a stable outlook.

SUMMARY RATINGS RATIONALE

The short-term MIG 1 rating incorporates New Bedford's satisfactory long-term credit profile as well as adequate market access at maturity based on the city's adequate bid history.

The A1 long-term rating incorporates the city's sizeable tax base with below-average demographics, satisfactory financial position, and affordable debt burden.

The stable outlook reflects the recent balanced operations with improving reserves as well as the sizeable tax base and its importance as the area's local industrial center with a major regional fishing port and deep water harbor.

STRENGTHS:

-Satisfactory history of market access

-Sufficient financial position

-Sizable and mature tax base

-Diverse local economy with deep water port

CHALLENGES

-Elevated exposure to state aid

-High unfunded liabilities for pension and OPEB

-Below average demographic profile with persistently high unemployment

DETAILED CREDIT DISCUSSION

ADEQUATE HISTORY OF MARKET ACCESS

New Bedford has demonstrated a satisfactory history of access to the capital markets. The city's most recent bond anticipation note sale in February 2013 received seven bids, while prior sales in February 2012 and 2011 received eight and five bids, respectively. All bids were received from major regional and national financial institutions. Based on this history we expect New Bedford will continue to have adequate access to the capital markets, if necessary, at the February 2015 maturity.

MAJORITY OF DEBT ENHANCED BY MASSACHUSETTS QUALIFIED BOND PROGRAM

The enhanced Aa2 rating and stable outlook assigned to the $10 million new issue and approximately $91 million of New Bedford's outstanding bonded debt reflect the credit enhancement provided by the Commonwealth of Massachusetts' Qualified Bond Program. The program is a direct-payment system whereby the Commissioner of Revenue authorizes the State Treasurer to deduct from the city's monthly state aid payments an amount sufficient to meet the city's debt service on qualified securities. In fiscal 2014, New Bedford is expected to receive aid from the commonwealth totaling more than 13 times the city's maximum projected obligation for debt service on the enhanced bonds. The State Treasurer acts as paying agent on behalf of the city. We believe that the commonwealth's strong commitment to state aid for municipalities and the program's sound payment mechanisms, which do not rely on the trigger of a notice of potential default, enhance the likelihood of full and timely debt service payment. The programmatic rating is linked to the commonwealth's general obligation rating, which is one rating notch higher at Aa1 with a stable outlook.

IMPROVING FINANCIAL POSITION; CITY REMAINS HIGHLY DEPENDENT ON STATE AID

New Bedford's fiscal profile is expected to remain satisfactory over the near term due to more conservative budgeting which has helped to improved reserves. However, the city will remain dependent on state aid as a primary revenue source which represented 56.4% of General Fund revenues in fiscal 2012. State aid funding which experienced multi-year cuts beginning in 2008 contributed to the financial pressure the city experienced over the past five years. Fiscal 2012 audited financials reflect an improvement from prior years with an operating surplus of $8.7 million. The surplus is attributed to positive variance in revenues, primarily departmental and licenses and permits, and approximately $6.7 million in expenditures savings, including departmental turn-backs, and $4 million in health care savings due to over estimates, lower claims and a minimal premium increase. The total General Fund balance increased to $28.7 million (9.7% of revenues) and the unassigned fund balance increased to $19.2 million (6.5% of revenues). In addition, enterprise operations of wastewater and sewer were positive with a small increase to each fund's free cash.

The fiscal 2013 unaudited financials reflect another stable year of operations with a marginal operating deficit of $67,000. The city appropriated $2.2 million of free cash towards one-time capital expenditures and $2.5 million due to a mid-year budget gap in the education department. However, positive variance in revenues and conservative budgeting in all major departments excluding education led to a minimal change in reserves from 2012 levels. The city's primary revenue source continues to be state aid and property taxes (30.8% in fiscal 2012) with a 96% current-year collection rate. The fiscal 2014 budget increased by 3.6% and is balanced with a 1% tax levy increase and includes year-to-date free cash appropriations of $568,000 for capital expenditures. The city also responded to the 2013 education budget gap with a reduction of 250 education positions which included 160 layoffs including teachers. The cuts reduced payroll expenditures from 80% of total educational costs to 75% of total cost. Year-to-date revenues are ahead while expenditures are trending on budget.

Going forward, New Bedford's ability to maintain both service levels and structurally balanced operations while continuing to grow reserves will be a key factor in the city's credit strength. The city filled the vacant chief financial officer position in March 2013 and has since developed formal fiscal policies to aid in future financial plans. Fiscal pressure will remain given above average pension liabilities and the possible expiration of federal funding of nearly a quarter of the fire department. Favorably, the city continues to maintain unused levy capacity of $9.7 million, or approximately 10% of the 2014 total tax levy which could provide some revenue flexibility.

DESPITE REDEVELOMENT POTENTIAL, TAX BASE HAS EXPERIENCED MULTI YEAR DECLINES; DEMOGRAPHICS REMAIN BELOW AVERAGE

New Bedford, located on Buzzards Bay on the southeast shore of Massachusetts (GO rated Aa1/stable), is a local industrial center and a major regional fishing port with a deep water harbor. The city's tax base will experience additional development, but overall assessed values continue to decline year-over-year as regional residential real estate values remain soft. The city's assessed valuation has sustained six years of declines totaling 24.7% since 2009 and averaging 4.1% decline annually (2010-2014). The city's fiscal 2013 equalized valuation of $5.8 billion incorporates declines in single and multi-family housing sectors, and relatively stable commercial and industrial values. The city continues to enjoy healthy, annual new growth revenue averaging $1.1 million over the last five years due to steady residential development as well as commercial growth and industrial expansion as tax increment financing incentives expire. While continued tax base expansion is anticipated over the longer term, further assessed values declines are likely in the near term due to ongoing weakening in residential real estate market.

In recent years the city's economic development programs have been effective in the commercial and industrial sector, particularly in the redevelopment of former mill properties along the Acushnet River, and at the large industrial park which has added ten companies, 700,000 square feet of developed property and 1,600 employees. Redevelopment of the city's downtown is underway as older commercial building are redeveloped and occupancy rates continue to rise. This area has also been improved by the reconstruction of Route 18 which will help to merge downtown with the waterfront. While the city continues to support the nation's largest commercial fishing workforce, the decline in the fishing and manufacturing industries has led to the city's socioeconomic indices to be significantly weaker than the commonwealth and nation as evidenced by median family income of 54% and 70.5%, respectively. The poverty rate remains high and unemployment of 12.3% (October 2013) continues to trend at its historic level of almost twice the state (6.8%) and US (7%).

Redevelopment potential over the medium and long term is substantial. Along the river, the EPA has recently revised its soil remediation project timeline to five years which will allow access for new development. More long term, is the state's South Coast Rail project which would extend rail service from Boston. The project was cited as a priority in the state's 2013 transportation bill with a projected operational date in 2020. In addition, the city is committed to the South Terminal Project which is scheduled to be completed in fall 2014 and will be the first dedicated terminal in the US to establish offshore wind energy projects. The Cape Wind project is expected to be deployed from this site and the city has already begun to experience some new job creation. As this industry unfolds and projects are realized, the economic potential would be impactful over the long-term.

LOW DEBT BURDEN SUPPORTED BY STATE REIMBURSEMENT FOR SCHOOL PROJECTS; ABOVE AVERAGE PENSION LIABILITY

The city's debt profile will remain favorable given significant levels of self-supporting enterprise debt, anticipated commonwealth grants in support of school construction projects and enhancement from the QBP. New Bedford's net direct debt burden is a moderate 1.8% of equalized value. In addition, the city has $84 million in outstanding revenue bonds it issued to the Massachusetts Water Pollution Abatement Trust which is self-supporting but increases the gross debt burden to 4.4%. The city amortizes general obligation principal at an average rate of 67.9% within ten years and debt service for fiscal 2012 represented 3% of expenditures. The entire portfolio has no exposure to variable rate debt or derivative agreements. Of note, the city has finalized its first multi-year capital improvement plan which totals $42.9 million from fiscal 2014 through 2018. Approximately $34 million will be financed through debt with annual issuance anticipated.

The city participates in the New Bedford Contributory Retirement System, a single-employer, defined benefit retirement plan. The city's annual required contribution (ARC) for the plans was $22.2 million in fiscal 2012, or

7.7% of General Fund expenditures. The city's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $492 million, or an above average 1.72 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. Also, the city contributed 43% of its annual Other Post Employment Benefit costs in 2012, representing $22 million. The OPEB UAAL as of July 1, 2011 is $568.8 million.

OUTLOOK

The stable outlook reflects Moody's expectation that New Bedford will maintain the recent trend of balanced operations with improving reserve levels. The outlook also incorporates the sizeable tax base which represents the area's local industrial center with a major regional fishing port and deep water harbor.

WHAT COULD MAKE THE RATING GO UP

-Substantial and sustained increase in reserves

- Multi-year trend of positive financial operations

-Improvement in local economy, including tax base valuations and demographics

WHAT COULD MAKE THE RATING GO DOWN

-Decline in reserve levels

-Adoption of less conservative approach to budgeting

-Increase in debt burden

KEY STATISTICS

2010 Population (US Census): 95,072 (+1.4% from 2000)

2013 Equalized Valuation: $5.8 billion

Average Annual Assessed Value Growth (2009-2013): -3.2%

2013 Equalized Value Per Capita: $60,897

Unemployment (October 2013): 12.3% (MA 6.8%, US 7%)

FY12 General Fund Balance: $28.9 million (9.7% of General Fund revenues)

FY12 Unassigned Fund Balance: $19.4 million (6.5% of General Fund revenues)

FY13 (unaudited) General Fund Balance: $28.6 million (10.6% of General Fund revenues)

5-Year Dollar Change in Cash Balance as % of Revenues (2007-2012): 2.17%

5-Year Average of Operating Revenues / Operating Expenditures (2007-2012): 1.00x

Median Family income (as a % of state and US median): $45,347 (55.9% of MA, 72% of US)

Net Direct Debt Burden as a % of equalized value: 1.8%

Gross Direct Debt Burden as a % of equalized value: 4.4%

Amortization of Principal (10 years): 67.9%

General Obligation long-term bonds outstanding, post sale: $101 million

RATING METHODOLOGIES

The principal methodology used in the underlying rating for the general obligation debt was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating for the general obligation debt was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. The principal methodology used in rating the bond anticipation notes was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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