STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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## Summary:
# New Bedford, Massachusetts; General Obligation; Note


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## Summary:

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| Credit Profile | | |
|---|---|---|
| US$25.183346 mil GO BANs dtd 02/07/2014 due 02/06/2015 | | |
| *Short Term Rating* | SP-1+ | New |
| US$10.0 mil GO st qual mun purp loan bnds ser 2014 due 12/01/2038 | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | New |

## Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating and 'AA-' underlying rating (SPUR) to New Bedford, Mass.'s 2014 general obligation (GO) bonds. The outlook on the long-term GO debt is stable.

The 'AA' rating reflects the city's eligibility under the commonwealth's Chapter 44A Qualified Bond Act (Massachusetts General Law).

In addition, we assigned our 'SP-1+' short-term rating to New Bedford's series 2014 GO bond anticipation notes (BANs), payable Feb. 6, 2015.

The short-term rating reflects the high investment-grade rating on the city and its low market risk profile. New Bedford maintains 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.

The SPUR reflects our local GO criteria, released Sept. 12, 2013, and 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 to 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 sizeable 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 to be weak due to its low per capita income levels and per capita market values. The city, with an estimated 2013 population of 94,929, 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, R.I. metropolitan statistical area, which has provided some economic stability.

The city's projected per capita effective buying income is 65% of the U.S. level. Local unemployment is high, in our view, with preliminary estimates for November 2013 at 12.2%. More broadly, however, unemployment in Bristol County averaged 9.3% in 2012 a drop from 10% and 10.9% in 2011 and 2010, respectively.

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 serves as 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, a decline of 4.6% over 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. On a positive note, recent data indicate that the region's median home prices continue to improve, and that housing starts will remain positive. As such, we believe New Bedford stands poised to see improved growth and development to its tax base through the medium term, which should also continue to underpin its near-term financial performance.

### 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 2012, available reserves were at $26.7 million or 9.6% of operating expenditures. Making up available reserves was $19.8 million in unassigned general fund balance and $8.8 million in stabilization reserves. The city's fiscal 2013 draft audit reports a $28.6 million available fund balance, which is 10.7% of the budgeted expenditures.

### Strong budgetary performance

In 2012, New Bedford realized a general fund surplus of $8.7 million, equal to 3% of operating expenditures. Across all governmental funds, after adjusting for capital outlay spent from bond proceeds, the city was essentially balanced with a negligible deficit of 0.9%. In 2013, operating results were balanced in the general fund and across all governmental funds.

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 Dec. 17, 2013, on RatingsDirect), credit conditions in New England are stable. The 2014 budget totals $300.1 million, and management is projecting 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 in the beginning stages of 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 $9.7 million in unused levy capacity, up from 34,000 in 2010. The unused levy capacity provides additional budgetary flexibility as it could be used to accommodate future budgetary growth without voter approval.

### Very strong liquidity

Supporting the city's finances is liquidity we consider very strong liquidity, with total government available cash at 13% of total governmental fund expenditures and at 2.4x 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. We note 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 adamant about improving financial management policies and practices. The city hired an experienced chief financial officer that has implemented several new policies and procedures during the past year.

In our opinion, the Financial Management Assessment of New Bedford is "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 reserve and liquidity policy. The former sets affordability and refunding targets, while the latter targets a stabilization reserve balance of 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 yearly and linked to the city's operating budget. The city currently does not do any long-range financial planning, but management is in the process of creating a plan to complement the annual budget process.

### Strong debt and liabilities

Following this bond issue, New Bedford will have roughly $220 million of total direct debt and about $26 million of BANs outstanding. Of that amount, we calculate $28.8 million to be self-supporting through user charges from the city's water enterprise fund, and roughly $84 million secured for and paid by revenues of the wastewater fund.

Overall, the city's total governmental funds debt service is 5.3% of total governmental funds expenditures, and net direct debt is 28.2% of total governmental funds revenue, levels we consider strong. In addition, further bolstering our view of the city's debt profile is that overall net debt is low at 2.0% of market value, and that the city is very aggressive in its debt amortization. Roughly 66% of debt will be retired over 10 years.

While the city's debt measures are low, in our view, its pension and OPEB liabilities remain a long-term pressure. Pension and OPEB costs account for 10.6% of total governmental fund expenditures, and we believe costs will continue to rise through the medium term. The city contributes to a single-employer, defined-benefit pension plan with an unfunded actuarial accrued liability (UAAL) of $318 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 "very strong." (See the Institutional Framework score for Massachusetts.)

### Massachusetts Qualified Bond Program

The Qualified Bond Act allows communities and school districts throughout Massachusetts to authorize the commonwealth to pay debt service on any of its bonds designated as qualified. The commonwealth, in turn, is required to withhold a sufficient amount from the community's annual state aid appropriation to pay debt service on the bonds.

We raised our qualified bond program rating to 'AA' from 'AA-' in September 2011, concurrent with our upgrade of the rating on the commonwealth's GO debt to 'AA+' from 'AA'.

Standard & Poor's rates intercept or withholding programs that meet certain requirements at a level one notch below the state GO rating -- on par with the state appropriation rating -- reflecting the appropriation nature of the intercept or withholding mechanism. Accordingly, if the state rating changes, so will the program rating. The Massachusetts Qualified Bond Program meets this requirement.

Under the Qualified Bond Act, 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 by the State Municipal Finance Oversight Board, which oversees and monitors the program, is required.

The entity's treasurer must certify to the state treasurer the maturity schedule, interest rate, and dates of payment on the bonds within 10 days of issuance. If necessary, the state treasurer will pay such debt service, and after payment will withhold from the distributable aid payments or any other amount payable to the municipality or school district (all state aid is subject to annual appropriation) a sum sufficient to cover debt service.

Entities participating in this program are required to appropriate, and include in their tax levies, amounts necessary to pay qualified debt service. There is no coverage requirement in the Massachusetts law, but state aid has historically been substantially higher than the amount of qualified debt service, resulting in multiple times coverage.

## Outlook

The stable outlook reflects our view that New Bedford's strong management environment should translate to strong budgetary performance and operating flexibility over our 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. While pension and OPEB costs will remain a long-term budget pressure, and costs are expected to continue to rise, we believe those costs will not pose an immediate budgetary challenge. For these reasons, we do not anticipate changing the rating over the next two years.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 17, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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