

## CREDIT OPINION

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### New Issue

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## New Bedford (City of) MA

New Issue - Moody's Assigns A1 Und. and Aa2 Enh. to New Bedford, MA's GOLT Bonds and MIG 1 to BANs; Outlook Stable

### Summary Rating Rationale

Moody's Investors Service has assigned an A1 underlying and Aa2 enhanced ratings to the City of New Bedford's \$5 million General Obligation State Qualified Municipal Purpose Loan of 2017 Bonds and a MIG 1 rating to the city's \$35.7 million General Obligation Bond Anticipation Notes (BANs, dated May 3, 2017 and payable May 3, 2018). Concurrently, Moody's has affirmed the A1 underlying and Aa2 enhanced ratings on the city's outstanding general obligation bonds. The outlook is stable.

The A1 underlying rating reflects a sizeable tax base with below average wealth levels, stable financial position bolstered by strong fiscal management, affordable debt burden and manageable pension liability.

The Aa2 enhanced rating reflects the inherent strength of the Massachusetts QBP and its direct-pay arrangement authorized by state statute in which the State Treasurer makes debt service payments on qualified bonds directly to the paying agent. The rating also incorporates the city's sound state aid coverage of annual debt service.

The MIG 1 short term rating reflects the overall long-term credit characteristics, low refinancing risk and sufficient liquidity.

### Credit Strengths

- » Sizeable tax base
- » Strong fiscal management
- » Recent trend of positive economic development

### Credit Challenges

- » Limited operating flexibility under Proposition 2 ½
- » Below average wealth levels with a high poverty rate
- » Significant pension and OPEB liabilities

### Rating Outlook

The stable outlook on the underlying rating reflects continued stability of the city's overall operations, which is expected to continue over the near term. The city is bolstered by

strong management which adheres to comprehensive policies that, if coupled with a trend of improved reserves, could lead to positive rating pressure. Additionally, the city has experienced a trend of diverse economic development that could position the city for valuation growth and improved income levels over the medium term.

The enhanced rating maintains a stable outlook based on the Commonwealth of Massachusetts's Aa1 GO rating and stable outlook.

### Factors that Could Lead to an Upgrade

- » Continued trend of stability in financial operations
- » Growth in reserve levels
- » Continued trend of growth in tax base
- » Maintenance of current debt burden and improved pension liability

### Factors that Could Lead to a Downgrade

- » Increase in the debt burden or pension liability
- » Trend of General Fund operating deficits
- » Stagnant tax base valuation

### Key Indicators

Exhibit 1

<b>New Bedford (City of) MA</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 6,474,455	\$ 5,818,718	\$ 5,818,718	\$ 5,366,954	\$ 5,366,954
Full Value Per Capita	\$ 68,187	\$ 61,297	\$ 61,332	\$ 56,548	\$ 56,451
Median Family Income (% of US Median)	70.0%	68.9%	69.5%	69.8%	69.8%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 294,846	\$ 299,935	\$ 306,140	\$ 295,463	\$ 318,243
Fund Balance as a % of Revenues	9.1%	8.9%	8.5%	7.2%	8.3%
Cash Balance as a % of Revenues	9.8%	8.4%	9.5%	9.4%	9.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 94,103	\$ 95,089	\$ 95,727	\$ 109,536	\$ 128,807
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.4x	0.4x
Net Direct Debt / Full Value (%)	1.5%	1.6%	1.6%	2.0%	2.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	1.3x	1.8x	1.8x	1.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.4%	6.6%	9.6%	10.1%	10.7%

As of June 30 fiscal year-end; full value = equalized value

Net direct debt includes G.O. bonds, state loans, capital leases and BANs net of self supporting water & sewer debt

Source: Moody's Investors Service, city's audited financial statements and official statements

### Detailed Rating Considerations

#### Massachusetts Qualified Bond Program Enhancement

The enhanced Aa2 rating and stable outlook assigned to the city's bonds reflect the credit enhancement provided by the QBP. 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. The State Treasurer acts

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as the paying agent on the bonds and makes debt service payments directly to DTC. The city is expected to receive aid from the commonwealth totaling more than 10 times total state qualified debt service (based on fiscal 2016 state aid and maximum annual debt service). We believe 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 of Massachusetts' general obligation rating of Aa1 with a stable outlook.

### **Economy and Tax Base: Sizeable Tax Base Beginning to Rebound**

New Bedford, located on Buzzards Bay on the southeast shore of Massachusetts, is a local industrial center and a major national fishing port with a deep water harbor. The \$5.6 billion tax base (2017 equalized value) increased 4.7% in 2017, the first positive gain since the recession. Additionally, the 2017 assessed value jumped 3.8%, marking three years of positive growth. We expect valuation to continue to trend upward with modest growth over the near term as the housing market improves and a long-term plan for economic development takes root. New growth revenue in 2017 was almost \$2 million, the strongest year since 2007. New development is underway across the city from north to south and ranges from smaller entrepreneurial opportunities, downtown redevelopment including a second, new 67 room hotel, and continued redevelopment of old mills into market-rate condos and apartments.

New Bedford's historic identity as a port city will continue to play a critical role in the overall economic health. The city is home to the nation's largest commercial fishing workforce that contributes to 2% of the commonwealth's GDP, according to a recent economic development report. While the fishing industry continues to have its challenges, New Bedford's industry is relatively diverse and stable.

Expanding the use of the port with the recent creation of the southcoast terminal has positioned the city to benefit long-term from offshore wind energy. The site is expected to be used for deployment, operations and training for offshore wind in the coming years. Currently, Massachusetts has a request for proposals open until June 2017 to begin development of offshore wind energy. The state has a mandate to develop 1,600 megawatts of wind energy by 2027, and this first procurement could allow for up to 800 megawatts. There are currently three companies that have wind leases south of Martha's Vineyard and are expected to respond to the RFP.

Wealth levels are below average with median family income equal to 69.9% of the US median. The unemployment rate has improved over the years to 7.9% (February 2017) compared to over 14% in 2010. The rate does continue to be well above the commonwealth (4.2%) and US (4.9%). Additionally, the labor force continues to see year over year growth. The high poverty rate of 23% of population below the poverty line and a still elevated unemployment rate continue to dampen the improving economic condition of the city.

### **Financial Operations, Reserves and Coverage: Stable Position Expected To Continue Due To Strong Fiscal Management**

The financial position is expected to remain stable over the near term due to conservative budgeting and strong fiscal management, which could lead to slight improvement in reserves depending on results of more volatile costs like snow and ice and health insurance. Fiscal 2016 audited results reflect an operating surplus of \$4.7 million, attributable to the first year of tax title sales, positive variance in local receipts, as well as savings in all major expenditures. The surplus increased the available General Fund balance (committed, assigned and unassigned) to \$26.4 million, or 8.3% of revenues. Reserves have been stable at just below 10% of revenues over the last five years, and we expect the city to work to reach a level at or just above 10% over the next five years.

The fiscal 2017 budget increased by 5.3%, driven by education, public safety and employee benefits. The budget is balanced with a 4.4% tax levy increase and \$700,000 in free cash appropriations. Year-to-date operations are on budget, and year-end projections indicate a slight surplus of around \$1 million.

The primary revenue source is state aid, representing 54% of 2016 revenues followed by property taxes at 33%. In fiscal 2017, the city had \$4.9 million in unused levy capacity, approximately 1.5% of revenues, providing some additional operating flexibility under Proposition 2 ½. The city has shown an ability to tap the unused levy capacity; having used around \$4 million since 2011. The long range financial forecast (2017-2021) projects balanced operations with limited growth in reserves to 9.1% of revenues in 2021.

### **LIQUIDITY**

Cash and investments at the end of fiscal 2016 were \$31.6 million, or a sufficient 9.9% of revenues. The cash position covers a limited 89% of the outstanding BANs being issued should market access be an issue at maturity in May 2018. Mitigating the liquidity position is consistent market access over the last five years.

### Debt, Pensions and Legal Covenants: Manageable Debt With Large Long Term Liabilities

The direct net debt burden of 2.4% of 2017 equalized value (including the current issues) will remain manageable over the near term given a formal debt policy that will ensure affordability for the city's limited flexibility for capital funding. The net direct debt remains manageable because of the self supporting nature of the sewer fund and water enterprise fund. The gross direct debt, which includes all the self-supporting debt, materially increases to 4.8%. The self-supporting nature of the water and sewer funds are a key credit factor. The five-year capital improvement plan (2017-2021) totals \$54.4 million with \$43.5 million of projects financed through debt issuance. The tax supported debt is expected to keep annual General Fund debt service at 3.5% of expenditures through 2021.

#### DEBT STRUCTURE

The entire debt portfolio is fixed rate with 71% of principal retired in ten years. Fiscal 2016 debt service represented \$10.7 million or 3.4% of expenditures.

#### DEBT-RELATED DERIVATIVES

New Bedford is not subject to any swap or derivative agreements.

#### PENSIONS AND OPEB

New Bedford is a member of the City of New Bedford Retirement System, a multi-employer cost-sharing plan for all employees other than teachers and certain administrators who are covered by the state teachers plan. The city paid its 2016 required contribution of \$25.7 million representing 8.2% of expenditures. The 2016 three-year average Moody's Adjusted Net Pension Liability (ANPL), under Moody's methodology for adjusting reported pension data, is \$572.8 million or an average, 1.8 times revenues but elevated 10.7% of equalized value. The plans funding date is currently 2034.

The city is funding its OPEB liability on a pay-as-you-go basis plus deposits into an OPEB trust. In 2016, the city funded 53% of the annual cost, representing \$16.8 million. The total Unfunded Actuarially Accrued Liability is \$485.5 million as of the valuation report dated July 1, 2016. In fiscal 2017 the city adopted a funding policy to make annual contributions equal to 10% of free cash. As of the last valuation, the liability was 0.17% funded.

Total fixed costs in 2016, including debt service, required pension contributions and retiree healthcare payments, represented \$53.2 million or 17% of expenditures.

### Management and Governance

The city's management team is very strong. In 2012, the city adopted comprehensive fiscal policies that have stabilized operations over the last five years and positioned the city to implement a manageable capital plan and project balanced operations over the near term.

Massachusetts cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities' major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

### Legal Security

The bonds are secured by the city's general obligation limited tax pledge as debt service has not been voted exempt from the tax levy limits of Proposition 2 1/2.

### Use of Proceeds

Bond and BAN proceeds will fund various capital projects of the city.

### Obligor Profile

New Bedford is one of Massachusetts gateway cities and major fishing port. The tax base is predominantly residential with a diverse commercial and industrial presence. The city has a population of 94,909 (2015 American Community Survey) and is located on the southcoast, approximately 56 miles south of Boston.

## Methodology

The principal methodology used in the long-term underlying rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. The principal methodology used in the short-term rating was US Bond Anticipation Notes published in April 2014. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

## Ratings

Exhibit 2

### New Bedford (City of) MA

Issue	Rating
General Obligation State Qualified Municipal Purpose Loan of 2017 Bonds	A1
Rating Type	Underlying LT
Sale Amount	\$5,009,000
Expected Sale Date	04/19/2017
Rating Description	General Obligation Limited Tax
General Obligation State Qualified Municipal Purpose Loan of 2017 Bonds	Aa2
Rating Type	Enhanced LT
Sale Amount	\$5,009,000
Expected Sale Date	04/19/2017
Rating Description	General Obligation Limited Tax
General Obligation Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	\$35,696,514
Expected Sale Date	04/19/2017
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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