S&P Global Ratings

RatingsDirect®

Summary:

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

Primary Credit Analyst:
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

Secondary Contact:
Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

Table Of Contents

Summary:

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

Credit Profile		
US$22.424 mil GO BANs dtd 05/03/2019 due 05/01/2020		
Short Term Rating	SP-1+	New
US$11.740 mil GO st qual mun purp loan of 2019 bnds due 03/01/2048		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating and 'AA-' underlying rating for credit program to the city of New Bedford, Mass.' 2019 state qualified municipal purpose general obligation (GO) bonds. At the same time, we affirmed our 'AA-' underlying rating on the city's GO debt outstanding. The outlook on the long-term rating is stable, reflecting the outlook on the state of Massachusetts, and the outlook on the underlying rating is stable.

While historically a fishing port and home to the largest fishing fleet on the East Coast, New Bedford continues to see economic development in other maritime industries, such as offshore wind and maritime-related tourism. The very strong management environment has led to consistent and predictable financial results, which we expect will continue. Although the city faces challenges from long-term retirement liabilities, we expect continued stability at this time.

Additionally, we assigned our 'SP-1+' short-term rating to the city's GO bond anticipation notes (BANs) and affirmed our 'SP-1+' short-term rating on the city's outstanding BANs that mature May 3, 2019. The short-term rating reflects our criteria for evaluating and rating notes. In our view, New Bedford maintains a very strong capacity to pay principal and interest when the notes come due. The city has 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 pledge, subject to the limitations of Proposition 2-1/2, secures the bonds and BANs. We rate the city's underlying rating at the same level with our view of New Bedford's general creditworthiness. Additional security on the bonds is provided through the bonds' participation in the Massachusetts' qualified bond program. We rate issuances under this program on par with Massachusetts' issuer credit rating (ICR; 'AA/Stable'), reflecting the commonwealth's commitment to pay debt service on behalf of eligible participants from legally available funds. Under the Qualified Bond Act (Massachusetts General Law, Chapter 44A), approval by the Municipal Finance Oversight Board, which oversees and monitors the program, is required. Once a participant is approved, the state treasurer pays debt service on the related bond issue directly to the paying agent from amounts withheld from the borrower's annual state aid appropriation. If necessary, the state treasurer advances debt service from legally available funds and after payment withholds from the distributable aid or any other amount payable to the municipality or school district for the amount paid. There is no appropriation risk related to the debt service payment.

We understand officials intend to use bond proceeds for school construction, airport improvements, and other municipal purposes. We further understand that the BAN proceeds will refunding outstanding BANs and provide new-money funding for various capital improvement projects.

The long-term rating reflects our assessment of the following factors for the city:

- Adequate economy, with projected per capita effective buying income (EBI) at 72.6% and market value per capita of $64,959, 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 (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2018 of 5.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 8.7% of total governmental fund expenditures and 1.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 38.0% 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 it; and
- Strong institutional framework score.

Adequate economy

We consider New Bedford's economy adequate. The city, with an estimated population of 96,313, is in Bristol County in the Providence-Warwick MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 72.6% of the national level and per capita market value of $64,959. Overall, market value grew by 6.2% over the past year to $6.3 billion in 2019. Over the past year, over 1,500 new jobs were created in the city and in 2017, the county unemployment rate was 4.7%.

In recent years, New Bedford has worked to redefine its local economy. The city's location on the Massachusetts coast enabled it to become one of the region's largest fishing ports, as well as a manufacturing hub. While the fishing industry continues to thrive as one of the largest commercial fishing ports in the country, the city has looked to develop in areas outside of the maritime industry to diversify and expand the economy, particular through the expansion of arts programming and cultural tourism.

Perhaps most notably, Vineyard Wind, a New Bedford-based offshore wind development company, is currently underway in developing the nation's first commercial, offshore wind turbine project 14 miles of the coast of Massachusetts and south of Martha's Vineyard. This project will use the terminal in New Bedford's harbor to house the onshore components of the project. Management anticipates that this project will benefit the community by bringing operations, maintenance, and port services jobs, in addition to increasing the need for additional hotels, housing, and services for the new employees. The project, valued at over $2 billion, will begin construction at the end of this calendar year. We also note that the port has a hurricane barrier, which may provide some protection from potential negative environmental events.

Additionally, New Bedford continues to see expansion and development in other areas. Currently, its Business Park covers 1,300 acres and is home to 39 companies that employ more than 3,200 people. In 2018, Plumbers Supply, a large plumbing, heating, fire protection and piping service and supply company in the region, began construction in the park on a new $20 million headquarters and distribution center. Further, the city has proposed plans for three historic mills that would transform them into housing developments. This plan includes nearly 450 residential units and has a total value of more than $100 million.

Management is very active in promoting economic development. Recent projects to redevelop downtown have helped expand tourism, resulting in a new $11 million boutique hotel, two new brewpubs, and other new small businesses. Management is currently evaluating the possibility of building a convention center, focused on maritime industry collaboration, due to the large and varied maritime presence in the community. Given management's hands-on approach to economic development, we expect that the city's tax base will continue to expand. The city is also well positioned to make great strides over the medium-to-long term if the marine terminal or business park projects stimulate other major developments. However, the underlying economy remains somewhat challenged, as evidenced by the wealth and income metrics. We expect that the city will continue to see expansion of the tax base, but that the economy will remain adequate over the two-year outlook period.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA 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 nontax revenues when calculating the annual tax levy. For expenditures, management accounts for principal and interest on debt service and adjustments to contractual obligations. Furthermore, it monitors budgetary performance and reports budget-to-actuals to the city council quarterly, addressing budget trends and variances. These reports are easily accessible on the city's website, increasing transparency. Supplemental appropriations and transfers between appropriation items may be made during the course of the fiscal year with approval of the city council.

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 a quarterly earnings and holdings report to the CFO. There is also 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%), and 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. Additionally, at least 25% of free cash is to be transferred to a stabilization fund and 10% to the OPEB trust fund. The city is currently in compliance with its reserve policies.

Strong budgetary performance

New Bedford's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 0.9% of expenditures, and surplus results across all governmental funds of 3.0% in fiscal 2018. General fund operating results of the city have been stable over the last three years, with results of 0.0% in 2017 and 1.5% in 2016.

We adjusted the city's budgetary performance to account for recurring transfers and one-time expenditures, including a $3.9 million expenditure for retroactive wage payments stemming from a settlement related to staff furloughs. We do not anticipate any additional labor settlement charges. Management identifies pension contributions, employee health care, and charter schools as its main sources of expenditure growth; we expect they will continue to monitor and adjust the budget for these expenses.

Management indicates that revenues and expenditures for fiscal 2019 are on target. Notably, a shift in health care design in January 2019 is leading to better-than-budgeted health care expenditures, and the city expects to report at least break-even results, although an addition to fund balance at year-end is likely. The fiscal 2020 budget is in the process of being finalized. Management is continuing to work to constrain health care expenditure growth, while also aiming to fund more capital with cash. At this time, no major budgetary changes are expected, relative to recently adopted budgets. We note that changing state school aid could affect the city's education budget, but we expect management will make the necessary adaptations to maintain balance in the short term. However, we note New Bedford may be somewhat susceptible to state-aid decreases over time, since intergovernmental revenue accounts for 56% of general fund revenue and 57% of total governmental funds revenue; commonwealth revenue has been relatively stable and management has done well to revise its budget to reflect state aid changes. We note property taxes generate 34% of general fund revenue, and property tax collections improved to 98% in fiscal 2018. Additionally, while pension and OPEB carrying charges totaled 7.3% of total governmental funds expenditures in fiscal 2018, if these costs grow, they could further pressure the budget. Based on management's projections for fiscal 2019 and its clear efforts to produce year-end balanced results, we expect that the city will continue to produce strong budgetary performance through careful budgeting, monitoring of actual revenues and expenditures, and budgetary amendments and adjustments as needed.

Adequate budgetary flexibility

New Bedford's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2018 of 5.6% of operating expenditures, or $19.6 million.

Available fund balance declined as a percentage of expenditures to 5.6% from 7.8%. This primarily reflects a reclassification of reserves to nonspendable fund balance from unassigned. We included the city's stabilization fund in our calculation, as it can be made available for use by the city council; these funds are accounted for in general fund committed reserves. New Bedford's reserve policy is based on the stabilization account, with which it is currently in compliance, at 3.0% of 2018 budgeted general fund expenditures. We note the city has nearly $4 million in levy capacity (about 11% of fiscal 2018 adjusted general fund expenditures), which provides some additional flexibility in raising revenues. We do not expect the available fund balance to decline on a nominal basis, but it may shrink further as a percentage of expenditures depending on fiscal 2019 year-end results. Currently, we expect that that budgetary flexibility will remain adequate.

Very strong liquidity

In our opinion, New Bedford's liquidity is very strong, with total government available cash at 8.7% of total governmental fund expenditures and 1.7x governmental debt service in 2018. 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 BANs. The city does not have any variable-rate or direct-purchase debt, nor does it have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. We adjusted our view of the city's internal liquidity to account for restricted bond proceeds and other restricted funds.

City investments are subject to state statutes and New Bedford's formal investment policy allows it 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 (CDs). Currently, the majority of its cash is invested in money market funds and CDs that mature in less than one year. For these reasons, the available cash position remains very strong and stable, and we expect the 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 5.2% of total governmental fund expenditures, and net direct debt is 38.0% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, which is, in our view, a positive credit factor. 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 it. New Bedford's combined required pension and actual OPEB contributions totaled 7.3% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 47.3%.

With this issuance, the city will have about $264.2 million in total direct debt outstanding. We except that it will issue debt in line with its CIP. Additionally, the city is exploring additional issuances for a dam project, a public safety communications project, and construction at the South Public Safety Facility. We do not expect its current debt plans to change our view of the overall debt profile, as we expect new-money debt would be equal to or less than principal paydown over the next several years.

The city participates in the New Bedford Contributory Employees' Retirement System, of which it represents approximately 87% of the total system liability and contributions. The system is 47.3% funded, which we consider very low. In the last fiscal year, it changed the actuarial assumptions including updated mortality calculations and a reduction in the discount rate to 7.50% from 7.75%. Concurrently, the city revised its pension funding target to 2035 from 2034, to limit annual cost increases. Its proportionate share of the net pension liability was approximately $324.3 million, as of Dec. 31, 2017. It paid $27.7 million for its proportionate share of the required contribution in 2018. Historically, it has fully funded its actuarially determined contribution in full and management expects it will continue to do so. The city's teachers participate in the Massachusetts Teachers' Retirement System (MTRS), which has a special funding situation. The state makes all contributions on behalf of the city, which has no obligation or liability under MTRS.

New Bedford also provides OPEBs in the form of health and life insurance to eligible retirees and their dependents. In December 2015, the city council voted to establish an OPEB trust fund, which currently has a balance of about $1.5 million. The city's net OPEB liability, using updated reporting under GASB Statement No. 75, is $507 million. New Bedford's OPEB trust funding policy is to contribute at least 10% of certified free cash to the trust each year. In 2018, it contributed $150,000.

We expect the city's retirement liabilities to remain significant in the short-to-medium term, with annual costs potentially accelerating and pressuring the budget, as the city approaches the 2035 pension funding target. While we recognize the retirement system's efforts to adopt increasingly conservative assumptions, we believe the discount rate remains above average nationwide. Should the discount rate decrease further, we would anticipate that the unfunded liability and required contributions would increase, likely further pressuring the budget.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion of New Bedford's very strong management, which is supported by the city's emphasis on maintaining and adhering to formal plans, policies, and practices. It also reflects the city's ability to sustain its very strong liquidity, in conjunction with consistent budgetary performance and flexibility. While New Bedford's economy remains somewhat challenged, we believe it will remain adequate due to its participation in the broad and diverse Providence-Warwick MSA. In addition, we expect that the debt and liability profile will remain relatively stable over the next several years. 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's wealth and income metrics and budgetary flexibility were to increase to levels we consider commensurate with those of higher rated peers, while also mitigating its long-term pension and OPEB liabilities.

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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Ratings Detail (As Of April 12, 2019)		
New Bedford GO st enhancement prog		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
New Bedford GO st qual mun purp loan bnds		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
New Bedford GO BANs		
Short Term Rating	SP-1+	Affirmed
New Bedford GO State Enhancement Prog		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	AA-/Stable	Affirmed