

RatingsDirect®

Summary:

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

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Credit Profile

US\$29.55 mil GO st qual mun purp loan of 2023 bnds ser 2023 due 04/01/2052

<i>Long Term Rating</i>	AA/Positive	New
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
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US\$16.376 mil GO BANs ser B due 04/11/2024

<i>Short Term Rating</i>	SP-1+	New
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New Bedford GO st enhancement prog

<i>Long Term Rating</i>	AA/Positive	Affirmed
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term enhanced rating and 'AA-' underlying rating for credit program to New Bedford, Mass.' roughly \$29.55 million series 2023 general obligation (GO) bonds.
- At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the city's roughly \$16.376 million series 2023 GO bond anticipation notes (BANs).
- In addition, S&P Global Ratings affirmed its 'AA-' underlying rating on its existing GO debt and 'SP-1+' short-term rating on its existing GO BANs.
- The outlook on the long-term enhanced rating is positive and the outlook on the underlying rating is stable.

Security

The bonds and BANs are a full-faith-and-credit obligation of New Bedford, subject to Proposition 2 1/2 limitations. We rate the underlying rating at the same level as our view of New Bedford's general creditworthiness.

The short-term rating reflects our opinion of New Bedford's general creditworthiness and market-risk profile, which we consider low. The low market-risk profile reflects our view of the city's strong legal authority to issue long-term debt to take out the BANs and its ongoing disclosure to market participants.

The bonds' participation in the Massachusetts Qualified Bond Act program provides additional security. We rate issuances under this program on par with our issuer credit rating on Massachusetts, reflecting the commonwealth's commitment to pay debt service on behalf of eligible participants from legally available funds. There is no appropriation risk related to the debt-service payment. The positive outlook reflects the outlook associated with the state program rating.

Management plans to use series 2023 bond proceeds and series 2023 BAN proceeds to fund various capital projects, including public-safety, communications, infrastructure, and school-renovation projects.

Credit overview

New Bedford's economic profile has benefited from efforts to diversify the city's traditional dependence on fishing and port activities, as well as from the relative affordability of the city and investments to support offshore wind development. Although reserves decreased in fiscal 2022 due to a union contract settlement after a few years of growth, we expect the city will likely sustain current reserves. Management's ongoing efforts to diversify the economy, focus on conservative financial management, and receive federal and state receipts should provide stability in the credit profile.

The rating reflects our view of the city's:

- Local economy, benefiting from access to a broad, diverse metropolitan statistical area and diversifying property tax base;
- Consistent finances, producing stable reserves despite the recent use of stabilization reserves;
- Very strong management with strong financial-management practices, policies under our Financial Management Assessment (FMA) methodology, with a continued adherence to adopted policies, and a strong Institutional Framework score; and
- Manageable debt, albeit with large pension and other postemployment benefit (OPEB) obligation liabilities.

Environmental, social, and governance

We have analyzed the city's social and governance risks relative to its economy, management, financial measures, and debt-and-liability profile; we view them both as neutral in our rating analysis. As a city on the Atlantic Coast, New Bedford has exposure to elevated environmental risk, notably hurricanes, wind, inland flooding, and sea-level rise. Using federal grants, the city is building a hurricane barrier in its harbor to mitigate potential flooding damage, as well as other resiliency measures. The city updates its resiliency plan every five years. Management takes steps to mitigate cybersecurity risk.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that prudent management and adherence to adopted financial-management policies will likely allow for consistent finances and reserve maintenance at approximately current levels.

Downside scenario

We could lower the rating if reserves were to decrease from current levels with no plan to restore current levels.

Upside scenario

While unlikely due to the city's economic profile, we could raise the rating if management were to record robust general fund surpluses that increase reserves.

Credit Opinion

A growing tax base, supported by public, private investments

New Bedford's economy has historically centered on fishing and manufacturing, and the city has recently tried to diversify its economy. Vineyard Wind, a New Bedford-based offshore wind-development company, is constructing a commercial offshore wind turbine 14 miles off Massachusetts' coast; this project will use New Bedford harbor's terminal to house onshore components. Management expects this project will benefit the community by bringing operations, maintenance, and port service jobs to the city.

New Bedford has also seen development and business investment that has led to a workforce recovery, which was greatly affected by COVID-19. While port activities remain an integral part of the city's economy, other notable development includes the opening of Tonix Pharmaceuticals' research center and the mixed-use rehabilitation of historic structures. New Bedford has recently started developing a 100-acre advanced-manufacturing campus.

Consistent finances with the maintenance of adequate reserves

In fiscal 2022, New Bedford reported its first deficit--a fund balance decrease after three years of surpluses. Management attributes the deficit and use of stabilization reserves to the settlement of union contracts that included larger-than-expected retroactive pay. Available reserves, including the stabilization fund, decreased by 6.3% from a recent high of 6.9% in fiscal 2021. Aside from this additional compensation, there were no major expenditure variances during fiscal 2022; revenue, which has continued to perform well, was broadly overbudget.

The fiscal 2023 general fund budget totals \$387 million, an approximately 9% increase over fiscal 2022. Officials report the budget is in-line with expectations with some revenue sources, including solar credits, stronger than expected. The city also benefits from additional state-education funding. Budget performance indicates the city will see a slight fund balance increase for fiscal 2023.

Officials are developing the fiscal 2024 budget, which will include level services and no major new positions. The city is integrating expectations for increased salary and health-care costs, and it expects to benefit from another increase in state-education revenue and continued property tax revenue strength, accounting for 35% of revenue.

Well-embedded financial-management policies

When developing the budget, management uses historical revenue and expenditure trend analysis. The city presents quarterly reports on budget-to-actual results to the city council. Management maintains a five-year capital plan, updated annually, that identifies projects and funding sources and guides debt issuance. The city has adopted a formal investment-management policy, with quarterly reporting, and a debt-management policy that identifies affordability and capacity targets. New Bedford's reserve policy, with a stabilization reserve balance, targets maintaining 2%-6% of the current-year general fund budget, 25% of free cash transferred into the stabilization fund, and 10% transferred into an OPEB trust fund.

The Institutional Framework score for Massachusetts municipalities is strong.

Manageable debt with additional issuance to support the capital program

After the series 2023 issuances, New Bedford will have about \$347 million in total direct debt outstanding. The city will issue debt in-line with its capital-improvement plan during the next few years. We do not expect current debt plans to change our view of the overall debt profile because we expect new-money debt will likely equal, or be less than, principal paydown during the next several years.

Pension/OPEB liabilities

In our opinion, New Bedford's large pension and OPEB obligation is a credit weakness. The plan's discount is 7%, and the pension funding target is 2035. We think costs are likely to increase due to low funding, and the elevated discount could result in contribution volatility.

New Bedford participates in New Bedford Contributory Employees' Retirement System, which is 58.3% funded--It represents 100% of total system liability and contributions--with a proportionate share of the net pension liability of \$340.3 million.

New Bedford also provides OPEB in the form of health and life insurance to eligible retirees and their dependents. The net OPEB liability is \$526.3 million. The OPEB trust fund currently has a balance of about \$3.2 million. New Bedford's OPEB trust funding policy is to contribute at least 10% of certified free cash to the trust annually. We expect retirement liabilities will likely remain significant in the short-to-medium term with annual costs potentially accelerating and pressuring the budget as the city approaches 2035.

New Bedford, Massachusetts Select Key Credit Metrics				
	Most recent	--Historical information--		
		2022	2021	2020
Adequate economy				
Projected per capita effective buying income (EBI) (%) of U.S.	71.3			
Market value per capita (\$)	89,170			
Population			96,450	96,739
County unemployment rate(%)			6.5	
Market value (\$000)	8,600,484	7,388,365	7,090,489	
10 largest taxpayers as a % of taxable value	6.4			
Adequate budgetary performance				
Operating fund result as a % of expenditures		(0.9)	0.3	0.6
Total governmental fund result as a % of expenditures		(2.0)	0.1	(2.7)
Adequate budgetary flexibility				
Available reserves as a % of operating expenditures		6.3	6.9	6.7
Total available reserves (\$000)		26,237	28,378	25,872
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		27.6	21.3	12.4
Total government cash as a % of governmental fund debt service		719.5	468.5	267.7
Very strong management				
Financial Management Assessment	Strong			

New Bedford, Massachusetts Select Key Credit Metrics (cont.)

	Most recent	--Historical information--		
		2022	2021	2020
Weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		3.8	4.6	4.6
Net direct debt as a % of governmental fund revenue	48.9			
Overall net debt as a % of market value	3.1			
Direct debt 10-year amortization (%)	46.0			
Required pension contribution as a % of governmental fund expenditures		7.2		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0		

Strong Institutional Framework

Data points and ratios may reflect analytical adjustments.

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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2022 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 9, 2023)

New Bedford GO state qualified mun purpose loan of 2022		
Long Term Rating	AA/Positive	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
New Bedford GO state qualified municipal purp loan		
Long Term Rating	AA/Positive	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
New Bedford GO st qual mun purp loan bnds		
Long Term Rating	AA/Positive	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/Positive	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed

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