S&P Global Ratings

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Summary:

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

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Long Term Rating	AA/Stable	Affirmed
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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 State Enhancement Prog		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating and 'AA-' underlying rating for credit program to the city of New Bedford, Mass.' 2020 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.

Credit overview

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. As a result of the recent recession and ongoing slow recovery, the city expects its operating results for fiscal 2020 will remain positive, though at more modest levels compared with previous years. Although the city faces challenges from long-term retirement liabilities, and remains vulnerable to potential decreases in state aid, we expect continued stability, given management's ongoing efforts to cultivate economic development and recently implemented austerity measures in the fiscal 2021 budget cycle.

New Bedford's full-faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the bonds. 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 to prepay a significant portion of series 2020 bond anticipation notes (BANs) and to fund various capital projects at city schools, as well as other municipal projects.

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

- Adequate economy, with projected per capita effective buying income at 74.0% and market value per capita of $69,129, that is gaining advantage 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;
- Adequate budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2019;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2019 of 6.0% of operating expenditures;
- Strong liquidity, with total government available cash at 7.6% of total governmental fund expenditures and 1.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 5.1% of expenditures and net direct debt that is 49.3% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

We analyzed the district's social risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. As it is a port city on the Atlantic coast, New Bedford is exposed to elevated environmental risks, notably hurricanes and sea-level rise. City administrators have taken several steps to diminish the elevated environmental risks by building a hurricane barrier in the city's harbor to mitigate potential damage from flooding risk.

Stable Outlook

Downside scenario

We could consider a negative rating action if general fund deficits emerge, or if the city's reserve position declines from current levels during the next one to two years.

Upside scenario

We could consider a positive rating action if management maintains increasingly robust general fund surpluses, while increasing the city's reserve position to levels we consider commensurate with those of a higher rating.

Credit Opinion

Adequate economy

We consider New Bedford's economy adequate. The city, with an estimated population of 96,526, is located in Bristol County in the Providence-Warwick, RI-MA MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 74.0% of the national level and per capita market value of $69,129. Overall, the city's market value grew by 6.7% over the past year, to $6.7 billion in 2020. The county unemployment rate was 3.7% in 2019.

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, particularly through the expansion of arts programming and cultural tourism.

Perhaps most notably, Vineyard Wind, a New Bedford-based offshore wind development company, is currently developing the nation's first commercial offshore wind turbine project 14 miles off 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, as well as increasing the need for additional hotels, housing, and services for the new employees. The project, valued at over $2 billion, has begun construction.

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. Furthermore, 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 also planning to redevelop a municipal golf course into a second industrial park that could create up to 1,000 new jobs in construction and other industries. Eastern Fisheries, a commercial fishing and seafood company, plans to consolidate its operations in New Bedford and expand its footprint, with approximately 45 additional jobs.

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, based on 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 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. Additionally, the city treasurer delivers a quarterly earnings and holdings report to the chief financial officer (CFO). There is also a written debt management policy that identifies debt affordability and capacity targets based on debt outstanding as a percentage of per capita income, debt outstanding 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 of amortizing 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.

Adequate budgetary performance

New Bedford's budgetary performance is adequate, in our opinion. The city generated fiscal year 2019 surpluses of 0.4% of general fund expenditures and 1.9% of all governmental funds expenditures, with surpluses of 0.9% and 0.0% of expenditures in fiscal years 2018 and 2017, respectively.

Management indicates that revenues and expenditures for fiscal 2019 were in line with expectations. The city ended the year with a modest surplus on a generally accepted accounting principles (GAAP) basis. Though the audit is unavailable at this time, management reports that it ended fiscal 2020 with break-even results in its general fund.

The fiscal 2021 budget was finalized, and contains several austerity measures, including elimination of several workforce roles, closure of a senior center, consolidation of a police station, and deferrals of public works spending. The fiscal 2021 budget also includes an expectation that state aid would be cut, though the possibility exists for state funding to remain flat for the year.

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 58% 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. However, state aid could decline in fiscal 2021 and beyond as a result of recessionary pressures and slow recovery.

We note property taxes generate 34% of general fund revenue, and property tax collections improved to 98% in fiscal 2019. Additionally, while pension and OPEB carrying charges totaled 7.2% of total governmental funds expenditures in fiscal 2019, if these costs increase, they could further pressure the budget. Based on management's projections for fiscal 2020 and its clear efforts to produce at least balanced results for fiscal 2021, 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 2019 of 6.0% of operating expenditures, or $21.8 million.

Available fund balance increased as a percentage of expenditures to 6.0%, from 5.6%, as a result of surplus operations in fiscal 2019. 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 3.4% of 2019 budgeted general fund expenditures. We note the city has nearly $4 million in levy capacity (about 11% of fiscal 2019 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 modestly as a percentage of expenditures depending upon fiscal year 2020 operating results. For 2021, given austerity measures, if state aid remains flat, we could see growth in the fund balance in that year. Going forward, we expect that budgetary flexibility will remain adequate.

Strong liquidity

In our opinion, New Bedford's liquidity is strong, with total government available cash at 7.6% of total governmental fund expenditures and 1.5x governmental debt service in 2019. 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.

Weak debt and contingent liability profile

In our view, New Bedford's debt and contingent liability profile is weak. Total governmental fund debt service is 5.1% of total governmental fund expenditures and net direct debt is 49.3% of total governmental fund revenue.

With this issuance, the city will have about $264.2 million in total direct debt outstanding. We expect that it will issue debt in line with its CIP during the next few years. We do not expect its current debt plans to change our view of the overall debt profile, as we expect new-money debt will be equal to or less than principal paydown over the next several years.

In our opinion, a credit weakness is New Bedford's large pension and OPEB obligation, without a plan in place that we think sufficiently addresses the obligation.

- We view pension and OPEB liabilities as a source of credit pressure for New Bedford, as with most Massachusetts local governments.
- While it is currently managing pension costs, we believe the city has limited ability to control future growth of these liabilities.
- OPEBs are, by state statute, funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs.

New Bedford participates in the following pension plan:

- New Bedford Contributory Employees' Retirement System, funded at 43.1%, of which it represents approximately 87% of the total system liability and contributions, and a proportionate share of the net pension liability of $389.6 million.

New Bedford's combined required pension and actual OPEB contributions totaled 10.9% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019 of $28.8 million.

The plan's discount rate is 7.50%, down from 7.75%, and the pension funding target is 2035. 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 OPEB 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 $2 million. The city's net OPEB liability, using updated reporting under GASB Statement No. 75, is $528 million. New Bedford's OPEB trust funding policy is to contribute at least 10% of certified free cash to the trust each year; in 2019, it contributed $455,000.

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 expect the unfunded liability and required contributions to increase, likely further pressuring the budget.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020