

# RatingsDirect®

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## Summary:

# Newburyport, Massachusetts; General Obligation; Note

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## Table Of Contents

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Rationale

Outlook

Related Research

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### Credit Profile

US\$4.009 mil GO mun purp loan bnds ser 2016 due 09/15/2036		
<i>Long Term Rating</i>	AAA/Stable	New
US\$2.174 mil GO BANs ser 2016 dtd 09/30/2016 due 04/17/2017		
<i>Short Term Rating</i>	SP-1+	New
Newburyport GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and stable outlook to Newburyport, Mass.' series 2016 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' long-term rating, with a stable outlook, on the city's outstanding GO debt.

At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the city's series 2016 bond anticipation notes (BANs).

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Newburyport maintains a very strong capacity to pay principal and interest when the notes come due. The city maintains 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.

The city's full-faith-and-credit pledge secures the bonds. Despite the limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. Officials intend to use series 2016 bond and BAN proceeds to finance the city's outstanding BANs.

We rate Newburyport higher than the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2015, local property taxes generated approximately 80% of revenue, demonstrating a lack of dependence on central government revenue.

The rating reflects our opinion of the following factors for the city, including its:

- Very strong economy, with 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 2015;

- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 13.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 45.4% of total governmental fund expenditures and 9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.1% of expenditures and net direct debt that is 90.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

### **Very strong economy**

We consider Newburyport's economy very strong. The city, with an estimated population of 17,852, is located in Essex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 181% of the national level and per capita market value of \$210,908. Overall, the city's market value grew by 4.4% over the past year to \$3.8 billion in 2016. The county unemployment rate was 5.2% in 2015.

Primarily a residential community, Newburyport, about 37 miles north of Boston, benefits from its location along Route 1, as well as access to interstates 95 and 495, which provide an entry to regional labor markets within the Boston MSA. The city continues to benefit from an increase in building permit activity as development gains traction. In addition to growth in the private sector, particularly in the business and industrial park, the city is a tourism destination with a vibrant and historic downtown and waterfront area. Currently, there are very few vacancies in the downtown commercial district. The taxpayer base is very diverse, with the 10 leading taxpayers accounting for 4.3% of total assessed valuation.

### **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.

Management highlights include its strong focus on financial and capital planning, evidenced by a five-year capital improvement plan that details the parameters and amount of debt and nondebt financing for all capital projects. The city adheres to its formal investment policy and monitors the investments regularly with holdings and returns presented to the council quarterly. Management is conservative in its budget assumptions, using at least three to five years of historical trends when creating the budget. Management monitors budget-to-actual results monthly and reports to the council quarterly. Furthermore, the council is permitted to amend the budget if needed. The city manages reserves in accordance with its policy of maintaining 5% of general fund expenditures in the stabilization fund. The formal debt management policy limits gross debt service costs to no more than 15% of general fund expenditures. The city also maintains a 10-year financial forecast that identifies issues and that it updates annually. The city council uses the financial forecast as a baseline for revenue and expenditure budgetary decisions. Structural balance is Newburyport's main goal.

### **Strong budgetary performance**

Newburyport's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 2% in fiscal 2015. General

fund operating results of the city have been stable over the last three years, with a result of 1.1% in 2014 and a result of 0.2% in 2013.

Fiscal 2015 audited total governmental fund operating results were adjusted for one-time capital projects paid from bond proceeds and one-time revenue.

Fiscal 2015's operating surplus was due largely to better-than-budgeted revenue and conservative expenditure budgeting. Specifically, the city realized higher-than-expected motor vehicle, hotel tax, and delinquent tax collection revenue. Despite record snowstorms in the New England region last winter, the city covered the snow-and-ice deficit through the surplus and expects to receive Federal Emergency Management Agency reimbursements. The city's revenue base is stable, in our opinion, with property taxes generating 80% of revenue and intergovernmental revenue accounting for about 11%. Newburyport's collections have been sound, in our view; collections averaged 99% of the current levy during the past four fiscal years.

The fiscal 2016 general fund budget totals \$73.66 million, a year-over-year increase of about 4.4% with no fund balance appropriation. The city expects to end fiscal 2016 with a general fund surplus due to a growing economy and motor vehicle, hotel, and motel taxes outperforming the budget. Therefore, we believe budgetary performance will remain, at least, strong. In addition, the city has settled all collective bargaining contracts through 2016.

The fiscal 2017 general fund budget totals \$76.2 million, a year-over-year increase of about 9.6%. We understand officials balanced the budget with no fund balance appropriation.

### **Strong budgetary flexibility**

Newburyport's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 13.5% of operating expenditures, or \$7.9 million.

The city accounts for its stabilization fund in unassigned fund balance. For fiscal 2016, due to the projected operating surplus, we expect reserves to increase, albeit not likely to a level more than 15% of expenditures, which we consider very strong. The tax levy increase in fiscal 2016 remained within the commonwealth's Proposition 2 1/2 tax levy limit. Newburyport's banked levy capacity is about \$351,000, which we do not view as significant.

### **Very strong liquidity**

In our opinion, Newburyport's liquidity is very strong, with total government available cash at 45.4% of total governmental fund expenditures and 9x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Newburyport has demonstrated strong external liquidity by issuing GO debt and BANs within the past 15 years. The city does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

### **Strong debt and contingent liability profile**

In our view, Newburyport's debt and contingent liability profile is strong. Total governmental fund debt service is 5.1% of total governmental fund expenditures, and net direct debt is 90.4% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, which is, in our view, a positive credit factor.

We understand the city expects to issue about \$7.5 million over the next two years for various capital improvements, including the final phase of water treatment upgrades. Included in this amount is approximately \$4 million in new debt related to the construction of a new parking garage, pending voter approval. However, we do not believe this additional debt will weaken the city's overall debt profile.

Newburyport's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 9.8% of total governmental fund expenditures in 2015. Of that amount, 5.8% represented required contributions to pension obligations, and 4% represented OPEB payments. The city made its full annual required pension contribution in 2015.

Newburyport participates in a cost-sharing, multiemployer, defined-benefit pension plan administered by Newburyport Contributory Retirement Board. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the city's proportionate share of the net pension liability was about \$33.2 million, with 66.2% funded as of 2015. We believe the city should successfully manage any projected increases over the next few years. However, we could view this growing liability as a potential credit negative. We recognize the city is on track to fund the pension system in full by 2036.

Newburyport offers OPEB to retirees. The unfunded actuarial accrued liability in July 2014 was \$66.8 million. The city established an OPEB trust fund with a modest initial contribution of \$25,000 during fiscal 2014. In fiscal 2015, it received \$549,772 in one-time unbudgeted revenue related to a class-action lawsuit in favor of the city; the city council voted to contribute \$450,000 of the revenue to the OPEB trust, bringing the total OPEB contribution to \$475,000. Management elected not to add any funds to the OPEB trust in fiscal 2016. The city intends to build an appropriation for the OPEB trust fund into future annual operating budgets.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion that the city will maintain at least a strong financial position through balanced operations over its two-year outlook horizon. The city's very strong wealth and income levels and the diverse and dynamic local and regional economies support the rating. We further expect that Newburyport's debt profile will remain strong as its future capital needs are limited and that management's policies will support long-term stability. We are unlikely to revise the rating during our two-year outlook period, as we believe the capable management team will maintain a strong financial performance and preserve at least strong reserves.

While unlikely, a sustained or substantial weakening of reserves and liquidity, driven by increasing pension and OPEB costs, could cause us to lower the rating.

## **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

**Ratings Detail (As Of September 16, 2016)**

Newburyport GO BANs dtd 10/15/2015 due 09/30/2016

<i>Short Term Rating</i>	SP-1+	Affirmed
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Newburyport GO BANs due 10/10/2016

<i>Short Term Rating</i>	SP-1+	Affirmed
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Newburyport GO (AGM)

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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