

# RatingsDirect®

---

## Summary:

# Newburyport, Massachusetts; General Obligation

### Primary Credit Analyst:

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

### Secondary Contact:

Anthony Polanco, Boston + (617) 530-8234; anthony.polanco@spglobal.com

## Table Of Contents

---

Rationale

Outlook

Related Research

## Summary:

# Newburyport, Massachusetts; General Obligation

### Credit Profile

US\$6.015 mil GO mun purp ln ser 2018 due 04/15/2043

<i>Long Term Rating</i>	AAA/Stable	New
Newburyport GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Newburyport GO (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the city of Newburyport, Mass.' 2018 general obligation (GO) bonds and affirmed its 'AAA' long-term rating on the city's existing GO debt. The outlook is stable.

Newburyport's full-faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the bonds. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018, on RatingsDirect). We are rating the obligation at the same level with our view of Newburyport's general creditworthiness as expressed in our rating on the unlimited-tax GO bonds.

We understand officials intend to use the bond proceeds for project costs related to the new intermodal parking garage.

The long-term rating reflects our view of the city's:

- 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;
- Adequate budgetary performance, with a slight operating deficit in the general fund but a slight operating surplus at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 8.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.0% of total governmental fund expenditures and 6.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.5% of expenditures and net direct debt that is 110.2% 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 17,939, is in Essex County, about 37 miles north of Boston. It is 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 165% of the national level and per capita market value of \$230,355. Overall, market value grew by 4.8% over the past year to \$4.1 billion in 2018. The county unemployment rate was 3.8% in 2016.

Primarily a residential community, Newburyport, benefits from its location along Route 1, as well as access to interstates 95 and 495, which provide an entry to regional labor markets throughout the Boston MSA. The city is also a terminus for the commuter rail line into Boston's North Station.

Management reports interest in redevelopment along the city's waterfront, which would continue the recent trend in increasing building permit activity and expansion of the residential and commercial tax base. Additionally, the business park may be reorganizing and expanding in the near future. The city has made it a point to foster smart-growth, transit-oriented, and sustainable development. To this end, management expects that the expanding rail trail and new intermodal parking garage will provide new interest in residential and mixed-use development.

Newburyport is also a tourist destination with a vibrant, historical 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 4.27% of total assessed valuation (AV). Residential properties account for 87.2% of AV, while commercial properties are 7.38%. Given the city's stable residential base, along with continued private-sector interest in new development and access to the Boston MSA, we expect that the city's economy will remain very strong throughout 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.

Newburyport's management has a strong focus on enhancing and developing its infrastructure and maintain its capital assets. It annually updates its five-year capital improvement plan, which details the parameters and amount of debt and revenue-based financing for all capital projects. The formal debt management policy limits gross debt service costs to no more than 15% of general fund expenditures. Newburyport also maintains a 10-year financial forecast that identifies issues and that it updates annually. The city council uses the financial forecast as a base line for revenue and expenditure budgetary decisions. Management is conservative in its budget assumptions, using 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. Finally, it adheres to its formal investment policy and monitors the investments regularly with holdings and returns presented to the council quarterly.

### **Adequate budgetary performance**

Newburyport's budgetary performance is adequate, in our opinion. It had slight deficit operating results in the general fund of negative 1.2% of expenditures, but a slight surplus result across all governmental funds of 0.9% in fiscal 2017.

For analytical consistency, we adjusted fiscal 2017 budgetary performance to account for recurring transfers, one-time revenues and expenditures, and expenditures of bond proceeds.

The city experienced a general fund negative result on a GAAP basis; although on a budgetary basis, the results were positive. Management, in consultation with the city auditor, attributes this primarily to the timing of recognition of several revenue and expenditure items and does not anticipate it recurring. Against the budget, management noted that revenues came in higher than budgeted across nearly all revenue categories, while departmental turn-backs resulted in lower-than-budgeted expenditures. The city, on a GAAP basis, had nearly break-even results prior to transfers, but negative results after accounting for the recurring transfer to the capital projects fund, as well as partially offsetting recurring transfers into the general fund for indirect cost reimbursements.

Management reports that fiscal 2018 revenues and expenditures are both tracking on budget, and anticipates ending the year with at least break-even operating results. We anticipate that total governmental funds performance will also return at least break-even results. There were no major changes in the 2018 budget relative to fiscal 2017, although management reports having to adjust midyear to absorb unanticipated increases in trash collection costs.

The city's revenue base is stable, in our opinion, with property taxes generating 73% of revenue and intergovernmental revenue about 19%. Newburyport's collections have been sound, in our view; collections averaged 98% of the current levy during the past five fiscal years. Given management's track record of producing structurally balanced results over the past several years, we expect that budgetary performance will be adequate to strong over the outlook period. However, we also note that pension and other postemployment benefit (OPEB) costs could become a budgetary pressure over the long term. Should increasing fixed retirement costs continue to rise, we expect that the city could experience sustained budgetary pressure.

### **Strong budgetary flexibility**

Newburyport's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 8.9% of operating expenditures, or \$6.4 million.

The city used fund balance in fiscal 2017 to fund capital projects. Management notes that funds previously set aside for school construction projects will be returned to unassigned fund balance, as the projects have fully concluded, thereby increasing available fund balance by approximately \$983,000. However, it is anticipated these funds will be expended over several years for other capital project costs. As the city is anticipating at least break-even general fund results in fiscal 2018, we expect that the available fund balance will increase relative to fiscal 2017 as the excess funds are reassigned and may fluctuate depending on annual financial results and expenditures for capital costs. We anticipate that the city's available fund balance will remain strong over the two-year outlook period.

### **Very strong liquidity**

In our opinion, Newburyport's liquidity is very strong, with total government available cash at 34.0% of total governmental fund expenditures and 6.2x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Newburyport has demonstrated strong access to external liquidity by issuing GO debt and bond anticipation notes within the past 15 years. The city does not currently have any contingent liquidity risks from financial instruments with

payment provisions that change on the occurrence of certain events. We do not believe that its investments are risky. Consequently, we do not anticipate a deterioration of liquidity over the next two years.

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

In our view, Newburyport's debt and contingent liability profile is strong. Total governmental fund debt service is 5.5% of total governmental fund expenditures, and net direct debt is 110.2% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is, in our view, a positive credit factor.

The city anticipates issuing approximately \$2 million in new-money debt over the next one-to-two years. We do not believe this additional debt will weaken the overall debt profile.

Newburyport's combined required pension and actual OPEB contributions totaled 8.4% of total governmental fund expenditures in 2017. Of that amount, 5.4% represented required contributions to pension obligations, and 3.0% represented OPEB payments. The city made its full annual required pension contribution in 2017.

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 approximately \$44 million, with a system-funded ratio of 61.3%. We believe the city should successfully manage any projected increases over the next few years. However, if the cost and liability continues to grow, it may result in downward rating pressure. We understand that the city is on track, if all assumptions are met, to fund the pension system in full by 2036.

Newburyport offers OPEBs to retirees. The unfunded actuarial accrued liability as of the most recent valuation in July 2016 was \$73.8 million. The city established an OPEB trust fund in fiscal 2014. The balance of the trust at the end of fiscal 2017 was \$571,052, while management reports that as of Feb. 28, 2018, it has grown to approximately \$618,000. Management anticipates continuing to appropriate funds into the trust as the operating budget allows. In fiscal 2017, the city contributed \$25,000 to the OPEB trust. Following full funding of the pension system, management anticipates reappropriating the amount above the pension normal cost to the OPEB trust. While we do not believe that pension and OPEB carrying charges are currently pressuring the operating budget, should costs continue to rise, our view of the city's pension and OPEB obligation and funding plan could change.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects our opinion that management will continue to work to ensure structurally balanced financial operations, leading to sustained or growing reserve levels over the two-year outlook horizon. The city's very strong wealth and income levels and access to the Boston MSA and regional economies, along with management's financial policies and practices, support the rating. While future major capital needs are limited, rising pension and OPEB costs may pressure the operating budget. We could lower the rating during our two-year horizon should the city see a weakening of reserves through imbalanced budgetary performance derived from pay-as-you-go capital spending

or increasing pension and OPEB costs.

## **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

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.capitaliq.com](http://www.capitaliq.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.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.