S&P Global Ratings

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## Summary:

# Newburyport, Massachusetts; General Obligation

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**Summary:**

# Newburyport, Massachusetts; General Obligation

| Credit Profile | | |
| --- | --- | --- |
| US$8.0 mil GO mun purp loan of 2022 bnds due 05/15/2042 | | |
| *Long Term Rating* | AAA/Stable | New |
| Newburyport GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Newburyport, Mass.' $8 million series 2022 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 Proposition 2-1/2 limitations, secures the bonds. We rate this issuance based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," criteria, published Nov. 20, 2019, on RatingsDirect. Despite limitations imposed by the commonwealth's levy-limit law, we did not make a rating distinction between the town's limited- and unlimited-tax GO pledges.

Officials intend to use the bond proceeds for land acquisition, design and construction for the West End Fire Station, as well as to address drainage issues and replacing a water main under Phillips Drive.

### Credit overview

Newburyport's credit profile is characterized by a strong economy supported by a wealthy property tax base and high household incomes. The city has demonstrated stable financial operations over the past five fiscal years and has generally maintained positive operating results. In addition, the management team maintains formalized policies and practices that support the financial operations. However, reserve levels, while stable, are weaker in comparison with state and national peers and the city's pension and other postemployment benefits (OPEB) costs and liabilities have grown since 2015 and will continue to grow without a plan in place to sufficiently address the liabilities.

Newburyport is eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the city's predominantly locally derived revenue base, supports our view that debt repayment is at limited risk of negative sovereign intervention.

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

- Very strong residential economy, with access to the Boston broad and diverse MSA;

- Very strong management, with formalized financial policies and practices that have historically been adhered to and a strong institutional framework;
- Stable budgetary performance with consistent reserve levels; and
- Adequate debt and contingent liability profile, with elevated pension and OPEB liabilities that are expected to continue to grow.

### Environmental, social, and governance

Given the coastal nature of the city along the Atlantic Ocean, we consider Newburyport's environmental risks elevated relative to the sector but in line with peer coastal communities. The city has developed a Climate Resiliency Plan, to address Newburyport-specific climate change hazards and vulnerabilities. The plan recommends adaptation strategies to ensure long-term sustainability, particularly given its vulnerability to flooding and sea-level rise. These strategies include infrastructure installations and improvements, regulatory and administrative approaches, community communication and education, and mitigation. We also evaluated the city's social and governance factors relative to its economy, financial measures, management, and debt and liability profile and determined all are neutral within the credit rating analysis.

## Stable Outlook

### Downside scenario

Should the city's incomes and financial performance weaken, operating reserves deteriorate, and pension and OPEB costs continue to rise relative to operating expenditures, we could lower the rating.

## Credit Opinion

### Primarily residential community with a mature tax base

Newburyport is an affluent coastal community in Essex County with a population of approximately 18,400. The city is 40 miles north of Boston, and its location along Route 1, as well as access to interstates 95 and 495, provides residents with access to a broad range of employment opportunities across the Boston MSA. Additionally, the commuter rail line into Boston's North Station enables easy travel to downtown Boston. The city is a tourist destination with a vibrant, historical downtown and waterfront area.

The city is primarily a residential community, as residential properties account for 88% of assessed valuation, and its real estate environment remains strong and stable. Economic expansion continues to center around residential growth, particularly in the district around the MBTA commuter rail station that is zoned for mixed-use buildings, multi-family homes and apartment buildings. Other recent residential developments include construction of single-family homes and the Hillside Center for Sustainable Living.

### Strong management team with several formalized policies and practices

Newburyport's management has a strong focus on enhancing and developing its infrastructure, maintaining its capital assets, and addressing climate change. 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. The council can amend the budget when needed. The city manages reserves in accordance with its policy of maintaining 5% of general fund expenditures in the stabilization fund, and it adheres to its formal investment policy, with monitoring of city investments and holdings presented to the council quarterly.

### Stable budgetary performance with consistent reserve levels

For analytical consistency, we have adjusted Newburyport's financial performance to account for one-time expenditures and recurring interfund transfers. Property tax is the town's largest revenue source at 78%, which contributes to its relatively stable financial profile. Newburyport generally has strong budgetary performance, with operating surpluses in three of the past five fiscal years.

The city ended fiscal 2021 with an operating deficit in its general fund after accounting for a transfer from the general fund to the capital projects fund. Management attributed the deficit to funding capital projects that would have been funded in fiscal 2020 but were delayed due to the pandemic. We do not expect the city will continue to generate operating deficits, and its total government funds operating results have remained stable over the past three fiscal years.

The fiscal 2022 budget totals $75 million, a 4% increase over the fiscal 2021 budget, and largely maintains conservative assumptions for both revenues and expenditures. Management reports that revenues are tracking slightly higher than forecasted and have mostly recovered to pre-pandemic levels, therefore it expects to end the year with at least break-even results.

Newburyport was allocated $5.4 million in American Rescue Plan Act (ARP) funds and established an ad-hoc committee to review potential uses of the funds; we understand the city intends to distribute most of its funds toward infrastructure projects.

Newburyport has maintained stable reserve levels for the past three fiscal years, and we understand the city does not have plans to spend down its reserves. As the city is anticipating at least break-even general fund results in fiscal 2022, we expect that the available fund balance will remain relatively the same as previous years with no expectation of deterioration.

We understand the city does not have any bank loans, direct-purchase debt, or 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 and holdings are risky.

### Manageable debt profile with additional debt plans over the next two years

After this issuance, the city will have about $101 million in total direct debt outstanding. Of the total outstanding, $38 million in the water and sewer enterprise funds is self-supporting through user fees.

We understand the city anticipates issuing another $9.5 million over the medium term to complete the West End fire station project, begin the second phase to replace a waterfront bulkhead, and make improvements to Market Landing Park. In addition, approximately $2 million of the debt plans to replace aging water and sewer infrastructure would be fully self-supported by user fees. We don't anticipate the proposed bond issues will materially weaken the debt profile given that it is currently manageable, and we expect the city will manage to it debt issuance policies.

### Elevated pension and OPEB liabilities that are expected to grow

- We view pension and other postemployment benefits (OPEB) liabilities as a source of credit pressure for Newburyport, given that costs represent a significant portion share of the budget, combined with our expectation that they will continue to increase.
- While the use of an actuarially determined contribution (ADC) is positive, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, which, increases the risk of unexpected contribution escalations.
- The city primarily pays OPEB liabilities on a pay-as-you-go basis, and costs remain low despite the large liability. It created an OPEB trust in 2015 to assist in addressing the liabilities, and the fund has a current balance of $1 million as of June 30, 2021.

The city participates in the following plans:

- Newburyport Contributory Retirement System, which is 73% funded with a $38 million net pension liability.
- Its defined-benefit health care plan for retirees, which is 1% funded with a $95.6 million net OPEB liability.

The city made its full required pension contribution in 2021. Contributions will increase by roughly 5.00% per year on a level percentage-of-pay amortization basis. The adopted funding schedule achieves full funding in a 16-year closed period, ending in 2039. The annual increase, combined with an aggressive discount rate of 7.25% (above our 6% guideline), adds risk of cost escalation due to market volatility. We also note that the city's OPEB liability has doubled over the past 10 years to $96 million in 2021 from $50 million in 2012; while this is partially due to changes in assumptions, we believe the city's plan to address its OPEB liabilities after fully funding the pension system is likely to result in continued growth in liabilities and costs in the interim.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

**Newburyport City, Massachusetts Key Credit Metrics**

| | Most recent | Historical information | | |
|---|---|---|---|---|
| | | 2021 | 2020 | 2019 |
| **Very strong economy** | | | | |
| Projected per capita EBI % of U.S. | 167 | | | |
| Market value per capita ($) | 288,133 | | | |
| Population | | | 18,368 | 18,246 |
| County unemployment rate(%) | | | 9.8 | |
| Market value ($000) | 5,292,428 | 4,828,253 | 4,634,824 | |
| Ten largest taxpayers % of taxable value | 4.4 | | | |

| Newburyport City, Massachusetts Key Credit Metrics (cont.) | | | | |
|---|---|---|---|---|
| | Most recent | Historical information | | |
| | | 2021 | 2020 | 2019 |
| **Strong budgetary performance** | | | | |
| Operating fund result % of expenditures | | (0.8) | 2.1 | 0.1 |
| Total governmental fund result % of expenditures | | 3.3 | 3.5 | 3.6 |
| **Strong budgetary flexibility** | | | | |
| Available reserves % of operating expenditures | | 10.6 | 12.0 | 9.9 |
| Total available reserves ($000) | | 8,378 | 9,035 | 7,369 |
| **Very strong liquidity** | | | | |
| Total government cash % of governmental fund expenditures | | 21 | 22 | 19 |
| Total government cash % of governmental fund debt service | | 473 | 466 | 369 |
| **Very strong management** | | | | |
| Financial Management Assessment | Strong | | | |
| **Strong debt & long-term liabilities** | | | | |
| Debt service % of governmental fund expenditures | | 4.5 | 4.7 | 5.1 |
| Net direct debt % of governmental fund revenue | 67 | | | |
| Overall net debt % of market value | 1.2 | | | |
| Direct debt 10-year amortization (%) | 67 | | | |
| Required pension contribution % of governmental fund expenditures | | 5.8 | | |
| OPEB actual contribution % of governmental fund expenditures | | 3.6 | | |
| **Strong institutional framework** | | | | |

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022