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Ratings

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Summary:
Newburyport, Massachusetts; General Obligation

Primary Credit Analyst:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

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

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Credit Profile		
US$2.435 mil GO bnds ser 2019 due 04/15/2044		
Long Term Rating	AAA/Stable	New
Newburyport GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the city of Newburyport, Mass.' 2019 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.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), we rate Newburyport higher than the sovereign because we believe the city can maintain better credit characteristics than the nation 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 2018, local property taxes generated 80% of revenue, which demonstrated a lack of dependence on central government revenue.

We think the city is a desirable affluent community with a strong economy, supported by a wealthy property tax base and high household incomes, with access to the Boston metropolitan statistical area (MSA). In our opinion, these factors, along with stable financial operations and very strong management, including comprehensive policies and practices, support the 'AAA' rating. Although we think long-term retirement liabilities and costs may pressure the budget, we expect Newburyport will likely manage these costs prudently. We currently believe costs related to long-term liabilities remain affordable, particularly given its sizable and wealthy tax base and management's strong planning for current and future challenges.

We understand officials intend to use the bond proceeds for project costs related to various municipal projects.

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;

- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 10.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 24.8% of total governmental fund expenditures and 4.5x 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 107.3% 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 18,144, 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 196% of the national level and per capita market value of $240,823. Overall, market value grew by 5.4% over the past year to $4.4 billion in 2019. The county unemployment rate was 3.8% in 2018.

Newburyport is primarily a residential community. The city's 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.

Economic expansion continues, particularly in the way of residential and commercial development in the city's business park and waterfront. Several projects have already been approved such as the Hillside Center for Sustainable Living, a 48-unit community focused on green living. Additionally, the city has zoned two sections for recreational marijuana facilities. It has made it a point to foster smart-growth, transit-oriented, and sustainable development. To this end, management expects that the new intermodal parking garage, which will open in May, will provide new interest in residential and mixed-use development.

Newburyport is also a tourist destination with a vibrant, historical downtown and waterfront area. The taxpayer base is very diverse, with the 10 leading taxpayers accounting for 4.1% of total assessed valuation (AV). Residential properties account for 87.47% of AV, while commercial properties are 7.22%. 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.

Strong budgetary performance

Newburyport's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 1.0% of expenditures, and surplus results across all governmental funds of 4.7% in fiscal 2018.

For analytical consistency, we adjusted fiscal 2018 budgetary performance to account for recurring transfers, one-time revenues and expenditures, and expenditures of bond proceeds.

The city experienced a general fund positive result on a GAAP basis. Management, in consultation with the city auditor, noted that city revenue collections have remained strong. 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.

Management reports that fiscal 2019 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 2019 budget relative to fiscal 2018.

The city's revenue base is stable, in our opinion, with property taxes generating 80% of revenue and intergovernmental revenue about 12%. 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 2018 of 10.2% of operating expenditures, or $7.3 million.

As the city is anticipating at least break-even general fund results in fiscal 2019, we expect that the available fund balance will remain relatively the same as that of fiscal 2018 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 24.8% of total governmental fund expenditures and 4.5x governmental debt service in 2018. 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 107.3% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, which is, in our view, a positive credit factor.

With this issuance, the city will have about $108.7 million in total direct debt outstanding. Officials are currently not planning any new debt during the next two-to-three years, so its future debt profile should remain in line with current metrics.

Newburyport's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 8.8% of total governmental fund expenditures in 2018. Of that amount, 5.4% represented required contributions to pension obligations, and 3.4% represented OPEB payments. The city made its full annual required pension contribution in 2018.

Newburyport participates in a cost-sharing, multiple-employer, 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 $37 million, with a system-funded ratio of 68.4%. 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 also provides OPEB benefits to retirees. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement No. 75, the net OPEB liability measured as of June 30, 2018 was approximately $74.7 million. The city established an OPEB trust fund in fiscal 2014. The balance of the trust at the end of fiscal 2018 was $625,453. Management anticipates continuing to appropriate funds into the trust as the operating budget allows. In fiscal 2018, the city contributed $50,000 to the OPEB trust. Following full funding of the pension system, management anticipates re-appropriating 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