S&P Global
Ratings

RatingsDirect®

Summary:
Newburyport, Massachusetts; General Obligation

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

Secondary Contact:
Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

Table Of Contents

Summary:

Newburyport, Massachusetts; General Obligation

Credit Profile		
US$3.04 mil GO mun purp loan of 2021 bnds due 05/15/2046		
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.' $3 million series 2021 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. Despite limitations imposed by the commonwealth levy limit law, we do not make a rating distinction between the limited-tax GO pledge and Newburyport's general creditworthiness, because the tax limitation imposed on the city's ability to raise revenue is already embedded in our analysis of Newburyport's financial and economic conditions.

Officials intend to use the bond proceeds to retire outstanding bond anticipation notes (BANs) previously issued toward roof replacement projects, a pumper and aerial ladder truck, and renovations to an athletic facility.

Credit overview

Newburyport 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 exhibited throughout several years and very strong management policies and practices support the 'AAA' rating. While the full effects of the pandemic on Newburyport's finances and economy are hard to predict, to date, the city has not observed any considerable disruption to its main revenues. We believe that upward of $5.3 million in pending funds from the American Rescue Plan (ARP) and conservative revenue estimates incorporated into the fiscal 2021 budget will provide credit stability over the outlook period.

Newburyport's GO bonds are eligible for a rating above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), Newburyport has a predominantly locally derived revenue source, and we believe that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention.

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

- Very strong economy, with access to a broad and diverse MSA;

- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 12.0% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.0% of total governmental fund expenditures and 4.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 4.7% of expenditures and net direct debt that is 59.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

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 long-term liability profile and determined they are all in line with those of the sector.

Stable Outlook

Downside scenario

Should the city's financial performance weaken, and operating reserves deteriorate, we could lower the rating.

Credit Opinion

Very strong economy

The city, with a population of 18,246, is in Essex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 183% of the national level and per capita market value of $264,620. Taxable market value grew by 4.2% over the past year to $4.8 billion in 2021. Since 2017, the tax base has grown by 22%, largely reflecting new construction and a robust real-estate market.

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. The city is 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% of AV, while commercial properties are 7%.

Economic expansion continues, particularly in the way of residential and commercial development and the city's real estate environment remains strong and stable. The economy is well-diversified and has been growing the past few years, but the pandemic has stymied its momentum. The county unemployment rate was 2.3% in 2019, although it increased significantly because of the stay-at-home orders, peaking at 15.0% in June 2020. Unemployment declined to 7.4% in March 2021, although these levels remain above average compared with previous years. We note the city's local unemployment rate is in line with the county. IHS Markit forecasts Essex County's real gross county product (GCP) fell by 4.1% in calendar 2020, slightly worse than the state's 3.8% decline. The forecast suggests that economic activity will not return to pre-pandemic levels until late in the calendar year, increasing 5.4% in 2021 and 3.7% in 2022. This is largely consistent with S&P Global Economics' U.S. forecasts. (For more information on S&P Global Ratings' economic outlook, please see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021.)

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, 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.

Strong budgetary performance

Newburyport's budgetary performance is strong, in our opinion. The city had operating surpluses of 2.1% of expenditures in the general fund and 3.5% across all governmental funds in fiscal 2020. This result is the city's third consecutive operating surplus.

The city's revenue base has shown resilience throughout the pandemic, in our opinion. The 2021 budget totals $85.1 million, up a modest 1.6% over the previous year. Overall, property taxes constitute 76% of budgeted revenues and state aid about 9%. Tax collections have historically been very strong and stable, with the city typically receiving 99% on a current basis.

Throughout the pandemic, Newburyport implemented several cost-saving initiatives, with savings becoming available to address any potential revenue shortfalls in local receipts. The city was conservative in its budgeting, revising revenue estimates downward for fiscal 2021 and reducing spending in like amounts.

Management is not expecting to use any reserves in the 2021 budget since revenues and expenditures are performing well and are on an upswing. Overall, with level funding of state aid in fiscal years 2021 and 2022, we believe financial deterioration is minimal in the current fiscal year. Moreover, the city is eligible to receive upward of $5 million in ARP funds, and the school district is also benefiting from Elementary and Secondary School Emergency Relief (ESSR) stimulus funds, which we believe will support steady operating performance across all its major departments in the near term. In the longer term, risks for budgetary performance remain, mostly from rising fixed costs, especially from pension and OPEB contributions. We note that management is proactively managing its pension and OPEB plans to help prevent costs from weakening budgetary future operations.

Strong budgetary flexibility

Newburyport's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 12.0% of operating expenditures, or $9.0 million.

As the city is anticipating at least break-even general fund results in fiscal 2021, we expect that the available fund balance will remain relatively the same as previous years with no expectation of deterioration.

Very strong liquidity

In our opinion, Newburyport's liquidity is very strong, with total government available cash at 22.0% of total governmental fund expenditures and 4.7x governmental debt service in 2020. 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 BANs over several decades. 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 and holdings are risky. Given the city's steady operating results, we anticipate cash balances remaining strong.

Adequate debt and contingent liability profile

In our view, Newburyport's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.7% of total governmental fund expenditures, and net direct debt is 59.0% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, which is, in our view, a positive credit factor.

With this issuance, the city will have about $93 million in total direct debt outstanding. It is looking to issue debt for a small fire station and has been working with an engineering firm to boost its investments in road infrastructure. Currently, the city exploring issuing another $15 million over the course of several years to fund these projects and initiatives. We don't anticipate the proposed bond issues materially weakening the debt profile given that it is currently low. The city will manage to it debt issuance policies and strive to maintain debt service at current levels.

Pension and other postemployment benefits

- 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 and 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, in our opinion, 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

has created an OPEB trust with a current balance of $788,000 as of June 30, 2020.

The city participates in the following pension plan:

- Newburyport Contributory Retirement System: 71% funded with a $36 million share of the net pension liability.

Newburyport's combined required pension and actual OPEB contributions totaled 9.2% of total governmental fund expenditures in 2020. Of that amount, 5.8% represented required contributions to pension obligations, and 3.4% represented OPEB payments. The city made its full required pension contribution in 2020.

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 2035. The annual increase, combined with, in our opinion, an aggressive discount rate of 7.50% (above our 6% guideline), adds risk of cost escalation due to market volatility.

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
- 2020 Update Of Institutional Framework For U.S. Local Governments