

RatingsDirect®

Summary:

Cumberland, Rhode Island; General Obligation

Primary Credit Analyst:

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Summary:

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Credit Profile

US\$2.5 mil GO bnds ser 2015 due 10/01/2025

Long Term Rating

AA/Positive

New

Cumberland Twn GO

Unenhanced Rating

AA(SPUR)/Positive

Affirmed

Rationale

Standard & Poor's Ratings Services revised its outlook on Cumberland, R.I.'s general obligation (GO) debt to positive from stable, based on improved economic conditions and financial performance. We also assigned our 'AA' long-term rating to the town's series 2015 GO bonds and affirmed our 'AA' rating on its outstanding GO debt. The outlook on all the ratings is positive.

A pledge of the town's unlimited full faith and credit secures its GO bonds. We understand officials will use the series 2015 bond proceeds to fund road improvements.

The rating reflects our assessment of the following factors, including Cumberland's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 at 14.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 24.7% of total governmental fund expenditures and 3.3x governmental debt service, as well as access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 7.5% of expenditures and net direct debt at 61.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization with 75.3% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Strong economy

We consider Cumberland's economy strong. The town, with an estimated population of 34,268, is located in Providence County in the Providence-Warwick, RI-MA MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 130% of the national level and per capita market value of \$93,817. Overall, the town's market value fell by 7.0% over the past year to \$3.2 billion in 2015. The county unemployment rate was 8.2% in 2014.

Residential properties account for about 75% of total assessed valuation (AV), with commercial and industrial properties accounting for 13%. Cumberland's AV has been stable the past three fiscal years. For fiscal 2015, total AV of taxable property was \$3.2 billion. The town's property tax base is very diverse, as the 10 leading taxpayers account for 6% of total AV. We note that our view of the town's economic profile has improved due to the unemployment rate for Providence County falling below 10%.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The town's finances are supported by conservative financial management practices, particularly its conservative budgetary practices that rely on at least five years of historical data. The new mayor instituted zero-based budgeting for the 2016 budget, a process that will be maintained. Budget-to-actual reports are provided monthly to the town council, which has the ability to amend throughout the year. Long-range capital planning is done annually with projects identified as part of the budgeting process over a five-year period with funding sources. Financial planning is also submitted to the state with five-year projections regarding revenues and expenditures to identify annual shortfalls and is used to plan for discretionary spending. The town's cash is conservatively invested consistent with state guidelines, with earnings reviewed monthly and holdings at least annually. The town does not have a debt management policy outside of the state statutes that limit aggregate indebtedness to 3% of taxable property. Per town ordinance, Cumberland maintains a total fund balance amount equal to 10% of annual operating fund revenues for financial stabilization purposes.

Strong budgetary performance

Cumberland's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund at 1.7% of expenditures, and slight surplus results across all governmental funds of 1.1% in fiscal 2014. General fund operating results of the town have been stable over the last three years, with a result of 0.3% in 2013 and a result of 1.0% in 2012.

Cumberland's tax base provides financial stability. Property taxes are the town's leading revenue source, accounting for 90% of general fund revenues, and collections have historically averaged about 97% on a current basis. For fiscal 2014, the general fund operating surplus was \$1.8 million and school operating fund surplus was \$620,318 due largely to conservative budgetary estimates. For fiscal 2015, the town performed better than budgeted against its budgeted use of fund balance of \$651,114. Unaudited fiscal year-end 2015 net results show fund balance will increase with an unaudited surplus of \$556,720. The 2016 budget includes a similar appropriation of fund balance. For fiscal 2014, the town made 100% of its actuarial contribution and has budgeted for that in 2015 and 2016.

Strong budgetary flexibility

Cumberland's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 at 14.8% of operating expenditures, or \$12.7 million.

Over the past several years, the town has been able to grow available reserves. Reserves are supported by an ordinance to maintain at least 10% of operating expenditures. We expect reserves to continue to grow.

As of June 30, 2014 the water fund owed the general fund \$1.8 million, down from \$4.7 million at fiscal year-end 2010. However, given the better-than-expected repayment of the funds and that it is also marked as non-spendable fund balance, this is not inflating available reserves. The full amount should be repaid within the next five years.

Very strong liquidity

In our opinion, Cumberland's liquidity is very strong, with total government available cash at 24.7% of total governmental fund expenditures and 3.3x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is supported by its frequent debt issuances, including GO bonds. Though the state allows for what we view as permissive investments, we believe the town does not currently have aggressive investments with the majority in highly rated fixed-income securities and certificates of deposits. The town has consistently had very strong liquidity and we do not anticipate a change to these ratios.

We note the town is an annual issuer of tax anticipation notes given the timing of tax collections. However, this amount has been reduced from \$14 million in fiscal 2010 to \$7.5 million in fiscal 2016. The town has no liquidity risks from any direct-purchase or privately placed debt.

Strong debt and contingent liability profile

In our view, Cumberland's debt and contingent liability profile is strong. Total governmental fund debt service is at 7.5% of total governmental fund expenditures, and net direct debt is at 58.4% of total governmental fund revenue. Overall net debt is low at 1.7% of market value and approximately 75.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The town is considering \$12.5 million of debt within the next two years for a public safety building, which is offset by principal amortization of about \$4 million annually.

In our opinion, a credit weakness is Cumberland's large pension and OPEB liability. Cumberland's combined pension and OPEB contributions totaled 8.6% of total governmental fund expenditures in 2014. Of that amount, 7.1% represented contributions to pension obligations and 1.4% represented OPEB payments. The town made 101% of its pension annual required contribution (ARC) in 2014. The pension funded ratio is 39.3%.

Cumberland participates in the Employees' Retirement System of Rhode Island for teachers and municipal employees and contributed its full ARC. The town also administers its own defined-benefit Police Pension Plan. The Police Pension Plan is considered in "critical status" as defined by the state Retirement Security Act for Locally Administered Pension Funds, which requires towns to enact a funding improvement plan to return the plan to at least 60% funded. The town also provides OPEBs in the form of health insurance. While we consider the retirement contribution carrying charge large, the town has made strides to mitigating its long-term liabilities. Cumberland was able to negotiate with its police union regarding pension changes for new hires after July 1, 2013, that include a new benefit formula, definition of pay, and increased employee contribution rates. Its police pension plan is severely underfunded and is a risk that could create future budgetary strains if actuarial assumptions do not hold true. We also note the town is budgeting to pay its full OPEB ARC in 2016.

Strong institutional framework

The institutional framework score for Rhode Island municipalities is strong.

Outlook

The positive outlook reflects our opinion that there is a one-in-three chance that we could raise the rating within our two-year outlook horizon. If Cumberland can maintain positive operating results while continuing to address its pension and OPEB needs over the next year, we may consider a higher rating. However, if the town significantly and unexpectedly draws on reserves or fails to maintain what we view as its strong management conditions, we could revise the outlook to stable.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 22, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Rhode Island Local Governments

Ratings Detail (As Of October 5, 2015)

Cumberland Twn GO bnds		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Cumberland Twn GO bnds		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Cumberland Twn GO rfdg bnds		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Cumberland Twn GO rfdg bnds ser 2011 C due 02/01/2023		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Cumberland Twn GO (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed

Many issues are enhanced by bond insurance.

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October 2, 2015

Cumberland Town
Town Hall
45 rBroad Street
Cumberland, RI 02864
Attention: Mr. Brian Silvia, Finance Director

Re: \$2,500,000 Cumberland Town, Rhode Island, General Obligation Bonds, Series 2015

Dear Mr. Silvia:

Pursuant to your request for a Standard & Poor's Ratings Services ("Ratings Services") rating on the above-referenced obligations, Ratings Services has assigned a rating of "AA". Standard & Poor's views the outlook for this rating as positive. A copy of the rationale supporting the rating is enclosed.

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A handwritten signature in black ink that reads "Standard & Poor's". The signature is written in a cursive, flowing style.

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enclosures

cc: Mr. Adam Krea, Vice President
First Southwest Company



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