

# RatingsDirect®

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## Summary:

# Cumberland, Rhode Island; General Obligation

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## Summary:

# Cumberland, Rhode Island; General Obligation

### Credit Profile

US\$5.975 mil GO rfdg bnds ser 2014 A due 07/21/2024

*Long Term Rating*

AA/Stable

New

#### **Cumberland Twn GO**

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to the town of Cumberland, R.I.'s series 2014A general obligation (GO) refunding bonds and affirmed its 'AA' rating on the town's outstanding GO debt. The outlook is stable.

A pledge of the town's full faith and credit secures the bonds. We understand officials will use the bond proceeds to current refund the outstanding principal balance on the town's series 2004 bonds with an estimated net present value savings of \$246,000. There is no extension of maturity and most savings will be realized during the current fiscal year.

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

- Adequate economy as the town is in the Providence-Warwick metropolitan statistical area (MSA);
- Adequate management conditions with what we consider "standard" financial policies and practices based on our Financial Management Assessment (FMA) methodology;
- Strong budgetary flexibility based on what we consider a strong available fund balance;
- Adequate budgetary performance with a history of positive general fund results;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong debt and contingent liabilities position, which includes overall net debt at less than 3% of market value and rapid amortization of principal.

### **Adequate economy**

Cumberland, with a population estimate of 34,000, is primarily a residential community 10 miles north of Providence. Providence County unemployment averaged 10.2% in 2013 and remains elevated, but the trend over the past three years shows a decline. Residents have access to additional employment in the broad and diverse Providence-Warwick MSA. Projected per capita effective buying income is a strong 122% of the national level.

Residential properties account for about 78% of total assessed valuation (AV), with commercial and industrial properties accounting for 11.5%. Cumberland's AV has been stable the past three fiscal years. For fiscal 2014, total AV of taxable property was \$3.2 billion; we consider Cumberland's market value per capita very strong at about \$99,000. The town's property tax base is very diverse, as the 10 leading taxpayers account for 6% of total AV.

### **Adequate management conditions**

Standard & Poor's considers Cumberland's financial management practices "standard" under its FMA methodology, indicating practices indicating the finance department maintains adequate policies in some, but not all, key areas.

### **Strong budgetary flexibility**

In our opinion, budgetary flexibility is strong. Over the past three fiscal years, the town has maintained positive general fund performance and grown available reserves to 12% of expenditures for fiscal 2013 or \$9.8 million.

### **Adequate budgetary performance**

The town's budgetary performance is adequate, with a history of positive general fund results of 0.3% of expenditures for fiscal 2013 and an expected 1% of expenditures for fiscal 2014. Total governmental funds ended fiscal 2013 with balanced operations. 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 96% on a current basis. However, the town has underfunded and deferred its actuarially required contribution to its town-administered police pension plan from fiscal year 2010 to 2013. The town states the recent underfunding is due to a lag in the reporting of the required contribution for budgetary purposes. We expect that, due to recent reforms to the police pension plan, this reporting delay has been corrected and the town will show it at least contributed its full required contribution for fiscal 2014.

### **Very strong liquidity**

Cumberland has a very strong liquidity position, with total government available cash at 16% of total governmental fund expenditures and 2x debt service. We believe the town has strong access to external liquidity, having issued GO bonds within the past five years.

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

The debt and contingent liability profile is strong. The town's initial debt profile is adequate, with net direct debt 63% of revenue and with total governmental fund debt service 8% of total governmental fund expenditures. The town's debt profile is improved when considering overall net debt is 1.6% of market value and rapid amortization of principal with 71% to be retired within 10 years. The town is considering \$12.5 million and \$2.5 million of debt within the next two years for a public safety building and road improvements, respectively.

Cumberland participates in the Employees' Retirement System of Rhode Island and contributed its full annual required contribution (ARC) of \$1.1 million in fiscal 2013. As of its June 30, 2012 valuation, the System was about 72% funded. The town also administers its own defined-benefit Police Pension Plan, contributing \$1.65 million in 2013 or 83% of its ARC. The plan was 32% funded as of its July 1, 2012 valuation. 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 other postemployment benefits (OPEBs) in the form of health insurance and contributed \$1.3 million in fiscal 2013 on a pay-as-you-go basis. In fiscal 2013, these combined pension and OPEB payments represented 8.6% of total government expenditures.

The town was able to recently 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. All employees will also be part of a high-deductible health plan. While the pension changes will take time to yield savings as they only affect new hires, the town estimates it will save about \$12.7 million on its annual contributions over the next 30 years, with the plan emerging from critical status in fiscal year 2023. The health care changes allowed the town's OPEB ARC for fiscal 2013 to be reduced by \$2.1 million, with the town planning to fully fund its pension ARC and fully fund the liability by 2044.

While the town has made strides to mitigating its long-term liabilities, its police pension plan is severely underfunded and is a risk that could create future budgetary strains if actuarial assumptions do not hold true.

### Strong institutional framework

We consider the Institutional Framework score for Rhode Island municipalities strong.

## Outlook

The stable outlook reflects Cumberland's progress toward improving its financial performance, budget management practices, and reserves, while also instituting cost-control measures and reform measures associated with its long-term liabilities. We believe management will remain proactive and continue to make the necessary budget adjustments to yield balanced results.

While we don't anticipate revising our rating within the two-year parameter of the outlook, downward rating pressure could occur if the town were to significantly draw on reserves and budgetary performance were to weaken. Conversely, we may raise the rating if positive budgetary performance continues with increases in reserve balances, while the town adheres to its funding improvement plan for its pension and OPEB liabilities.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- 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 July 21, 2014)

Cumberland Twn GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Cumberland Twn GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Cumberland Twn GO rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Ratings Detail (As Of July 21, 2014) (cont.)

Cumberland Twn GO rfdg bnds ser 2011 C due 02/01/2023

*Long Term Rating* AA/Stable Affirmed

Cumberland Twn GO (AGM)

*Unenhanced Rating* AA(SPUR)/Stable Affirmed

**Cumberland Twn GO**

*Unenhanced Rating* AA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

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