

### Summary:

## Cumberland, Rhode Island; General Obligation; Note

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Credit Profile		
US\$6.8 mil GO TANs due 06/15/2011		
<i>Short Term Rating</i>	SP-1+	New
Cumberland Twn GO (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<b>Cumberland Twn GO</b>		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

## Rationale

The 'SP-1+' short-term rating assigned to Cumberland, R.I.'s general obligation (GO) tax anticipation notes (TANs) reflects the sound projected coverage of the notes by fiscal 2011 ending cash. The 'A' underlying rating (SPUR) on the town's existing long-term GO debt reflects Standard & Poor's Ratings Services' assessment of the town's:

- Large and diverse property tax base,
- Strong income and property wealth levels, and
- Low debt burden.

In our view, these strengths are mitigated by the town's:

- Unreserved general fund balance that was reported at negative \$1.1 million at the end of fiscal 2010; and
- The annual need to issue general fund TANs because of the unsynchronized tax and fiscal years, which adds an element of operating risk.

The bonds and TANs are GOs of the town, secured by its full faith and credit pledge.

Cumberland, with a population of about 34,500, is in northern Rhode Island, about 10 miles north of Providence. The town is primarily a suburban residential community (residential property is about 80% of the tax base) that participates in the economy of the Providence metropolitan area. Fiscal 2010 assessed value (AV) was \$3.64 billion, about 9% lower than the fiscal 2008 level. AV is diverse, with the 10 leading taxpayers accounting for just 4% of assessments. Market value is extremely strong, in our view, at \$105,600 per capita.

Median household effective buying income is a strong 128% of the national level. Town unemployment has historically remained below state and national rates, but, over the past two years, the unemployment rate has been above national levels: In October 2010, the rate was 10.1%, higher than the nation's 9.4% but better than the state's 11.0%.

Cumberland officials are issuing \$6.8 million of TANs, its planned second installment, bringing the total issuance in anticipation of fiscal 2011 property tax collections to \$10.8 million, which is lower than the \$12.5 million the town

initially anticipated borrowing. The town issued its cash-flow note of \$4 million in July 2010, with the same maturity date of June 15, 2011.

Cumberland's tax and fiscal years are unsynchronized, with about 43% of tax revenues received in May or June of the current fiscal year and the remainder typically received by March. The total amount needed to borrow for fiscal 2011 is less than what was originally projected last July and less than the \$14 million issued in fiscal 2010. The projected coverage of the repayment by general fund cash at maturity, for all of the town's short-term obligations, is roughly 1.29x, which remains in line with what the town projected last July.

The town's financial position remains adequate in fiscal 2011, but budgeting challenges remain heading into 2012. The town's unreserved general fund balance was negative in fiscal 2007, but improved to a positive \$892,000 at the end of fiscal 2009, which we consider adequate at 1.5% of expenditures and transfers out. The total fund balance was \$5.1 million and included a \$4.2 million reservation for advances to the town's water and sewer funds (consisting of approximately \$2.5 million to the water fund and \$1.7 million to the sewer fund). Both the water and the sewer fund are expected to repay the general fund over the next few fiscal years.

Unaudited results for fiscal 2010 indicated a negative \$1.1 million unreserved general fund balance. The negative unreserved fund balance is not an immediate concern as it was due to the accounting treatment of a receivable for motor vehicle excise bills, which were sent out after the fiscal year ended. The tax bills were delayed because the town waited for state action allowing town management to decrease the amount of exempted value subject to the motor vehicle excise tax to \$500 from \$6,000. This was needed to make-up for the cut in intergovernmental aid for fiscal 2011. The delay led to a reported shortfall in fiscal 2010, but the taxes were subsequently collected in August of fiscal 2011. The ending general fund balance was \$3.4 million in 2010, about \$1.6 million less than 2009.

The fiscal 2011 budget of \$77.5 million is balanced without any fund balance appropriation. The decrease in the exempted amount of motor vehicle value resulted in a total levy increase of about 8%, which required an override vote of the town council, because it was in excess of the state-imposed levy limit. At this junction, the town is projecting a surplus of roughly \$2 million, which is driven by the motor vehicle receipts collected in August. Current year-to-date projections are in line with the budget, and the town believes that the unreserved general fund balance will be replenished to 2009 levels at the end of the fiscal year. However, the town's projections, in part, are predicated on a 2% tax levy increase, or about \$1.08 million in additional tax revenues, levied for fiscal 2012. The town normally collects a portion of that in June (fiscal 2011), and so, if the levy increase is not enacted by council, this could have an impact on the town's ability to fully replenish the unreserved fund balance in 2011 and could pose an operating challenge in fiscal 2012--if measures are not taken to cut 2012 expenditures by a similar amount.

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

A long-term credit strength is the town's low debt burden. After factoring in state debt service support of the town's school debt, and netting any self-supporting enterprise debt, the overall net debt burden is \$1,086 per capita and 1% of market value.

## Outlook

The stable outlook reflects Standard & Poor's view that management will continue to be proactive and make the necessary adjustments, either by raising the tax levy or by making expenditure cuts, to yield balanced results. In our opinion, the town's large and diverse property tax base should provide stability to property tax revenues, which are the town's leading revenue source. At the moment, future capital needs are modest and not a credit concern due to the town's current existing debt burden. We do not expect that the rating will change within the two-year parameter of the stable outlook as we expect the town to continue to maintain an at-least adequate reserve position in line with years past. However, if the town is unable or unwilling to keep recurring revenues in line with recurring expenditures for 2012, the rating could come under negative pressure given the current level of operating flexibility.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Short-Term Debt, June 15, 2007

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