

RatingsDirect®

Summary:

Tiverton, Rhode Island; General Obligation

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Credit Profile

US\$7.0 mil GO bonds ser 2014 A dtd 12/03/2014 due 12/01/2034

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Tiverton, R.I.'s series 2014 general obligation (GO) bonds. The outlook is stable.

A pledge of the town's full faith and credit secures the bonds. We understand officials will use the \$7 million bond proceeds to permanently fund construction of a new library. The total cost of the project is about \$12 million, with additional funding provided through grants and a private capital campaign. The town has also received a commitment from the state Public Library Construction Reimbursement program for reimbursement of about 50% of debt service related to the project, paid on an annual basis for the next 20 years.

The rating reflects our assessment of the following factors, specifically Tiverton's:

- Very strong economy 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 performance with a history of positive general fund results;
- Weak budgetary flexibility based on available general fund reserves;
- 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.

Very strong economy

Tiverton, with a population estimate of 16,000 is a primarily residential community about 25 miles south of Providence. Newport County unemployment averaged 8.8% in 2013, slightly higher than the national average. Residents have access to additional employment in the broad and diverse Providence-Warwick MSA and are about an hour's drive from Boston. Projected per capita effective buying income is a strong 124% of the national level.

Residential properties account for about 85% of total assessed valuation (AV), with commercial and industrial properties accounting for 9%. Tiverton's AV has been stable the past three fiscal years, following a 15% decline in 2013 due to a full revaluation. For 2015, total AV of taxable property was \$1.95 billion with a corresponding market value per capita at about \$120,000. The town's property tax base is very diverse, as the 10 leading taxpayers account for 3% of total AV.

Adequate management conditions

Standard & Poor's considers Tiverton's financial management practices "standard" under its FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Policies include monitoring of budget-to-actuals with monthly reporting to the council and required quarterly reporting to the state, a list of five-year capital projects with identified costs reviewed annually, and state requirement to limit outstanding debt to 3% of the full AV of the taxable property in the town.

The town charter requires a minimum unreserved general fund balance of 3% of budgeted expenditures; this restriction can only be suspended by a four-fifths vote of council during a declared state of emergency.

Strong budgetary performance

The town's budgetary performance is strong, with a history of positive general fund results between 0.5% and 1% of expenditures. Fiscal 2013 operating results were positive at 1% of general fund expenditures and 2% of total governmental fund expenditures. While unaudited, the town reports and expects a positive fiscal 2014 result of about 0.5% of expenditures.

Property taxes are the town's leading revenue source, accounting for 77% of general fund revenues, and collections have historically averaged about 97% on a current basis. The town underfunded and deferred its actuarially required contribution to the town-administered police pension plan for fiscal years 2010, 2011, and 2012. However, it has contributed more than its required pension contribution for fiscal 2013, 2014, and 2015.

Annually, the town's budget is subject to voter referendum and must receive a majority of votes to be adopted. The town charter also allows for elector petitions of alternative budget proposals to appear on the ballot. For fiscal 2015, voters approved an elector petition budget that reduced the town's tax levy by an amount of appropriated unreserved fund balance that would move unassigned fund balance to the town's policy minimum of 3%. In the past, voters have approved management's proposal and tax increases. It is expected that, even with the town's historical surplus in operations, results for fiscal 2015 will be negative. However, we expect surplus operations will offset a portion of the use of reserves and the town will be able to maintain strong budgetary performance.

Weak budgetary flexibility

In our opinion, budgetary flexibility is weak. Over the past three fiscal years, the town has maintained positive general fund performance and grown available reserves to 5% of expenditures for fiscal 2013, or \$2.2 million. In addition, the town has about \$784,000 in state-restricted general fund balance for school operations that provides some additional flexibility. When including the restricted school reserves, fund balance improves to a strong 6.6% of expenditures.

Given the town's current reserve position and appropriation of \$602,000 of reserves in its adopted 2015 budget, projections suggest the available unassigned general fund balance could fall below 4% of expenditures, consistent with a weak factor score. There is also additional pressure on flexibility as future adopted budgets may include fund balance appropriation beyond the control of town management. However, given the town's charter provision, Tiverton is likely to maintain its unreserved general fund balance at a minimum 3% of budget.

Rhode Island General Laws limit the amount by which a city or town may increase its tax levy (unless it qualifies for certain exemptions) to 4% of the prior year's levy. The town's levy increase has recently been about 2%, with no tax

increase for fiscal 2015.

Very strong liquidity

Tiverton has a very strong liquidity position, with total government available cash at 28% of total governmental fund expenditures and 3.8x debt service. We believe the town has strong access to external liquidity, having issued GO bonds within the past 10 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 72% of revenue and with total governmental fund debt service 7.4% of total governmental fund expenditures. The town's debt profile improves when considering overall net debt is 2% of market value and rapid amortization of principal with 68% retired within 10 years. The town has no additional future debt plans as capital projects are largely funded through annual appropriation.

The town also has \$4.71 million outstanding for a privately placed special obligation tax-increment financing bond. The documents have been reviewed and the debt is not on parity with other GOs of the town and does not have a GO pledge. We have reviewed the documents and there are no events of the default or remedies that would result in immediate acceleration of principal or have an effect on the issuer's liquidity.

Tiverton participates in the Municipal Employees' Retirement System of Rhode Island for fire and general municipal employees and contributed its full annual required contribution (ARC) of about \$283,000. It also participates in the state Employees' Retirement System for teachers and contributed its full ARC of \$1.5 million in fiscal 2013. As of its June 30, 2013 valuation, the teachers' system as a whole was about 58% funded. The town also administers its own defined-benefit plan for police employees, contributing \$700,000 in 2013, or 119% of its ARC. The plan was 63% funded as of its most recent valuation.

The Police Pension Plan was considered in "critical status" as defined by the state Retirement Security Act for Locally Administered Pension Funds. This designation requires towns to enact a Funding Improvement Plan to return the plan to at least 60% funded, which was accomplished as of its 2014 actuarial valuation. As part of its adopted plan, the town will be contributing over 100% of its ARC for the next five years and, if actuarial assumptions hold true, reach full funding by 2038.

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 7.5% of total government expenditures. In our opinion, the town is facing elevated pension and OPEB obligations given current funding levels and a prior history of underfunding its ARC, so we expect contributions to increase in the future. However, the town's adopted plan, including accelerated ARC payments to restore funding levels, is credible to address these obligations.

Strong institutional framework

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

Outlook

The stable outlook reflects Tiverton's history of stable financial performance, budget management practices, and current reserve levels. It also recognizes potential future pressure from budget referendums that could keep reserves at levels we would consider weak.

Upward rating pressure is limited, due to current reserves. While we don't anticipate revising our rating within the two-year parameter of the outlook, downward rating pressure is possible if performance significantly weakens, pressuring the town's ability to make accelerated pension payments, and leading to increased use of reserves.

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: Contingent Liquidity Risks, March 5, 2012

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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