FitchRatings

Tagging Info

Fitch Rates Lincoln, Rhode Island's Refunding GOs 'AA'; Outlook Stable

Ratings Endorsement Policy
20 May 2015 3:07 PM (EDT)

Fitch Ratings-New York-20 May 2015: Fitch Ratings has assigned an 'AA' rating to the following Town of Lincoln, RI (the town) general obligation (GO) bonds:

--$21,655,000 GO refunding bonds, series 2015A.

Proceeds will be used to refund the town's outstanding series 2006 GO bonds for savings. The bonds are scheduled to sell via negotiation the week of June 1.

In addition, Fitch affirms its 'AA' rating on the town's outstanding series 2003 and 2006 GO bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the town backed by its full faith and credit and unlimited taxing authority.

KEY RATING DRIVERS

SOUND FINANCIAL PERFORMANCE: The town has maintained a stable financial position over an extended period, reflecting a combination of careful expenditure management and conservative budgeting. Reserves are healthy and exceed policy levels providing for financial flexibility.

ABOVE-AVERAGE WEALTH INDICATORS: Residents exhibit income levels which exceed state and national averages. Unemployment rates are lower than the state average and continue to improve.

MANAGEABLE DEBT LEVELS: Overall debt levels are currently low but may become more moderate if future high school renovation borrowing plans are approved. Principal amortization is rapid.

FULL FUNDING OF PENSION AND OPEB: Pension funded levels are considered low by Fitch but the unfunded liability represents a small percentage of market value. The town prudently funds its full annual required contribution (ARC) for its other post-employment benefits (OPEB). Carrying costs are manageable.

RATING SENSITIVITIES

The rating is sensitive to changes in financial performance and maintenance of healthy reserves, including the successful management of any impacts from a potential loss of future casino gaming revenues. The Stable Outlook reflects Fitch's expectation that shifts in fundamental credit characteristics are unlikely.

CREDIT PROFILE

The town of Lincoln is an affluent suburban community located five miles north of the state capital city of Providence. The town has a population of 21,299 which is up 1.9% since 2000.

HEALTHY SOCIOECONOMIC METRICS
Wealth levels have historically exceeded state and national averages. Median household income for 2013 was 132% and 140% of state and national averages, respectively. The February 2015 unemployment rate continues to recover, dropping to 5.9% from 7.7% the prior year, reflecting employment growth.

Major employers in the town are in diverse industries and include ACS Industries, a wire/cable manufacturing company (2,000 employees), Pharmacare Management Services (1,552 employees) and Amica Insurance Company (1,410 employees).

DIVERSE ECONOMIC BASE
The town's $2.7 billion tax base is largely residential (63% of assessed value [AV]) and the commercial/industrial base is diverse. Nonetheless, the 10 largest taxpayers make up an above-average 18% of the total fiscal 2014 tax levy. Twin River Casino leads the list at 5.6% of taxes paid, followed by Amica Insurance Company at 5.1%; both are paid pursuant to long-term tax stabilization agreements which expire in fiscal 2019.

Taxable values experienced a 19% decline from fiscal 2010 through 2014 due to economic softness in the state and region. Taxable values increased modestly for fiscal 2015. Management is estimating a small increase in AV for fiscal 2016 as new development has picked up, although housing values have been slow to rebound.

STABLE FINANCIAL OPERATIONS
Town operations benefit from strong institutionalized practices. Management adheres to a policy of maintaining an unassigned general fund balance of at least 8% of spending. Furthermore, per town ordinance, a budget surplus over the 8% fund balance level is transferred into the open space acquisition fund or capital projects fund. Town ordinance also limits the amount of state allocations of casino revenues that can be used for operations. The excess revenues have traditionally been used for capital purposes helping mitigate the reliance on this revenue stream for operations.

The town's general fund has experienced surplus operations in four of the last five fiscal years. The general fund had a $479,000 operating surplus after transfers for fiscal 2014 due to positive budgetary variances. The unrestricted general fund balance improved to $7 million or a sound 10.9% of spending.

The school department maintains its own budget and experienced a $1.6 million operating deficit in fiscal 2014 due primarily to the planned spending of reserves for school improvements. A small portion of the operating deficit represented higher than anticipated health insurance claims, but officials have adjusted this budget item upward for fiscal 2015 and 2016. The school department had also used reserves of approximately $1.5 million in fiscal 2013 to fund technology improvements. The school fund had a modest unrestricted fund balance of $359,702 or 0.7% of school spending at fiscal end 2014.

VLT REVENUES SUPPORT OPERATIONS/CAPITAL PROJECTS
In accordance with state statute, the town receives a portion of video lottery terminal (VLT) commissions from Twin River Casino's operations. Management, by town ordinance, has prudently budgeted the same $5.2 million annually since fiscal 2009 for VLT commissions (10% of the fiscal 2014 general fund revenues). Actual receipts have exceeded this amount for seven consecutive years with revenues totaling between $6 million and $6.9 million. By town ordinance, this excess is transferred to the town's capital projects fund. Beginning in fiscal 2015, the town will also receive an allocation of revenues from table gaming. Management projects receipts of $1 million for table gaming revenues for fiscal 2015 based on receipts to date of close to $800,000 through March.

These funds help relieve general fund and borrowing pressure as the town proactively has performed capital funding and maintenance needs on a pay-as-you go basis.

RESTRICTION OF REVENUES MITIGATES MASS. GAMING COMPETITION
In 2014, the Massachusetts Gaming Commission awarded two casino and one slots parlor license. The first facility, a slots parlor with no table games, is expected to open this summer in Plainville, MA, an approximate 22 minute drive from Lincoln. The other two licenses were awarded to MGM in Springfield and Wynn Resorts in Everett, both located 90 minutes from Lincoln and not expected to open until 2017 or later.

Management recently passed an ordinance to help mitigate the potential for a decline in state allocations of gaming revenues due to competing Massachusetts casinos. The ordinance, effective fiscal year 2016, requires 15% of total gaming revenues received in a fiscal year be reserved for future use in the event annual gaming revenues should decline below $5.2 million. The fiscal 2015 budget included a $500,000 allocation from gaming revenues to this restricted reserve. Such actions are indicative of management's prudent and conservative fiscal planning.

Fitch expects such actions to help mitigate a material impact to the town's financial operations from potential new competing Massachusetts' casinos, but the ultimate impact will not be known until such casinos are operating. A dramatic loss of revenues could pose budget pressure for the town, but Fitch notes the state-wide 4% tax levy cap does permit an exemption for a levy to make up for a loss of non-property tax revenues. A tax levy in excess of the 4% cap is subject to a 4/5ths approval by council and approval by the state auditor general.

BALANCED OPERATIONS PROJECTED FOR FISCAL 2015
Management has indicated that fiscal 2015 general fund and school fund operations should be flat to slightly positive. Year-to-date expenditures are tracking slightly higher than budget due to unanticipated snow removal costs ($175,000 over budget). Partially offsetting this is better than budgeted revenue collections, which, combined with expenditure control, is projected to lead to balanced operations at fiscal-year end.

LOW DEBT RATIOS COULD BECOME MORE MODERATE
The town's debt levels are low at $1,408 per capita and 1.1% of market value. There is no overlapping debt. Amortization is above-average with approximately 73% of debt retiring within 10 years. Fitch expects the debt profile to remain low to moderate over the near term.

Plans for future bond issuance commencing in fiscal 2017 or 2018 include high school campus renovations and road and sewer improvements, but such debt is subject to voter approval. Future debt, if approved, could amount to $65 million to $80 million with an estimated 35% to be eligible potentially for reimbursement from the state. Management has earmarked a portion of debt service spending from matured and maturing bonds to help support a large portion of the potential new debt, mitigating the need for a large tax increase.

MANAGEABLE LONG-TERM LIABILITIES; LOW FUNDED RATIOS
All of the town's eligible employees are covered by one of four pension plans. One plan is operated by the town, another is a cost-sharing, multiple-employer plan operated through a union. The remaining two are state run plans (the state administered Employees' Retirement System [ERS] and the Municipal Employees' Retirement System [MERS]). The town plan's funded ratio is estimated at a low 59% at June 30, 2014 based on Fitch's conservative 7% investment rate of return (IRR). Management fully funds its annual required contributions (ARC) and plans to reduce the IRR to 7% from its current 8% for its next valuation. The town paid $1.52 million toward the plan in fiscal 2014.

The MERS plan funded ratio was estimated at 73% for the general employees unit and 68% for the police and fire unit using Fitch's more conservative 7% rate of return. The combined unfunded liability for these two state plans and the town's municipal plan was a manageable $11.9 million or a low 0.4% of market value.

The state run ERS plan for teachers was poorly funded at an estimated 57% at June 30, 2014 using Fitch's 7% rate of return assumption.

The town established an OPEB trust in fiscal 2012 and has made contributions in excess of pay-go of $1.4 million since then. Management plans to continue to prudently fund 100% of its OPEB ARC. The plan was 5.6% funded with an unfunded liability of $14.8 million at fiscal end 2014.

Total carrying costs for debt service, pension annual required contribution, and OPEB payments equaled a very manageable 13% of total government spending for fiscal 2014. The change in IRR for the town pension and potential new debt plans could increase this number slightly but Fitch expects carrying costs to remain moderate.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and the National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status