

**New Issue: Moody's assigns Aa2 to Lincoln, RI's \$21.7M GO Bonds**

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Global Credit Research - 20 May 2015

**Affirms Aa2 on \$33.3M of outstanding GO debt**

LINCOLN (TOWN OF) RI  
Cities (including Towns, Villages and Townships)  
RI

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Refunding Bonds, Series 2015A	Aa2
<b>Sale Amount</b>	\$21,655,000
<b>Expected Sale Date</b>	06/01/15
<b>Rating Description</b>	General Obligation

**Moody's Outlook** NOO

NEW YORK, May 20, 2015 --Moody's Investors Service has assigned a Aa2 rating to the Town of Lincoln's (RI) \$21.7 million General Obligation Refunding Bonds, Series 2015A. Concurrently, Moody's has affirmed the Aa2 rating on \$33.3 million of outstanding general obligation debt.

**SUMMARY RATING RATIONALE**

The Aa2 rating reflects the town's moderately-sized tax base with above average wealth levels, well-managed financial position with adequate reserves, and manageable debt burden.

**OUTLOOK**

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

**WHAT COULD MAKE THE RATING GO UP**

- Significant growth in fund balance and liquidity
- Tax base expansion and diversification
- Material improvement in resident wealth levels
- Material decline in the debt burden and pension liability

**WHAT COULD MAKE THE RATING GO DOWN**

- Material decline in reserves in fiscal 2015
- Trend of General Fund operating deficits resulting in reserve declines
- Significant declines in the tax base or deterioration of the demographic profile
- Significant growth in debt burden

**STRENGTHS**

- Moderately sized tax base near the state capital with above average wealth levels

- Manageable debt burden
- Full funding of pension annual required contribution
- Prudent funding of the OPEB liability

#### CHALLENGES

- Limited reserves in the School Fund
- Declining gaming revenues, which comprise 8% of the town's operating budget
- Large pension liability

#### RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

#### DETAILED RATING RATIONALE

##### ECONOMY AND TAX BASE: MODERATELY SIZED TAX BASE WITH ABOVE AVERAGE WEALTH LEVELS

Lincoln is located approximately 5 miles north of Providence (Baa1 stable), serving as a suburban community of the city. The town is mostly residential (62% of assessed value) but has a healthy commercial/industrial presence (23%). Equalized values, which declined a total of 21.5% (fiscal 2010-2015) as a result of the recent recession, have started to stabilize, increasing a modest 0.8% in fiscal 2015. New growth is expected from various projects which include several new commercial developments around the Lincoln Mall, new office and medical buildings, and age restricted condominiums. Additionally, the state recently approved a 250 room hotel to Twin River Casino (Twin River Management Group, Inc., B1 stable), and the project is now being reviewed by the town's planning and zoning officials. The hotel is expected to generate approximately \$225,000 in additional property tax revenue annually. Wealth and income levels exceed state and national medians, with a median family income of \$90,012 (127% and 143%, respectively). Full value per capita is a strong \$128,272, in line with the state median. The unemployment rate (5.8% in March 2015) remains below the state (6.9%) and on par with the nation (5.6%).

##### FINANCIAL OPERATIONS AND RESERVES: RESERVE LEVELS ADEQUATE DESPITE TWO YEARS OF DECLINE IN THE SCHOOL FUND

Lincoln's conservative budgeting practices have led to modest General Fund surplus in four out of the past five years. As a result, the available General Fund balance (unassigned, assigned, and committed) has increased to \$7 million (10.9% of revenues ) in fiscal 2014 from \$5.4 million (7.9%) in 2010. Positively, the majority of fund balance remains unassigned: \$6.4 million, or 9.9%, in 2014. Management aims to maintain unassigned reserves at 8%, and any excess is reserved for future open space acquisitions and capital projects.

The School Unrestricted Fund generated surpluses in fiscal 2010 through 2012 due to increased state aid, FTE reductions and other cost cutting measures aided by decreased enrollment. By fiscal 2012 year-end, the school fund had accumulated \$3.4 million in available reserves. In fiscal 2013 and 2014, school management used reserves to finance several capital projects, including technology upgrades and new roofs, as well as to offset rising healthcare costs. As a result, the school fund reserves declined by \$2.9 million over the past two years, and were \$458,000 as of fiscal 2014 year-end. The combined available operating fund balance (General and School Unrestricted Funds) is \$7.4 million, or an adequate 9.4% of operating revenues, in fiscal 2014. At these levels, Lincoln's reserves trail the median for the rating category, and any further draw down in reserves could pressure the rating.

Over ten months into fiscal 2015, management reports that both town and school expenses are in line with budgeted projections and positive revenue variances should be enough to cover a \$170,000 overage in snow and ice removal. General and School Unrestricted Fund balance at year-end is expected to be relatively flat from 2014. The approved fiscal 2016 budget increased 1.1% and was balanced with a 1% tax levy increase. The town does not use reserves to balance budgets.

Lincoln derives the majority of its revenues from property taxes (66.4% in fiscal 2014) and collections remain very strong at above 99%. State aid, including aid for education, comprised 25.7% of 2014 revenues. Approximately 8% (\$5.2 million) of the town's operating budget is derived from gaming revenue from Twin River Casino, and any revenue received in excess of this amount is transferred to the Capital Projects Fund, per town ordinance (excess

revenue approximates \$1.5 million annually). This revenue source is expected to decline over the medium term given impending competition from Massachusetts casinos. Beginning in fiscal 2016, management will begin reserving a portion of excess revenue in a newly established Budget Protection Fund in order to maintain the annual \$5.2 million allocation to the operating budget. Given management's conservative budgeting of this revenue source and prudent action to establish a reserve fund, Moody's does not expect potential declines in this revenue source to pressure the town's financial position in the medium term.

#### Liquidity

The town's net cash position (General Fund and School Unrestricted Fund) has been relatively stable over the past four years, and was \$13.6 million, or 17.3% of operating fund revenues, in fiscal 2014.

#### DEBT AND PENSIONS: AVERAGE DEBT BURDEN; TOWN CONTRIBUTES 100% OF PENSION ARCs BUT TOTAL LIABILITY IS ABOVE AVERAGE

The debt burden, an average 1.2% of full value, remains manageable given management's commitment to funding capital projects with pay-as-you-go General Fund revenues and excess gaming revenue. The debt burden will increase, however, due to future borrowing plans for major renovations at the high school. The projected total cost of \$65 to \$80 million will be offset by approximately 35% in state building aid reimbursement. Positively, the town has no overlapping debt.

#### Debt Structure

All debt is fixed rate and amortization of principal is average, with 78.8% repaid within ten years. Debt service accounted for a manageable 4.8% of expenditures in fiscal 2014.

#### Debt-Related Derivatives

Lincoln has no derivatives.

#### Pensions and OPEB

The town contributes to four defined benefit pension plans and has consistently contributed 100% of its required contribution for all plans. A locally administered pension plan covers substantially all town and school department employees (including police) that are not covered by the other plans, as well as eligible firefighters from three fire districts. The funded ratio for this plan is 65.3% as of January 1, 2014. The town fully funds its annual required contribution (ARC) which was \$1.2 million in fiscal 2014, or a low 1.5% of expenditures. The town also contributes to a union-administered pension plan for town hall, public works, library water department employees. The town's commitment for fiscal 2014 was \$280,547, which was paid in full.

The town also contributes to the Employees Retirement System of Rhode Island (ERS) and the Municipal Employees Retirement System of Rhode Island (MERS), two cost-sharing multiple-employer defined benefit plans administered by the State of Rhode Island (Aa2 stable) for certified teaching personnel and general and rescue employees. The town is required to fully fund its ARC, which was a combined \$3.4 million in 2014, or 4.2% of expenditures.

The combined adjusted net pension liability for the plans, under Moody's methodology for adjusting reported pension data, is \$126.3 million, or an above average 1.6 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plans in proportion to its contributions to the plans.

For the past several fiscal years, the town has prudently contributed at least 100% of the OPEB ARC, and as a result, the plan's funded ratio is now 5.6% (July 2013). Management contributed \$1.4 million in fiscal 2014, representing 101.6% of the ARC and 1.7% of expenditures. The total unfunded liability is \$14.8 million as of July 1, 2013, the most recent valuation report. Total fixed costs for fiscal 2014, including pension, OPEB and debt service, represented \$10.2 million, or a manageable 12.7% of operating expenditures.

#### MANAGEMENT AND GOVERNANCE

The experienced management team employs conservative budgeting and financial management as evidenced in multiple surpluses in the General Fund, long-term planning for capital expenditures, and prudent funding of the OPEB liability. Rhode Island cities have an institutional framework score of 'A' or moderate. Economically

sensitive revenues account for a small portion of operating revenues, but cities rely on property taxes and state aid account for the largest amounts. Cities have the ability to increase the property tax levy up to the 4% cap. Expenditures are largely predictable but cities are challenged to reduce expenditures given a strong union presence in the state.

#### KEY STATISTICS

Fiscal 2015 full valuation: \$2.7 billion

Fiscal 2015 full valuation per capita: \$128,272

Median Family Income as % of U.S.: 142.9%

Fiscal 2014 Available Operating Fund Balance as % of Revenues: 9.4%

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues: -0.2%

Fiscal 2014 Cash Balance as % of Revenues: 17.3%

5-Year Dollar Change in Cash Balance as % of Revenues: 1.6%

Institutional Framework: A

5-Year Average Operating Revenues / Operating Expenditures: 1.0x

Net Direct Debt as % of Full Value: 1.2%

Net Direct Debt / Operating Revenues: 0.4x

3-Year Average ANPL as % of Full Value: 3.4%

3-Year Average ANPL / Operating Revenues: 1.3x

#### OBLIGOR PROFILE

Lincoln has a population of 21,000 and is located in northeastern Rhode Island, approximately 5 miles north of Providence.

#### LEGAL SECURITY

The bonds are general obligations of the town and are secured by an unlimited property tax pledge.

#### USE OF PROCEEDS

Bond proceeds will be used to refund the Series 2006 bonds currently outstanding for an estimated net present value savings of \$1.7 million, equal to 7.4% of refunded principal, with no extension of final maturity.

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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