MOODY'S
INVESTORS SERVICE

New Issue: Moody's upgrades Cumberland, RI's GO rating to Aa3 from A1

Global Credit Research - 23 Jul 2014

The town has $52 million in outstanding GO debt

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

Moody's Rating

ISSUE	**RATING**
General Obligation Refunding Bonds, Series 2014A	Aa3
Sale Amount $5,975,000	
Expected Sale Date 07/31/14	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, July 23, 2014 --Moody's Investors Service has upgraded the Town of Cumberland's (RI) General Obligation rating to Aa3 from A1. Concurrently, Moody's has assigned a Aa3 rating to $5.98 million General Obligation Refunding Bonds, Series 2014A.

The bonds are secured by the town's general obligation tax pledge. Proceeds of the 2014A bonds will be used to refund series 2004 bonds for an estimated net present value savings of $246,653, or 4.1% of refunded par, with no extension of maturity.

SUMMARY RATING RATIONALE

The Aa3 rating incorporates the town's improved financial position with satisfactory reserve levels, moderately sized tax base, and a manageable debt burden. The rating also factors the significantly reduced liabilities for pension and OPEB following recently implemented reforms.

STRENGTHS

-- Recent trend of structurally balanced operations resulting in adequate reserve levels

-- Moderately-sized tax base with above average socioeconomic indices

-- Manageable direct debt levels

-- Reduced locally administered pension liabilities as a result of recent reforms

CHALLENGES

-- Maintaining structural balance, including full pension funding

-- Continuing to address outstanding advances to the town's water and sewer funds

-- Self imposed tax cap limits revenue raising flexibility

DETAILED CREDIT DISCUSSION

STABLE FINANCIAL POSITION WITH IMPROVING RESERVE LEVELS

The town is expected to maintain a stable financial position moving forward, given the recent history of structurally balanced operations and augmented reserve levels. Cumberland finished fiscal 2013 (ended June 30) with a $1.1 million operating fund (town and school funds combined) surplus. The surplus increased the town's operating fund balance to $15.5 million, or a sound 18.6% of revenues. Unassigned operating fund balance increased to $8.5 million, or a healthy 10.1% of revenues. At these levels, the town remains comfortably above its policy to maintain a total operating fund balance at a minimum of 10% of budget. This most recent surplus represented the town's third consecutive year of operating fund balance growth, and was driven primarily by favorable variances for General Fund revenues.

The town's fiscal 2014 budget included a 3.8% increase in spending, and was balanced with a 1.8% increase to the tax levy, and a $498,000 appropriation of reserves. The budget also included full funding of the pension contribution. Management projects that the town fully replenish the initial reserve appropriation and generate another modest surplus of approximately $600,000 in Fiscal 2014, again driven primarily by favorable budgetary variances in the General Fund.

Cumberland's fiscal 2015 budget is a 2.32% increase over fiscal 2014, and includes an estimated 1.6% levy increase and utilizes a $651,000 appropriation of reserves to finance non-recurring capital needs. The town again budgeted to contribute the full police pension ARC.

The town is a regular issuer of Tax Anticipation Notes (TANs) due to a mismatch between the town's fiscal year and tax year. The town receives the majority of its tax revenue in May due to an early pay incentive program, which creates a cash crunch in April. The town issued a total of $10.5 million in TANs for fiscal 2013, or 12.6% of total revenues. This amount is on par with what was issued in fiscal 2012, but represents a decrease from fiscal 2011 and 2010, when the town issued $12.5 million and $14 million, respectively. As a result of an improving cash position, Cumberland continues to reduce its reliance on TANs, issuing $9.5 million in fiscal 2014, and budgeting for a similar amount in 2015.

Additionally, the town's General Fund Balance currently includes a $2.5 million, down slightly from $4.6 million in 2010, reserve against advances to the town's sewer and water funds, from prior General Fund subsidies. In an effort to address this, the town has implemented an ordinance that calls for water rate increases that are comparable to residential tax rate increases. The town has also switched to a quarterly water billing cycle, and has committed to repay the advances through annual appropriations of approximately $324,000 annually.

ADOPTED PENSION AND OPEB CHANGES EXPECTED TO REDUCE LIABILITY

Although the town has historically contributed the full ARCs for the state ERS and MERS plans, it underfunded the ARC for its police pension plan from 2010 to 2012. Since that time, the town has adopted a funding improvement plan, and returned to fully funding the police plan ARC in fiscal 2013 when the town funded approximately 109% of the ARC. The town contributed the full ARC in fiscal 2014, and has budgeted to do so in fiscal 2015. As of July 1, 2012, the police plan reports a 32% funded ratio, down from 55% in 2007. Moody's 2013 combined adjusted net pension liability for all plans, under Moody's methodology for adjusting reported pension data, is $33.3 million, which represents an average 1.16 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 plan in proportion to its contributions to the plan.

In addition to the funding improvement plan, the town has adopted and successfully negotiated several important pension plan reforms. In conjunction with fully funding the ARC, the reforms are expected to result in the plan emerging from "critical status" by 2023, and achieve full funding by 2033. The primary changes that were adopted and approved by bargaining units include increased employee contributions, tighter eligibility standards, and reduced cost of living adjustments. Cumberland's ability to continue full funding of the pension ARC, and reduce the unfunded liability in accordance with current projections will remain important considerations in future rating reviews.

The town's Other Post Employment Benefit (OPEB) plan reported a $21.1 million UAAL in fiscal 2013, representing a significant improvement from fiscal 2009, when the liability was $46.9 million. The improvement largely comes from the recent transitioning of retirees onto Medicare. The town has adopted further changes to its benefit structure, which will become effective for fiscal 2015. The changes include transition to a high deductible plan for both current employees and retirees. In addition, the town no longer offers OPEB benefits to any new hires after July 1, 2013. The town is not required to fully fund its OPEB ARC, although it has established an OPEB trust which was initially funded in 2013 with a $100,000 appropriation. In conjunction with the current and expected savings from the OPEB plan changes, the town continues to increase its contribution towards the liability. Cumberland has budgeted to contribute approximately 90% of the required OPEB cost in 2015, and is planning to reach the full actuarial required contribution in 2016.

MODEST NEW GROWTH EXPECTED FOR PRIMARILY RESIDENTIAL TAXBASE

Moody's anticipates that new growth will remain modest in Cumberland's $3.6 billion tax base, given the town's potential for redevelopment as the area continues to recover from the economic recession. Located approximately 13 miles north of Providence (Baa1 stable), Cumberland is largely residential (78% of 2013 taxable values). The town's tax base has seen moderate declines in recent years with a five-year average annual change in full value of -1.9%, which is inclusive of a 12.3% decline in fiscal 2012, reflecting the softened residential real estate market in the region. New growth in the town includes continued commercial development in the Highland Industrial Park, as well as expansion of a sizeable manufacturing facility. Wealth levels remain above the national average, with per capita income and median family income representing 119% and 135% of the nation, respectively.

MANAGEABLE DEBT PROFILE WITH LIMITED FUTURE PLANNED BORROWING

Cumberland's debt profile is expected to remain manageable, given its average net direct debt position, manageable future borrowing plans, and average principal retirement. Adjusting for state school construction reimbursement, the town's adjusted debt burden remains average at 1.2% of full value. Future borrowing plans include a $10 to $12 million public safety building that would be borrowed for in 2015 or 2016, pending voter approval. The town's retirement of principal is average, with 76% amortized within 10 years. The town has no variable rate debt or swaps, and is not party to any derivative agreements.

WHAT COULD CHANGE THE RATING UP

-- Maintenance of structurally balanced operations and continued improvement in liquidity

-- Maintenance of full funding of the police pension ARC, resulting in improved funding status

-- Continued funding of the OPEB liability

-- Improved operating results in the water and sewer funds and repayment of advances to the General Fund

WHAT COULD CHANGE THE RATING DOWN

-- Failure to maintain structurally balanced financial operations

-- Failure to fully fund the police pension ARC, or reduced funding status of the plan

-- Increased reliance on cash-flow borrowing

-- Increased advances to the water and sewer fund

-- Failure to reduce long-term liabilities for pension and OPEB

KEY STATISTICS

Equalized Value (EV), Fiscal 2014: $3.5 billion

EV Per Capita, Fiscal 2014: $105,554

Median Family Income as % of US Median: 133.3%

Available Operating Fund Balance as % of Revenues, Fiscal 2013: 11.8%

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues: 7.77%

Cash Balance as % of Revenues, Fiscal 2013: 13.2%

5-Year Dollar Change in Cash Balance as % of Revenues: 5.04%

Institutional Framework: "A"

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of EV: 1.58%

Net Direct Debt / Operating Revenues: 0.67x

3-Year Average ANPL as % of Assessed Value: 2.24%

3-Year Average ANPL / Operating Revenues: 0.95x

RATING 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.moodys.com for a copy of this methodology.

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