



Tagging Info

Fitch Ratings Affirms Burrillville, RI's GO Bonds at 'AA'; Outlook Stable Ratings

Endorsement Policy

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Fitch Ratings-New York-24 September 2014: Fitch Ratings has affirmed its 'AA' rating on the following Town of Burrillville, Rhode Island general obligation (GO) bonds:

- \$0.87 million GO school bonds, series 1999 and 2000;
- \$0.88 million GO refunding bonds, series 2002;
- \$3.7 million GO bonds series 2006A and 2006B.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by the town's full faith and credit and unlimited taxing power.

KEY RATING DRIVERS

STRONG FINANCIAL MANAGEMENT: The town's conservative budgeting practices and policies have contributed to historically sound operations and strong reserves, even during prior periods of volatile levels of state funding and recent declines in property values.

ABOVE AVERAGE LIQUIDITY: Management has built up reserves from tax revenues with a substantial portion earmarked for pay-as-you-go capital and maintenance needs. This has significantly reduced the need to issue debt for such projects and provides a high degree of financial flexibility.

MANAGEABLE DEBT AND RETIREMENT COSTS: Overall debt levels are low and are expected to remain so over the next couple of years; amortization is rapid. Pension and other postemployment benefit (OPEB) liabilities are manageable and overall carrying costs are low.

LOCAL ECONOMIC INDICATORS MOSTLY POSITIVE: Wealth levels exceed state and national levels and reported new development efforts are credit positives. However, the town continues to experience an above-average unemployment rate. The tax base is concentrated, with the power plant owned by Ocean State Power/TransCanada the largest taxpayer at 12% of the fiscal 2015 total.

RATING SENSITIVITIES

MAINTENANCE OF FINANCIAL FLEXIBILITY: Fitch expects the town to retain significant financial flexibility and stable debt metrics through its continued strong management practices. New economic development projects should help the town realize this expectation.

CREDIT PROFILE

Burrillville is a mixed suburban and rural community located in northwest Rhode Island approximately 20 miles from Providence and 45 miles from Boston. Its population of 16,109 (2013) is up 2% from 2000.

FINANCIAL PROFILE REMAINS SOUND

The town has experienced net operating surpluses in four of the last five fiscal years, leading to robust reserve levels. A combination of conservative budgeting practices, strong tax collection rates and moderate tax increases contributed to these results. For fiscal 2013 the town finished the year with positive variances to budget in both revenues and expenditures. Management had included the use of roughly \$4 million in fund balance in the budget (primarily for capital), but the net operating deficit was only \$687,000. The unrestricted general fund balance at year end remained healthy at \$14.4 million or a high 45% of spending. The school department ended the year with a small deficit and had an unrestricted fund balance of \$0.6 million or 2% of school department spending.

The \$46 million budget for fiscal 2014 was up 2.2% compared to the prior year and included increases in capital and school outlays. The town underwent a three year property revaluation effective December 2012 and property values declined by 15%. These lower values were used for the fiscal 2014 budget, and management increased the tax rate to be revenue neutral for the average homeowner. Approximately \$1 million of the tax levy increase represented the final addition of Ocean State Power/TransCanada (OSP) property to the tax roll due to the expiration of a prior 20 year payment-in-lieu-of-tax (PILOT) agreement. Management is projecting a net operating surplus of approximately \$1.5 million (3% of budget) for the year, as revenues and expenditures both outperformed budget projections.

The fiscal 2015 budget includes a moderate tax increase and continued funding of capital needs from reserves. The tax base increased 1% to \$1.5 billion, as a number of new residential housing projects have been completed and other commercial and industrial related improvements have been made. Management expects continued commercial and residential development activity, as well as substantial gas and electric utility improvements planned for the next two years, to further increase taxable values.

LARGEST TAXPAYER APPEAL

OSP represents a somewhat high 12.3 % of the town's fiscal 2015 tax base, but risk related to tax base concentration is mitigated as the town does not rely on OSP tax receipts for operating expenditures. Management has traditionally used OSP revenues (which total \$3.49 million in fiscal 2015) for capital and certain debt expenditures.

OSP has filed suit against the town challenging its tax valuation since its addition to the tax roll beginning in fiscal 2011. Management is hoping for a resolution of the case within the next year. In the event of an adverse decision the town anticipates a minimal effect on taxpayers since OSP tax revenues have not been used for general fund operations (although capital spending patterns may be affected). OSP tax revenues will continue to be used for capital needs.

MANAGEABLE FIXED COSTS

The town's overall debt levels are low with debt per capita at \$1,322 and 1.4% of market value. Amortization is very rapid with approximately 80% of principal retired within 10 years. There are no plans for additional tax-supported debt in the near term, as the town plans to continue using OSP tax revenue to fund capital projects. Additional debt for wastewater treatment plant improvements is contemplated for fiscal 2017 but would be repaid from user fees.

The town's police and general employees participate in the state's municipal employees' retirement system (MERS), and its teachers participate in the state's employees' retirement system (ERS).

On a combined basis, the police and general employees' plans are well funded at 87%, as of June 30, 2013 assuming Fitch's conservative 7% rate of return. The combined unfunded liability was a marginal \$3 million. The teachers' ERS plan is currently underfunded at an estimated 55% (using Fitch's 7% rate of return). The town makes OPEB contributions on a pay-go basis and the costs are not material. Carrying costs (debt service, pension costs, and OPEB contributions) are a low 12% of fiscal 2013 total governmental spending and are unlikely to increase significantly in the near term.

POSITIVE LOCAL ECONOMIC INDICATORS

Located in the northwest corner of the state on the border with Massachusetts and Connecticut, the town has

an advantageous location near the state capital of Providence and the economic center of Worcester, MA. Wealth levels exceed state and national averages, with median household income at 119% and 126% of the state and nation, respectively. Unemployment rates, although improved, remain high at 8.1% (not seasonally adjusted) for July 2014 compared to 10.5% the prior year. The poverty rate is low at 6.7%.

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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

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