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**Summary:**

## Rhode Island Health & Educational Building Corp. Burrillville; General Obligation

**Primary Credit Analyst:**

Tyler Fitman, Boston (1) 617-530-8021; tyler.fitman@spglobal.com

**Secondary Contact:**

Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

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## Summary:

# Rhode Island Health & Educational Building Corp. Burrillville; General Obligation

## Credit Profile

US\$5.915 mil pub schs rev bnd fincg prog (Burrillville) ser 2022D due 05/15/2043

Long Term Rating

AA/Stable

New

## Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to Rhode Island Health & Educational Building Corp.'s roughly \$5.915 million series 2022D general obligation (GO) revenue bonds, issued for Burrillville.

Burrillville's full-faith-and-credit-GO pledge secures the revenue bonds.

Officials intend to use series 2022D bond proceeds to refund GO bond anticipation notes issued to finance the construction, renovation, improvement, #alteration, #repair, #landscaping, furnishing, and #equipping of schools and school #facilities #townwide and provide additional new-money financing for those projects.

## Credit overview

Burrillville is a primarily residential community in northwestern Rhode Island, along the border with Massachusetts and approximately 20 miles from Providence. The town has benefited from increasing residential development and successful redevelopment and improvement in part of its village center areas and the local economy benefits from access to Providence. While the school department has produced positive operating results during the past two fiscal years, the general fund has not consistently produced positive operating results. However, the town has maintained stable reserves during the past few fiscal years; it also benefits from modest debt. We do not expect to change the rating during the two-year outlook.

The rating reflects our view of the town's:

- Strong economy, benefiting from access to a broad, diverse metropolitan statistical area (MSA);
- Well-embedded standard financial-management policies, practices under our Financial Management Assessment (FMA) methodology--indicating the finance department maintains adequate policies in some, but not all, key areas--and a strong Institutional Framework;
- Stable budgetary performance, supporting very strong reserves and cash; and
- Very strong debt-and-liability profile with low pension and other postemployment benefit (OPEB) costs

## Environmental, social, and governance

We have evaluated environmental, social, and governance (ESG) risks relative to Burrillville's economy, management, financial measures, and debt-and-liability profile and view them as neutral within our credit analysis.

## Stable Outlook

### Upside scenario

We could raise the rating if Burrillville's economic metrics were to improve to more-comparable levels with higher-rated peers and if it were to exhibit sustained budgetary performance and adopt more-formal financial planning policies.

### Downside scenario

We could lower the rating if Burrillville were to draw down reserves to levels we no longer consider comparable with its peers.

## Credit Opinion

### A stable economic profile with a primarily residential property tax base

Residents benefit from access to employment opportunities in the broad, diverse Providence MSA and neighboring Massachusetts. Management reports that most businesses performed well throughout COVID-19 and that the pandemic minimally affected the local economy. While unemployment has not recovered to pre-COVID-19 levels, unemployment has partially recovered from 8.3% in 2020, which was due to the pandemic; unemployment for 2021 was 5.3%, below Rhode Island and equal to national levels. A private equity firm purchased Daniele International Inc., the leading employer, in 2019; the new owners have increased investment into their Burrillville facility, and they plan to purchase additional industrial land in one of three industrial parks to accommodate expansion.

The primarily residential tax base accounts for 72% of assessed valuation (AV). Residential growth has occurred since COVID-19; in 2020, there were twice as many housing starts as 2018, at least due partially to the development of major subdivisions. Burrillville Redevelopment Agency has allowed development in the town, focusing on revitalizing older village center areas. A new brewery and convenience store opened during the past few years on sites redeveloped through agency plans. Three of the 10 leading taxpayers are utility companies, including Ocean State Power (OSP).

Burrillville recently came to a new payment-in-lieu-of-tax (PILOT) agreement with OSP; it amended the initial agreement in 1995, which expired in 2011, at which time OSP's property was part of the tax levy. OSP filed a lawsuit against the town, challenging its tax valuation; it eventually settled for tax years 2015-2021, not including the payment of back taxes. The new PILOT agreement covers tax years 2022-2027, and it establishes fixed payments that start at \$2.6 million annually; payments will decrease to \$2.2 million during the agreement's life.

### Standard financial-management policies, practices

Management considers three years of performance and trends when developing its budget. Each budget incorporates financial planning, producing a five-year revenue projection. The town had previously maintained a corresponding five-year expenditure forecast; however, it found the unpredictable nature of some major expenses, such as insurance and benefits, inhibited effective expense forecasting. Management intends to implement expense forecasting once again at some point. Management continuously monitors budgetary performance and reports budget-to-actual results

monthly to the town council. Management maintains a rolling five-year capital plan that includes project funding; the project is scheduled for completion within the next fiscal year.

The town charter dictates undesignated balance at the beginning of each fiscal year must be, at least, 5% of the subsequent-year budget. The town's fund-balance policy since 1994 dictates maintaining unassigned fund balance at the greater of 12% of fund balance or one year's annual debt payments. While the town does not have an adopted investment- or debt-management policy, it adheres to all state requirements and guidelines, including a state statute that limits GO debt, issued under general laws, to less than 3% of market value.

### **Stable operating results, reserves**

Our view of general fund performance and reserves incorporates the unrestricted school fund, which accounts for the school department's operations, funded almost entirely by state aid and general operating revenue, which is a significant portion of expenditures. Local property taxes accounted for about 62% of combined operating revenue in 2021; collections have remained stable, decreasing by about 1% during the COVID-19-related recession.

Intergovernmental operating aid accounted for about 33% of revenue, coupled with additional funds for the state's contribution to the teachers' pension plan.

In fiscal 2021, Burrillville very conservatively guarded against potential COVID-19 effects on finances, including a hiring freeze, a work-share program for some town employees, a broad reduction in discretionary spending, and the delay of capital projects. Town operations produced a roughly \$244,000 deficit while school operations produced a \$1 million surplus due to savings from remote learning. The town had an approximately \$3.6 million surplus on a total-governmental-funds basis, \$1.9 million of which management attributes to capital projects delayed due to uncertainty surrounding COVID-19.

PILOT revenue and motor vehicle excise taxes were especially strong revenue sources. License, permit, and fee revenue was \$300,000 overbudget due to a strong housing market and increased new-housing starts. Total available fund balance is our main measure of budgetary flexibility, which decreased slightly in fiscal 2021 to \$8.5 million from \$8.9 million. The town expects modest fund-balance growth .

Burrillville's allocation of American Rescue Plan Act of 2021 (ARPA) funds is about \$5 million, of which it has committed about \$325,000 to fire alarm boxes and broadband improvement. A subcommittee will determine how to best use the remaining funding, which could include additional broadband and infrastructure work and potential business and nonprofit support.

The fiscal 2022 budget was a slight decrease relative to fiscal 2021, including salary increases, primarily due to step increases. The budget included funding for positions not fully filled in the prior fiscal year.

Officials are developing the fiscal 2023 budget with no major changes to staff or services. The town is carefully planning for increasing labor and other costs. Positions mostly affected by potential wage pressure are related to extended-care-program and beach employees, both of which run on collected fees; management expects fee flexibility will help offset potential wage increases.

### Limited additional debt plans

Subsequent to the series 2022D issuance, the town will have approximately \$24.6 million in total direct debt outstanding and \$6.3 million in overlapping debt attributable to fire districts. Management expects limited additional debt plans because available ARPA funds will allow it to handle capital and infrastructure needs.

### Low pension and OPEB costs

We do not expect pension and OPEB liabilities or costs to pressure finances despite low funding in the teachers' plan. Pension plan contributions are actuarially determined, which we view positively; however, certain assumptions, including discount rates, are weak, which could lead to cost volatility. However, we expect these costs will likely remain manageable. Management pays OPEB costs on a pay-as-you-go basis.

As of June 30, 2021, Burrillville participates in:

- Rhode Island Employees' Retirement System (RIERS), which is 52.6% funded, with a \$27 million proportionate share of the net pension liability;
- Rhode Island Municipal Employees' Retirement System (RIMERS), which is 91% funded, with a \$2.8 million net pension liability;
- RIMERS' police and fire employees, which is 79% funded, with a \$3 million net pension liability; and
- OPEB Plan, which is 0% funded, with a \$3.5 million net OPEB liability.

RIERS is a state-administered agent for teachers, and RIMERS is an agent plan for town employees. Both RIERS and RIMERS use a 7% discount, which we think is elevated and could result in contribution volatility; however, we expect they will likely remain low. RIERS has not made significant funding progress recently, and we expect funding will likely remain low. The OPEB plan is a single-employer, defined-benefit plan offering health-care benefits, administered by Rhode Island Interlocal Risk Management Trust. Despite not prefunding the liability, we do not expect OPEB costs to pressure finances meaningfully due to the low liability and costs relative to the operating budget.

### Strong Institutional Framework

The Institutional Framework score for Rhode Island municipalities is strong.

#### Burrillville, Rhode Island Select Key Credit Metrics

	Most recent	--Historical information--		
		2021	2020	2019
<b>Adequate economy</b>				
Projected per capita effective buying income as a % of U.S.	100.3			
Market value per capita (\$)	115,295			
Population			16,619	16,712
County unemployment rate(%)			10.2	
Market value (\$000)	1,916,093	1,905,502	1,909,484	
10 leading taxpayers as a % of taxable value	19.7			
<b>Strong budgetary performance</b>				
Operating fund result as a % of expenditures		1.7	1.9	(0.2)

**Burrillville, Rhode Island Select Key Credit Metrics (cont.)**

	Most recent	--Historical information--		
		2021	2020	2019
Total governmental fund result as a % of expenditures		3.4	(3.6)	(7.2)
<b>Very strong budgetary flexibility</b>				
Available reserves as a % of operating expenditures		16.1	17.5	17.4
Total available reserves (\$000)		8,484	8,928	8,859
<b>Very strong liquidity</b>				
Total government cash as a % of governmental fund expenditures		58.6	44.3	42.6
Total government cash as a % of governmental fund debt service		2,181.7	1,772.4	1,498.9
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Very strong debt and long-term liabilities</b>				
Debt service as a % of governmental fund expenditures		2.7	2.5	2.8
Net direct debt as a % of governmental fund revenue	23.2			
Overall net debt as a % of market value	1.0			
Direct debt 10-year amortization (%)	69.2			
Required pension contribution as a % of governmental fund expenditures		4.3		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0.3		
<b>Strong Institutional Framework</b>				

Data points and ratios may reflect analytical adjustments.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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