

## Cranston, Rhode Island; General Obligation

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# Cranston, Rhode Island; General Obligation

Credit Profile		
US\$21.24 mil GO rfdg bnds ser 2012B due 07/01/2023		
<i>Long Term Rating</i>	A/Stable	New
US\$3.39 mil GO bnds ser 2012A due 02/01/2033		
<i>Long Term Rating</i>	A/Stable	New

## Rationale

Standard & Poor's Ratings Services has assigned its 'A' long-term rating to Cranston, R.I.'s series 2012A and 2012B general obligation (GO) bonds and affirmed its 'A' underlying rating (SPUR) on the city's previously issued parity debt. The outlook is stable.

The ratings reflect what we regard as strength in the city's:

- Good income levels and very strong per capita market value, and
- Low debt burden.

Factors that we believe temper the ratings include:

- Significant financial stress in recent years, resulting in merely adequate fund balance levels and weak year-end cash, somewhat offset by the recent steps taken to stabilize the city's budget and the expected increase in state funding for the school department;
- A very large unfunded, albeit closed, police and fire pension system, with a low funded ratio; and
- A somewhat elevated unemployment rate;

The city's full faith and credit pledge secures the bonds. Officials will use series A bond proceeds to fund various municipal improvements and equipment and series B bond proceeds to refund a portion of its 2000 and 2004 GO bonds outstanding. The refunding bonds are structured to produce a majority of savings in the first three years (fiscals 2013-2015).

In recent years, the city's financial operations have experienced significant recessionary pressure, including significant state aid cuts, leading to drawdowns on city (general fund) and school department reserves for several consecutive years. Fiscals 2008 and 2009 provided the largest hit--in 2008, a \$3.4 million city operational surplus was offset by a \$5.2 million deficit in the school department (which is accounted for in a fund separate from the general fund), and in 2009, a \$1.75 million city operating deficit was exacerbated by a \$3.6 million operating deficit in the school department. In fiscals 2010 and 2011, the combined financial results of the city and school departments were more modest, but still negative, with combined results of negative \$936,000 and negative \$1.08 million, respectively. In our opinion, the city's immediately available reserves total \$6.37 million, or 1.9% of general fund expenditures and transfers, which is merely adequate, in our opinion. Some additional reserves include funds that are committed as "excess healthcare funds" (\$1.26 million), which could be reappropriated by a formal vote of the city council.

The city's year-end cash position was somewhat weak, in our opinion. The combined cash of the city and school

departments totaled \$10.6 million, equal to a low 16 days' cash. The June 30 fiscal year-end is generally the city's cash low-point, as property taxes are due quarterly on July 15, Oct. 15, Jan. 15, and April 15. Despite somewhat elevated unemployment levels in recent years, the city's current-year property tax collection rates have been sound at between 98% and 99% over the past four audited fiscal years. Property taxes account for 75% of city and school department combined revenues. Intergovernmental aid accounts for about 18%.

Cranston's financial management practices are considered "standard" under Standard & Poor's Financial Management Assessment, indicating that the finance department maintains adequate policies in some, but not all, key areas.

We consider the city's overall net debt position low at \$1,091 per capita, or 1.1% of market value. Debt service carrying charges have been low, averaging just 4% of total governmental expenditures, less capital outlay, over the past three audited fiscal years. Amortization of long-term GO debt is above average, with 69% of principal retired through 2021 and all debt retired through 2033.

Cranston is located immediately south of Providence, R.I. (BBB+/Negative), covering a 29 square mile area, from Narragansett Bay in the east to Scituate (AA-/Stable) in the west. With a population of about 80,500, Cranston is the third-most-populous municipality in Rhode Island. Local employers provide residents with a mix of services, light manufacturing, retail, and distribution jobs. The city's location along Interstates 95 and 295 and its proximity to Providence provide additional diverse employment opportunities. Nevertheless, unemployment has risen substantially in the past few years, consistent with state trends. In 2011, through November, the monthly unemployment rate averaged 10.7%, slightly lower than the state's 10.8% but well above the nation's 9% over the same period. The city's income levels are good, with median household and per capita effective buying income at 108% and 103% of national levels, respectively. Fiscal 2011 assessed value (AV) remained essentially flat compared with fiscal 2010 and totaled \$7.84 billion, or \$97,461 per capita, which we consider very strong.

## Outlook

The outlook is stable. We do not expect the rating to change within the two-year outlook period given the steps taken to stabilize the city's finances in recent year. However, should the city realize additional financial stress, leading to additional drawdowns, or if the city's liquidity becomes further constrained, we would likely lower the rating.

## Finances

At the close of fiscal 2011, the city's total general fund balance, including restricted funds, was \$21.65 million. This balance is, to a large degree, offset by the school department's \$7 million total general fund accumulated deficit. The unassigned portions of the city and school department fund balances were \$10.69 million and negative \$10.62 million, respectively. When considering the city's available reserves, we subtract the school department unassigned fund balance from general fund unassigned fund balance and add back \$6.3 million restricted in the general fund for deficit reduction plan. This yields an available reserve level of \$6.37 million, equal to a merely adequate 1.9% of general fund expenditures and transfers out.

The deficit reduction plan restricted fund balance reflects an agreement between the city and school departments following the school department's Caruolo action, which it filed against the city in 2008. As per the deficit reduction

plan, the city has advanced the school department roughly \$8.9 million, of which the aforementioned \$6.3 million will be repaid to the city in fiscals 2012 through 2015. The roughly \$1.57 million per year cost to the school department is expected to be offset by a marginal increase in state funding of \$1.5 million per year over the next seven fiscal years (including 2012).

The city's 2012 budget was balanced with no fund balance appropriation, included a 3.3% tax levy increase, and continued across-the-board cost-containment measures within both the city and school departments. City officials currently estimate balanced operations in both the city and school departments through the first eight months of the fiscal year and expect to close the fiscal year with balanced operations, including the \$1.57 million repayment from the school department to the city.

## Pension And Other Postemployment Benefit Liabilities

The city's unfunded pension liabilities are very large and represent significant long-term fixed costs for the city. The city has multiple pension plans for its employees. Police officers and firefighters hired before July 1, 1995, participate in a closed, city-administered defined benefit pension plan. As of July 1, 2011, the unfunded liability for the plan was \$256 million, a 17.8% funded ratio. In fiscal 2011, the city contributed \$19.1 million, \$975,000 (5%) short of the actuarially determined contribution of \$20.07 million needed to fully amortized the liability over 23 years. All city employees (except teachers) are included in the state Municipal Employees' Retirement System (MERS)--the city is current on all payments into such plans; the general employee, police, and fire state MERS plans have funded ratios of 86%, 65%, and 66%, respectively. Teachers participate in the Rhode Island Retirement System, and the city is current on all of its payments into the program.

The other postemployment benefits (OPEB) liability for employees was calculated to be \$52.8 million, as of July 1, 2011. The annual OPEB cost in fiscal 2011 was \$4.1 million, of which the city contributed 85%, or \$3.5 million. The city has established an OPEB trust that totals \$115,000.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of March 20, 2012)		
Cranston GO rfdg bnds ser 2010 due 02/15/2024		
<i>Long Term Rating</i>	A/Stable	Affirmed
Cranston GO (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Cranston GO (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<b>Cranston GO</b>		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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