FitchRatings

Public Finance

Tax Supported / U.S.A.

Cranston, Rhode Island

General Obligation Bonds

New Issue Report

Ratings

New Issues

General Obligation Bonds, Series 2012A	A
General Obligation Refunding Bonds, Series 2012B	A
Outstanding Debt	
General Obligation Bonds	A

Rating Outlook

Stable

Related Research

Fitch Rates Cranston, RI's GO Bonds 'A'; Outlook Stable, March 16, 2012

Fitch Affirms Cranston, RI GO Bonds at 'A'; Outlook to Stable, Sept. 28, 2011

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New Issue Details

Sale Information: $3,430,000 General Obligation Bonds, Series 2012A, and $17,900,000 General Obligation Refunding Bonds, Series 2012B, scheduled via negotiation on March 22.

Security: The full faith, credit, and taxing power of Cranston.

Purpose: To fund capital improvements and refund portions of the outstanding series 2000 and 2004 bonds.

Final Maturity: Series 2012A on Feb. 1, 2033; series 2012B on July 1, 2015.

Key Rating Drivers

Stabilized Operations: The city's financial operations have stabilized through management's effective expense reduction initiatives, tax increases, and the maintenance of adequate fund balance levels.

Suppressed Regional Economy: While the city is realizing localized economic development, the regional economy is emerging from the recession more slowly than the nation.

Implementation of Deficit Elimination Plan: The school department began implementation of its state-approved deficit elimination plan in fiscal 2012. Repayment to the city general fund will free up reserve funds held by the city, improving overall financial flexibility over time.

Average Wealth, High Unemployment: The city is the third largest populated city in the state and benefits from wealth levels in line with state and national levels, but unemployment rates remain high.

High Future Retiree Costs: Although overall debt levels remain low with rapid amortization, the city's closed defined benefit pension plan and other post-employment benefit (OPEB) liabilities are estimated to be very high.

Rating History

Rating	Action	Outlook/ Watch	Date
A	Affirmed	Stable	3/16/12
A	Affirmed	Stable	9/28/11
A	Affirmed	Negative	6/29/10
A	Revised	Stable	4/30/10
BBB+	Upgraded	Stable	2/14/08
BBB	Upgraded	Positive	6/9/06
BBB–	Upgraded	Stable	1/18/05
BB	Upgraded	Positive	1/24/04
BB–	Affirmed	Positive	12/15/03
A	Assigned	Stable	11/22/00

Credit Profile

Cranston is a primarily residential community located just south of the city of Providence, and its population of 80,387 makes it the third most populated city in Rhode Island. Wealth levels are in line with state averages; median household and per capita incomes at 106% and 97% of state levels. The city's unemployment rate, although roughly on par with the state, is still notably elevated at 11.3% as of January 2012; furthermore, the city's employment base has eroded somewhat over the past several years.

The city benefits from its location proximate to the state capital and access to major highways as well as from management initiatives that have spurred economic development within the community. Recent successes include the relocation of a small corporate headquarters to the city, expansion of a major city employer, and the opening of several national retail chain stores. This positive local development is tempered by a sluggish regional economy that has demonstrated a stunted recovery. The economy has experienced employment growth in the construction sector; however, the healthcare, finance, and information services sectors are still below prerecession levels.

There is no concentration in the tax base, and leading taxpayers consist primarily of real estate development properties. Indicative of the national trend, assessed valuation has declined for the past several years; however, new development has offset a notable portion of the existing tax base declines.

Willingness to Raise Revenue Supports Stabilized Operations

The general fund has experienced steady increases in its revenues since 2005 due primarily to property tax increases. For fiscal 2011, the city council approved an override of the state's 4.25% tax cap with a 9.0% increase in the total tax levy to make up for the significant reduction in state revenue that included the loss of $11 million in motor vehicle reimbursement from the state.

The fiscal 2011 budget included a $1.4 million fund balance draw, but the city produced audited results with an operating surplus. The city's unrestricted fund balance (the sum of committed, assigned, and unassigned as per GASB 54) totaled $12 million, or an adequate 6% for fiscal 2011. While Fitch Ratings notes management's willingness to raise recurring revenues and cut spending, financial results would have looked different had the city funded more than 83% of the annual pension obligation, which was $3.9 million below the annual required contribution (ARC) in fiscal 2011.

While the city has maintained a healthy fund balance for the past five years, the unreserved general fund balance dropped in fiscal 2009 due to the restricting of funds to offset the school's cumulative fund balance deficit. As part of the negotiation between the city and school department, the city will prudently maintain reserved fund balances to offset the school department deficit.

School Fund to Eliminate Deficit

In 2008, the school department sued the city pursuant to the Caruolo Act, lost, and appealed the case to the state Supreme Court. The state Supreme Court affirmed the decision in favor of the city. Subsequently, the city entered into a deficit elimination plan, with the school that followed the mandates of the performance audit required by the court in the suit. The city agreed to provide the school with $1.8 million for both fiscal years 2009 and 2010 to make up

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria, Aug. 15, 2011

Tax-Supported Rating Criteria, Aug. 15, 2011 for what the performance audit determined to be underfunding of the school department. A combined $3.6 million in budgeted general fund transfers were made in fiscal 2010 to meet this obligation.

General Fund Financial Summary

($000, Fiscal Years Ended June 30)

	2007	2008	2009	2010	2011
Property Tax	147,243	155,213	156,760	165,624	178,725
Licenses and Permits	3,714	2,809	2,684	2,496	2,660
Fines and Forfeits	1,565	1,768	1,605	1,829	1,718
Charges For Services	6,103	6,955	7,572	7,359	6,487
Intergovernmental	9,882	8,741	10,833	15,627	5,902
Other Revenue	3,312	2,107	2,053	1,323	1,313
Total Revenues	**171,819**	**177,593**	**181,507**	**194,258**	**196,805**
General Government	10,488	8,077	7,897	6,806	7,881
Public Safety	63,324	65,644	66,797	68,232	67,611
Public Works	12,545	13,321	13,964	13,626	14,445
Culture and Recreation	1,993	2,115	2,288	2,048	1,828
Debt Service	8,223	8,738	9,304	10,146	10,563
Other	5,934	6,166	6,133	5,739	5,642
Total Expenditures	**102,507**	**104,061**	**106,383**	**106,597**	**107,970**
Operating Surplus/(Deficit)	**69,312**	**73,532**	**75,124**	**87,661**	**88,835**
Transfers In	13,938	12,400	9,539	0	779
Other Sources	0	4,107	0	0	0
Transfers Out	84,518	86,600	86,414	86,733	89,214
Other Uses	0	0	0	3,560	1,000
Net Transfers and Other	(70,580)	(70,093)	(76,875)	(90,293)	(89,435)
Net Surplus/(Deficit)	**(1,268)**	**3,439**	**(1,751)**	**(2,632)**	**(600)**
Total Fund Balance	18,664	22,103	21,291	20,940	21,646
As % of Expenditures, Transfers Out, and Other Uses	10.0	11.6	11.0	10.6	10.9
Unreserved/Undesignated Fund Balance	18,493	18,910	12,301	11,841	0
As % of Expenditures, Transfers Out, and Other Uses	9.9	9.9	6.4	6.8	0.0
Unrestricted Fund Balance	0	0	0	0	11,991
As % of Expenditures, Transfers Out, and Other Uses	0.0	0.0	0.0	0.0	6.1

Note: Numbers may not add due to rounding.

The cumulative school department deficit of $6.3 million as of fiscal 2011 is scheduled to be eliminated over four years in equal installments of $1.5 million beginning in fiscal 2012. This deficit elimination plan was formally approved by the state. The $6.3 million in reserved city general funds held in abeyance will become unreserved (unassigned) as the school successfully implements the plan.

The school department had budgeted for balanced operations in fiscal 2011, but audited results showed a $482,000 deficit due to higher than anticipated expenditures. The plan for elimination of this deficit is subject to approval by the state auditor general, with the expectation that such deficit would be paid off over a yet to be determined number of years. Fitch has concerns with the school fund’s recent pattern of deficit operations and continued imbalanced operations may have an affect on the city’s rating.

Balanced Operations Projected for Fiscal 2012

For the fiscal 2012 budget, the city's council approved a 3.3% property tax increase to balance the budget, no appropriation of fund balance, and a $2.6 million increase in the school's budget. The city has made some additional staffing cuts to meet contractual obligations and has successfully gained concessions from its bargaining units resulting in expense savings.

The school department's budget includes savings estimated at $5 million over fiscal 2012 and 2013 from teachers' union concessions. The union agreed to a two-year wage freeze and 20% insurance premium contribution. According to management and monthly reports provided to Fitch, financial performance is in line with budgeted expectations through February. Beginning in fiscal 2012, the school department will see an increase in state aid of approximately $1.5 million due to the recently revised school funding formula helping to further offset education costs.

Low Debt Levels Offset by High Future Retiree Costs

The city's debt levels are low with debt to market value at 1.1% and debt per capita at $1,114. The city has no immediate borrowing plans. Amortization of GO debt paid by the general fund is above average, with 75% of par maturing in 10 years.

The city's defined benefit pension plan (offered only to police and fire personnel hired before July 1, 1995) is severely underfunded (18% funded level at July 2011). The total unfunded liability as of July 2011 was a very high $256 million, or 3.3% of assessed valuation (AV).

Debt Statistics
($000)

This Issue – Series 2012A and 2012B	21,360
Outstanding Direct Debt – Net of Refunding	75,690
Self-Supporting	7,510
Total Overall Debt	**89,540**
Debt Ratios	
Direct Debt Per Capita[a]	1,114
As % of MV[b]	1.1
Overall Debt Per Capita[a]	1,114
As % of MV[b]	1.1

[a]Population: 80,387 (2010). [b]Market value (MV): $7,841,653,000 (2011).
Note: Numbers may not add due to rounding.

For fiscal 2011, the city contributed $20 million, or 83% of its ARC. In fiscal years 2010, 2009, and 2008 the city contributed 87%, 95%, and 96% of its ARC, respectively. The city has budgeted $20.4 million, or 85% of its ARC for fiscal 2012. The city has made 100% of its ARC for the last three years to the state-operated municipal and teacher's pension plans for its employees.

For its OPEB liability, the city contributed $3.5 million, or 85% of its ARC in fiscal 2011 and has budgeted $3.7 million in fiscal 2012 (90% of its ARC). The unfunded OPEB liability as of July 2011 was $53 million. The school department funds its OPEB obligation on a pay-as-you-go basis and paid $1.7 million in fiscal 2011. The school department's unfunded OPEB liability was $28 million as of July 2011 and combined with the city's unfunded OPEB liability equates to 1% of AV.

Total carrying costs, actually paid out, for debt service, pensions, and OPEB were 20% of combined fiscal 2011 city and school spending. Fitch remains concerned over the long run about this growing fixed-cost burden especially in light of very low pension funding levels and statewide restrictions on local revenue raising capacity.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.