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Ratings

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Summary:

Bristol, Rhode Island; General Obligation

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Credit Profile		
US$5.325 mil GO bnd ser 2019A dtd 06/27/2019 due 08/15/2039		
Long Term Rating	AA+/Stable	New
Bristol Twn GO		
Long Term Rating	AA+/Stable	Affirmed
Bristol Twn GO (ASSURED GTY)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has assigned its 'AA+' long-term rating to the town of Bristol, R.I.'s series 2019A general obligation (GO) bonds. S&P Global Ratings also affirmed its 'AA+' long-term and underlying ratings on the town's long-term debt outstanding. The outlook is stable.

Bristol's full-faith-and-credit pledge that all taxable property in the town will be subject to taxation, without limitation as to rate or amount, to pay debt service secures the bonds. The series 2019A bond proceeds will finance various capital projects and open space acquisitions.

Bristol is a seaside community in eastern Rhode Island. The town has seen substantial economic growth in its tax base, both due to appreciation and ongoing development. Management has proactively managed fixed liabilities and we expect it will continue to make adjustments to maintain long-term fiscal balance.

The long-term rating reflects our view of the following factors, specifically Bristol's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 21.5% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.6% of expenditures and net direct debt that is 75.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 73.2% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Very strong economy

We consider Bristol's economy very strong. The town, with an estimated population of 22,293, is on the coast, about 17 miles from Providence in Bristol County. It is in the Providence-Warwick MSA, which we consider to be broad and diverse. The town also benefits, in our view, from a stabilizing institutional influence. It has a projected per capita effective buying income of 113% of the national level and per capita market value of $125,954. Overall, market value was stable over the past year at $2.8 billion in 2019. The county unemployment rate was 3.8% in 2017.

Many Bristol residents commute to Providence for employment. The local economy, once based on sailing and shipbuilding, has diversified in the past few decades. Its economy is mainly composed of the education, health care, manufacturing, and retail sectors. The town's largest employers include Roger Williams University (RWU), Composites One LLC, Stop & Shop Co., and Saint Elizabeth Manor. Residential properties make up about 83% of assessed value, followed by commercial at 9.9%.

The town recently underwent a full revaluation, resulting in an 18% increase in residential property value and 13% increase in industrial. Investments in downtown and along the waterfront continue to draw interest in additional development. Additionally, vacant commercial and industrial properties continue to be developed and redeveloped. Management is exploring further redevelopment along the waterfront, including a potential new public marina.

In addition, the town is home to RWU, which has approximately 4,700 undergraduate students, along with several hundred graduate and law students, for a total student population of 5,500. The combined student population represents about 25% of Bristol's total. RWU is also the town's largest employer and owns a considerable amount of tax-exempt property. Therefore, we consider it a stabilizing institution for the town as it may be tempering wealth and income levels. We expect that continued appreciation in existing properties and continued development will result in an increase in the tax base, and our view of the town's economy will remain very strong.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, monthly reporting of budget-to-actuals to the council, and a five-year annually updated long-term capital improvement plan (CIP) with identified funding sources. The town also maintains a formal five-year long-term financial plan that it updates annually and a formal investment policy with quarterly reporting of holdings and earnings to the council. Per the town's charter, it is required to maintain its unassigned fund balance at no less than 8% of expenditures, although we understand management has informally targeted 15%. The town's formal debt management policy adopts state limitations and sets a ceiling of 10% of expenditures for debt service, $3,000 debt per capita and 3% of market value, while requiring coordination and integration with the CIP.

Strong budgetary performance

Bristol's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of negative 0.4% of expenditures, and slight surplus results across all governmental funds of 0.5% in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of negative 0.9% in 2017 and 0.9% in 2016.

Our assessment of fiscal 2018 performance includes transfers into and out of the general fund, but we have excluded debt issued by the town to reimburse itself for 2017 expenditures related to settling a legal settlement. Bristol expended reserves in fiscal 2017 following a lawsuit filed by the town of Warren stemming from miscalculated regional school district assessments. We do not anticipate any additional expenditures or legal action for this legal action.

We consider fiscal 2018 operating results to be approximately balanced. The 2018 results included a budgeted $525,000 use of reserves; due to better-than-budgeted collections and expenditures coming in under budget, reserves declined less than budgeted. This is consistent with other recent results, notwithstanding the expenditure for the settlement with Warren.

For fiscal 2019, the budget totals $56.4 million, which represents a 3.8% increase over the previous year, and includes a $525,000 fund balance appropriation for educational costs. The town attributes the majority of the increase to the need to meet higher debt service costs and assessments from the regional school district for the year. Management reports it expects a similar result to fiscal 2018.

The fiscal 2020 budget was recently adopted, with no significant changes. It is a 2.4% increase from fiscal 2019, totaling about $75.8 million. It includes about $625,000 more for schools and $250,000 more for debt. Management expects minor savings in health care and pension costs. Property taxes account for about 86% of general fund revenues, followed by intergovernmental at 5.6%, which we believe is an inherently stable and predictable revenue mix. While the town continues to appropriate reserves in the budget, we believe it will continue to outperform budgeted revenues and expenditures. Consequently, we expect budgetary performance to remain strong.

Very strong budgetary flexibility

Bristol's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 17% of operating expenditures, or $8.4 million.

The town has consistently maintained very strong budgetary flexibility before fiscal 2017 due to very strong available reserves. The drawdown in fiscal 2017 was due to the town paying down its liability for the regional school district settlement. Bristol subsequently issued GO judgement bonds in fiscal 2018, bringing fund balance back to a level we consider very strong, despite the slight deficit operating result. As we expect the town to have balanced operating results, we expect that the drawdown in 2017 was one-time and it will maintain very strong budgetary flexibility and reserves in excess of 15% of expenditures. However, if over the longer term, reserves decline due to budgeted use of reserves despite the town outperforming the budget, we could revise our view of the available fund balance and budgetary flexibility.

Very strong liquidity

In our opinion, Bristol's liquidity is very strong, with total government available cash at 21.5% of total governmental fund expenditures and 3.3x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

Bristol has issued GO bonds within the past 20 years, supporting our view of its strong access to external liquidity. The town does not have investments that we consider permissive or aggressive as most of its investments in governmental funds include certificates of deposits and money market funds. The town's series 2012 GO bonds are privately placed with Washington Trust Co., and have an existing balance of $1.3 million. Its series 2017D GO judgment bonds are also privately placed with Signature Bank and have a current existing balance of $1.4 million. However, based on a review of the documents, there are no adverse covenants or rating triggers and we consider the likelihood of principal acceleration remote. Therefore, we expect the town's liquidity to remain very strong.

Very strong debt and contingent liability profile

In our view, Bristol's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.6% of total governmental fund expenditures, and net direct debt is 75.4% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, and approximately 73.2% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Including this issuance, the town will have about $63 million in total direct debt, including capital leases. It currently plans to issue about $1 million-$2 million annually in new debt over the next two-to-three years for various capital projects as part of its CIP. The town may issue debt for development of a public marina. We do not expect future debt issuances as we currently understand them to have a material effect on our view of the debt profile.

Bristol's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.8% of total governmental fund expenditures in 2018. Of that amount, 4.2% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The town made its full annual required pension contribution in 2018.

Bristol participates in the state's Municipal Employees' Retirement system (MERS) for all municipal employees and administers a closed defined-benefit plan for Police Department employees hired prior to March 22, 1998. The MERS plan has three components, for general, fire department, and police department employees. All three components use a 7.0% discount rate, which we view as approximately average. The general plan is 68% funded, the fire department 100%, and the police plan 74%. The plans have unfunded liabilities of about $8.1 million, $250.00, and $118,000, respectively.

The locally administered police plan has a net pension liability $12.2 million and is 58% funded using an assumed rate of return of 6.75%. The town has contributed at least 100% of its actuarially determined contribution (ADC) toward the police plan over the past six years and plans to continue to do so. We note that the plan has a 20-year closed amortization schedule, although the town plans to convert to a 10-year open schedule. The plan has 45 retirees, with no active participants. We believe the discount rate may be high for a 10-year amortization schedule, potentially leading to variable costs. While costs remain low currently, should increased costs pressure the budget, leading to expenditure of reserves or result in the town underfunding the ADC, we could view its plan as a credit negative.

The town also offers OPEB benefits to eligible retirees. Its net OPEB liability totals $9.4 million, but the OPEB trust is 48% funded. It contributed $1.35 million towards OPEBs in fiscal 2018, which represented 127% of its required contribution. The town plans to continue to make more than 100% of its required contribution to decrease the liability. We expect it will continue to proactively address its retirement liabilities and make adjustments to ensure that retirement costs do not pressure the operating budget.

Strong institutional framework

The institutional framework score for Rhode Island municipalities is strong.

Outlook

The stable outlook reflects our opinion of Bristol's very strong economy supported by as stabilizing institution and access to the Providence MSA, strong management conditions, and very strong debt profile. While the town's budget will remain somewhat pressured due to higher costs from the regional school district, we expect management to continue to make the necessary budgetary adjustments to maintain stable financial operations. Therefore, we do not expect to raise or lower the rating during our two-year outlook horizon.

Upside scenario

Should the town's economic indicators improve to levels that we consider comparable with those of higher-rated peers, while maintaining consistently strong budgetary performance and managing its retirement costs while reducing the overall liability, we could raise the rating.

Downside scenario

At the same time, should Bristol's budgetary performance deteriorate leading to lower available reserves, we could lower the rating.

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

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