

RatingsDirect®

Summary:

Portsmouth, Rhode Island; General Obligation; Note

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Credit Profile

US\$4.57 mil GO bonds (Cap Proj) ser 2015 A dtd 11/18/2015 due 06/30/2036		
<i>Long Term Rating</i>	AAA/Stable	New
US\$1.65 mil GO BANs ser 1 due 11/18/2016		
<i>Short Term Rating</i>	SP-1+	New
US\$0.4 mil GO bonds (Cap Proj) ser 2015 B due 06/30/2026		
<i>Long Term Rating</i>	AAA/Stable	New
Portsmouth Twn GO bonds (Tax-exempt)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Portsmouth, R.I.'s series 2015A and B general obligation (GO) bonds and affirmed its 'AAA' rating on the town's outstanding GO debt. The outlook is stable. We also assigned our 'SP-1+' short-term rating to the town's series 2015 bond anticipation notes.

A pledge of the town's full faith and credit secures the bonds. We understand officials will use the bond proceeds to fund various capital improvements.

The short-term rating reflects our view that Portsmouth maintains a very strong ability to pay principal and interest when the notes come due. In our opinion, the city maintains a low market-risk profile because it maintains strong legal authority to issue long-term debt to take out the notes and is a regular issuer that regularly provides ongoing disclosure to market participants.

Portsmouth's GO bonds are rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", the county has a predominately locally derived revenue source, with 78.5% of governmental activity revenue derived from property taxes, independent taxing authority, and independent treasury management from the federal government.

The 'AAA' rating reflects our assessment of the town's:

- Very strong economy with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with a slight general fund surplus and a total governmental funds deficit of 1.2%;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 10.1% of operating expenditures;

- Very strong liquidity, with total government available cash of 15.3% of total governmental fund expenditures and 4.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 3.8% of expenditures and net direct debt that is 32.9% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 77.3% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Very strong economy

We consider Portsmouth's economy very strong. The town, with an estimated population of 17,445, is located in Newport County in the Providence-Warwick MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 139% of the national level and per capita market value of \$169,122. Overall, the town's market value fell by 4.1% over the past year to \$3 billion in 2016. The county unemployment rate was 6.7% in 2014.

The town's largest private employer is Raytheon (1,175 jobs), an aerospace and defense company whose seapower capabilities operations are based in the area. Residential properties account for about 85.65% of total assessed valuation (AV), followed by commercial and industrial properties at 9.57%. Portsmouth's AV has been stable in the past three fiscal years, with the fiscal 2015 decline attributable to revaluation.

Very strong management

We view the town's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of the assessment include the town's conservative budgeting practices and better-than-budgeted results. The town primarily relies on a five-year historical trend analysis for revenue and expenditure assumptions and some zero-based budgeting practices for certain line items. The town council receives monthly reporting of budget-to-actual results and comparisons with year-earlier results. There is close coordination with the school system, which meets regularly with town management. Throughout the year, the council has power to make changes or transfers in appropriations. As part of its decision-making process, the town also uses a 10-year long-term financial forecast to identify any revenue or expenditure concerns and annually updates a five-year capital improvement plan that details funding sources. Under its formal investment management policy, the town reports investment earnings monthly to the council and provides at least an annual review of holdings. The debt management policy prohibits the use of derivatives, limiting the amount of GO debt outstanding at any time to less than 2% of its taxable property (more conservative than the state's 3% limit). Its formal reserve policy sets an unreserved general fund balance minimum of 8% and maximum of 16% to ensure short-term cash availability and stable tax rates.

Adequate budgetary performance

Portsmouth's budgetary performance is adequate in our opinion. The town had balanced operating results of 0.4% in the general fund and a deficit of 1.2% across all governmental funds in fiscal 2014.

The town continues its trend of positive operating performance with the fiscal 2014 surplus driven by tax collections above budget and positive variances with expenditures. For fiscal 2015, management expects similarly strong results

of a general fund operational surplus of \$428,149 due to conservative budgeting practices and increases in fund balance. School operations continue to report positive results.

The fiscal 2016 budget is balanced and includes fund balance replenishment of about \$156,000 and \$1 million for road improvements. The town has annually budgeted for this activity in recent years. We also expect strong results for the year.

For fiscal 2014, the town underfunded its police pension plan required contribution by \$884,624 due to budgeting for pension reform measures that were not realized. As a result, the town has budgeted to overfund the required police pension payment in fiscal 2015 and return to making 100% of required contributions.

Strong budgetary flexibility

Portsmouth's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 10.1% of operating expenditures, or \$5.9 million.

The town has recognized the need to strengthen its reserves and budgeted about \$256,000 in fiscal 2015 and \$156,000 in fiscal 2016 to add to its fund balance. In addition, the town has about \$3.4 million in state-restricted general fund balance for school operations that provides some additional flexibility. Given the restrictions on school reserves, we do not consider them available. However, when including the restricted school reserves, fund balance increases to a very strong 16.5% of expenditures.

Rhode Island General Laws limit the amount by which a city or town may increase its tax levy unless it qualifies for certain exemptions to 4% of the prior year's levy. The town's levy increase has been about 2.4% for the past three fiscal years.

Very strong liquidity

In our opinion, Portsmouth's liquidity is very strong, with total government available cash of 15.3% of total governmental fund expenditures and 4.1x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is supported by its recent debt issuances, including GO bonds. Though the state allows for what we view as permissive investments, we believe the town does not currently have aggressive investments as the majority of its investments are in mutual funds and fixed-income securities. We expect the town will maintain very strong liquidity.

Very strong debt and contingent liability profile

In our view, Portsmouth's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 32.9% of total governmental fund revenue. Overall net debt is low at 0.8% of market value and approximately 77.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The town is considering a bond issue of up to \$10 million to build a police station; such an issuance would require voter approval. The town contributes about \$1 million annually to its road improvement fund.

In our opinion, a credit weakness is Portsmouth's large pension and OPEB liability. Portsmouth's combined pension

and OPEB contributions totaled 10.5% of total governmental fund expenditures in 2014. Of that amount, 9.1% represented contributions to pension obligations and 1.4% represented OPEB payments. The town made 85% of its annual required pension contribution in 2014. The pension funded ratio is 52.1%.

Portsmouth participates in the state Employees' Retirement System for teachers and contributed its full annual required contribution (ARC) of \$2 million in fiscal 2014. The town also administers its own defined-benefit plan for all other employees, contributing \$2.8 million in 2014. The plan was 52% funded as of its July 1, 2013 valuation.

While the town's administered pension plan would be considered in "critical status" as defined by the state Retirement Security Act for Locally Administered Pension Funds, the town uses a conservative 6.75% discount rate. Critical status plans are required to enact a Funding Improvement Plan to return the plan to at least 60%, but Portsmouth has not been required to submit a plan as the current funding ratio is largely determined by the conservative plan assumption. The town has also enacted pension reform by moving all future employees to defined-contribution plans and reducing cost-of-living adjustments. The town also provides OPEBs in the form of health insurance with premiums paid until the retiree becomes eligible for Medicare. While the town's retirement contribution charge is elevated, in our opinion, recent reforms to the pension plan, current conservative assumptions, and very strong management conditions indicate the town should be able to manage these costs and future effects of the liabilities.

Strong institutional framework

The institutional framework score for Rhode Island municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's view that management will remain proactive and make the necessary adjustments to produce at least balanced operations as it has demonstrated while adding to available general fund reserves. Adopted management policies provide a mechanism to address and manage liquidity at strong levels, which, along with limited future capital needs, provide for long-term rating stability. However, we do not expect to change the rating in the next two years.

Downside scenario

While unlikely, should budgetary performance deteriorate, along with reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, Oct. 20, 2015

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