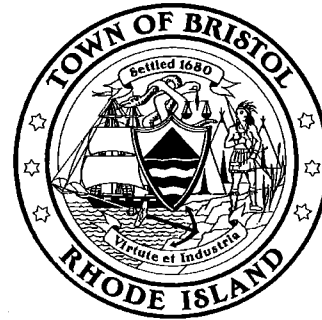


Town of Bristol, RI

10 Court Street, Bristol, RI 02809

(401) 253-7000



DATE: March 21, 2022

TO: Honorable Town Council

FROM: Julie R. Goucher, Treasurer

RE: Bond Sale and AA+ Rating Affirmation

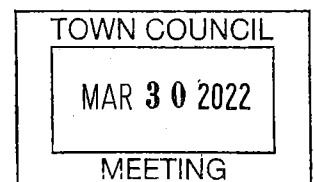
CC: Steven Contente, Town Administrator

On March 8, 2022 the Town sold bonds in the par amount of \$5,490,000. The Town initially planned for a borrowing in the amount of \$5,875,000 to fund Water Pollution Control vehicles and equipment, the marina expansion, public buildings and drainage. The net premium received on the sale of the bonds was approximately \$385,000. In addition to the premium, the Town received an interest rate (weighted average over entire issue) of 2.5%.

The Town engaged S&P Global to assign a credit rating that is provided to prospective buyers of Town issued bonds. The rating agency interviewed the Town and performed a comprehensive review and analysis on a variety of topics including, but not limited to management practices, audit and budget reports, environmental resiliency, cybersecurity, impact of COVID-19, local economy, debt, pension and other post-employment benefits.

S&P Global affirmed the Town's rating of AA+ and specifically cited the Town's very strong economic profile, very strong financial management and strong institutional framework, predictable and stable financial profile, and low debt service and retirement costs, including a fully funded other post-employment benefits trust fund.

Please refer to the full report, attached herein, for more information.



RatingsDirect®

Summary:

Bristol, Rhode Island; General Obligation

Primary Credit Analyst:

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

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Summary:

Bristol, Rhode Island; General Obligation

Credit Profile

US\$5.875 mil GO bnds ser 2022A due 04/01/2043

Long Term Rating

AA+/Stable

New

Bristol Twn GO

Long Term Rating

AA+/Stable

Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the town of Bristol, R.I.'s series 2022A GO bonds. At the same time, we affirmed our 'AA+' long-term rating on the town's GO 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 2022A bond proceeds (approximately \$5.9 million) will finance various capital projects and vehicle acquisitions.

Credit overview

Bristol is a coastal residential community in northeastern Rhode Island. The town is home to Roger Williams University, which acts as a stabilizing institution for the local economy. It is highly reliant on local property taxes with a predictable expenditure profile. It has low debt service and retirement costs with limited future capital needs. Bristol maintains lower reserve levels than comparably rated national peers, but we believe the low reserve levels are partially offset by strengths across its financial and economic profile. The town also has a lower income metric than state and national peers, but we believe this is somewhat suppressed due to the large collegiate student body presence. We do not expect to revise the rating during the two-year outlook period.

The long-term rating reflects our view of the town's:

- Very strong economic profile with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong financial management environment and strong institutional framework;
- Predictable and stable financial profile with high reserve and cash balances; and
- Low debt service costs and retirement costs, including a fully funded other postemployment benefit (OPEB) trust fund.

Environmental, social, and governance

Although rising sea levels pose a long-term risk for the town, we believe management continues to plan and implement resiliency efforts to help reduce the potential effects. Bristol is part of the Municipal Resilience Program, a

consortium of Rhode Island municipalities, which has helped identify actions to address rising sea-level risk and resiliency, such as creating watershed management plans and improvement to infrastructure. The town has received grants for various restoration, preservation, and climate risk mitigation projects. It also completed, and has begun to implement, action items from its 2016 Hazard Mitigation Plan, such as upgrading sewer lines. We analyzed the town's environmental factors and determined that they are in line with our view of the sector standard for coastal communities, but above sector standards compared with noncoastal communities. We believe its governance and social risks relative to its economy, management, financial measures, and debt and liability profile are all in line with our view of the sector standard. The town also maintains various cyber security protections and plans in place.

Stable Outlook

Upside scenario

If income metrics or reserves grew to levels comparable to those of higher rated state and national municipalities, we could take a positive rating action.

Downside scenario

Should Bristol's budgetary performance deteriorate, leading to lower available reserves, we could take a negative rating action.

Credit Opinion

Growing tax base in a coastal residential community

Bristol is a primarily residential community along Narragansett Bay. Residents largely commute to the Providence MSA for employment. The local economy is mainly based on education, health care, manufacturing, and retail. The town is also home to Roger Williams University, which has approximately 4,300 undergraduate students, along with several hundred graduate and law students, for a total student population of 5,200. The combined student population represents about 23% of Bristol's total; we view the university as a stabilizing institution and believe the student population is likely suppressing the town's underlying wealth and income metrics.

We understand investments in the downtown and along the waterfront continue to draw interest and a mill redevelopment in the planning stages could add 150 housing units with additional commercial spaces. At this time, we expect the residential real estate market to remain strong, with growing home values leading to incremental growth in the tax base. Based on a statistical revaluation effective as of Dec. 31, 2021, management expects between 11%-20% growth in total assessed value (AV). We do not expect to revise our view of the town's economic profile, particularly given the expected growth in the tax base.

Strong, well-embedded financial policies and practices

We revised our view of Bristol's financial management environment to very strong from strong, primarily reflecting the town's continued incorporation of long-term financial planning into its budgeting process. It annually updates a five-year financial plan, which it uses to vary assumptions to examine budgetary effects. Other strengths of the town's financial policies and practices under our Financial Management Assessment include:

- Realistic revenue and expenditure assumptions in the budgeting process, grounded in trend analysis;
- Monthly reporting of budget-to-actuals to the council;
- An annually updated, five-year long-term capital improvement plan (CIP) that identifies both projects and funding sources; and
- A formal investment policy with quarterly reporting of holdings and earnings to the council.

Additionally, 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.

Stable and predictable financial profile leading to maintenance of high reserves

The town's revenue and expenditure profile remains balanced. Lending stability is a high reliance on local property taxes, which accounted for 84% of audited general fund revenue. As the town participates in a regional school district, it does not have state education aid or related on-behalf payments flowing through a major school fund, unlike most municipalities in the state. School expenditures account for about 52% of general fund expenditures, reflecting assessments paid to the school district. We believe there is a high level of coordination with the district and while school expenditures are likely to grow and can be variable at times, we believe things remain generally predictable.

The town's fiscal 2021 general fund surplus of \$3.4 million was primarily due to a \$2.8 million land sale. We excluded this from our view of performance and the reserves are held in a committed fund and we do not consider them available. Available reserves declined overall because of a prior-year restatement that was due to a reconciliation of a state aid payment that will not recur. Overall, we expect the town to maintain strong budgetary performance and very strong reserve and cash balances.

We understand the town expects to close fiscal 2022 with at least break-even results. It budgeted for a \$700,000 use of reserves that management does not expect to draw at year-end. The town terminated a trash hauling contract and brought the services in-house, which resulted in some growth in expenditures but overall budgets remain stable. The fiscal 2023 budget process is underway, but we do not anticipate major changes to the budget. The town may face an increase in tax appeals but we do not expect material reduction in the total change in AV or significant budgetary pressure.

Low debt service costs and no expected change to the overall debt profile

Including this issuance, the town will have about \$69 million in total direct debt (including capital leases). We do not expect future debt issuances as we currently understand them to have a material effect on our view of the town's debt profile. We note that the town has several privately placed debt obligations with private banks, but we do not believe these present a pressure given the lack of nonstandard events of default or remedies.

Bristol's combined required pension and actual OPEB contributions totaled 6.8% of total governmental fund expenditures in 2021. Of that amount, 4.6% represented required contributions to pension obligations, and 2.2% represented OPEB payments. The town made its full required pension contribution in 2021.

Low pension and OPEB costs and a credible plan to address liabilities

- We do not view the town's pension and OPEB liabilities as source of credit pressure.
- While the pension plans' actuarially determined contribution (ADC) is built from what we view as somewhat weak assumptions that we think increase the risk of unexpected contribution escalations, we expect costs to remain affordable due to the strength of the town's revenue base and conservative budgeting, which continues to result in stable financial performance.

Bristol participates in the following plans:

- Municipal Employees' Retirement System (MERS) Police Pension Plan: 71% funded, \$7.6 million proportionate share of the net pension liability (NPL);
- MERS Fire Plan: 91% funded, with a NPL of \$61,000;
- MERS Employee's Retirement Plan: 101% funded, \$105,000 net pension asset;
- Bristol Police Plan (BPP): 71% funded, \$9.1 million NPL; and
- A defined-benefit plan that provides a health care plan to retirees and life insurance to police retirees: 124% funded, \$2.6 million net OPEB asset.

The town's aggregate NPL is about \$16.7 million. Contributions toward BPP exceeded our minimum funding progress metric, indicating the plan is making material funding progress. The plan carries a discount rate of 6.63% and has a closed 20-year amortization schedule with 11 years remaining. We view its discount rate as somewhat high relative to our 6.0% discount rate guideline and believe costs for the plan will continue to increase given its low funded ratio. All three MERS pension plans have a discount rate of 7%, but given the high funded ratios in two of the three plans, we expect the town will be able to incorporate any contribution volatility into its budget. Following an experience study and a change to the OPEB liability, along with significant investment returns, the OPEB funded ratio increased significantly. We do not expect the OPEB trust funded ratio will materially change in the short term. We expect the town will continue to make progress in addressing its unfunded retirement liabilities.

Strong institutional framework

The institutional framework score for Rhode Island municipalities is strong.

Bristol, RI -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	98			
Market value per capita (\$)	145,815			
Population		22,117	22,266	
County unemployment rate(%)		7.6		
Market value (\$000)	3,224,988	3,207,775	3,326,863	
Ten largest taxpayers % of taxable value	2.5			

Bristol, RI -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Strong budgetary performance				
Operating fund result % of expenditures		1.1	(0.0)	1.1
Total governmental fund result % of expenditures		2.2	(0.0)	0.0
Very strong budgetary flexibility				
Available reserves % of operating expenditures		15.4	16.8	17.7
Total available reserves (\$000)		8,267	8,830	9,023
Very strong liquidity				
Total government cash % of governmental fund expenditures		21	17	27
Total government cash % of governmental fund debt service		294	246	421
Very strong management				
Financial Management Assessment	Strong			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		7.1	6.9	6.5
Net direct debt % of governmental fund revenue	76			
Overall net debt % of market value	1.6			
Direct debt 10-year amortization (%)	71			
Required pension contribution % of governmental fund expenditures		4.6		
OPEB actual contribution % of governmental fund expenditures		2.2		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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

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