



Town of Coventry

FISCAL HEALTH OUTLOOK

SEPTEMBER 15, 2021

Fiscal health check up

- ▶ Financial Definitions
- ▶ Liabilities
- ▶ Net Position
- ▶ Budget Capacity
- ▶ Debt Limitations
- ▶ Debt Margins
- ▶ Bond Debt Service to year 2039
- ▶ Bond Rating, Moody's
- ▶ Potential Future Obligations
- ▶ Fiscal Improvement Ideas



Financial Definitions

- ▶ **General Fund:** This fund is the primary operating fund of the Town.
- ▶ **Asset:** An asset is something that provides a current, future, or potential economic benefit for a municipality. An asset is what the municipality owns or controls.
- ▶ **Liability:** A liability is something a municipality owes, usually sum of money. Common types of liabilities (Debt), follow on next slide
- ▶ **Net Position:** A municipal's net position may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. It is also useful in assessing the Municipal's financing requirements. The liabilities of a municipality in excess of their assets will result in a (negative) net position.

Financial Definitions-Liabilities

- ▶ **GO Bonds:** A general obligation (GO) bond is a type of municipal bond that is backed entirely by the issuer's creditworthiness and the ability to levy taxes. These bonds are voted on by the taxpayers.
- ▶ **School Improvement Bonds:** Bonds incurred for school improvements.
- ▶ **Notes from Direct Borrowings:** Direct borrowings occur when a government enters into a loan agreement with a lender. Coventry has two direct borrowings for town roads and bridges.
- ▶ **Bond Premiums:** A premium municipal bond is priced above par, or more than its face value, the interest paid to the bondholders is higher than the prevailing market rate.
- ▶ **Capital Leases:** A capital lease is a lease in which the lessor only finances the leased asset and all other rights of ownership transfer to the lessee.
- ▶ **Pension Funds:** The Pension Funds account for the accumulated resources of Town of Coventry employees, invested for the purpose of making pension benefit payments to qualifying retirees.
- ▶ **Other Post Employments Benefits (OPEB):** OPEB refers to the benefits, other than pension, that a Coventry employee receives in retirement, mainly for continued healthcare coverage costs.
- ▶ **Compensated Balances:** Town employees are granted vacation and sick leave based on length of service. These balance can grow quite large over time, however the Town only recognizes these costs when paid out.
- ▶ **Claims & Judgments:** Liabilities for legal cases and other claims against governmental funds are recorded when the ultimate liability can be estimated and such cases are expected to be liquidated with expendable future governmental fund resources.

General Fund- Liabilities

	<u>6/30/2020</u>
▶ GO Bonds	31,645,000
▶ School Improvement Bonds	9,595,000
▶ Notes from Direct Borrowings	832,576
▶ Bond Premiums	1,246,386
▶ Capital Leases	62,121
▶ Pensions - Unfunded Liabilities	165,767,429
▶ OPEB - Unfunded Liabilities	27,339,394
▶ Compensated Balances	4,458,924
▶ Claims and Judgments	<u>2,211,489</u>
▶ Total General Fund Liabilities	<u>243,158,319</u>

General Fund- Liabilities

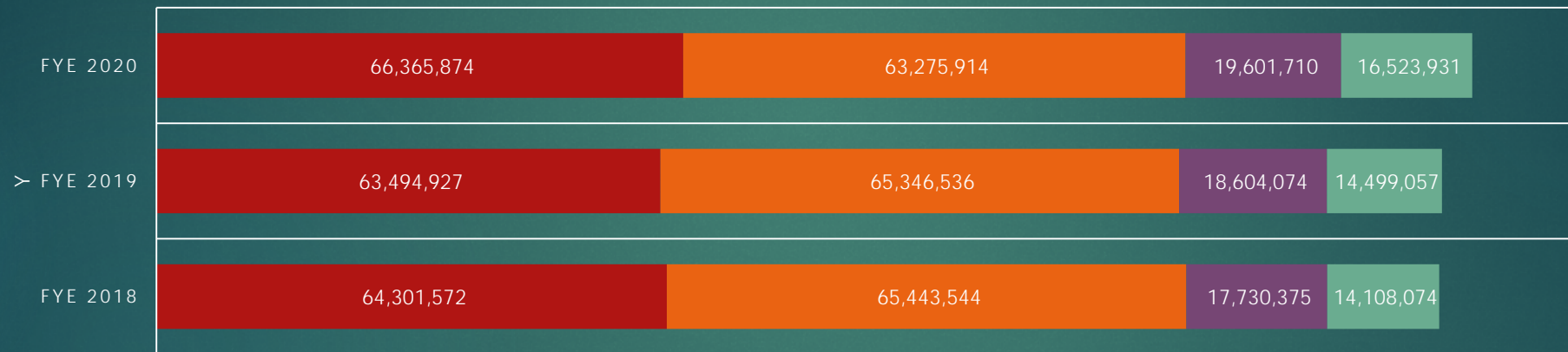
Coventry General Fund Liabilities



Liabilities-Pensions

COVENTRY UNFUNDED PENSIONS

■ Police Pension ■ Teachers Pension (ERS) ■ School Resource ■ Municipal Pension

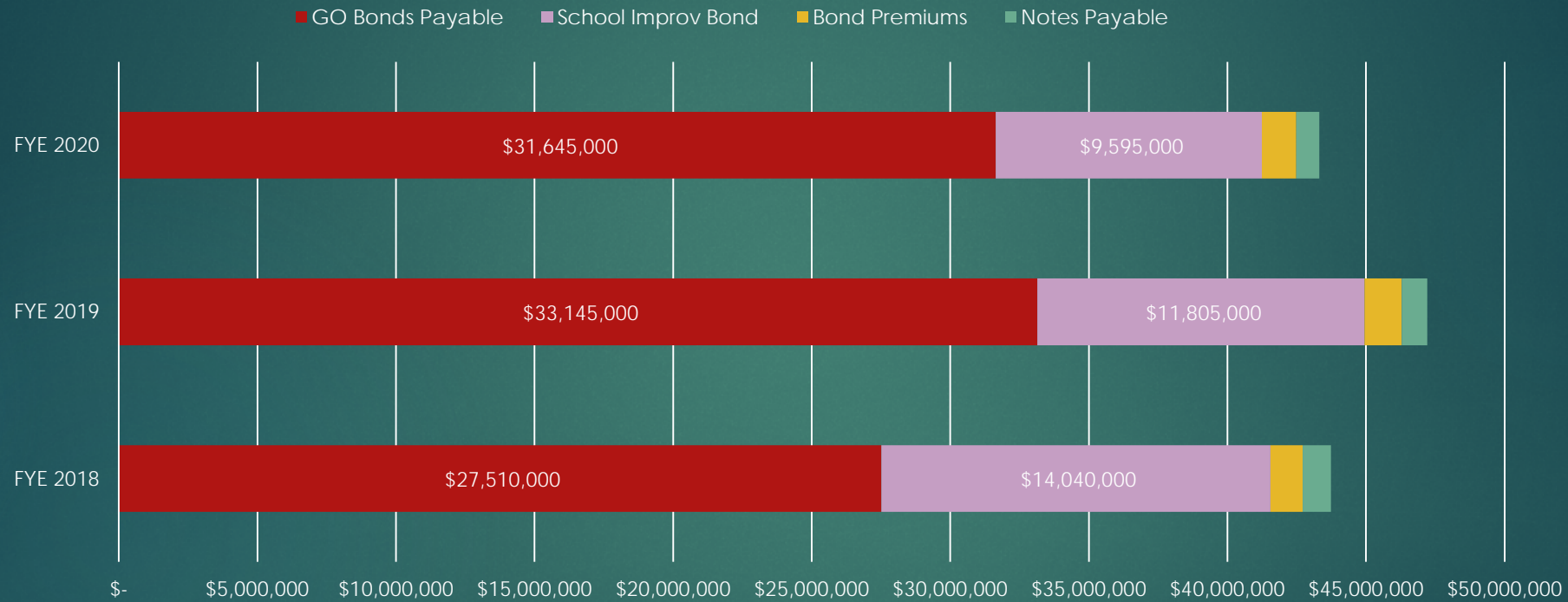


	FYE 2018	FYE 2019	FYE 2020
■ Police Pension	64,301,572	63,494,927	66,365,874
■ Teachers Pension (ERS)	65,443,544	65,346,536	63,275,914
■ School Resource	17,730,375	18,604,074	19,601,710
■ Municipal Pension	14,108,074	14,499,057	16,523,931

FYE 2020 POLICE PENSION 23.46% FUNDED ; TEACHERS 41.90% FUNDED ; SRP 42.90% FUNDED; MUNICIPAL 42.06% FUNDED

Liabilities-Bonds

COVENTRY BONDS



	FYE 2018	FYE 2019	FYE 2020
GO Bonds Payable	\$27,510,000	\$33,145,000	\$31,645,000
School Improv Bond	\$14,040,000	\$11,805,000	\$9,595,000
Bond Premiums	\$1,167,163	\$1,337,722	\$1,246,386
Notes Payable	\$1,015,576	\$924,576	\$832,576

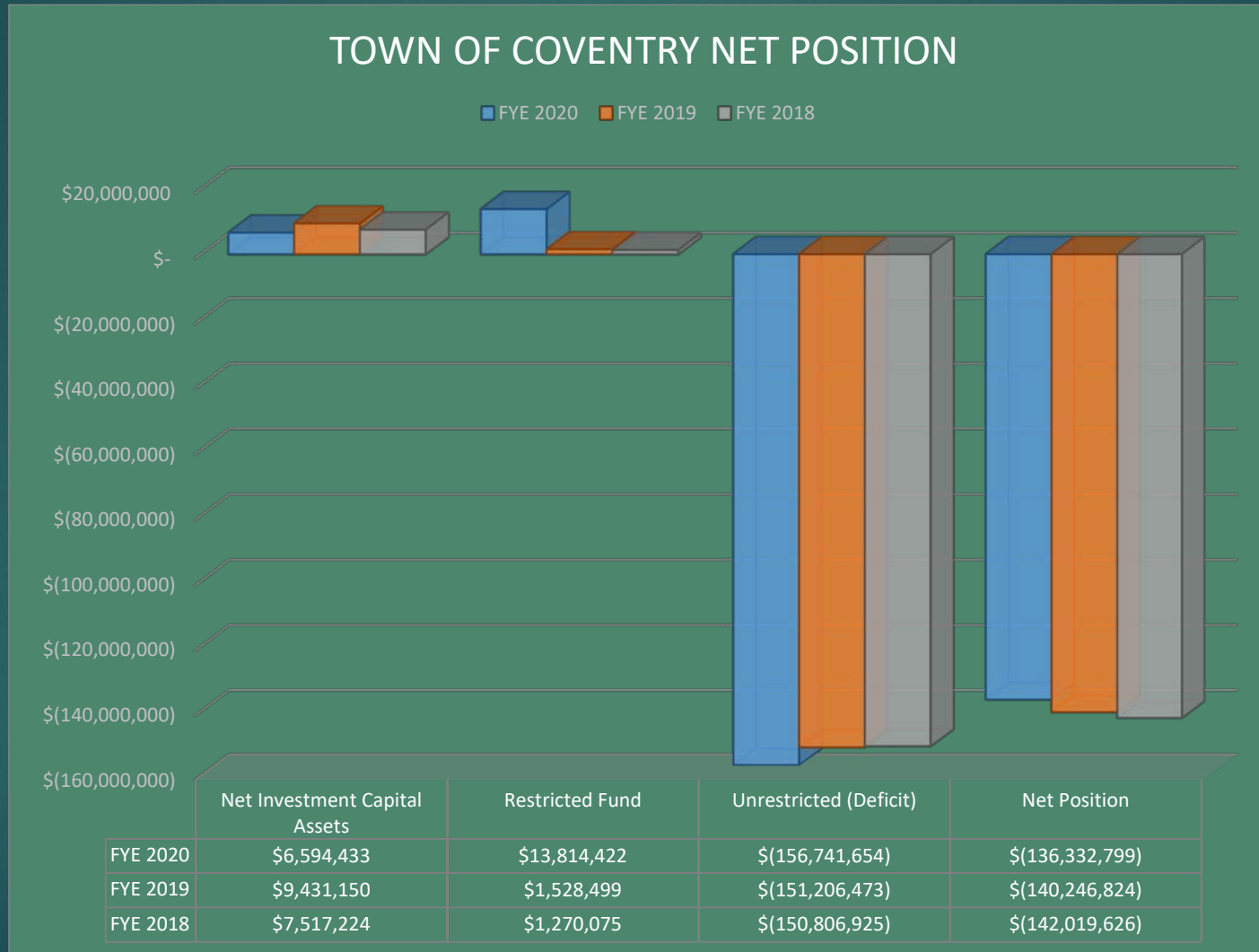
Note: This only reflects the Bond Principal. Interest, and RIB fees are not reflected as a liability above. Please see page 14 for full cost.

Net Position- per FY20 Financials

Town of Coventry Analysis of Net Position	FYE 2018 Gov't Activities	FYE 2019 Gov't Activities	FYE 2020 Gov't Activities
Total Assets			
Current and Other Assets	\$ 35,924,427	\$ 40,195,727	\$ 45,766,171
Capital Assets	\$ 45,592,088	\$ 49,522,263	\$ 50,688,809
Total Assets	\$ 81,516,515	\$ 89,717,990	\$ 96,454,980
Deferred Outflows			
Outflow of resources	\$ 22,233,596	\$ 20,605,742	\$ 28,704,345
	\$ -	\$ -	\$ -
Deferred Outflows	\$ 22,233,596	\$ 20,605,742	\$ 28,704,345
Net Asset A	\$ 103,750,111	\$ 110,323,732	\$ 125,159,325
Other Liabilities			
Other Liabilities	\$ 5,206,999	\$ 6,706,661	\$ 13,532,518
Long-Term Liabilities	\$ 226,548,839	\$ 231,292,888	\$ 237,576,349
Total Other Taxes	\$ 231,755,838	\$ 237,999,549	\$ 251,108,867
Deferred Inflows			
Inflow of resources	\$ 14,013,899	\$ 12,571,007	\$ 10,383,257
	\$ -	\$ -	\$ -
Deferred Inflows	\$ 14,013,899	\$ 12,571,007	\$ 10,383,257
Net Liability B	\$ 245,769,737	\$ 250,570,556	\$ 261,492,124
Net Position A-B	\$ (142,019,626)	\$ (140,246,824)	\$ (136,332,799)



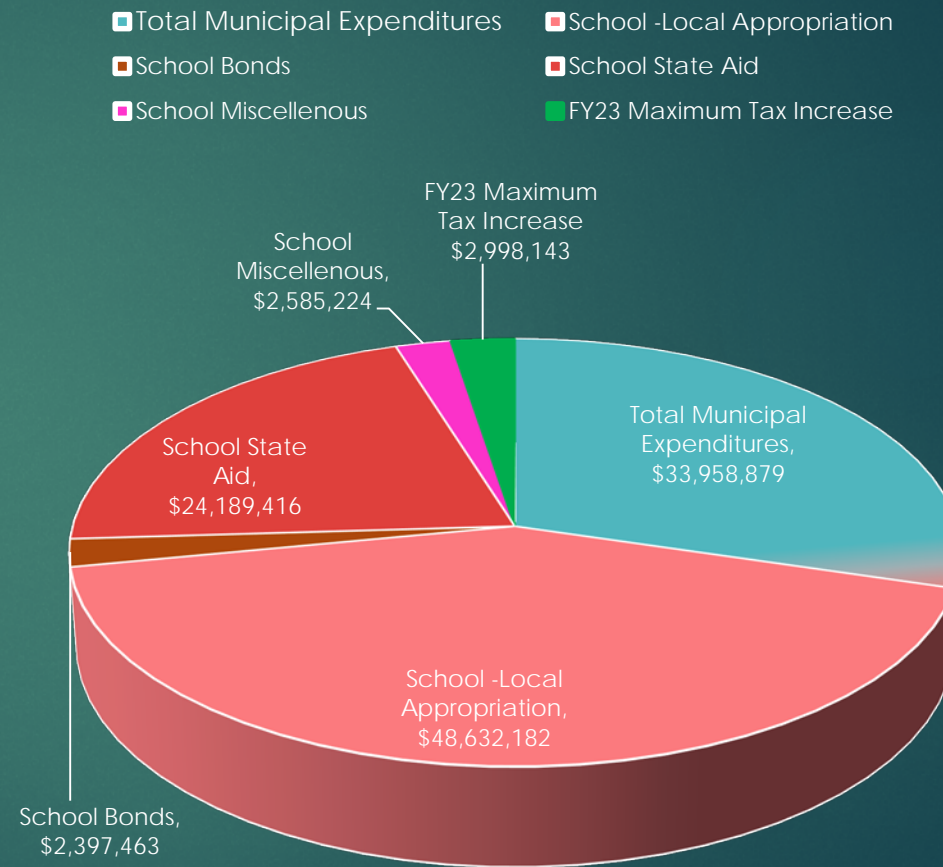
Net Position- Chart



Budget Capacity

- ▶ R.I.G.L. §44-5-2 Maximum levy statute provides a property tax cap up to a 4% increase over the prior year levy.
- ▶ Proposed increases are subject to voter approval at the budget referendum.
- ▶ Increases typically fund the rising costs of doing business; inflation, contractual increases, etc.
- ▶ FY 2023 Maximum increase in property taxes is \$2,998,143

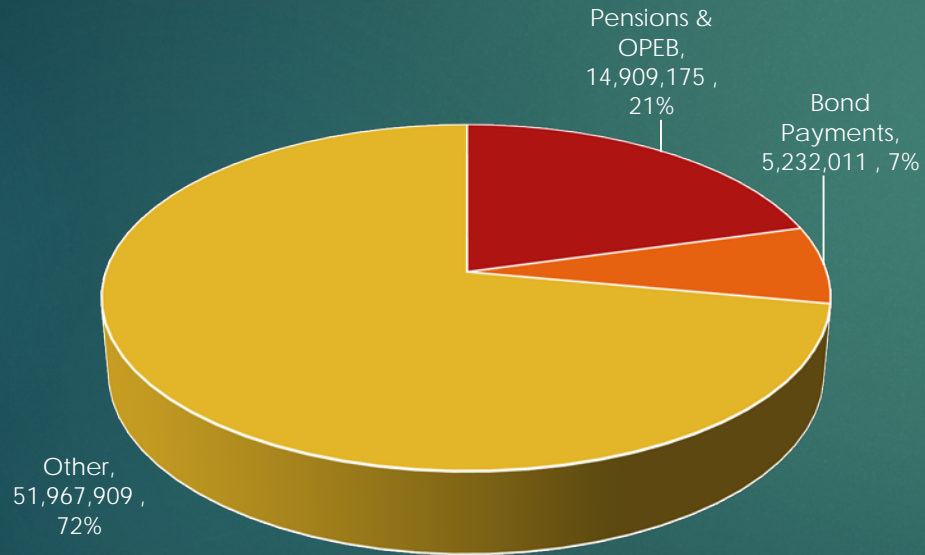
FY 2022 Budget With Maximum Tax Increase



Town Budget Limitations-Debt Ratios

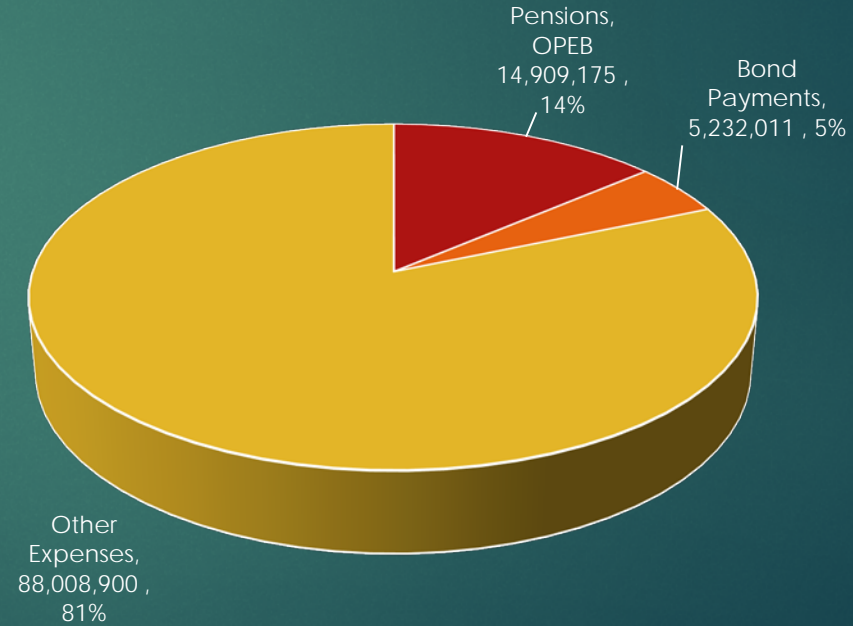
Annual obligations as a Percentage of
2020 Tax Levy – 28% of \$72,109,095

■ Pensions & OPEB ■ Bond Payments ■ Other



Annual obligations as a Percentage of
2020 Budget – 19% of \$108,150,086

■ Pensions & OPEB ■ Bonds Payments ■ Other



Debt Margins

Legal Requirements

Rhode Island General Law Section [45-12-2.1](#) requires:

- Effective January 1, 2008, a city or town shall have authority to incur debt for money borrowed, through the issuance of bonds, if such application for approval of bonds is approved by the Auditor General as described below, as meeting all of the following standards:
 - The city or town has a long-term unenhanced credit rating from one nationally recognized credit rating agency in at least the "A" rating category without regard to gradations within such category;
 - The city or town has represented in the application that the proposed bonds will finance a capital asset or assets and the average useful life of the capital asset or assets to be financed will be greater than or equal to the average maturity of the proposed borrowing as determined by an appropriate official of the city or town at the time of the issuance of bonds therefore under this section or notes therefore under [§ 45-12-18](#);
 - The city or town is in compliance with financial reporting requirements as set forth in [§45-10-5](#) and is not subject to enforcement proceedings or remedies as provided for in [§45-12-22.7](#); and
 - The authorization for the issuance of such bonds has been approved by local referendum at a general or special election or financial town meeting.

Coventry's Debt Margin	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Gross Assessed Value- (Taxpayer's Property)	3,574,506,108.00	3,600,706,919.00	3,619,962,306.00	4,159,861,835.00	4,176,557,769.00
Less: Exempt Property	(111,261,735.00)	(125,228,184.00)	(149,097,578.00)	(166,861,413.00)	(173,675,332.00)
Total Taxable Assessed Value	3,463,244,373.00	3,475,478,735.00	3,470,864,728.00	3,993,000,422.00	4,002,882,437.00
Debt Limit- 3% of Total Assessed Value	3.00%	3.00%	3.00%	3.00%	3.00%
State of Rhode Island Debt Limit	103,897,331.19	104,264,362.05	104,125,941.84	119,790,012.66	120,086,473.11
Amount of debt applicable to debt limit:					
Less : GO Bonds only	(27,510,000.00)	(33,145,000.00)	(31,645,000.00)	(30,060,000.00)	(28,385,000.00)
State of Rhode Island Legal Debt Margin	76,387,331.19	71,119,362.05	72,480,941.84	89,730,012.66	91,701,473.11

Debt Service Town & Sewer Bonds

NET DEBT SERVICE

2021 Debt Book
Coventry RI 2021 Aggregate GO Debt

Period Ending	Principal	Coupon	Interest	Total Debt Service	RIIB Fee (0.50%)	Net Debt Service
06/30/2022	3,916,000	** %	1,223,534.86	5,139,534.86	3,515.00	5,143,049.86
06/30/2023	2,893,000	** %	1,123,738.10	4,016,738.10	3,030.00	4,019,768.10
06/30/2024	2,555,000	** %	1,035,584.80	3,590,584.80	2,535.00	3,593,119.80
06/30/2025	2,609,000	** %	953,395.26	3,562,395.26	2,025.00	3,564,420.26
06/30/2026	2,617,000	** %	872,094.91	3,489,094.91	1,597.50	3,490,692.41
06/30/2027	2,669,000	** %	779,864.56	3,448,864.56	1,257.50	3,450,122.06
06/30/2028	2,326,000	** %	685,550.50	3,011,550.50	907.50	3,012,458.00
06/30/2029	2,363,000	** %	612,834.40	2,975,834.40	547.50	2,976,381.90
06/30/2030	2,393,000	** %	533,855.75	2,926,855.75	182.50	2,927,038.25
06/30/2031	2,360,000	** %	460,850.00	2,820,850.00		2,820,850.00
06/30/2032	2,400,000	** %	384,437.50	2,784,437.50		2,784,437.50
06/30/2033	2,440,000	** %	307,775.00	2,747,775.00		2,747,775.00
06/30/2034	2,040,000	** %	228,887.50	2,268,887.50		2,268,887.50
06/30/2035	2,080,000	** %	162,025.00	2,242,025.00		2,242,025.00
06/30/2036	1,040,000	** %	85,875.00	1,125,875.00		1,125,875.00
06/30/2037	740,000	** %	51,325.00	791,325.00		791,325.00
06/30/2038	395,000	3.125%	25,181.26	420,181.26		420,181.26
06/30/2039	395,000	3.250%	12,837.50	407,837.50		407,837.50
	38,231,000		9,539,646.90	47,770,646.90	15,597.50	47,786,244.40

NET DEBT SERVICE

Coventry RI Sewer Debt 2021
Coventry RI 2021 Aggregate Sewer Debt

Period Ending	Principal	Coupon	Interest	Total Debt Service	RIIB Fee	Debt Service State Credit Reserve Fund	Net Debt Service
06/30/2022	1,423,463.78	** %	483,610.56	1,907,074.34	56,644.27	-24,970.89	1,938,747.72
06/30/2023	1,884,167.32	** %	453,290.57	2,337,457.89	50,141.66	-24,763.34	2,362,836.21
06/30/2024	1,931,838.94	** %	412,761.12	2,344,600.06	43,224.04	-24,554.95	2,363,269.15
06/30/2025	1,725,160.62	** %	370,763.70	2,095,924.32	36,778.43	-24,500.64	2,108,202.11
06/30/2026	1,771,634.85	** %	329,490.75	2,101,125.60	30,807.57	-23,732.04	2,108,201.13
06/30/2027	1,645,031.15	** %	287,861.73	1,932,892.88	25,111.25	-20,213.20	1,937,790.93
06/30/2028	1,684,568.01	** %	246,491.40	1,931,059.41	19,716.24	-13,845.57	1,936,930.08
06/30/2029	1,533,217.94	** %	204,063.89	1,737,281.83	14,684.18	-7,263.15	1,744,702.86
06/30/2030	1,225,978.45	** %	164,648.60	1,390,627.05	10,882.36	-2,150.80	1,399,358.61
06/30/2031	1,101,833.79	** %	128,824.86	1,230,678.65	8,261.26		1,238,939.91
06/30/2032	1,135,840.71	** %	93,810.80	1,229,651.51	5,968.13		1,235,619.64
06/30/2033	1,170,777.51	** %	56,862.53	1,227,640.04	3,596.25		1,231,236.29
06/30/2034	1,036,592.61	** %	21,201.64	1,057,794.25	1,575.00	674,000	385,369.25
06/30/2035	336,474.17	2.730%	2,074.80	338,548.97	380.00		338,928.97
	19,606,599.85		3,255,756.95	22,862,356.80	307,770.64	-165,994.58	22,330,132.86

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Credit Rating– Moody's

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION

5 June 2020

Update

✓ Rate this Research

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Coventry (Town of) RI

Update to credit analysis following removal of negative outlook

Summary

The credit profile of the [Town of Coventry, RI \(A1\)](#) is characterized by a moderately sized tax base, above average resident wealth and income, and sufficient reserves and liquidity. After years of general fund support to the sewer enterprise, we anticipate that the town will implement rate increases that will improve and stabilize sewer operations and eliminate its reliance on borrowing from the general fund. Additionally, the town has a manageable level of debt, a low OPEB liability, and an elevated unfunded pension liability.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for the Town of Coventry, RI. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the Town of Coventry, RI changes, we will update our opinion at that time.

On June 5, we removed the negative outlook on the town's general obligation unlimited tax (GOULT) rating.

Credit strengths

- » Trend of stable General Fund and School Unrestricted Fund operations
- » Implementation of pension funding plan
- » Manageable debt and OPEB liabilities

Credit challenges

- » Sizeable outstanding loan from the General Fund to the Sewer Fund
- » Elevated unfunded pension liabilities
- » Tax base only recently recovered to pre-recession high

Rating outlook

The removal of the negative outlook reflects our expectation that the town will implement sewer system rate increases that will eliminate the need for general fund support beginning in fiscal 2021. The removal of the negative outlook also anticipates that the rate increases will be sufficient to allow the system to repay its general fund borrowing by approximately

MOODY'S INVESTORS SERVICE

U.S. PUBLIC FINANCE

2031. Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Material repayment of General Fund loans to the Sewer Fund
- » Surplus operations leading to strengthening reserves and liquidity
- » Material decrease in pension liabilities
- » Significant growth in the tax base

Factors that could lead to a downgrade

- » Failure to restore balanced, self-supporting operations within the sewer system
- » Decline in financial reserves and liquidity
- » Underfunding of pension liability
- » Tax base contraction
- » Material growth in debt or OPEB burden

General Fund- Potential Future Obligations- School

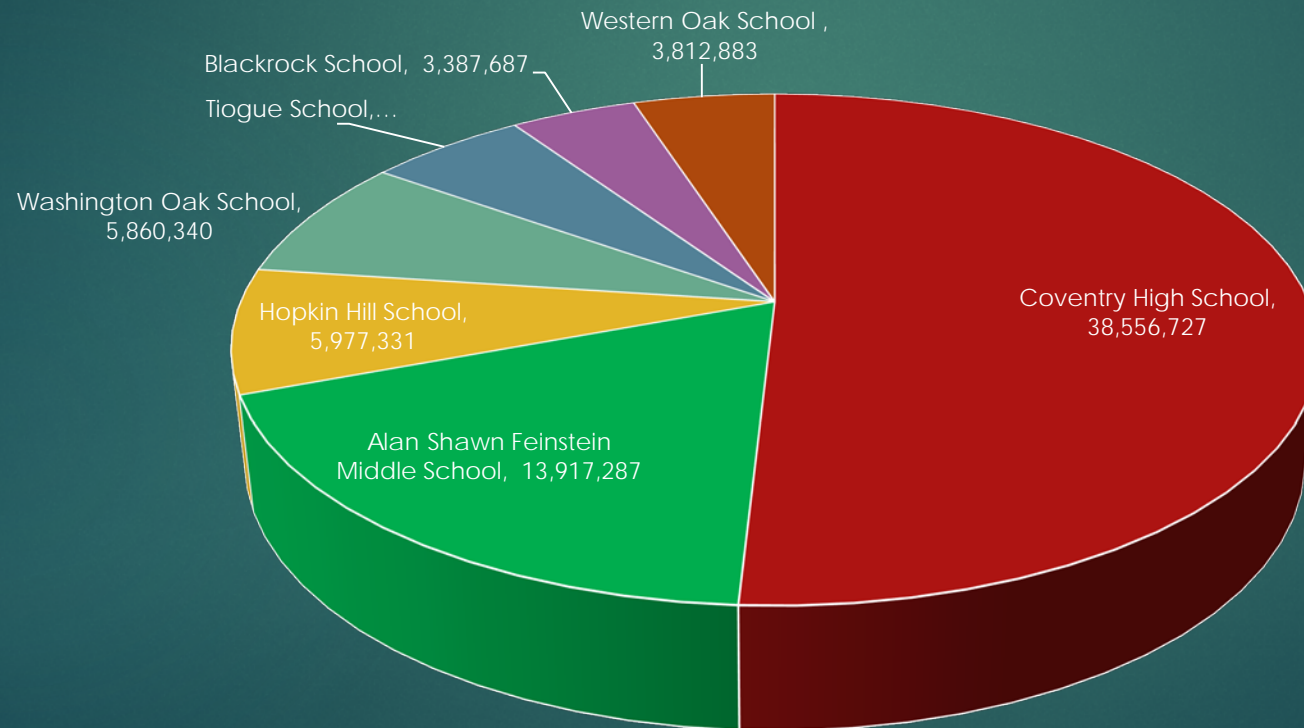
<u>Coventry Schools</u>	<u>CIP Amounts</u>
Coventry High School	\$38,556,727
Alan Shawn Feinstein Middle School	\$13,917,287
Hopkin Hill School	\$5,977,331
Washington Oak School	\$5,860,340
Tiogue School	\$4,260,327
Blackrock School	\$3,387,687
Western Oak School	<u>\$3,812,883</u>
Total	<u>\$75,772,582</u>

Per the Jacob's 2016 Report on Facility Condition Assessment
This report was limited to only the assessments of Coventry's
Schools. The above summary reflects the Capital
Improvement Plan (CIP) per the report.

Potential Future Obligations

Potential Future Obligations-School

- Coventry High School
- Washington Oak School
- Western Oak School
- Alan Shawn Middle School
- Tiogue School
- Hopkin Hill School
- Blackrock School



General Fund- Potential Future Obligations- Town

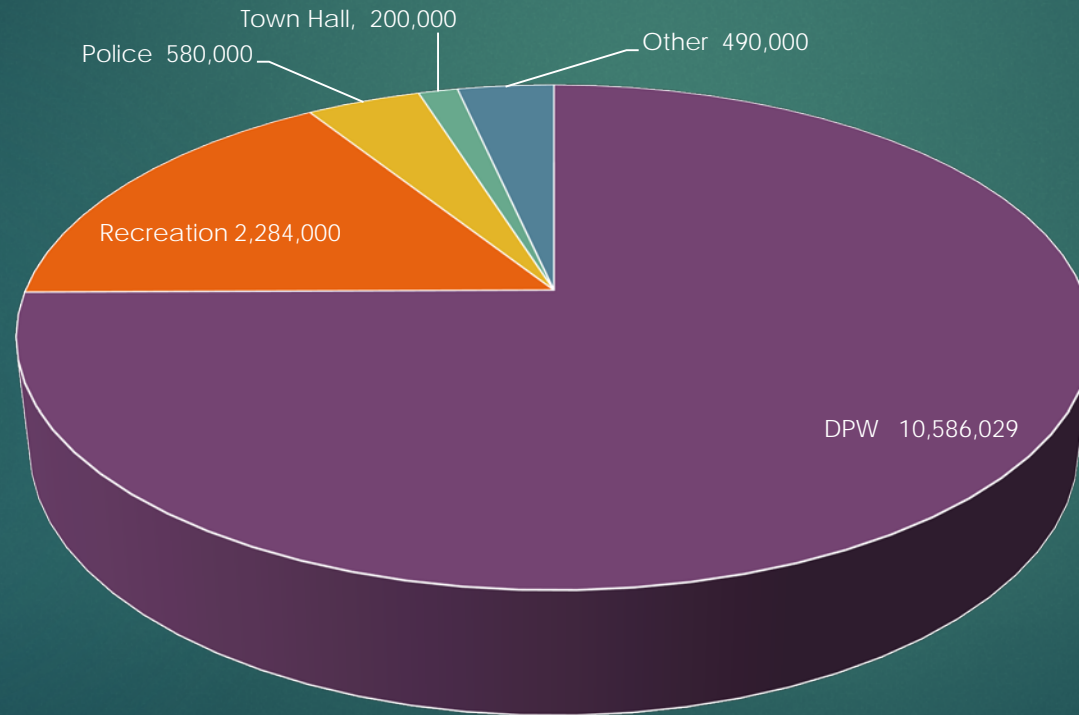
<u>Town - Department</u>	<u>CIP Amounts</u>
Capital Improvement Plan-DPW	\$10,586,029
Capital Improvement Plan-Recreation	\$2,284,000
Capital Improvement Plan- Police	\$580,000
Capital Improvement Plan- Town Hall	\$200,000
Financial - Other	<u>\$490,000</u>
Total Town CIP	<u>\$14,140,029</u>

This report was limited to only department head submission of CIP projects. The above summary reflects the Capital Improvement Plan (CIP) per these reports.

Potential Future Obligations

Potential Future Obligations- Town

- Capital Improvement Plan-DPW
- Capital Improvement Plan- Recreation
- Capital Improvement Plan- Police
- Capital Improvement Plan- Town Hall
- Financial - Other



Fiscal Health - Critical

- ▶ Annual budget is anemic, and already does not fund required capital improvement projects.
- ▶ Debt capacity is available, but must be used judiciously.
- ▶ Unfunded obligations threaten the Town's ability to continue providing services at current levels and may have an adverse effect on our bond rating.



Fiscal health improvement ideas

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- ▶ Increase revenues
 - ▶ Taxes – (weak) capped at 4%
 - ▶ Fees – (mild) flexible, limited in scope
 - ▶ Grants – (medium) limited in scope, restricted, may offset existing expenses that could be repurposed
- ▶ Decrease expenses
 - ▶ Staffing – reductions in force would be an effective long-term strategy, but is of limited value short term
 - ▶ Operations – unknown
- ▶ Debt
 - ▶ Direct pay down – (effective) current practice, could increase payments to accelerate savings
 - ▶ Refinance – (effective) reduces interest expense when there are sufficient savings to offset the costs of restructuring debt
 - ▶ Restructuring pensions
- ▶ Leverage assets
 - ▶ Unknown – potential for restructuring the method, use and practices of managing existing resources in a manner that will improve financial performance

Questions to ask for steering a prudent financial course:

- ▶ Is this really needed?
- ▶ Is this a good, responsible use of tax dollars?
- ▶ Will this serve the public interest?
- ▶ Will this be sustainable?
- ▶ Will this be a meaningful and impactful investment of limited public funds?
- ▶ Will this investment help reduce the tax burden?

