Moody's
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Westerly Town, RI's $18M GO Bonds, 2014 Series A

Global Credit Research - 02 May 2014

Aa2 rating applies to $57.9M rated GO debt outstanding

WESTERLY (TOWN OF) RI
Cities (including Towns, Villages and Townships)
RI

Moody's Rating

ISSUE	RATING
General Obligation Bonds, 2014 Series A	Aa2
Sale Amount $18,030,000	
Expected Sale Date 05/16/14	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion NOTE: On May 15, 2014, the report was corrected as follows: In the heading and first sentence, the sale amount of the General Obligation Bonds, 2014 Series A was changed from $8M to $18M. The fourth sentence of the first paragraph was also changed to the following: "The current issue is secured by a general obligation unlimited tax pledge and proceeds will be used to finance the acquisition of open space as well as refund the town's series 2005 and 2006 bonds for estimated net present value savings of 5.6% of refunded principal taken over the remaining life of the bonds and without extension of maturity." Revised release follows.

NEW YORK, May 02, 2014 --Moody's Investors Service has assigned a Aa2 rating to Westerly Town's (RI) $18.03 million General Obligation Bonds, 2014 Series A. Concurrently, we have affirmed the Aa2 rating on the town's $57.9 million of outstanding parity debt and the Rhode Island Health and Educational Building Corporation's (RIHEBC) Series 2011C secured solely by the town. In addition, we have affirmed the Aa3 underlying rating on three additional RIHEBC financings that the town is a participant in (among others): the Series 2011 A, Series 2010 A, and 2010 G bonds. The current issue is secured by a general obligation unlimited tax pledge and proceeds will be used to finance the acquisition of open space as well as refund the town's series 2005 and 2006 bonds for estimated net present value savings of 5.6% of refunded principal taken over the remaining life of the bonds and without extension of maturity.

SUMMARY RATING RATIONALE

The Aa2 rating incorporates the town's adequate financial position, sizeable and stable tax base, and an above average direct debt burden.

STRENGTHS

-Sizable and stable tax base with seasonal/tourism component

-Conservative financial management with formalized policies

-Strong full value per capita

CHALLENGES

-Higher than average unemployment

-Slightly higher than average debt burden

DETAILED CREDIT DISCUSSION

ADEQUATE FINANCIAL POSITION DESPITE RECENT REDUCTIONS IN CASH AND RESERVES

The town's General Fund (which has included school operations since 2011) previously experienced a trend of consecutive surpluses to end fiscal 2011 at $14.3 million, or 18.4% of revenues. This favorable trend occurred despite a strained economic and operating environment, including sizable reductions in state aid. Two consecutive annual deficits modestly reduced total General Fund reserves to $13.3 million, or a still-strong 14.9% of revenues in fiscal 2013. Although the town's financial position benefits from conservative budgeting practices and formalized reserve policies, total General Fund cash declined to $6.3 million, or 7.1% of revenue in fiscal 2013, from $14.3 million, or 21.2% of revenues in fiscal 2011.

The fiscal 2013 deficit of $820,000 was primarily due to overspending in education ($300,000), public works ($400,000), and the finance department ($231,000). The town's cash position fell $5 million due to delayed FEMA reimbursements, School Fund transfers and the funding of a health insurance reserve. During fiscal 2013, town and school operations were primarily funded by property taxes (73%), followed by state aid (23%). During 2013, an isolated section of the community was impacted by Super Storm Sandy, resulting in a total estimated damage of $2.9 million, or 3.6% of budget. The town paid for the damages with cash on hand and expects to be 75% reimbursed by FEMA. To date the town has received $1.2 million from FEMA and expects to receive the remaining portion by the end of fiscal 2015.

The fiscal 2014 budget was balanced with a 1.5% levy increase, a $642,000 fund balance appropriation for the town and $1 million fund balance appropriation for schools. Management anticipates a $300,000 operating surplus by year end. The fiscal 2015 budget includes a 1.75% levy increase and a $500,000 fund balance appropriation for the town and $500,000 fund balance appropriation for the schools.

Despite the fiscal 2012 and 2013 deficits, Westerly's financial position remains satisfactory. However, future deficits or further reductions in liquidity could result in negative credit pressure.

SIZEABLE COASTAL COMMUNITY WITH A SIGNIFICANT SEASONAL COMPONENT

Westerly's sizable $5.9 billion tax base is expected to remain stable, although new growth and the appreciation of existing property is anticipated to remain modest given the slow pace of the economic recovery. Located in southwestern Rhode Island (rated Aa2 negative), the town is expected to continue to benefit from its commutability to Providence (rated Baa1 stable) and parts of Connecticut (rated Aa3 stable). Additionally, the town has long been a popular summer home and vacation destination, given its seaside location. Reportedly, the population increases to approximately 50,000-60,000 in the summer months, nearly doubling its year-round population. Median family income levels are moderately stronger than state and national medians but full value per capita is a very strong $258,510 and reflective of the significant presence of seasonal residences.

The most recent revaluations (effective in fiscal 2011 and fiscal 2014) resulted in a combined decrease in market values of 10.6%, relatively manageable decline compared to that of many other Rhode Island communities. While mostly built out, the town continues to benefit from the redevelopment of existing properties. Three of the town's historic hotels have recently been renovated, including the Ocean House (a $140 million project). The town is also experiencing continued commercial development along its Rt. 1 corridor.

SLIGHTLY HIGHER THAN AVERAGE BUT MANAGEABLE DEBT POSITION AND PENSION LIABILITIES

Westerly's debt position is anticipated to remain manageable given moderate future borrowing plans and ongoing cash funding for capital improvements. The town's debt burden slightly above average (1.4% of full value) and amortization of principal is 77.3% of principal retired within 10 years. When state school construction aid is included, the debt burden declines to a lower 1.1% of full value. Debt service comprised 10.7% of expenditures in fiscal 2013 and is expected to remain manageable. Future borrowing plans may include school improvement projects funded with a bond issuance that would fill an expected drop in debt service during fiscal 2016. The town's outstanding long-term debt consists only of fixed-rate bonds and the town is not party to any derivative agreements.

The town maintains various defined benefit pension funds and a defined contribution plan. The total combined ARC for all pension plans was $5.0 million or 5.8% of expenditures in fiscal 2013. In total the combined Adjusted Net Pension Liability, under Moody's methodology for adjusting reported pension data, for the State administered ERS teachers plan, the MERS plan and the locally administered police plan was a slightly higher than average $97 million, which represents 1.65% of full value or 1.08 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plans in proportion to its contributions to the plans.

WHAT COULD MAKE THE RATING GO UP

- Sustained and significant improvement to the town's financial position

- Strengthening of the town's residential wealth profile

WHAT COULD MAKE THE RATING GO DOWN

- Protracted structural budget imbalance resulting in the continued reduction of General Fund reserves

- Sustained reduction of liquidity

- Continued deterioration in the size of the town's taxable base

KEY STATISTICS

Full Value, Fiscal 2014: $5.9 billion

Full Value Per Capita, Fiscal 2014: $258,510

Median Family Income as % of US Median (2012 American Community Survey): 120%

Fund Balance as % of Revenues, Fiscal 2013: 14.8%

5-Year Dollar Change in Fund Balance as % of Revenues: 4.2%

Cash Balance as % of Revenues, Fiscal 2013: 7.1%

5-Year Dollar Change in Cash Balance as % of Revenues: -4.7%

Institutional Framework: "A"

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of Full Value: 1.4%

Net Direct Debt / Operating Revenues: 0.97x

3-Year Average ANPL as % of Assessed Value: 1.65%

3-Year Average ANPL / Operating Revenues: 1.08x

The principal methodology used in rating the general obligation debt was US Local Government General Obligation Debt published in January 2014. The principal methodology used in rating the pooled debt was Public Sector Pool Financings published in July 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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