S&P Global
Ratings

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Summary:

Westerly, Rhode Island; General Obligation

Primary Credit Analyst:
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

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Summary:

Westerly, Rhode Island; General Obligation

Credit Profile		
US$3.895 mil GO bnds ser 2017 due 09/15/2027		
Long Term Rating	AA/Stable	New
Town of Westerly GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to Westerly, R.I.'s 2017 series A general obligation (GO) refunding bonds, and affirmed its 'AA' rating on the town's existing GO debt. The outlook is stable.

A pledge of the town's full faith credit secures the bonds. Proceeds will be used to refund existing GO bonds.

The rating reflects our assessment of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that should remain stable but which could deteriorate in the near term relative to fiscal 2016, which closed with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2016 of 6.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.3% of total governmental fund expenditures and 2.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 11.8% of expenditures and net direct debt that is 81.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 83.7% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Westerly's economy very strong. The town, with an estimated population of 22,433, is in Washington County in the southwest corner of the state, approximately 42 miles south of Providence and bordered to the south by the Atlantic Ocean. It is in the Providence-Warwick MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 116% of the national level and per capita market value of $263,311. Overall, market value grew by 0.9% over the past year to $5.9 billion in 2018. The county unemployment rate was 4.8% in 2016.

Westerly is a primarily residential community and a popular summer tourist destination. As a result, the year-round population of roughly 22,680 adds another 17,000 summer residents. In addition, we understand the town sees about 25,000 day visitors during this time.

Recently, a new public-private partnership between the Community College of Rhode Island (CCRI) and Electric Boat (EB), a large manufacturing company operating elsewhere in the state, opened in Westerly. The CCRI-EB partnership opened earlier this calendar year and is expected to provide training opportunities for EB's next 15,000 employees. Large employers in Westerly include Westerly Hospital (658), which is now part of the Yale-New Haven Medical Group; the Washington Trust Co. (313); and Darlington Fabric (226). Several small businesses have relocated to or are opening in Westerly.

Additionally, Westerly has seen continued rebuilding of homes following Hurricane Sandy, as well as new housing in several different areas.

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.

Town management is committed to ending the appropriation of fund balance to meet recurring expenditures. New proposals before the town council would formalize new long-term financial, debt, and reserve policies. Currently, management provides monthly budget-to-actuals to the town council, maintains a rolling five-year capital improvement plan with one-year of funding sources identified, complies with state law regarding investments and reports on investments on a yearly basis, and follows state-guidelines on debt management.

Adequate budgetary performance

Westerly's budgetary performance is adequate, in our opinion. The town had slight surplus operating results in the general fund of 0.6% of expenditures, and balanced results across all governmental funds of 0.3% in fiscal 2016. We adjusted general fund and total governmental fund results to reflect the use of previous bond proceeds. Our assessment factors both the likelihood that performance should be stable, and the use of past budgetary performance and mixed operating results based on management's use of reserves to fund budgetary appropriations.

Westerly's general fund performance has steadily improved in 2016 following two years of budgeted fund drawdowns. We believe improvement in budgetary performance for the current and next fiscal years could continue if the town keeps monitoring its spending patterns as it has recently shown. While the school fund was budgeted to see a drawdown in fiscal 2016, management worked with school administrators and executed reforms leading to balanced operations. It is the expectation over the next several years that management will not budget fund balance for either the town or school budgets.

In 2017, budgetary performance is expected to remain adequate. Property taxes are the leading revenue source, accounting for 75% of revenues, and have been stable over the past several years.

Adequate budgetary flexibility

Westerly's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2016 of 6.7% of operating expenditures, or $6.1 million.

Westerly has seen its available fund balance drop from $9.1 million (10.2% available fund balance) in fiscal 2014 due to the appropriation of fund balance to meet expenditures both for general government purposes and school district

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expenses. The town has also reassigned approximately $2.1 million in general fund unassigned funds to non-spendable, further reducing the available fund balance. Management has expressed its intent to end fund balance appropriation for expenditures. We expect Westerly's available fund balance to remain level in fiscal years 2017 and 2018.

Very strong liquidity

In our opinion, Westerly's liquidity is very strong, with total government available cash at 24.6% of total governmental fund expenditures and 2.1x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

Westerly is a regular market participant, having issued GO bonds frequently over the past several years. We understand the town has not entered into any bank loans, direct-purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. It has consistently had very strong liquidity and we do not anticipate a change to these ratios. The town does not have any variable-rate or direct-purchase debt. Management confirmed it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The town's investments are limited to short-term certificates of deposit, money market funds, and obligations guaranteed by the U.S. government. We expect Westerly's liquidity to remain very strong over the next two fiscal years.

Strong debt and contingent liability profile

In our view, Westerly's debt and contingent liability profile is strong. Total governmental fund debt service is 11.5% of total governmental fund expenditures, and net direct debt is 81.7% of total governmental fund revenue. Overall net debt is low at 1.3% of market value, and approximately 83.7% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. The town's pension and OPEB liabilities could potentially be a source of budgetary pressure in the future, but we expect costs to remain manageable over the next several years.

Following this issuance, the town will have net direct debt totaling $81.8 million. It may issue bond anticipation notes next year to begin a regular road improvement program, with issuances every three-to-four years. The town is also working with the Rhode Island Infrastructure Bank to plan an upcoming a sewer line project. The estimated cost for the sewer project is $1.8 million and is expected to be paid from user fees. Town management has also proposed a debt management plan, which would cap annual debt service at 10% of expenditures. The town council is expected to consider the proposal in calendar year 2017.

Westerly's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 5.7% of total governmental fund expenditures in 2016. The town made its full pension annual required contribution (ARC) in 2016 and is committed to fully funding all future pension and OPEB ARCs.

Westerly provides retirement benefits to teachers and police through the Employees' Retirement System of Rhode Island (ERSRI) and its local police pension plan, respectively. The school district has a proportionate net pension liability of $42.148 million for ERSRI and is 58.3% funded. The police pension plan has a net pension liability of $15.159 million and is 65.87% funded.

Westerly moved to a defined-contribution plan for new town employees beginning in fiscal 1996, but continues to pay into the Municipal Employees' Retirement System (MERS), a cost-sharing multiemployer public employee system administered by the State Retirement Board. The town does not have any active employees in MERS, but is required by state law to continue making its employer contributions for the vested pension obligation of its members. In fiscal years 2016-2018, the town is required to contribute $181,261 to cover existing obligations.

The town maintains an OPEB trust and recently hired a new actuary for a liability valuation. Using new assumptions, the town saw its OPEB unfunded liability rise from $10.8 million to $32.1 million, a decrease in funded ratio from $23.5% to 8.7%.

Strong institutional framework

The institutional framework score score for Rhode Island municipalities is strong.

Outlook

The stable outlook reflects our opinion of Westerly's very strong economics, strong debt and contingent liability profile, and very strong liquidity. We consider the adequate budgetary flexibility and performance weak factors currently limiting the rating.

Upside scenario

We could raise the rating if Westerly's budgetary flexibility and budgetary performance improve, while the town maintains its current debt and contingent liabilities profile.

Downside scenario

We could lower the rating if the town's debt and contingent liabilities increase pressure on the budget. Additionally, we could do so if the financial performance were to deteriorate, resulting in lower budgetary flexibility and/or performance.

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

Ratings Detail (As Of June 20, 2017)		
Town of Westerly go bnds		
Long Term Rating	AA/Stable	Affirmed
Town of Westerly GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria.

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