

CREDIT OPINION

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New Issue

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Smithfield (Town of), RI

New Issue - Moody's Assigns Aa2 to Smithfield, RI's General Obligation Bonds, 2016 Series A

Summary Rating Rationale

Moody's Investors Service has assigned Aa2 to the Town of Smithfield, RI's \$6.4 million General Obligation Bonds, 2016 Series A. Concurrently, Moody's has affirmed the rating on the town's outstanding general obligation debt (including the Rhode Island Health and Educational Building Corp. Series 2015E issuance).

The Aa2 rating incorporates the moderately-sized tax base with above average wealth levels, sound financial position, above-average pension levels and low debt burden.

Credit Strengths

- » Conservative budgeting practices and healthy reserve levels
- » Moderately-sized tax base with above-average demographic profile
- » Manageable debt burden and OPEB liability

Credit Challenges

- » Continued underfunding of closed fire pension plan
- » Large unfunded pension liability

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Substantial growth of reserve levels
- » Significant tax base expansion and material improvement in the demographic profile
- » Significant decrease in pension levels

Factors that Could Lead to a Downgrade

- » Material decline in reserves
- » Failure to increase funding for closed fire plan or funding less than 100% of required contribution for closed police plan

- » Significant declines in the tax base or deterioration of the demographic profile
- » Significant growth in debt, pension or OPEB liabilities

Key Indicators

Exhibit 1

Smithfield (Town of) RI	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,632,680	\$ 2,772,138	\$ 2,855,894	\$ 2,643,914	\$ 2,693,423
Full Value Per Capita	\$ 122,718	\$ 129,105	\$ 133,117	\$ 123,099	\$ 125,685
Median Family Income (% of US Median)	148.4%	141.7%	138.6%	132.2%	132.2%
Finances					
Operating Revenue (\$000)	\$ 57,876	\$ 61,687	\$ 62,026	\$ 65,071	\$ 65,410
Fund Balance as a % of Revenues	30.9%	30.6%	27.8%	24.3%	23.8%
Cash Balance as a % of Revenues	14.6%	26.1%	24.9%	23.1%	24.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 14,939	\$ 18,238	\$ 16,194	\$ 15,547	\$ 13,851
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.2x	0.2x
Net Direct Debt / Full Value (%)	0.6%	0.7%	0.6%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.6x	1.9x	2.1x	2.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	3.6%	4.1%	5.1%	5.1%

Fiscal year end June 30th.

Fund balance is the available fund balance in the General Fund and School Unrestricted Fund.

Full values for taxable property for fiscal years 2016 and 2017 are \$2.67 million and \$2.89 million, respectively.

Source: Town's audited financial statements, Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base with Above Average Wealth Levels; Bryant University Provides Established Institutional Presence

Located approximately 10 miles from Providence (Baa1 negative), the town will continue to benefit from the stability offered by the presence of Bryant University (A2 stable) and Fidelity Investments, the town's largest employers.

Full value (\$2.9 billion in fiscal 2017) has grown at a modest compound annual rate of 0.4% for the five year period ending 2015 (fiscal 2017), reflective of the slow emergence from the economic downturn. The town should experience modest growth over the medium term given some new commercial and residential development and some larger scale projects in various stages of planning and approval. Last month, Alexion Pharmaceuticals commenced a 5-7 year, \$120 million expansion of its current facility which will double its size and capacity.

Smithfield's median family income, which is in line with Moody's rated Aa2 municipalities, is 118% of the state and 132% of the nation. The town's per capita income, which is skewed by the presence of the university, is slightly weaker at 106% of the state and 114% of the nation. Full value per capita (using fiscal 2017 full value) at approximately \$135,000 is slightly above the state's overall median (\$124,621) and well above the national median (\$86,511).

Financial Operations and Reserves: Healthy Reserve Levels

Smithfield's well-managed financial position will remain healthy given careful expenditure management and solid reserve levels. Conservative budgeting practices have led to a 5 year average available Operating Fund (General Fund and School Unrestricted Fund) balance of 27.5% of revenues. The available General Fund balance (unassigned, assigned, and committed) at the close of fiscal 2015 was \$14.5 million, or a healthy 24.6% of revenues. At this level, the town's reserve position exceeds the 16.4% state median for similarly-rated communities. The town's charter originally mandated that unassigned fund balance be capped at 5% of the subsequent

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year's budget, and was \$3.4 million (5.7% of revenues) in fiscal 2015. Positively, the charter was amended in fiscal 2015 to increase the cap to 8% over a five year period through fiscal 2020.

Fiscal 2015 operations trended positive, allowing the town to replenish the \$550,000 General Fund reserve appropriation and increase fund balance by approximately \$72,000. The Unrestricted School Fund declined slightly by \$225,000 to approximately \$1.1 million. Management indicates that going forward, it has an informal target to maintain the school fund between 3% and 5%, a level we view as adequate. The available Operating Fund reserves were \$15.6 million or a healthy 23.8% of revenues at fiscal 2015 year-end.

The adopted fiscal 2016 budget increased 3.5% mostly due to increased school spending. The budget included with a 2.6% tax increase and a \$600,000 fund balance appropriation. Management estimates the General Fund and School Unrestricted Fund will each generate a modest surplus of less than \$100,000.

The adopted fiscal 2017 budget grew 3.01% over the prior year and includes a 1.78% increase in the levy and \$600,000 reserve appropriation. Education spending accounts for the majority of the budgetary growth.

Smithfield derives the majority of its Operating Fund revenues from property taxes (82.1% in fiscal 2015) and state aid (11.1%). The high reliance on predictable and stable property tax revenue is a credit strength. Education and public safety are the largest expenditures at 54.1% and 15.4% of spending, respectively.

LIQUIDITY

The net cash position in the Operating Fund at the close of fiscal 2015 was \$15.8 million, or 24.2% of revenues.

Debt and Pensions: Manageable Debt Burden; Underfunding of Local Police Pension Plan is a Credit Negative

Smithfield's slightly below average debt burden (0.8% of full value incorporating the current issuance) will remain manageable in the near to medium term given the moderate debt issuance plans, favorable payout, and affordable existing debt service levels. The town indicated it may seek voter approval in two years for a \$5.5 million bond to finance a new fire station.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented a moderate 15% of operating expenditures.

DEBT STRUCTURE

All of the town's debt is fixed rate. Approximately 73% of the town's outstanding debt is repaid within ten years, and fiscal 2015 debt service accounted for a low 3.4% of Operating Fund expenditures.

DEBT-RELATED DERIVATIVES

Smithfield is not party to any debt-related derivative transactions.

PENSIONS AND OPEB

The town's overall pension liability is above average. The combined adjusted net pension liability for its local and state defined benefit plans, under Moody's methodology for adjusting reported pension data, is \$114.7 million, or an elevated 1.8 times operating revenues. The state plans comprise approximately 47% of the liability, and the two local closed local plans account for the remaining 53%. 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.

The town contributes to two locally administered pension plans for some police and fire employees. The plans are closed. Historical underfunding of the annual required contribution (ARC) for both plans has led to low plan funded ratios.

In 2012, the town adopted a Pension Funding Improvement Plan for the police plan and has been increasing its contributions every year. Positively, the town contributed 98.3% of the ARC in fiscal 2014, 110% in fiscal 2015, and budgeted 100% in fiscal 2016 and fiscal 2017. The funding ratio of the plan is a low 27%, but reflects an improvement from 11% in 2010.

The town continues to underfund the fire plan. The town has historically only contributed the amounts required under the collective bargaining agreement. The plan's funded ratio is 70%, and if the funded ratio declines below 60%, per state law, the town will need to adopt a Pension Funding Improvement Plan. The town's contributions as a percentage of its annual required contribution have

improved modestly over the past couple of years - the town contributed 41%, 46% , and 48% of the required contribution in fiscal 2015, 2016 and 2017 (budgeted), which reflects an improvement from fiscal 2013 when only 32% of the required contribution was funded. Favorably the town will be modestly increasing its contribution in the next two fiscal years and employees slightly increased their contribution (as a % of salary) as well on July 1, 2016. The town's willingness to continue to increase its funding for the fire plan will continue to be an important consideration in future rating reviews. Failure to mitigate additional declines in the funded status of both could result in downward pressure on the rating.

The town contributed \$1.4 million towards its OPEB liability in fiscal 2015, representing 56.2% of its ARC and 2.2% of Operating Fund expenditures. The town established an OPEB trust in fiscal 2013, and the balance is \$2.4 million as of fiscal 2015 year-end. The unfunded liability is a manageable \$26.4 million as of the most recent valuation report. The current funding practice for OPEB is pay-as-you-go plus a minimum of \$100,000 to be deposited into the trust. Additionally, police contribute 1% of their annual contribution into the trust.

Management and Governance

Rhode Island towns and cities have an institutional framework score of "A," or moderate. Revenues, consisting mostly of property taxes and state aid, are moderately predictable with economically sensitive revenues accounting for a fairly small portion. Revenue raising flexibility is moderate; although there is a limit on annual property tax levy increases, the cap is a fairly generous 4%. Expenditures mostly consist of personnel costs which are moderately predictable. Expenditure reduction ability is also moderate given the presence of public sector unions in the state. Pension costs will continue to rise despite reform on the state level.

Legal Security

The bonds are general obligations of the town and are secured by an unlimited property tax pledge.

The bonds benefit from state legislation passed in 2011 that provides a statutory lien on ad valorem taxes and general fund revenues, giving priority to payment of general obligation debt in bankruptcy proceedings.

Use of Proceeds

The bond proceeds will be used to finance the renovation and expansion of the town's police station.

Obligor Profile

Smithfield has a population of 21,400 and is located in northeastern Rhode Island, approximately 10 miles northwest of Providence.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Smithfield (Town of) RI

Issue	Rating
General Obligation Bonds, 2016 Series A	Aa2
Rating Type	Underlying LT
Sale Amount	\$6,400,000
Expected Sale Date	08/23/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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