Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATING TO SMITHFIELD'S (RI) $7.65 MILLION GENERAL OBLIGATION 2011 SERIES A & B BONDS

Global Credit Research - 10 Jan 2011

Aa2 RATING AFFECTS $13.42 MILLION IN OUTSTANDING PARITY DEBT, INCLUDING CURRENT ISSUE

Smithfield (Town of) RI
Municipality
RI

Moody's Rating

ISSUE		RATING
General Obligation Bonds, 2011 Taxable Series B		Aa2
Sale Amount	$1,380,000	
Expected Sale Date	01/15/11	
Rating Description	General Obligation	
General Obligation Bonds, 2011 Tax-Exempt Series A		Aa2
Sale Amount	$6,270,000	
Expected Sale Date	01/15/11	
Rating Description	General Obligation	

Opinion

NEW YORK, Jan 10, 2011 -- Moody's Investors Service has assigned the Aa2 rating to the Town of Smithfield's (RI) $7.65 million General Obligation Bonds, 2011 Series A Tax-Exempt and Series B Taxable. Concurrently, Moody's has affirmed the Aa2 rating on $13.42 million of outstanding long-term general obligation debt, including this issue. Proceeds from this issue, which is secured by the city's general obligation unlimited tax pledge, will be used to permanently finance the city's currently outstanding Bond Anticipation Notes (BANs) originally issued for the acquisition of land for conservation purposes.

RATING RATIONALE

The Aa2 rating reflects the town's healthy financial position following five consecutive operating surpluses, which has increased the town's level of reserves above state and regional medians for similarly rated municipalities. The Aa2 rating also incorporates the town's stable tax base and a demographic profile which is consistent with the Aa2 rating level, as well as the town's low debt burden.

STRONG FINANCIAL POSITION; RESERVE LEVELS EXPECTED TO REMAIN SOUND

Smithfield's practice of conservative budgeting, careful management of reserves, and tight fiscal control has contributed to consecutive operating surpluses and a reserve position that exceeds that of similarly-rated Rhode Island municipalities. The town has added to General Fund balance each of the last six fiscal years, including a strong $7.4 million (114%) increase to General Fund balance since 2003, up to a strong $15 million (24.8% of revenues) in 2010 from $6.5 million (14.4% of revenues). At this level the town's reserve position exceeds the 9.7% state median and approaches the 25.9% national median for similarly-rated communities. While the town has a formal charter provision limiting Undesignated General Fund balance to 5% of the subsequent year's budget, the town maintains ample flexibility through several General Fund designations, including reserves for capital expenditures and future tax assessments.

Despite a mid-year state aid reduction fiscal 2010 ended the year with a $723,363 General Fund surplus due primarily to to lower than budgeted expenditures, which increased total General Fund balances to $15 million or a sound 24.8% of revenues. Additionally, the School Revenue Fund ended fiscal 2010 with a $402,746 surplus, growing total School Fund's reserve balance to $2.6 million. The combined town and school unreserved fund balances ended fiscal 2010 at $8.1 million or a solid 13.8% of revenues. Similar to prior years, the fiscal 2011 budget is funded primarily with property taxes (79% of revenues) and state aid (10.4% of revenues) with the majority of these funds supporting the town's school system (54% of expenditures). The fiscal 2011 budget represents a 0.6% reduction from the prior year. The budget is balanced without a tax rate increase, a $850,000 fund balance appropriation and incorporates a $2.7 million reduction in the state provided motor vehicle tax reimbursement.

Further, while fully funding its state managed municipal and teachers pension plan contributions, as required, the town has been underfunding its existing fire and legacy police pension plans. The closed police plan in particular maintains an extremely low funded ratio of 11% (as of its 2010 actual report). The completion of the most recent actuarial report for the police plan was the first in several years and management expects to increase funding levels to actuarially recommended amounts over the near-term. The town's willingness to adequately fund both its police and fire plans will be an important consideration in future rating reviews and failure to mitigate addition declines in the funded status of both could result in downward rating action.

TAX BASE EXPECTED TO REMAIN STABLE; BRYANT UNIVERSITY PROVIDES ESTABLISHED INSTITUTIONAL PRESENCE

Moody's anticipates growth of the town's $2.6 billion tax base to continue to slow over the near term reflecting ongoing weakness in the regional housing market and recessionary economic conditions. However, the town is expected to continue to benefit from the stability offered by the presence of Bryant University (A2 / stable outlook - 550 employees) and Fidelity Investments (1,700 employees), the town's largest employers. Located approximately 10 miles from Providence (rated A1 / stable) the town has benefited from ongoing commercial and residential development as well as the appreciation of existing property. Between fiscal 2006 and 2011, the town experienced a 2.2% increase in full value, inclusive of a 13% increase in 2008 and a negative 8.8% decrease in 2011. Existing home prices have shown signs of weakness from previous highs, however they remain above Rhode Island (Aa2 / stable outlook) averages. Fidelity Investments and Bryant University have undergone employee reductions during the recent recession; however, they are both expected to maintain a significant presence in Smithfield. Bryant University, located within town borders, provides additional economic stability to an already strong base. The university, which educates over 3,500 students, representing 17% of the town's population, continues to expand. Smithfield's median family income and full value per capita are in line with Moody's rated Aa2 municipalities; however the town's per capita income level is slightly below the national Aa2 median, skewed by the presence of the university.

DEBT PROFILE EXPECTED TO GROW

Moody's anticipates that Smithfield's low 0.6% net direct debt burden will remain manageable, although an increase in debt levels are expected given the town's moderate future borrowing plans. The town maintains a comprehensive six-year capital improvement program that outlines both borrowing plans as well as pay-as-you-go financing for all capital expenses. Future borrowing plans consist of $5 million for street repaving and a $6 million water and sewer facilities upgrade, which is expected to be supported with an increase in rates. The town's debt profile consists entirely of fixed-rate borrowing and the town has not entered into any derivative agreements.

What could make the rating go up:

-Significant increase in the socio-economic profile and tax base

-Continued strong financial operations which grow and support healthy General Fund reserves

-Steady reduction in debt burden

What could make the rating go down:

-Significant declines in the town's tax base

-Multi-year operating deficits that sharply reduce General Fund reserves

-Deterioration and underfunding the town's pension plans

-Significant increase in debt burden

KEY STATISTICS:

2009 Census Population (State Figures): 20,973 (+1.7% since 2000)

2011Full Value: $2.6 billion

Average Annual Growth of Equalized Value (2006-2011): 2.2%

2011 Equalized Value Per Capita: $125,527

1999 Median Family Income: $66,320 (125.7% of the state, 132.5% of nation)

1999 Per Capita Income: $23,224 (107.1% of the state, 107.6% of nation)

2010 General Fund Balance: $14.99 million (24.8% of General Fund revenues)

2010 Unreserved Fund Balance: $6.86 million (11.3% of General Fund revenues)

Net Direct Debt Burden: 0.6% of Full Value

Amortization of principal, including enterprise debt (10 years): 85.7%

General Obligation Long-Term Debt Outstanding: $13.42 million (Post Sale)

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

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