

Smithfield, Rhode Island

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Credit Profile

US\$7.65 mil GO bnds ser 2011 A&B dtd 01/15/2011 due 01/15/2031

Long Term Rating	AA/Stable	New
Smithfield certs of part (wastewtr trtmnt fac loan 2003 ser) dtd 03/12/2003 due 11/15/2003-2012		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Smithfield GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised its long-term rating on Smithfield, R.I.'s general obligation (GO) debt to 'AA' from AA-' and its long-term rating on the town's certificates of participation to 'AA-' from 'A+'. The upgrade reflects the town's maintenance of its financial position at a level we consider to be strong. We also assigned our 'AA' rating to the town's series 2011 GO issue, reflecting our view of the town's:

- Sound tax base with extremely strong per capita market values and strong-to-very strong income levels;
- Strong financial position; and
- Below-average debt levels.

Somewhat offsetting these strengths is our view of Smithfield's unemployment rates, which are somewhat above the national average and pension funding, which is below actuarial required levels.

The town's full faith and credit pledge secures the GO bonds. The certificates of participation are secured by lease rental payments from a sublease in which Smithfield, as lessee, is obligated to make lease payments equal to the principal and interest on the certificates, although this obligation is dependent upon annual appropriations. There is no

debt service reserve fund for the lease bonds. We understand that the town will use the proceeds of these bonds for land acquisition.

Smithfield (population 21,270), located 11 miles northwest of Providence, has recently experienced significant growth and diversification of its tax base. The recent additions include a Fidelity Investments campus, a Dow Chemical facility, and a shopping center that includes Home Depot, Kohl's Corp., and Target, which have broadened employment opportunities. The town's assessed value (AV) decreased by 4% for fiscal 2011 to \$2.63 billion. Per capita market value is \$123,800, a figure we consider extremely strong. The value of the 10 leading taxpayers has increased recently to 12.7% of total value, but the tax base remains very diverse in our view. The town's unemployment rate was 10.6% in October 2010 and the 2009 annual rate was 10.6%, and both of these rates were higher than national levels but lower than state levels. Median household effective buying income (EBI) is 133% of the nation's level, which we consider very strong, and per capita EBI is 111% of the national level, which we consider strong.

Fidelity Investments moved to a facility in the town in 1998 after negotiating a 30-year tax treaty with the town and the state, and has since expanded its campus to three buildings. Under the treaty, Fidelity pays a negotiated amount of property taxes—currently \$1.5 million—and the state foregoes some income taxes from the employees. The payment under the tax treaty currently requires an approximately annual payment in lieu of property taxes, which increases by 15% every five years. The company currently employs 1,800 at this campus. In addition to Fidelity, Bryant University employs about 760, and there are multiple retail and manufacturing firms that employ more than 100.

The town's financial position is strong, in our view, and the general fund balance has increased for at least the past seven years despite recent state aid cuts. Despite a total general fund increase, the unreserved general fund balance decreased by about \$700,000 at the end of fiscal 2010 to \$6.9 million, or 11.9% of expenditures and transfers, which we consider to be a strong level. Smithfield's charter limits the unreserved, undesignated general fund balance to 5%, but allows additional amounts to be held as unreserved but designated. In addition to the unreserved general fund balance, the reserved fund balance contains \$3.1 million for future capital expenditures and \$3.3 million of unspent funds that are reserved for future appropriation. General fund cash was \$11.6 million, which is equal to 79 days' expenditures and transfers out. The school department finances are reported in a separate fund, which had a \$1.3 million unreserved balance.

The major general fund revenue sources were property taxes (86%) and state aid (10%). The town's charter limits the undesignated fund balance to a maximum of 5% of the subsequent year's expenditures, but allows additional amounts to be held in designated and reserved balances. The fiscal 2011 budget decreased slightly from 2010, and \$1.6 million of fund balance was appropriated, of which \$850,000 was used to replace lost funding from the state for a motor vehicle exemption reimbursement. Smithfield's practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates that the town's practices are deemed currently good, but not comprehensive.

The town's overall net debt burden is 0.7% of market value, which we consider low, and \$830 per capita, which we consider very low. Additional debt needs are limited.

Outlook

The stable outlook reflects our view that Smithfield's economy should be a steady source of property taxes, which are the town's primary revenue source. We do not expect that the rating will change within the two-year parameter of the stable outlook, as we anticipate the town to continue to maintain consistently strong reserve levels.

Finances

Pensions

Smithfield has five pension funds, three of which are part of state systems and two of which are administered locally. The town is required to make payments equal to 100% of annual required contribution (ARC) levels for the state-administered funds, but its payments for the locally administered funds—the firefighters fund and the fund for police hired before July 1999—have been below required levels. The town's contributions for its local funds are determined by contract and not necessarily tied to the ARC. In fiscal 2011, Smithfield's pension payment for the fire fund and the old police fund are about \$2.0 million below ARC levels. Town officials state that they will attempt to move the fire pension fund into the state system and will work to renegotiate the contractual funding levels for the pension systems. As of July 1, 2010, the unfunded liability for the closed police fund was \$19.2 million, an 11% funded level, and the fire fund had an unfunded liability of \$3.8 million, a 65% funded level. The unfunded liability of the town's other post employment benefits (OPEB) is \$29.0 million as of June 30, 2010, with a fiscal 2010 ARC of \$2.3 million. The town's actual 2010 payment was \$1.4 million, or 59% of the requirement. Smithfield has about \$100,000 in a fund for OPEB benefits, and it plans to establish an OPEB trust fund.

If the value of the unfunded liabilities of the two pension funds and the OPEB are added to the town's overall net debt, the levels are equal to 2.6% of market value and \$3,280 per capita.

Statewide levy limit

State law limits the town's levy increase to 4.5% for fiscal 2011, and the levy cap will decrease by 25 basis points annually until it reaches 4% in fiscal 2013. The levy limit can be overridden with a 4/5 vote of town council and approval by the financial town meeting. In recent years, the town has increased its levy in line with the limits.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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