

RatingsDirect®

Summary:

Westerly, Rhode Island; General Obligation

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Summary:

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Credit Profile

US\$15.915 mil GO bonds ser 2014A dtd 06/04/2014 due 07/01/2034

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to Westerly, R.I.'s 2014A general obligation (GO) bonds, and affirmed its 'AA' ratings on the town's existing GO debt. The outlook is stable.

A pledge of the town's full faith and credit secures these bonds. Proceeds will advance refund certain maturities of the town's 2005 and 2006 GO bonds and finance the purchase of undeveloped land.

The rating reflects our assessment of the following factors for the town.

- Very strong economy, which benefits from participation in the broad and diverse Providence-Warwick metropolitan statistical area (MSA);
- Adequate budgetary flexibility with 2013 audited reserves at 9.2% of general fund expenditures;
- Weak budgetary performance despite a revenue stream we consider stable;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions with good financial policies; and
- Strong debt and contingent liabilities position.

Very strong economy

We consider Westerly's economy to be very strong with access to the broad and diverse Providence-Warwick MSA. The town is in Washington County, which had an unemployment rate of 8.1% in 2013. The projected per capita effective buying income is 121.2% of the U.S. and per capita market value is \$260,800 for fiscal 2014. A statistical revaluation for fiscal 2014 resulted in a 5.4% year-over-year assessed value decline to \$5.9 billion.

Adequate budget flexibility

In our opinion, the town's budgetary flexibility remains adequate. For audited fiscal 2013, reserves were \$8.2 million, or 9.2% of expenditures. Management projects a \$1.1 million drawdown in fiscal 2014, which is less than the \$1.5 million budgeted, and anticipates for the 2015 budget a \$1 million appropriation.

Weak budgetary performance

The town's budgetary performance has been weak overall in our view, with deficits of 2.5% for the general fund in fiscal 2013 and 3.3% for total governmental funds. The largest source of general fund revenue is property taxes, which accounted for 75% of the total in fiscal 2013. Budgets have been balanced with the use of reserves in recent years, though the appropriations have diminished. Management reports the town is looking to close the budget gap by reducing expenditures and maintaining services. To that end, we understand Westerly has looked for efficiencies through consolidation and that it is the first Rhode Island community to combine the town and school finance director

position.

Very strong liquidity

Supporting the town's finances is liquidity we consider very strong, with total government available cash at 17.6% of total governmental fund expenditures and 173.3% of debt service. We believe the town has strong access to external liquidity given it is a frequent issuer of GO bonds.

Strong management conditions

We view the town's management conditions as strong, with good financial practices. Annual budgets are based on historical analysis and contractual obligations, and elected officials are updated quarterly on the budget and annually on investments. The town maintains both a five-year capital improvement plan and a five-year general fund forecast. While there is no formal debt policy, the town has a formal reserve policy to maintain an unassigned balance of 8%-15%.

Strong debt and contingent liability profile

In our opinion, the town's debt and contingent liability profile is strong, with total governmental fund debt service at 10.2% of total governmental fund expenditures and net direct debt at 94.4% of total governmental fund revenue. Overall debt, net of self-supporting debt, is 1.5% of market value, and 73.2% of principal is scheduled to retire in the next 10 years. Management reports the town is considering a debt issuance for its elementary schools but has not quantified a dollar amount.

The town participates in four defined-benefit retirement systems, the largest of which covers school system employees and police. The plan covering school employees is administered by the Employees' Retirement System of Rhode Island, while the police plan is administered by the town and was 63.8% funded as of July 1, 2012. The funded status is low but the town has overfunded the annual required contribution (ARC) in four of the past five years. The combined ARC pension and other postemployment benefit (OPEB) pay-as you-go costs for fiscal 2013 were 5.6% of expenditures. The town's OPEB liability is 24% funded.

Strong institutional framework

We consider the Institutional Framework score for Rhode Island towns strong.

Outlook

The stable outlook reflects our view of the town's adequate flexibility, which is supported by a very strong economic base and strong management. We do not expect to revise the rating in the next two years. Future rating direction will hinge on the town's finances. Failure to adopt structurally balanced budgets in the near term could result in a negative credit action.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Ratings Detail (As Of May 16, 2014)

Town of Westerly go bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Town of Westerly go rfdg bnds ser 2012B due 08/15/2024		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Town of Westerly GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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