MOODY'S
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ISSUER COMMENT
9 July 2018

RATING

General Obligation (or GO Related) [1]	
Aa3	No Outlook

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Town of Westerly, RI

Annual Comment on Westerly

Issuer Profile

The Town of Westerly is located in Washington County, in the southwestern corner of Rhode Island, approximately 40 miles southwest of Providence. The county has a population of 126,319 and a moderate population density of 380 people per square mile. The county's median family income is $94,253 (1st quartile) and the April 2018 unemployment rate was 3.5% (3rd quartile) [2] . The largest industry sectors that drive the local economy are health services, manufacturing, and retail trade.

Credit Overview

Westerly's credit position is high quality, and its Aa3 rating is level with the US cities median of Aa3. Notable credit factors include a substantial tax base, a healthy wealth and income profile and a manageable debt burden. The credit position also reflects a moderate pension liability and an adequate financial position.

Economy and Tax Base: The town has a very strong economy and tax base, which are relatively favorable in comparison to the assigned rating of Aa3. Full value per capita ($260,831) is materially above the US median, but fell slightly from 2013 to 2017. Furthermore, Westerly's total full value ($5.9 billion) exceeds other cities nationwide. Lastly, median family income equals a solid 108.6% of the US level.

Debt and Pensions: The debt burden of the town is manageable and is a modest credit strength in relation to its Aa3 rating. Net direct debt to full value (1.2%) is roughly equivalent to the US median, and did not change between 2013 and 2017. Yet, the pension liability of Westerly is mid-ranged and is slightly unfavorable in comparison to the assigned rating of Aa3. Moody's-adjusted net pension liability to operating revenues (1.2x) favorably is slightly below the US median.

Finances: The town's financial position is moderate. However, this factor is relatively weak when compared to its Aa3 rating. Cash balance as a percent of operating revenues (7.7%) is far under the US median, but remained the same from 2013 to 2017. Furthermore, Westerly's fund balance as a percent of operating revenues (10%) is well below other Moody's-rated cities nationwide.

Management and Governance: Rhode Island cities have an Institutional Framework score [3] of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Increases in property taxes, the sector's major revenue source, are subject to a 4% cap, which can be overriden at the local level. The 4% cap provides for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the

sector, fixed and mandated costs are generally greater than 25% of expenditures. Rhode Island has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Rhode Island Cities

Rhode Island cities benefit from strong state fiscal oversight but are pressured due to a lagging economy and relatively high pension liabilities. The national housing market recovery has largely bypassed Rhode Island, despite its proximity to economically vibrant Boston. Unemployment, while down significantly from last year, remains higher than the nation. Year-over-year financial metrics for most cities improved over the past year, positioning the sector well for the year ahead. In particular, the most stressed cities are stabilizing. Debt levels will remain manageable.

EXHIBIT 1

Key Indicators [4] [5] Westerly

	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$6,223M	$5,887M	$5,936M	$5,856M	$5,908M	$1,867M	Weakened
Full Value Per Capita	$273,922	$259,042	$261,733	$258,501	$260,831	$89,200	Stable
Median Family Income (% of US Median)	110%	112%	111%	109%	109%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	9.5%	10.3%	7.6%	7.7%	10.0%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	7.2%	5.8%	4.8%	8.1%	7.7%	36.9%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	1.4%	1.4%	1.4%	1.3%	1.2%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.99x	0.91x	0.92x	0.82x	0.75x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N/A	1.8%	1.9%	1.8%	2.0%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N/A	1.20x	1.23x	1.12x	1.22x	1.51x	Stable

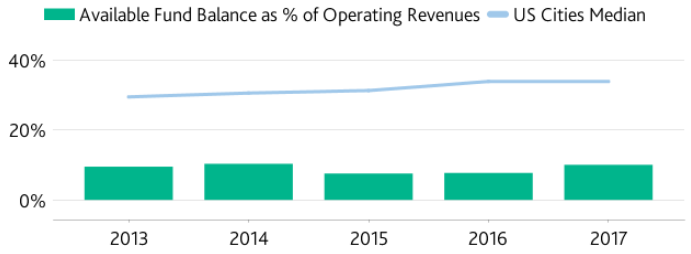
	2013	2014	2015	2016	2017	US Median
Debt and Financial Data						
Population	22,720	22,727	22,683	22,655	22,651	N/A
Available Fund Balance ($000s)	$8,373	$9,293	$6,779	$7,135	$9,564	$7,419
Net Cash Balance ($000s)	$6,304	$5,181	$4,314	$7,469	$7,309	$8,404
Operating Revenues ($000s)	$87,986	$89,920	$89,734	$92,394	$95,205	$21,930
Net Direct Debt ($000s)	$87,017	$81,854	$82,114	$76,191	$71,385	$18,580
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	N/A	$107,569	$110,239	$103,237	$115,923	$32,507

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 2

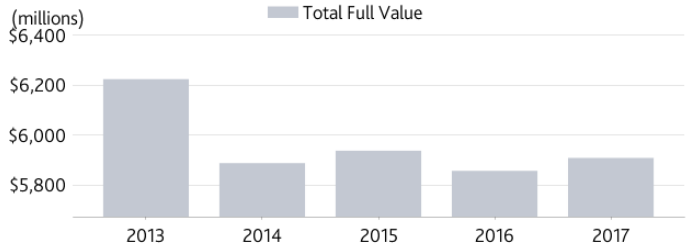
Available fund balance as a percent of operating revenues remained stable from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

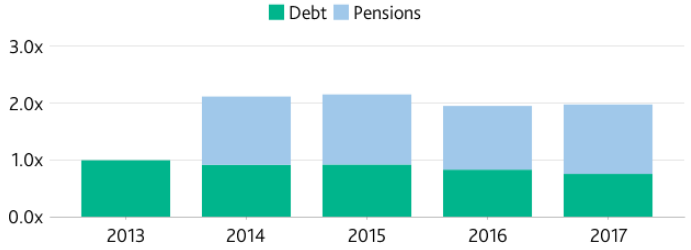
Full value of the property tax base decreased from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues remained stable from 2014 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.

2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (December 2016) methodology report for more details.

4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014) . Metrics represented as N/A indicate the data were not available at the time of publication.

5 The medians come from our most recently published local government medians report, Medians - Property values key to stability, but pension burdens remain a challenge (March 2018) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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