

Rating Update: [Smithfield \(Town of\) RI](#)

MOODY'S UPGRADES SMITHFIELD'S (RI) GENERAL OBLIGATION BOND RATING TO Aa3 FROM A1

Aa3 RATING AFFECTS \$10.2 MILLION IN OUTSTANDING PARITY DEBT

Smithfield (Town of) RI
Municipality
RI

Opinion

NEW YORK, Apr 13, 2009 -- Moody's Investors Service has upgraded to Aa3 from A1 the rating on the Town of Smithfield's (RI) \$10.2 million of outstanding long-term general obligation debt. There is no outlook. The rating upgrade to Aa3 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 Aa3 rating also incorporates the town's stable tax base and a demographic profile which is consistent with the Aa3 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 five fiscal years, including a strong \$7.4 million (114%) increase to General Fund balance since 2003, up to a strong \$13.9 million (23.4% of revenues) in 2008 from \$6.5 million (14.4% of revenues). At this level the town's reserve position exceeds the 17% state median and approaches the 30% 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. Fiscal 2008 ended with a healthy \$1.5 million addition to fund balance, as the town was able to fully replenish its budgeted General Fund balance appropriation through conservative revenue estimates, including a positive \$1.1 million property tax revenue variance. Positively, the town's school fund ended fiscal 2008 with a healthy \$358,524 surplus and retains a \$1.5 million fund balance position, providing additional operating flexibility.

Similar to prior years, the fiscal 2009 budget is funded primarily with property taxes (78% of revenues) and state aid (15% of revenues) with the majority of these funds supporting the town's school system (53% of expenditures). Despite a mid year state aid reduction and declining local receipts, the town anticipates fully replenishing its \$400,000 reserve appropriation and producing a modest operating surplus, in excess of \$350,000, driven primarily by greater than budgeted property tax revenues. Fiscal pressures, resulting from declining revenues, are expected to continue into fiscal 2010. While still in planning, the fiscal 2010 budget is expected to be balanced through a combination of expenditure reductions, including a possible collective bargaining wage deferral, and additional levy growth, which is capped at 4.75% in fiscal 2010. Notably, in accordance with state law allowable property tax levy growth is scheduled decline to 4.0% in fiscal 2013 from 5.25% in fiscal 2008, with 0.25% reductions annually during that timeframe, with exemptions for debt service, among others. Looking ahead, the town's ability to maintain a satisfactory financial position, through structurally balanced operations and a level of financial flexibility consistent with similarly rated municipalities, will continue to be an important consideration in future rating reviews.

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

Moody's anticipates growth of the town's \$3.2 billion tax base 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 (A1/stable outlook-1,700 employees), the town's largest employers. Located approximately 10 miles from Providence (rated A3) the town has benefited from ongoing commercial and residential development as well as the appreciation of existing property. Between fiscal 2003 and 2008, the town experienced a sizable 17% increase in full value, inclusive of property revaluations in fiscal 2005 and 2008, which resulted in 51% and 26% value increases, respectively. Reflecting market conditions new development has slowed and existing home prices have shown signs of weakness from previous highs, however remain above Rhode Island (Aa3/negative outlook) averages. Fidelity Investments

has announced worldwide employee reductions however the company is expected to maintain a significant presence in Smithfield. The presence of Bryant University within town borders also 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 Aa3 municipalities; however the town's per capita income level is below the national Aa3 median, skewed by the presence of the university.

DEBT PROFILE EXPECTED TO REMAIN MANAGEABLE

Moody's anticipates that Smithfield's low 0.5% net direct debt burden will remain manageable given the town's rapid amortization of principal (82% in 10 years), and limited 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 primarily of manageable street repaving and land acquisition projects. The town's debt profile consists entirely of fixed-rate borrowing and the town has not entered into any derivative agreements.

KEY STATISTICS:

2007 Census Population (projected): 21,279 (+3.2% since 2000)

2008 Full Value: \$3.2 billion

Average Annual Growth of Equalized Value (2003-2008): 18.8%

2008 Equalized Value Per Capita: \$151,219

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)

2008 General Fund Balance: \$13.9 million (23.4% of General Fund revenues)

2008 Unreserved Fund Balance: \$7.9 million (13.4% of General Fund revenues)

Net Direct Debt Burden: 0.5 % of Full Value

Amortization of principal, including enterprise debt (10 years): 82%

General Obligation Long-Term Debt Outstanding: \$10.2 million

METHODOLOGY REFERENCE AND LAST RATING ACTION

The principal methodology used in rating the current issue was "Local Government General Obligation and Related Ratings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was on June 26, 2003 when an A1 rating was assigned to the town's \$8.6 million general obligation bonds.

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