

**New Issue: Moody's assigns Aa2 Portsmouth, RI's Ser. 2015A and 2015B GO bonds**

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Global Credit Research - 28 Oct 2015

**Affirms Aa2 on outstanding GO debt**

PORTSMOUTH (TOWN OF) RI  
Cities (including Towns, Villages and Townships)  
RI

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Bonds, Series 2015 A (Tax-Exempt)	Aa2
<b>Sale Amount</b>	\$4,570,000
<b>Expected Sale Date</b>	11/04/15
<b>Rating Description</b>	General Obligation

General Obligation Bonds, Series 2015 B (Federally Taxable)	Aa2
<b>Sale Amount</b>	\$400,000
<b>Expected Sale Date</b>	11/04/15
<b>Rating Description</b>	General Obligation

**Moody's Outlook** NOO

NEW YORK, October 28, 2015 --Moody's Investors Service has assigned a Aa2 rating to the Town of Portsmouth, RI's \$4.6 million General Obligation Bonds, Series 2015A (Tax-Exempt) and a Aa2 rating to the \$400,000 General Obligation Bonds, Series 2015B (Federally Taxable). Concurrently, Moody's has affirmed the Aa2 rating on \$5.9 million of rated outstanding general obligation debt. Moody's has also affirmed the underlying A1 GO pooled rating on the Rhode Island Health and Education Building Corporation's (RIHEBC) Series 2008B bonds, the underlying Aa3 GO pooled rating on RIHEBC's Series 2008A bonds, the underlying Aa3 GO pooled rating on RIHEBC's Series 2007A bonds, and the underlying A3 GO pooled rating on RIHEBC's Series 2006A bonds.

**SUMMARY RATING RATIONALE**

The Aa2 rating reflects the town's moderately-sized tax base with above average wealth levels, well-managed financial position with reserves that have improved to sound levels, and manageable debt burden.

The ratings on the RIHEBC bonds reflect our public sector pooled financing methodology, which are unenhanced and use a "weak link plus" approach.

**OUTLOOK**

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

**WHAT COULD MAKE THE RATING GO UP**

- Continued material improvement in fund balance and liquidity
- Stabilized taxable values
- Full payment of required pension contribution on an annual basis

## WHAT COULD MAKE THE RATING GO DOWN

- Trend of operating deficits resulting in reserve declines
- Significant declines in the tax base or deterioration of the demographic profile
- Significant growth in debt burden
- Underfunding of required pension contribution

## STRENGTHS

- Experienced management team has improved reserves to sound levels
- Moderately sized tax base with above average wealth levels
- Manageable debt burden

## CHALLENGES

- Taxable values have declined for five consecutive years
- Above average pension liability

## RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

## DETAILED RATING RATIONALE

### ECONOMY AND TAX BASE: MODERATELY-SIZED RESIDENTIAL TAX BASE WITH ABOVE AVERAGE WEALTH

Portsmouth's moderately-sized \$3 billion tax base will begin to stabilize over the near term due to market value appreciation and some new development. The town is primarily residential and is located 20 miles southeast of Providence (Baa1 stable) and 10 miles north of Newport on Aquidneck Island. Similar to many other Rhode Island municipalities that are rebounding at a slower pace than the rest of New England, Portsmouth's taxable values have declined for the past five consecutive years. Values declined at a compound annual rate of 5.1% from fiscal 2011 through 2016, though we expect the next revaluation (effective fiscal 2018) will show modest growth, reflecting market value appreciation. Although the town is mostly built out, there should be modest new growth from new development projects, including expansions of some business and the commercial development of a large vacant parcel of land that was previously owned by the Navy. In addition, the value of new building permits continues to increase, up to 36 permits totaling \$8.7 million in fiscal 2015 from 16 permits totaling \$4.3 million in fiscal 2012. Socioeconomic indices exceed state and national medians: median family income is 130% and 146% of the state and nation, respectively. Full value per capita is a strong \$170,156 (almost twice the national median). The unemployment rate (4.9% July 2015) remains below state (5.8%) and nation (5.6%).

The largest taxpayer, Carnegie Tower Development Co. (fiscal 2016 assessed value of \$80.7 million, or 2.7% of total AV), is a high-end condominium tower that opened in 2009. The tower remains approximately 75% vacant and the unsold units were recently transferred by the developer to a bank and life insurance company under a deed in lieu of foreclosure. The town receives over \$1 million in annual tax revenue from this property (approximately 1.7% of total revenue) and, positively, management reports that all tax payments are current (the developer was often behind in tax payments). A 2012 appeal resulted in a \$3.3 million reduction in value, but management reports there are no appeals currently outstanding. We will continue to monitor any negative fiscal impact from this property, as nonpayment of property taxes or a reduction in value could have a material budgetary impact.

### FINANCIAL OPERATIONS AND RESERVES: WELL-MANAGED FINANCIAL POSITION WITH SOUND RESERVES GUIDED BY A FORMAL POLICY

Portsmouth's financial position will continue to remain sound given a history of conservative budgeting and improved reserve levels guided by a formal fund balance policy. Management's prudent expenditure management and conservative budgeting have resulted in five consecutive operating surpluses. Combined available General

and School Unrestricted Fund balances increased to \$9.8 million (a satisfactory 16.2% of revenues) in fiscal 2014 from \$2.9 million (a narrow 5.4%) in fiscal 2009. We note, however, that the town underfunded its required pension contribution by \$885,000 in fiscal 2014. Factoring this in, fund balance would have declined to \$670,000 to \$9.2 million, or a still-sound 15.1% of revenues.

The town has been in compliance with its formal fund balance policy since it was adopted in 2011, which states that unassigned General Fund reserves should be maintained between 8% and 16%. As of fiscal 2014 year end, unassigned fund balance was \$6.1 million, or 11.6% of revenues. Positively, the town does not typically appropriate reserves to balance the operating budget.

The fiscal 2015 budget (town and school) increased 2.3% from the prior year and was balanced with a 2.4% tax increase. Management reports that operations trended positively for the year and the combined town and school surplus is \$428,000. The fiscal 2016 budget increased a modest 0.5% from fiscal 2015 and was balanced with a modest tax levy increase. For the second consecutive year, the town budgeted \$156,000 to add to fund balance. Also, due to tight expenditure controls and some additional state aid, the local appropriation to the School Unrestricted Fund remained level at \$30.8 million. The School Unrestricted Fund balance (which has been accounted for in the General Fund as of fiscal 2013) was \$3.4 million as of fiscal 2014 year-end, and management will spend \$2.1 million in fiscal 2016 and 2017 to replace four boilers. Despite the projected decline, reserves will remain adequate.

Portsmouth derives the majority of its revenues from property taxes (78.5% in fiscal 2014) and collections remain strong at approximately 97%. State aid, including aid for education, comprised 11.2% of 2014 revenues. The largest expenditures are education (60.6% of 2014 operating expenditures), public safety (15.8%), and general government (6.9%).

#### Liquidity

The town's General Fund cash position (town and school purposes) has been relatively stable for the past three years, and was \$10.4 million (17.2% of revenues) at the close of fiscal 2014.

#### DEBT AND PENSIONS: MANAGEABLE DEBT BURDEN; ABOVE AVERAGE PENSION LIABILITY

Portsmouth's debt position will remain manageable given fast principal amortization and commitment to pay-go capital spending, including \$1 million annually for road improvements. The direct debt burden is below average at 0.6% of full valuation. The town intends to issue a referendum in fiscal 2017 for a new police station. Preliminary estimates indicate the project will cost approximately \$10 million, which the town will finance with debt.

#### Debt Structure

All debt is fixed rate and amortization of principal is average, with 80.8% repaid within ten years. Debt service accounted for a manageable 4.7% of expenditures in fiscal 2014. The town's formal policy limits general obligation debt service to a maximum of 15% of budgeted expenditures.

#### Debt-Related Derivatives

Portsmouth has no derivatives.

#### Pensions and OPEB

The town maintains a single-employer defined benefit pension plan for essentially all town employees except teachers, who are covered under a state plan. The town has historically contributed 100% of its annual required contribution (ARC) for the plan, except for fiscal 2014 when only 76% of the ARC was contributed (\$2.8 million v. ARC of \$3.7 million). However, the town contributed 100% in fiscal 2015 and 2016 (budget). According to the most recent valuation report (July 1, 2014), the plan is only 54.8% funded (actuarial value basis).

The town also contributes to the Employees Retirement System of the State of Rhode Island, a cost-sharing multiple-employer defined benefit plan administered by the State of Rhode Island (Aa2 stable) for certified teaching personnel. The town is required to fully fund its ARC, which was \$2.1 million in 2014, or 3.4% of expenditures

The combined adjusted net pension liability for both plans, under Moody's methodology for adjusting reported pension data, is \$144.5 million, which represents an above average 4.4% of full value and 1.5 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the reported liability information, but to improve comparability with

other rated entities. We determined the town's share of liability for the state-run plans in proportion to its contributions to the plans.

The total unfunded OPEB liability (town and school plans) is \$16.4 million as of July 1, 2013, the most recent valuation report. The town contributed a combined \$911,621 in fiscal 2014, which represents 53% of the ARC and 1.5% of expenditures. The town established an OPEB trust fund in 2010 for the town plan, and that plan is currently 3.6% funded. Total fixed costs for fiscal 2014, including debt service, required pension contributions and social security payments, represented \$8.7 million, or a manageable 14.3% of expenditures.

## MANAGEMENT AND GOVERNANCE

Town and school management are strong and employ conservative financial management as evidenced in a positive five year trend of fund balance growth, formal fiscal policies, and long-term planning for capital expenditures including a strong commitment to pay-as-you-go capital spending. In addition, the town and school management teams have a collaborative relationship which we feel has contributed to the stability of the healthy financial position. Rhode Island cities have an institutional framework score of 'A' or moderate. Economically sensitive revenues account for a small portion of operating revenues, but cities rely on property taxes and state aid account for the largest amounts. Cities have the ability to increase the property tax levy up to the 4% cap. Expenditures are largely predictable but cities are challenged to reduce expenditures given a strong union presence in the state.

## KEY STATISTICS

Fiscal 2016 full valuation: \$3 billion

Fiscal 2016 full valuation per capita: \$170,156

Median Family Income as % of U.S.: 146.2%

Fiscal 2014 Available Operating Fund Balance as % of Revenues: 16.2%

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues: 11.4%

Fiscal 2014 Cash Balance as % of Revenues: 17.2%

5-Year Dollar Change in Cash Balance as % of Revenues: 13.0%

Institutional Framework: A

5-Year Average Operating Revenues / Operating Expenditures: 1.02x

Net Direct Debt as % of Full Value: 0.6%

Net Direct Debt / Operating Revenues: 0.3x

3-Year Average ANPL as % of Assessed Value: 3.7%

3-Year Average ANPL / Operating Revenues: 1.3x

## OBLIGOR PROFILE

Portsmouth has a population of 17,300 and occupies the northern portion of Aquidneck Island, approximately 20 miles southeast of Providence.

## LEGAL SECURITY

The bonds are general obligations of the town and are secured by an unlimited property tax pledge.

## USE OF PROCEEDS

Series A bond proceeds will finance various capital projects, including road improvements. Series B bond proceeds will finance the town's Septic System Loan Program.

## RATING METHODOLOGIES

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the pooled rating was Public Sector Pool Financings published in July 2012. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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