

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns A1 underlying to RIHEBC's Revenue Bonds, Series 2015 D, secured by Town of Tiverton's GO

Global Credit Research - 24 Nov 2015

\$7.84M in debt affected.

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

Moody's Rating

ISSUE	RATING
Public Schools Revenue Bond Financing Program Revenue Bonds Series 2015 D	A1
Sale Amount	\$7,840,000
Expected Sale Date	12/02/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, November 24, 2015 --Moody's Investors Service has assigned an A1 rating to the Rhode Island Health and Educational Building Corporation's (RIHEBC) \$7.84 million Public Schools Revenue Bond Financing Program, Revenue Bonds, Series 2015 D (Town of Tiverton Issue). The town's GO pledge secures its loan payments under the financing agreement with RIHEBC.

SUMMARY RATING RATIONALE

The A1 underlying rating reflects Tiverton's moderate-sized diverse tax base with above average demographics, stable but weak financial reserve levels, and elevated but manageable fixed costs consisting of pension, OPEB and debt service.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Continued trend of operating surpluses leading to material growth in fund balance in the operating funds
- Significant tax base expansion

WHAT COULD MAKE THE RATING GO DOWN

- Operating deficits in the town's operating funds
- Underfunding of the local pension ARC
- Significant growth in debt, pension and/or OPEB liabilities

STRENGTHS

- Trend of surpluses in the Operating Fund (General Fund and School Unrestricted combined)
- Above average demographic profile

- Low taxpayer concentration
- State reimbursement for portion of debt service and presence of state aid intercept

CHALLENGES

- Narrow reserve levels
- Opposition to property tax levy increases
- Elevated fixed costs (debt service, pension and OPEB)

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: MODERATE-SIZED RESIDENTIAL TAX BASE WITH ABOVE AVERAGE WEALTH LEVELS

The town's \$1.98 billion tax base has stabilized in the last three years following declines due to the regional real estate market downturn. After strong tax base growth from 2000 through 2008, full value declined by a cumulative 28% through 2013. Full value in fiscal 2015 and 2016 increased by a modest 0.4% and 1.7%, respectively. We expect moderate growth in the tax base in the medium term as the town has several economic development projects currently underway in various stages of development. The tax base is diversified, with top taxpayers representing only 2.9% of fiscal 2016 assessed value.

The tax base is primarily residential (85% of assessed value), with some commercial and industrial presence (8%). Wealth levels for the town are above average, with 2013 median family income representing 129.6% of the nation. Full value per capita at \$125,313 is generally in line with the state median but well above the nation (\$86,511) for Moody's-rated cities. The town's unemployment rate of 5.2% (August 2015) is slightly below the state (5.7%) but consistent with the nation (5.2%).

FINANCIAL OPERATIONS AND RESERVES: STABLE OPERATING PERFORMANCE BUT NARROW RESERVE LEVELS

Tiverton continues to demonstrate financial operating stability with multiple consecutive years of operating surpluses in its Operating Fund (combined General Fund and School Unrestricted Fund). While this consistent performance is a key credit strength, total and available reserve levels as of fiscal 2014 are relatively narrow at only 10.1% and 6.3% of revenues, respectively.

In fiscal 2014, the town realized a small operating surplus of approximately \$186,000 in its Operating Fund. Favorable variances relating to license, permits and user fees and interest costs in the General Fund contributed to this small surplus.

The fiscal 2015 operating budget represented a 1.6% increase in spending over the prior year and included an appropriation of fund balance of \$595,806. Management reports that the town experienced another small surplus in the Operating Fund, resulting from an approximate \$400,000 decline in the General Fund offset by a roughly \$600,000 increase in the school fund. The adoption of an elector budget petition which barred a tax increase necessitated the budgeted use of reserves.

The adopted fiscal 2016 budget increased a modest 1.2% and included a \$360,000 reserve appropriation. This budget, similar to fiscal 2015, was citizen sponsored and included a 0.9% property tax levy increase, well below the percentage increase included in the budget proposed by the town council and school committee. Going forward, the town may face increasing fiscal pressure if revenue raising ability remains constrained.

Tiverton derives three-quarters of its revenues from property taxes. State aid, including aid for education, comprised 15% of 2014 revenues.

Liquidity

The town's net cash position in its combined operating funds at the close of fiscal 2014 was \$8.9 million, or a satisfactory 17.9% of revenues.

State Aid School Construction Cost Reimbursement & RIHEBC State Aid Intercept Program

Favorably the state reimburses the town for a portion of costs relating to building or renovating schools, including debt service on bonds issued for such purposes. Reimbursement for the current issuance is approximately 35% of debt service.

The bonds also benefit from RIHEBC's state aid intercept program. However, forecasted debt service coverage levels from both State Housing Aid and Basic Education Aid do not cover 100% of semiannual payments through the life of the bonds assuming level annual Basic Education Aid. To utilize the intercept program, pursuant to a memorandum of understanding among the General Treasurer, State Controller and RIHEBC, RIHEBC must notify the Office of the General Treasurer and the Office of the State Controller within 5 days of a missed payment (or by the 40th day prior to the debt service due date), whereupon a voucher from the State Controller will be presented to the General Treasurer for payment from immediately available funds. The General Treasurer will transfer such amounts to RIHEBC or its agent not later than 5 business days prior to the debt service due date. Payments to RIHEBC are due from the town on April 1 and October 1. The state pays Basic Education Aid to Tiverton in the last week of each month and State Housing Aid in September and March. If Tiverton misses its payments, the timing of the State Housing Aid receipts and state aid intercept provides for certain state school aid funds owed to the town to be available in advance of the November 15 and May 15 debt service payment dates.

DEBT AND PENSIONS: FIXED COSTS ELEVATED BUT MANAGEABLE

The town's debt burden at 1.94% of full valuation, while manageable, is above average compared to the medians for other Rhode Island towns (1.1%). This elevated debt burden is partially mitigated by state building aid reimbursements for 35% of debt service on bonds issued for school facilities and 60% for debt service on bonds issued for library construction costs. The town has \$8.1 million in authorized but unissued debt however the timing of future debt issuances are uncertain.

Approximately 69% of the town's outstanding debt is repaid within ten years, and fiscal 2014 debt service accounted for a moderate 7.1% of operating expenditures. Favorably the town has no overlapping debt.

The town also has approximately \$4.2 million in tax increment financing debt that matures in 2022.

Debt Structure

All debt is fixed rate.

Debt-Related Derivatives

The town has no derivatives.

Pensions and OPEB

The town contributes to one locally administered pension plan for police and 2 state sponsored defined benefit plans. The combined annual required contribution for the plans was \$2.5 million in fiscal 2014 with the town administered police plan accounting for one-fifth of this obligation. Favorably the town has resumed fully funding the police plan's annual required contribution after underfunding the ARC from fiscal 2010 to fiscal 2012. The funding ratio of the police plan is 67% as of fiscal 2014, an improvement from the 57% level five years earlier.

The town also contributes to the Employees Retirement System of Rhode Island (ERS) and Municipal Employees Retirement System of Rhode Island (MERS) defined benefit plans (General Employee and Fire Employees plans) administered by the State of Rhode Island. The town is required to fully fund its ARC.

The combined adjusted net pension liability for these defined benefit plans, under Moody's methodology for adjusting reported pension data, is \$87.6 million, or an above average 1.8 times operating revenues and 4.5% of full value. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's 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 town contributed \$1.3 million towards its OPEB liability in fiscal 2014, representing 51% of its ARC and 2% of operating expenditures. The unfunded liability is \$21.4 million as of July 1, 2014, the most recent valuation report.

Total fixed costs for fiscal 2014, including pension ARC, OPEB contribution and debt service, represented an

elevated 14.7% of operating expenditures.

MANAGEMENT AND GOVERNANCE

Rhode Island towns and 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: \$1.977 billion

Fiscal 2015 full valuation per capita: \$125,313

Median Family Income as % of U.S.: 129.6%

Fiscal 2014 Available Operating Fund Balance as % of Revenues: 8.6%

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues: 0.94%

Fiscal 2014 Cash Balance as % of Revenues: 17.9%

5-Year Dollar Change in Cash Balance as % of Revenues: 4.67%

Institutional Framework: A

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of Full Value: 1.94%

Net Direct Debt / Operating Revenues: 0.77x

3-Year Average ANPL as % of Assessed Value: 3.46%

3-Year Average ANPL / Operating Revenues: 1.38x

OBLIGOR PROFILE

Tiverton has a population of 15,780 and is located in Newport County.

LEGAL SECURITY

The bonds are secured by the loan payments made by Tiverton to RIHEBC under the Financing Agreement as well as certain state aid to the extent available. The town's GO pledge secures these loan payments under the Financing Agreement.

USE OF PROCEEDS

The proceeds of the bonds will be used to refund prior series GO bonds of the town relating to its obligations in connection with RIHEBC's Series 2006 A and Series 2007 B bonds.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology

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