Summary:
North Kingstown, Rhode Island; General Obligation

Primary Credit Analyst:
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

Table Of Contents

Rationale
Outlook
Related Research
Summary:
North Kingstown, Rhode Island; General Obligation

Credit Profile

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>Rating</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$6.06 mil GO rfdg bnds 2018 (Bnk Qual) ser A dtd 10/16/2018 due 01/15/2030</td>
<td>AA+/Stable</td>
<td>New</td>
</tr>
<tr>
<td>North Kingstown GO</td>
<td>AA+/Stable</td>
<td>Affirmed</td>
</tr>
<tr>
<td>Rhode Island Hlth &amp; Educl Bldg Corp, Rhode Island</td>
<td>AA+/Stable</td>
<td>Affirmed</td>
</tr>
<tr>
<td>Rhode Island Hlth &amp; Educl Bldg Corp (North Kingstown) GO</td>
<td>AA+/Stable</td>
<td>Affirmed</td>
</tr>
</tbody>
</table>

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to North Kingstown, R.I.'s issue of general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA+' long-term rating on the town's outstanding GO debt. The outlook is stable.

The town's full-faith-and-credit, including a pledge to levy ad valorem taxes, as well as general fund revenues, secures the bonds.


The long-term rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with break-even operating results in the general fund and break-even operating results at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 26.5% of total governmental fund expenditures and 5.5x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 37.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 82.5% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
• Strong institutional framework score.

Very strong economy
We consider North Kingstown's economy very strong. The town, with an estimated population of 26,065, is in Washington County, 22 miles south of Providence, on Narragansett Bay. It is in the Providence-Warwick MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 141% of the national level and per capita market value of $158,946. Overall, market value grew by 0.7% over the past year to $4.1 billion in 2018. The county unemployment rate was 4.0% in 2017.

Although the tax base is 74% residential, the town has a strong commercial and industrial presence, particularly at the Quonset Point/Davisville Industrial Park. The business park is home to 206 businesses, employing more than 11,000. The Port of Davisville is the one of the largest auto importers in North America. The town's leading employer is General Dynamics Electric Boat (EB), a submarine manufacturer, with about 3,400 employees. We expect EB will continue to add employees and remain a stable presence in town.

Notable residential development includes nearly 600 units of new housing at the Reynolds Farm development, which is approximately 75% complete, along with 20,000 square feet of commercial space. Management is exploring how additional new development could be incorporated around Wickford Junction, the southern terminus of the Massachusetts Bay Transportation Authority commuter rail, which provides rail access to Providence and Boston.

The town is undergoing a statistical revaluation in December 2018. Management expects an approximately 20% increase in residential assessed values (AVs), given the rapid rise in the median home sales price over the past several years, from $329,000 in 2015 to $449,000 in 2018. Given the consistent, if modest, AV growth over the past several years, coupled with expectations for the revaluation and our view that the commercial and industrial components will continue to grow, we expect North Kingstown very strong economy to strengthen further over the next several years.

Strong management
We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

A new town manager and finance director were hired by the town council in early calendar year 2017. The new management team has made an effort to consolidate old, dormant funds; streamline the budget; and institute improved financial controls. While we continue to view the town's financial management practices as good under our FMA methodology, we note that new debt and reserve policies have been adopted and management is making an effort to further improve financial controls.

North Kingstown's management team uses conservative budget assumptions, rooted in multiple years of actual results. Monthly budget-to-actual updates are provided to the town council. While a formal, long-term financial plan is not currently maintained, the town has a robust, six-year capital improvement plan that identifies and prioritizes projects with their intended funding sources. We note that the state is requiring all municipalities to begin submitting annually updated long-term financial projections. The state is in the process of rolling out its new reporting platform and requirements; we will revise our view of the town's financial planning as it is incorporated into the state's mandatory
reporting requirements. The town adheres to state limitations on investments. The formal debt policy outlines planning and monitoring procedures and sets limits on total debt and amortization periods. The formal reserve policy requires the town to maintain between 8%-15% of general fund expenditures in unassigned reserves, with a target balance of 10%.

**Strong budgetary performance**

North Kingstown's budgetary performance is strong, in our opinion. The town had break-even operating results in the general fund, but a balanced result across all governmental funds of 0.3% in fiscal 2017.

For our analysis, our view of the general fund includes the school department fund, which is a separate fund in the town's audit. This is common in the state, but as the department is funded largely by appropriations from the general fund, we consider it alongside general government operations.

We expect that the town will maintain strong budgetary performance over the next several fiscal years. The fiscal 2017 results, which we adjusted to account for a one-time transfer to a capital fund, was the last budgeted year of the old management team. As the new management team works to refine budgetary controls and projections, we expect that given continued economic growth, the town will have sufficient resources to produce at least balanced results annually.

The town is currently anticipating a fiscal 2018 operating surplus of approximately $1.3 million across the general and school department funds. Management attributes this largely to strong collections, along with conservative budgeting and continued revenue growth. For fiscal 2019, the town manager instituted a new budget format, which seeks to improve transparency. The 2019 budget adds a direct appropriation to address the town's unfunded OPEB liability, while continuing investments in pay-as-you-go capital and education.

We note that the state is continuing with its plan to phase out the motor vehicle excise tax. This is incorporated into our analysis within the institutional framework, and the town is made whole by the state for any revenue shortfall. In fiscal 2017, property taxes accounted for 77% of operating revenues (combined general and school funds), while intergovernmental was 17%, the vast majority of which was education aid. Given the stability of the revenue profile and management's focus on maintaining revenue and expenditure balance while addressing capital and service delivery needs, we expect the town will maintain its strong budgetary performance.

**Very strong budgetary flexibility**

North Kingstown's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 16% of operating expenditures, or $14.9 million.

Our view of the town's available fund balance includes reserves held in nonmajor governmental funds, but which management confirms could be made available should the need arise. As management continues to address dormant accounts, we expect the town's reserves could fluctuate, but anticipate that budgetary flexibility will remain very strong over the outlook period. Recent fluctuations in reserve levels reflected movement of funds in the nonmajor capital funds accounts.
Very strong liquidity
In our opinion, North Kingstown's liquidity is very strong, with total government available cash at 26.5% of total governmental fund expenditures and 5.5x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

The town has maintained very strong cash balances in each of the past three fiscal years. We believe that North Kingstown's frequent debt issuance, including GO bonds and bond anticipation notes (BANs), demonstrates its strong access to external liquidity. We do not consider the town's investments aggressive. In addition, North Kingstown does not currently have any variable-rate or direct-purchase debt outstanding. We do not anticipate any strain on the town's liquidity profile and expect it will remain very strong.

Strong debt and contingent liability profile
In our view, North Kingstown's debt and contingent liability profile is strong. Total governmental fund debt service is 4.8% of total governmental fund expenditures, and net direct debt is 37.1% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, and approximately 82.5% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Management is preparing for a referendum to authorize $27 million in new-money borrowing, split evenly between school and general government capital expenditures. On the school side, management expects a 35% state reimbursement. We have incorporated the future debt plans into our analysis. Following this issuance, the town has approximately $41.7 million debt outstanding.

In our opinion, a credit weakness is North Kingstown's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. North Kingstown's combined required pension and actual OPEB contributions totaled 9.0% of total governmental fund expenditures in 2017. Of that amount, 7.8% represented required contributions to pension obligations, and 1.2% represented OPEB payments. The town made its full annual required pension contribution in 2017. The funded ratio of the largest pension plan is 54.0%.

North Kingstown employees are covered by one of two plans: the Municipal Employees' Retirement System (MERS) or the Employees' Retirement System (ERS). MERS is an agent, cost-sharing multiple-employer public employee retirement system administered by the state. The plan has three components, covering municipal, police and fire employees separately. The plans have funded ratios of 71%, 66% and 67%, respectively, as of June 30, 2017. The aggregate net pension liability is approximately $46.2 million. ERS is a cost-sharing, multiple-employer plan covering the town's teachers and administered by the state. The state covers 40% of the actuarial determined contribution (ADC) while the town is liable for 60%. The town's ERS proportionate share of the net pension liability is $52.4 million. The plan is 54% funded. Both MERS and ERS use a 7.5% discount rate, which we consider average. We consider the funded ratios of all the town's pension plans to be low. We note that the town contributes its full ADC annually.

The town also provides OPEBs in the form of health and life insurance. Management transferred $1 million into the OPEB trust in fiscal 2018, and as of June 30, 2018, the town's OPEB trust fund contained $1.1 million. Its unfunded OPEB liability is approximately $26.6 million. Beginning in fiscal 2019, regular transfers to the OPEB trust will be included in the budget as a line-item expenditure. In 2019, the line-item totals about $285,000. Additionally, management is working to identify dormant funds that could be closed and their funds transferred to the OPEB trust.
The town's combined pension and OPEB carrying charge has steadily increased over the past four fiscal years. Given the size of the unfunded liability relative to the operating budget, we believe costs will continue to pressure the budget over the next several years, and it is unclear that management has a viable plan to constrain costs in the short term.

**Strong institutional framework**
The institutional framework score for Rhode Island municipalities is strong.

**Outlook**
The stable outlook reflects our expectation that management will produce strong budgetary performance annually, while maintaining very strong liquidity and reserves. The town's very strong economy gives additional rating support.

**Upside scenario**
Should the town make significant reductions in its unfunded pension and OPEB liabilities, along with improved financial management policies and practices, all else being equal, we could raise the rating.

**Downside scenario**
If budgetary performance declines, leading to a reduction in reserves to levels we no longer consider commensurate with peers at this rating level, we could lower the rating.

**Related Research**
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.