



Rating Action: MOODY'S DOWNGRADES THE CITY OF CRANSTON'S (RI) G.O. RATING TO A2 FROM A1 AND COPS RATING TO A3 FROM A2; SERIES 2011A RIHEBC UNDERLYING RATING DOWNGRADED TO Aa3 FROM Aa2; OUTLOOK REMAINS NEGATIVE ON ALL ISSUES

Global Credit Research - 24 Feb 2012

ASSIGNS A2 RATING TO \$24.6 MILLION G.O. BONDS, 2012 SERIES A & B

New York, February 24, 2012 --

Moody's Rating

Issue: General Obligation Bonds, 2012 Series A; Rating: A2; Sale Amount: \$3,800,000; Expected Sale Date: 02/17/2012; Rating Description: General Obligation

Issue: General Obligation Bonds, 2012 Series B; Rating: A2; Sale Amount: \$20,800,000; Expected Sale Date: 02/17/2012; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned an A2 underlying rating to the City of Cranston's (RI) \$24.6 General Obligation Bonds, Series A & B. Concurrently, Moody's has downgraded to A2 from A1 the underlying rating on \$115 million of outstanding general obligation bonds, and to A3 from A2 the rating on \$1.8 million in Certificates of Participation. The 2012 Series A bonds provide funding for various capital projects while the 2012 Series B bonds will currently refund the city's Series 2000 and advance refund the Series 2004 bonds. The refundings are expected to produce net present value savings in excess of 5% of refunding principal, without extension of maturity.

Moody's has also downgraded the underlying rating on the Rhode Island Health and Education Building Corporation's Series 2011A bonds to Aa3 from Aa2 and affirmed the underlying A1 rating on RIHEBC'S Series 2008 B bonds. Both RIHEBC ratings have been assigned a negative outlook.

SUMMARY RATING RATIONALE

The downgrade and negative outlook reflects the city's reduced financial flexibility following a series of reserve reductions, largely due to declining state aid and consecutive school fund deficits, resulting in an accumulated \$8.9 million Unrestricted School Fund Deficit. The rating and outlook also reflect the weak funding status of the city's Police and Fire Pension Plan (17.8% funded as of July 1, 2011) and continued underfunding of the annual required contribution, which is the equivalent to deficit financing; the unfunded pension liability is expected to increase as the city continues to underfund this annual pension obligation. Moody's believes the city will continue to be challenged to restore and maintain long-term structural balance and fully fund its pension obligations given continued revenue weakness and ongoing expenditure demands.

The rating also reflects the city's sizable, primarily residential tax base, average socioeconomic profile, and manageable debt burden.

The downgrade of the rating on the RIHEBC Series 2011A bonds reflects our pooled rating methodology. The 2011A bonds are an unenhanced pool and rated using a "weak link plus" approach, with Cranston now being the lowest-rated among the pool's participants.

STRENGTHS

- Manageable direct debt burden
- Large tax base
- Deficit reduction plan for schools

CHALLENGES

- Structural imbalance in school funds

-Underfunding of local pension plans

Outlook

The negative outlook reflects Moody's belief that the city will be challenged to restore and maintain long-term structural balance and fully fund its pension obligations given continued revenue weakness and ongoing expenditure demands.

What could move the rating UP (remove the negative outlook):

- Sustained period of fully funding the city's pension ARCs and improvement to the funds funded ratio
- Sustained record of structurally balanced operations and improved liquidity levels
- Consistent improvement of General Fund and School Fund balance positions

What could move the rating DOWN:

- Continued deterioration and underfunding the local pension plan
 - Continued structural imbalance in General and/or School Fund
 - Sustained period of elevated unemployment and stagnant assessed value growth
- Statutory levy cap

Principal Methodology

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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