

January 22, 2013

Bainbridge Island Fire Department
8895 Madison Ave NE
Bainbridge Island, WA 98110
Attention: Mr. Ed Kaufman, Finance Administrator

**Re: *Bainbridge Island Fire Department (FKA Kitsap County Fire Protection District No. 2),
Washington, Limited Tax General Obligation Refunding Bonds, Series 2009***

Dear Mr. Kaufman:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "AA+" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

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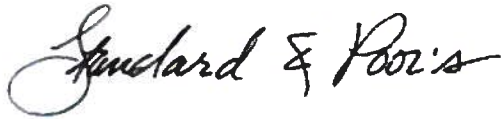
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Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
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Sincerely yours,

The logo for Standard & Poor's, written in a cursive, handwritten style.

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enclosure

cc: Mr. Hank Teran, Fire Chief
Bainbridge Island Fire Department

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No Third-Party Beneficiaries. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary of this Agreement or of the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Amendments. This Agreement may not be amended or superseded except by a writing that specifically refers to this Agreement and is executed manually or electronically by authorized representatives of both parties.

Reservation of Rights. The parties to this Agreement do not waive, and reserve the right to contest, any issues regarding sovereign immunity, the applicable governing law and the appropriate forum for resolving any disputes arising out of or relating to this Agreement.

RatingsDirect®

Summary:

Bainbridge Island Fire Department (fka Kitsap County Fire Protection District No. 2), Washington; General Obligation

Primary Credit Analyst:

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Related Criteria And Research

Summary:

Bainbridge Island Fire Department (fka Kitsap County Fire Protection District No. 2), Washington; General Obligation

Credit Profile

Bainbridge Island Fire Dept (fka Kitsap Cnty Fire Protection Dist No. 2 Lmtd Tax GO rfdg bnds ser 2009 due 12/01/2014

Long Term Rating

AA+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' long-term rating on Bainbridge Island Fire Department, Wash.'s series 2009 limited-tax general obligation (LTGO) refunding bonds. The outlook is stable.

The rating reflects our opinion of the district's:

- Established, primarily residential tax base that participates in the deep and diverse Seattle area economy;
- Very strong income levels coupled with extremely strong wealth indicators;
- Maintenance of very strong reserve levels, supported by a voter-approved emergency medical services (EMS) levy, which will continue through at least fiscal 2020; and
- Low debt levels on a market value basis, with rapid amortization.

Partially offsetting these strengths, in our view, is the district's financial reporting on a cash basis of accounting, which we believe provides less transparency as to the district's financial position than would be possible using generally accepted accounting principles.

The district's LTGO bonds are secured by the district's full faith and credit, including the obligation to levy sufficient property taxes, within statutory restrictions. The 2013 collection year tax levy is 91 cents per \$1,000 of assessed value (AV), or 61% of the statutory maximum. State law additionally limits property tax growth to 1% above the highest of the three most recent years, plus new construction, without a voter override.

Bainbridge Island Fire Department encompasses the 28-square-mile Bainbridge Island community within the Central Puget Sound Basin. The district maintains three fire stations. The district is located about eight miles west of Seattle, which is also accessible by ferry, and district residents benefit from the proximity to the state's largest and most diverse regional economy. Bainbridge's median household and per capita effective buying incomes are, in our view, very strong, at 170% and 186% of the national levels, respectively. However, the district's AV has declined during the past three fiscal years, which we believe is a sign of a weakening housing market. The district's AV stood at \$5.4 billion for 2012, which is down a substantial 21% in aggregate from its peak in 2009. Nevertheless, per capita market value is extremely strong, in our view, at roughly \$222,000. Management projects that district AV will decline by 3% in 2013 and flatten out by 2014.

We expect that the district will continue to maintain a very strong financial position on a cash basis of accounting, consistent with an increase to 67% of operating expenditures from 53% during the past three years in its current expense fund and reserve fund combined. The district has increased its cash position every year since 2010, and management expects to close 2012 with \$4.2 million, or 66% of operating expenditures, which we consider very strong. We understand that the district's revenue structure benefits from an additional 40 cents per \$1,000 of AV in an EMS levy that generates roughly \$2.2 million annually (30% of expense fund revenue). According to management, the district has budgeted to finish 2013 with virtually balanced operations and will levy a new transport fee that will bring in an additional \$250,000 a year (3.4% of expense fund revenue).

Property taxes, the district's major revenue source, accounted for 95% of its expense fund revenues in 2012. A voter-approved property tax override that generated approximately \$378,000 in revenue annually expired in 2011, but management indicates that this loss will not directly affect the district's operating budget because the revenues were designated only for capital expenses.

Combined direct and overlapping debt supported by the taxing area, including local school district bonds, is, in our view, low at 2.3% of market value, but high at \$5,200 per capita. The 2011 debt service carrying charge was moderate, in our opinion, at 8.3% of governmentwide, noncapital expenditures. We consider amortization rapid, with the district's debt due to be retired by 2014. We understand the district has no plans to issue additional debt in the near future.

The district provides retirement benefits for its employees through the Washington Public Employees' Retirement System and the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System. In 2011, the district contributed \$194,159 to the systems, which was 3.1% of total governmental funds expenditures. The district incurred \$26,508 as medical expenses as part of its other postemployment benefits for former employees that qualified for the now-closed LEOFF 1 plans. In addition, management notes that the district has set aside \$200,000 for unfunded liabilities such as payouts for vacation and sick leave to retiring members.

Outlook

The stable outlook reflects our view of the district's participation in a strong and diverse regional economy as well as our opinion of management's ability to maintain a very strong financial position on a cash basis of accounting. Due partly to the revenue support from the EMS levy through 2020, we anticipate the district will continue to maintain very strong reserve levels. However, we could lower the rating if the district were to significantly draw on its reserves, such as could happen from an operating imbalance or one-time capital or operating expenditure associated with a natural disaster. We do not expect to raise the rating during the two-year outlook period due to declining AV and the state limitation on property tax revenue growth, which restricts the district's budgetary flexibility.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at

*Summary: Bainbridge Island Fire Department (fka Kitsap County Fire Protection District No. 2), Washington;
General Obligation*

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