

# RatingsDirect®

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## Summary:

# Falmouth, Maine; General Obligation

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## Summary:

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### Credit Profile

US\$5.0 mil GO bonds ser 2013 due 10/16/2013

<i>Long Term Rating</i>	AAA/Stable	New
Falmouth GO		
<i>Long Term Rating</i>	AAA/Stable	Upgraded
<b>Falmouth GO</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services has raised its rating on the Town of Falmouth, Maine's general obligation (GO) bonds to 'AAA' from 'AA+' based on our recently released local GO criteria. The outlook is stable.

At the same time, Standard & Poor's has assigned its 'AAA' long-term rating and stable outlook to the town's series 2013 GO bonds.

The town's full faith and credit pledge secures the bonds. We understand that officials will use bond proceeds to fund various capital improvements.

The rating reflects our assessment of the following factors for the town, specifically what we consider its:

- Very strong economy, which benefits from participation in the broad and diverse economy of Portland;
- Very strong budgetary flexibility, with available reserves at or above 15% of general fund expenditures for the most recent three audited years;
- Strong budgetary performance, with consistent operating surpluses in the general fund and planned drawdowns in the total governmental funds;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions, with formal policy and consistent ability maintain balanced budgets; and
- Very strong debt and contingent liabilities position, driven mostly by the town's low net direct debt.

### Very strong economy

We consider Falmouth's economy to be strong with access to the broad and diverse economy of Portland in Cumberland County. Traditionally, county unemployment has tracked lower than that of the state and the nation; county unemployment averaged 5.5% in 2012. Falmouth has what we consider to be good per capita incomes reflective of the ability of residents accessing jobs in the neighboring areas. It has projected per capita effective buying income of 185% of the U.S. Per capita market value for the town was what we consider very strong at \$188,000 in for fiscal 2013. Assessed value (AV) continues to increase steadily at an average of 1% for the most recent four years. Fiscal 2013's AV totaled \$2.3 billion.

### **Very strong budget flexibility**

In our opinion the town's budgetary flexibility remains very strong, with available reserves above 15% of expenditures for the past several years, and Falmouth has no plans to significantly spend down the reserves. This has been in compliance with the town's reserve policy of 16.67%. Falmouth expects to add about \$800,000 to its available general fund reserves for fiscal 2013 due to conservative budgeting and the sale of two school buildings. For audited fiscal 2012, available reserves were \$11.6 million or 28% of combined general and school operations funds expenditures.

### **Strong budgetary performance**

Falmouth's budgetary performance has been strong overall, in our view, with a small operating deficit of 0.6%, after taking into account one-time capital spending for the general fund in fiscal 2012. Total government funds' operating result was favorable in 2012 with an operating surplus of 0.6%. About 72% of the town's revenues are from property tax, and collection has been strong, averaging more than 97% for the most recent five years. Officials projects to end fiscal 2013 with a \$1.7 million increase to fund balance due to conservative budgeting and sale from two school buildings. Management adopted a balanced general fund budget for 2014 without plans to draw down on its reserves.

### **Very strong liquidity**

Supporting the town's finances is what we consider to be very strong liquidity, with total government available cash as a percent of total governmental fund expenditures and as a percent of debt service both above 100%. We believe Falmouth has good access to external liquidity. It has issued GO bonds frequently in the past 15 years.

### **Strong management**

We view the town's management conditions as strong with formalized financial practices, combined with a consistent ability to maintain balanced budgets. Highlights include a strong focus on financial and capital planning, evidenced by the town's five-year capital improvement plan, which sets the parameters and outlays the debt and nondebt financing of all the capital projects within the plan. The town adheres to its formal investment policy and also monitors the budget regularly. Finance officials present monthly reports to the town manager and quarterly reports to the town council. Budget assumptions are done conservatively and reserves are managed in accordance with Falmouth 's stated policy. The fund balance policy seeks a minimum undesignated fund balance of 16.7% of expenditures, about two months' budgeted expenditures plus an additional \$1 million. The town adopted a debt management policy in 2013, which outlines the overall debt limit to 5% of general fund expenditures.

### **Very strong debt and contingent liability profile**

In our opinion, the town's debt and contingent liabilities profile is adequate, with total governmental funds debt service as a percent of total governmental funds expenditures at 6% and with net direct debt as a percent of total governmental funds revenue at 28%. Meanwhile, overall net debt, after taking into account state aid reimbursement on school-related debt, is low in our opinion at 0.8% of market value. Amortization of debt is also rapid with 68% of principal to be retired in 10 years. Falmouth maintains a long-term capital plan through 2022 with pay-as-you-go total capital needs of about \$16 million. Short-term bonding plan includes a \$9.4 million capital improvement on its Route One corridor.

Falmouth participates in Maine State Retirement System and offers employees the option to participate in a defined contribution plan offered by the International City/County Management Association (ICMA). Falmouth matches up to 8% of the contributions employees make in the ICMA plan. For fiscal 2012, the match on the defined contribution plan

and the town's pension costs on the state plan totaled \$153,000 or 0.3% of total governmental expenditures. Falmouth sponsors a postretirement benefit plan providing retirees with health insurance. The retirees pay 100% of the monthly premium set by the Maine Municipal Employees Health Trust.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Maine municipalities as strong. See Institutional Framework score for Maine.

## **Outlook**

The stable outlook reflects our view of Falmouth's continued consistent financial performance and underlying economy supported by strong management. We do not expect to change the rating in our two-year outlook horizon due to our expectation that the town will maintain very strong budget flexibility and strong financial performance. We also expect the underlying economy to remain very strong.

## **Related Criteria And Research**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework score for Maine

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