

New Issue: Moody's assigns Aa1 to Falmouth ME's \$5M GO Bonds

Global Credit Research - 04 Oct 2013

Aa1 affects \$47.6M long-term debt

FALMOUTH (TOWN OF) ME
Cities (including Towns, Villages and Townships)
ME

Moody's Rating

ISSUE	RATING
2013 General Obligations Bonds	Aa1
Sale Amount \$5,000,000	
Expected Sale Date 10/15/13	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, October 04, 2013 --Moody's Investors Service has assigned a Aa1 rating to the town of Falmouth ME's \$5 million General Obligation Bonds. Concurrently, Moody's has affirmed the Aa1 rating on the town's existing general obligation bonds, affecting \$47.6 million in debt.

SUMMARY RATINGS RATIONALE

The bonds are general obligations of the town and are secured by an unlimited tax pledge. Proceeds from the bonds will be used to finance renovations and improvements to the Falmouth Middle School.

The Aa1 rating reflects the town's historically stable financial position with healthy reserve levels that are supported by a formal policy. The rating also incorporates the town's moderately sized tax base with strong wealth levels, and an elevated debt burden which is supported by state school construction aid.

STRENGTHS

- Favorably located tax base with high wealth and income indices
- Healthy reserve levels supported by a formal policy
- Manageable debt position supported by state school construction aid
- Minimal long-term pension and OPEB liabilities

CHALLENGES

- Below average principal retirement
- Stagnant tax base valuations

DETAILED CREDIT DISCUSSION

STABLE FINANCIAL POSITION WITH IMPROVING RESERVE LEVELS

The town of Falmouth is expected to maintain a stable financial position, given its trend of structurally balanced operations and strong reserve levels which are supported by a formally adopted policy. The town has maintained

historically healthy reserve levels, with total General Fund balance in excess of 40% of revenues and Undesignated/Unassigned General Fund balance in excess of 24% of revenues for the last several fiscal years. At these levels the town remains above the state and national medians for similarly-rated municipalities and also exceeds its formal General Fund Balance Policy which calls for Undesignated General Fund reserves to be maintained at a minimum of 16.7% or two months expenditures. In addition, the town maintains a \$1 million reserve for future capital needs.

The town's 2012 audited financials reflect a modest General Fund balance decline of approximately \$855,000. This decline was due to the town's planned drawdown of reserves to support pay-as-you-go capital financing. At year end, total General Fund balance was \$18 million, or a healthy 43.9% of revenues. Unassigned General Fund balance was \$11.5 million, or an ample 28.1% of revenues.

The fiscal 2013 budget included a 3% increase in spending, and was balanced with a 3.9% increase to the property tax mill rate. During the fiscal year, the town sold two vacant school buildings to a private developer for \$3.1 million. Of that money, approximately \$1.2 million was used to purchase open space in the town, \$1.2 million was used to purchase a wood chip boiler for the Falmouth Middle School, and the remaining \$800,000 was used to supplement the town's fund balance. Estimated ending results indicate a \$1.7 million addition to unassigned fund balance, due to the \$800,000 from the sale of assets mentioned above, as well as favorable budgetary variances. The surplus will increase unassigned General Fund balance to \$13.2 million, or approximately 28.3% of 2013 revenues.

Falmouth's fiscal 2014 budget includes a 0.7% increase in spending and is balanced with a 5.1% increase to the mill rate. Approximately three months into the fiscal year, operations are reportedly stable.

AFFLUENT RESIDENTIAL SUBURB OF PORTLAND

Moody's expects Falmouth's \$2.1 billion tax base will remain stable given its favorable location and strong demographic profile. Located on the southern coast of Maine just north of the City of Portland (G.O. rated Aa1 stable outlook), the town's assessed value (AV) growth has averaged 5.5% annually since 2008, inclusive of a 2008 revaluation that resulted in a 25.3% increase in AV. Since 2008, growth has slowed to an average of 1% annually, due to depression in the residential real estate market as well as moderate ongoing commercial and residential development.

The town is primarily residential (82% of 2013 AV), however access to major transportation arteries U.S. Route 1, Interstate 295 and Interstate 95 supports a healthy commercial sector (11%). Residents benefit from employment opportunities in these areas as well as convenient access to Portland. The town continues its economic development efforts in its commercial districts. Supporting this is the private expansion of natural gas lines to the town and surrounding Cumberland County (G.O. rated Aa1) slated for fiscal 2014. The town expects that the influx of affordable and readily available fuel will help attract continued commercial and industrial development.

Positively, the tax base exhibits a minimal level of concentration with the top ten taxpayers representing just 7.2% of the equalized value. The property tax collection rate remains strong, approximating 98% annually on a current year basis. Income levels are well in excess of national medians with per capita and median family income of 176% and 172% of the nation, respectively. Additionally, reflecting the town's strong property values, the equalized value per capita totals \$187,541 or a strong 210% of the national median.

ELEVATED DEBT BURDEN SUPPORTED BY STATE SCHOOL AID; PENSION AND OPEB LIABILITIES ARE MINIMAL

Moody's anticipates the town's debt burden will remain manageable given anticipated state school building support and the town's recurring cash appropriations for capital projects. Following this issue the town's net direct debt burden rises to an above average 2.3% of equalized value. However, adjusting for state school building aid, anticipated at 85% for Falmouth's school projects, the town's debt burden declines to a more manageable 0.9%. Future borrowing plans include a \$9.4 million issuance in the Spring of 2014 to finance infrastructure and beautification upgrades to the town's Rout One South commercial district. Debt service represented a modest 6.8% of General Fund expenditures in fiscal 2012 and incorporating this issue, existing debt will be amortized at a below average rate of 61.2% within 10 years. All of the town's outstanding debt is in fixed rate mode, and the town is not party to any derivative agreements.

The town contributes to the Maine Public Employees Retirement System, a multi-employer cost-sharing defined benefit pension plan. The town is required to fully fund its Annual Required Contribution (ARC), which was \$82,588 in 2012, representing a negligible 0.2% of expenditures. The town's adjusted net pension liability, under Moody's

methodology for adjusting reported pension data, is \$1.8 million, or a modest 0.05 times General Fund revenues. 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 administered plan in proportion to its contributions to the plan. The town offers post employment benefits to its retirees, however the retiree is responsible for 100% of the premium, with no cost to the town.

WHAT COULD MAKE THE RATING GO UP

- Continued trend of structurally balanced operations
- Significant Tax base growth and diversification
- Significantly reduced debt profile
- Improved demographic characteristics

WHAT COULD MAKE THE RATING GO DOWN

- Prolonged structural imbalance
- Material reduction in General Fund balance
- Decrease in tax base and demographic profile
- Significant growth in debt burden

KEY FACTS:

Equalized Valuation 2013: \$2.1 billion

2010 Population (US Census): 11,185 (+8.5% since 2000)

Average Annual Increase in Equalized Valuation (2008-2013): -0.9%

2010 Per Capita Income (as % of CT and US): \$47,661 (191% and 176%)

2010 Median Family Income (as % of CT and US): \$96,152 (187% and 172%)

FY12 total General Fund balance: \$18 million (43.9% of General Fund revenues)

FY12 unassigned General Fund balance: \$11.5 (28.1% of General Fund revenues)

Direct Debt as % of Equalized Value: 2.3%

Adjusted Debt Burden (Net of School Construction Aid): 0.9%

Amortization of Principal (10 years): 61.2%

Post-sale General Obligation Debt Outstanding: \$47.6 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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