

RatingsDirect®

Summary:

Falmouth, Maine; General Obligation

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Credit Profile

US\$1.895 mil GO rfdg bn ds ser 2015 due 11/15/2026

Long Term Rating AAA/Stable New

Falmouth GO

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Falmouth, Maine's series 2015 general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds. Although the town is not restricted to a particular revenue source, Falmouth has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. Officials plan to use series 2015 bond proceeds to refund the town's series 2007 GO bonds for a present value savings.

We rate the town higher than the nation because we believe Falmouth can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In fiscal 2014, local property taxes generated 66% of revenue, which demonstrated a lack of dependence on central government revenue.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial management policies and practices under our Financial Management Assessment (FMA);
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash of 53.8% of total governmental fund expenditures and 5.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 9.9% of expenditures and net direct debt that is 45% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 68.1% of debt scheduled to be retired within 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Very strong economy

We consider Falmouth's economy very strong. The town, with an estimated population of 11,462, is located in Cumberland County in the Portland-South Portland MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 153% of the national level and per capita market value of \$186,874. Overall, the town's market value grew by 2.4% over the past year to \$2.1 billion in 2015. The county unemployment rate was 4.4% in 2014.

Falmouth is an affluent suburban community on the southern coast of Maine, in the south-central section of the county, next to Portland. While the town is mainly a residential community, it contains two commercial corridors with retail and commercial developments, such as offices, specialty shops, and restaurants. The town has also established four tax-increment financing districts to spur further economic development. Ocean View Retirement LLC, a senior citizen retirement community and one of the town's leading taxpayers, is building additional high- and low-end homes for seniors, according to management. Tyler Technologies, one of the town's leading employers, is expanding and increasing employment opportunities in the town. Falmouth is also seeing economic growth in several areas along Route 1. There is no taxpayer concentration with the 10 leading taxpayers accounting for a very diverse 8.3% of assessed value.

Very strong management

We view the town's management as very strong, with "strong" financial management policies and practices under our FMA, indicating financial practices are strong, well embedded, and likely sustainable.

We view financial management practices as "strong" due to Falmouth's strengthening and enhancing of its policies and procedures, particularly its maintenance of a formal long-term financial plan. Highlights include management's strong focus on capital planning, evidenced by its nine-year capital improvement plan, which sets parameters and outlines debt and nondebt financing for all capital projects. Management also maintains a formal four-year financial plan that it updates and shares with the town council annually. The town adheres to its formal investment policy and monitors the budget regularly. Management performs budget assumptions conservatively, coupled with a five-year historical trend analysis. Falmouth manages reserves in accordance with its stated policy. The fund balance policy seeks a minimum undesignated fund balance of 16.7% of expenditures, which is about two months' budgeted expenditures plus an additional \$1 million. The town adopted a debt management policy in 2013 that set the overall debt limit at 15% of general fund expenditures and 5% of equalized value.

Strong budgetary performance

Falmouth's budgetary performance is strong in our opinion. The town had operating surpluses of 4.8% of expenditures in the general fund and 8.3% of expenditures across all governmental funds in fiscal 2014.

We adjusted fiscal 2014 performance for large one-time capital expenditures. Management attributes positive performance to better-than-expected revenue, particularly excise and motor vehicle taxes, as well as increases in intergovernmental revenue and license and permit fees. In addition, the town saw expenditure savings in several areas, including information technology and health insurance costs. For fiscal 2015, while revenue came in higher than expected, management indicates it reduced fund balance by about \$1.6 million to complete a school building capital project, as well as town hall renovations.

Officials balanced the \$47.5 million fiscal 2016 budget, which does not include any fund balance appropriation. Officials indicate budget-to-actual results are on budget. Falmouth's revenue profile is stable because property taxes generate 66% of general fund revenue.

Very strong budgetary flexibility

Falmouth's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 28% of operating expenditures, or \$12 million.

The town continues to maintain very strong budgetary flexibility, which is in-line with its formal fund balance policy of maintaining available reserves at 16.7% of budgeted expenditures. Even with projected fund balance reductions at fiscal year-end 2015, we expect available reserves to remain more than targeted levels. In addition, the fiscal 2016 budget does not include any fund balance appropriation. Therefore, we expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Falmouth's liquidity is very strong, with total government available cash of 53.8% of total governmental fund expenditures and 5.4x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

Falmouth has issued GO bonds within the past 15 years, supporting its strong access to external liquidity. The town does not currently have investments we consider permissive or aggressive because its investments in governmental funds mainly include certificates of deposit and sweep accounts with maturities of less than one year. In addition, Falmouth does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

Strong debt and contingent liability profile

In our view, Falmouth's debt and contingent liability profile is strong. Total governmental fund debt service is 9.9% of total governmental fund expenditures, and net direct debt is 45% of total governmental fund revenue. Overall net debt is low at 1.4% of market value and approximately 68.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

Falmouth has about \$58 million in debt, which includes approximately \$36 million of combined state-subsidized school department debt and enterprise debt secured by sewer revenue fees. Management believes the town will likely issue about \$12 million of additional debt for a library renovation and street improvement capital project, as well as \$6 million in enterprise debt secured by sewer revenue fees.

Falmouth's combined pension and other postemployment benefit (OPEB) contribution totaled 0.6% of total governmental fund expenditures in fiscal 2014. The town made its full annual required pension contribution in fiscal 2014.

Falmouth participates in the Maine State Retirement System, and it offers employees the option to participate in a defined-contribution plan from International City/County Management Assn. (ICMA). Falmouth matches up to 8% of employee contributions to the ICMA plan. For fiscal 2014, the combined match on the defined-contribution plan and

the town's pension costs from the state plan totaled \$306,739. Falmouth also provides OPEB as an implicit rate subsidy to retirees.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Falmouth's very strong economy, anchored by Portland, which Standard & Poor's believes will likely remain stable. In addition, we believe the town's very strong budgetary flexibility, strong budgetary performance, and strong financial management policies and procedures provide further rating support.

Downside scenario

While we do not expect to change the rating over the two-year outlook period, if financial performance were to deteriorate, leading to a major reduction of reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Institutional Framework Overview: Maine Local Governments

Ratings Detail (As Of November 24, 2015)		
Falmouth GO bnds ser 2011 dtd 05/15/2011 due 11/15/2031		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Falmouth GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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