

# RatingsDirect®

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## Summary:

## Falmouth, Maine; General Obligation

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## Summary:

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Credit Profile		
US\$9.31 mil GO bonds ser 2019 due 11/01/2039		
Long Term Rating	AAA/Stable	New
Falmouth GO		
Long Term Rating	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to the town of Falmouth, Maine's series 2019 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt. The outlook for all ratings is stable.

The town's full-faith-and-credit pledge secures the bonds. Although 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 2019 bond proceeds (approximately \$9.3 million) to fund various capital projects.

Falmouth's GO bonds are eligible for a rating above the sovereign, because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" criteria (published Nov. 19, 2013), the town has a predominately locally derived revenue source, with 67% of general fund revenue coming from property taxes; it also has independent taxing authority and treasury management from the federal government.

The rating reflects our opinion of Falmouth's extremely strong property tax base that continues to grow within the Portland metropolitan statistical area (MSA), supporting the maintenance of its healthy reserve position. The town has a manageable debt profile, in our view, with no significant debt plans.

The rating further reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with a slight operating deficit in the general fund, but an operating surplus at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 19% of operating expenditures;

- Very strong liquidity, with total government available cash at 37.2% of total governmental fund expenditures and 3.8x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 9.7% of expenditures and net direct debt that is 87.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 68.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Falmouth's economy very strong. The town, with an estimated population of 11,878, is located in Cumberland County in the Portland-South Portland MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 181% of the national level and per capita market value of \$213,218. Overall, the town's market value grew by 5.5% over the past year to \$2.5 billion in 2019. The county unemployment rate was 2.5% in 2017.

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. 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 8.2% of assessed value.

### **Very strong management**

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

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 15.0% of general fund expenditures and 5.0% of equalized value.

### **Strong budgetary performance**

Falmouth's budgetary performance is strong, in our opinion. The town had slight deficit operating results in the general fund of 1.1% of expenditures, but a surplus result across all governmental funds of 3.9% in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could improve from 2018 results in the near term.

Our assessment includes reoccurring transfers and \$622,000 fund balance appropriation for a fire truck purchase. The fiscal 2018 budget included the use of previous year surpluses of \$1.21 million for capital projects to avoid having to

issue additional debt. The town ended the year with a budget surplus, which management attributes to stronger-than-anticipated excise taxes and below-budget expenditures of \$297,482. The 2019 budget was balanced and management is expecting a small surplus. Management attributes its projected operating surplus for fiscal 2019 to less-than-budgeted expenditure turn back across all departments, along with strong license, permits, and motor-vehicle excise revenues.

Overall, the town maintains a predictable operating profile as property taxes constitute 67% of general fund revenues and state aid about 24%. Tax collections are strong and stable, in our view, with Falmouth typically receiving 98% on a current basis. The town has been able to raise taxes within the state tax cap and has not had to exceed the cap.

Given the stability of Falmouth's tax base and the recent and projected operating surpluses, we expect for general fund and total governmental fund performance to remain strong in the future.

### **Very strong budgetary flexibility**

Falmouth's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 19% of operating expenditures, or \$10.1 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. Management budgeted the use of \$622,000 of unassigned fund balance in fiscal 2018 for a fire truck purchase. This was a one-time purchase, and the town does not expect to use fund balance going forward. 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 at 37.2% of total governmental fund expenditures and 3.8x governmental debt service in fiscal 2018. 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 have investments that 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 9.7% of total governmental fund expenditures, and net direct debt is 87.0% of total governmental fund revenue. Overall net debt is low at 2.5% of market value, and approximately 68.8% of the direct debt is scheduled to be repaid within 10 years, which are in our view credit strengths.

The town has about \$50.1 million in debt. Management does not expect to issue any additional debt over the outlook horizon. Therefore, we do not expect the town's debt profile to change.

Falmouth's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.2% of total governmental fund expenditures in 2018. The town made its full annual required pension contribution in 2018.

Falmouth contributes to the consolidated plan for participating local districts (PLD) and the state employees' and teacher's plan (SET) for pensions, which are part of Maine Public Employees' Retirement System. The town's proportionate share of the PLD's net pension liability totaled \$2.45million, with a 91.1% funded ratio as of fiscal 2018. The town's proportionate share of SET's liability totaled \$225,000, with an 82.9% funded ratio as of fiscal 2018. Falmouth also provides OPEB, as an implicit rate subsidy, to retirees. Given the plans' funded ratios, we do not expect fixed costs to increase or pressure the budget.

### Strong institutional framework

The institutional framework score for Maine municipalities is strong.

## Outlook

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

### Downside scenario

While unlikely over the two-year outlook period, we could lower the rating if the town's financial performance deteriorates, leading to a major reduction in reserves.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of April 3, 2019)		
Falmouth GO		
Long Term Rating	AAA/Stable	Affirmed
Falmouth GO		
Long Term Rating	AAA/Stable	Affirmed
Falmouth GO		
Long Term Rating	AAA/Stable	Affirmed
Falmouth GO		
Long Term Rating	AAA/Stable	Affirmed

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