

# RatingsDirect®

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## Summary:

# Cape Elizabeth, Maine; General Obligation

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### Credit Profile

US\$2.1 mil GO bnds ser 2016 due 10/15/2036

<i>Long Term Rating</i>	AAA/Stable	New
Cape Elizabeth GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Cape Elizabeth, Maine's series 2016 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 on all ratings is stable.

The town's full-faith-and-credit pledge secures the bonds. Although the town is not restricted to a particular revenue source, Cape Elizabeth 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 2016 bond proceeds for various capital improvement projects.

We rate the town higher than the nation because we believe Cape Elizabeth 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 2016, local property taxes generated 86% 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);
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 13.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 34% of total governmental fund expenditures and 9.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.6% of expenditures and net direct debt that is 42.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 81.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Cape Elizabeth's economy very strong. The town, with an estimated population of 9,015, is located in Cumberland County in the Portland-South Portland, Maine MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 191% of the national level and per capita market value of \$204,193. Overall, the town's market value grew by 6.8% over the past year to \$1.8 billion in 2016. The county unemployment rate was 3.4% in 2015.

Cape Elizabeth is an affluent coastal community located five miles from Portland in southeastern Cumberland County. Many of the town residents commute to Portland for employment. Some of the town's largest employers include Village Crossings, Inn by the Sea, and Purpoodock Club. Property values continue to see modest growth as assessed values increased by an average of 4.5% over the past three years. Building permits also continue to see increases reflecting the town's healthy real estate market. There are currently several smaller residential developments in place, which will help to further strengthen the town's already very strong tax base. Tax collections have also averaged 99% over the past three years. There is no taxpayer concentration as the 10 leading payers account for a very diverse 4% of assessed value.

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Assumptions are conservative in nature coupled with at least a 10-year historical trend analysis of revenues and expenditures. Budget-to-actual results are reviewed monthly with the council. While there is no formal long-term financial plan, the town does have a formal five-year capital improvement plan that identifies funding sources and is updated annually. It also has a formal investment policy and reports holdings monthly to the council. The formal fund balance policy calls for a general fund reserve of at least 8.33% of annual general fund revenues. The town is currently in compliance with this policy.

### **Strong budgetary performance**

Cape Elizabeth's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 1.5% of expenditures, and surplus results across all governmental funds of 3.0% in fiscal 2016. General fund operating results of the town have been stable over the last three years, with a result of 1.4% in 2015 and a result of 0.2% in 2014.

Fiscal 2016 results include adjustments for one-time capital expenditures paid for with bond proceeds. According to management, the fiscal 2016 surplus was mainly due to revenues exceeding the budget and lower-than-anticipated expenditures. Primarily, the town continues to see positive variances in budget-to-actuals in property taxes as well as excise taxes and permits. In addition, the town saw savings in areas of education, capital expenditures, and other general expenditures, which all contributed to it posting a surplus for the year. Before this, the town also had a general fund surplus \$485,000 or 1.4% of expenditures in fiscal 2016.

The fiscal 2017 budget totals \$38.9 million, which represents a 7% increase from the prior year. It also includes an \$825,000 fund balance appropriation, which the town has done historically. Management, however, indicates current

budget-to-actuals are currently on target and it does not expect a drawdown of reserves by fiscal year-end. Therefore, we expect budgetary performance to remain strong. Property taxes account for 86% of revenues followed by intergovernmental at 11.8%.

### **Strong budgetary flexibility**

Cape Elizabeth's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 13.6% of operating expenditures, or \$4.9 million.

The town maintains strong reserve levels. The fiscal 2017 budget includes an \$825,000 fund balance appropriation. Management however, does not expect any actual drawdowns of reserves by fiscal year-end. The town also upholds a formal reserve policy of maintaining its unassigned fund balance at 8.33% of general fund revenues, which it has historically adhered to. As such, we expect its budgetary flexibility to remain strong.

### **Very strong liquidity**

In our opinion, Cape Elizabeth's liquidity is very strong, with total government available cash at 34% of total governmental fund expenditures and 9.5x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We believe Cape Elizabeth's maintenance of its strong access to external liquidity further enhances our view of its liquidity. The town is a regular market participant, issuing GO bonds frequently during the past several years. We understand that the town has not entered into any bank loans or direct-purchase debt or that it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Its investments, which are limited, are mainly made up of mutual funds. The town has consistently had very strong liquidity, and we do not expect a change to these ratios.

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

In our view, Cape Elizabeth's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.6% of total governmental fund expenditures, and net direct debt is 42.7% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, and approximately 81.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

With this issuance, the town will have about \$18.3 million in total direct debt. We understand the town has no significant debt plans in the next two fiscal years. As such, we do not expect any changes in the town's debt ratios over the next few years.

Cape Elizabeth's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 1.5% of total governmental fund expenditures in 2016. The town made its full annual required pension contribution in 2016.

Cape Elizabeth's pension and other postemployment benefit liability costs remain manageable. The town participates in the Maine Public Employees Retirement System. Its proportionate share of the net pension liability totaled \$650,000 in fiscal 2016. The system is 88% funded. For employees who do not participate in the Maine Public Employees Retirement System, the town offers a 401 defined-contribution plan. The town's contribution to the plan was less than 1% expenditures. The town also provides OPEB as an implicit rate subsidy to certain retirees.

## **Strong institutional framework**

The institutional framework score is strong.

## **Outlook**

The stable outlook reflects our view of the town's consistently strong budgetary flexibility, and very strong debt profile, which are supported by a strong management. Enhancing the rating's stability is the very strong economy, which has access to the broad and diverse Portland-South Portland MSA. While we do not expect a change in the rating within the two-year outlook horizon, should the town's financial performance deteriorate leading to reductions in its available reserves, we could lower the rating.

## **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
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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