

RatingsDirect®

Summary:

Cape Elizabeth, Maine; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$5.75 mil GO bnds ser 2015 dtd 03/17/2015 due 03/15/2035

Long Term Rating AAA/Stable New

Cape Elizabeth GO

Long Term Rating AAA/Stable Affirmed

Cape Elizabeth GO

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to the town of Cape Elizabeth, Maine's general obligation (GO) bonds, series 2015. At the same time, Standard & Poor's affirmed its 'AAA' rating on the town's GO bonds outstanding. The outlook on all ratings is stable.

The rating reflects our assessment of the following factors for the town:

- Very strong economy, with access to the broad and diverse Portland metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 12% of operating expenditures;
- Strong budgetary performance, with operating results that were balanced in the general fund and slightly positive at the total governmental fund level;
- Very strong liquidity, with total government available cash of 28% of total governmental fund expenditures and 10.9x governmental debt service and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 2.6% and net direct debt that is 43.3% of total governmental fund revenue and low overall net debt less than 3% of market value and rapid amortization with 79.4% of debt scheduled to be retired in 10 years; and
- A strong institutional framework score.

A pledge of the town's full faith and credit pledge secures these bonds. We understand that proceeds will be used to finance the construction of a town library, as well as various school capital projects.

Very strong economy

We consider Cape Elizabeth's economy to be very strong, with access to the broad and diverse Portland metropolitan statistical area (MSA). Cape Elizabeth's projected per capita income is very strong at 174.7% of the nation. Per capita market value is also strong at \$190,646 for fiscal 2015. The town is an affluent coastal community, with the majority of residents commuting to Portland for employment. Unemployment in Cumberland County in 2013 was 5.3% and the town's 10 leading taxpayers account for a diverse 4.2% of assessed value (AV). We understand that there are currently no significant tax appeals by any large taxpayer. Management indicates construction activity within the town is

modest.

Strong budgetary performance

The town's budgetary performance has been strong overall with an operating surplus of \$85,000 (0.2% of budget) for the general fund and a \$252,000 (0.6% of budget) surplus for total governmental funds in 2014. The general fund result is net of lease proceeds, as well as any premiums related to refunding bonds. The better-than-budgeted results were mainly driven by higher-than-projected excise tax collections and lower costs associated with snow removal given the mild winter. The 2014 budget included a \$352,000 appropriation of the fund balance for ongoing capital projects, which is in line with historical practice.

The town's 2015 budget totals \$34.2 million, and includes about a \$350,000 appropriation of fund balance and a tax levy increase within the LD1 limit. Management indicates budgetary performance is tracking well, and expects to close the fiscal year with a \$300,000-\$400,000 general fund surplus, despite the harsh winter to date. Property taxes remain the town's primary revenue source, accounting for 83% of general fund revenues, followed by state aid at 15%. Current tax collections have averaged about 99% of the levy in the past five fiscal years. Management projects the fiscal 2016 budget will increase by about 4%, and will include about a 1.7% tax rate increase. The increase in expenditures will be largely driven by the debt service associated with this current library project.

Given the town's historical performance, reliance on property taxes, and limited exposure to state aid, we believe the town's budgetary performance will remain at least adequate. We believe any deterioration to the adequate category will be driven by Cape Elizabeth's capital improvement program and the subsequent ongoing capital outlay funded by the general fund, which could affect total governmental fund performance as well.

Strong budgetary flexibility

In our opinion, budgetary flexibility remains strong with reserves above 11.5% of expenditures for the past several years. The available general fund balance for audited fiscal 2014 was \$4.1 million, or 12% of expenditures. Despite a \$350,000 appropriation of the fund balance in the 2015 budget, management expects to add to reserves based on a projected operating surplus at year-end. We believe the town's budgetary flexibility will remain strong in the next two fiscal years, and above its reserve policy of maintaining at least 8.33% of annual general fund operating revenues in unassigned fund balance.

Very strong liquidity

Supporting the town's finances is liquidity we consider very strong, with total government available cash at 28% of total governmental fund expenditures and nearly 1,087% of debt service. We believe the town has strong access to external liquidity, and its cash is invested in highly liquid collateralized bank deposits.

Strong management conditions

We view the town's management conditions as strong with good financial practices. 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. 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.

Very strong debt and contingent liability

The debt and contingent liability profile is very strong, with total governmental fund debt service at just 2.6% of total governmental fund expenditures, and net direct debt at 43% of total governmental fund revenue. Overall net debt is very low at 1.2% of market value, and about 79% of debt, including the series 2015 bonds, will be amortized in the next 10 years. We understand the town has no significant debt plans in the next two fiscal years.

Cape Elizabeth's pension and other postemployment benefit liability costs remain manageable. The town participates in the Maine Public Employees Retirement System. The town pays 100% of the annual required contribution (ARC) as determined by the state, equivalent to \$61,900 in 2014. For employees who do not participate in the Maine Public Employees Retirement System, the city offers a deferred compensation plan. The town's contribution to the deferred compensation plan was less than 1% of total governmental funds expenditures. The town also provides other postemployment benefits (OPEB) as an implicit rate subsidy to certain retirees. As of June 30, 2014, its unfunded actuarial accrued liability was \$1.1 million and was 0% funded. The combined pension and OPEB contributions amounted to 0.2% of governmental expenditures.

Strong institutional framework

We consider the Institutional Framework score for Maine towns strong.

Outlook

The stable outlook reflects our view of the town's consistently strong budgetary flexibility, and very strong liquidity, and debt profile, which are supported by a strong management. Enhancing stability is the very strong economy, which has access to the broad and diverse Portland MSA. We do not expect to change the rating in our two-year outlook horizon as we expect Cape Elizabeth to maintain at least adequate budgetary performance and strong budgetary flexibility.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Maine Local Governments

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