

New Issue: Moody's assigns Aa1 to Cape Elizabeth, ME's \$5.8M GO Bonds

Global Credit Research - 26 Feb 2015

Affirms Aa1 on outstanding debt; Aa1 applies to \$17.5M of debt, post-sale

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

Moody's Rating

ISSUE	RATING
2015 General Obligation Bonds	Aa1
Sale Amount \$5,750,000	
Expected Sale Date 03/03/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, February 26, 2015 --Moody's Investors Service assigns a Aa1 rating to the Town of Cape Elizabeth's (ME) \$5.8 million 2015 General Obligation Bonds. Concurrently, Moody's affirms the Aa1 rating on the town's outstanding rated GO debt. Post-sale, the city will have \$17.5 million of rated GO debt.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the town's affluent residential tax base, stable and healthy financial position, and manageable debt burden.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Substantial improvement in liquidity and reserves
- Significant tax base expansion and diversification

WHAT COULD MAKE THE RATING GO DOWN

- Decline in reserves and lack of compliance with financial policies
- Significant declines in the tax base or deterioration of the demographic profile
- Material growth in debt burden

STRENGTHS

- Stable financial position guided by sound policies
- Affluent residential tax base
- Manageable debt profile
- Modest pension and OPEB liabilities

CHALLENGES

- Moderate revenue raising ability due to LD-1
- Limited opportunity for tax base expansion

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale section.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE

Cape Elizabeth's moderately-sized \$1.7 billion tax base will remain healthy due to a stable residential sector with strong property values. Located in Cumberland County (Aa1), the town is a wealthy suburb of Portland (Aa1 stable). The town's tax base is primarily residential (94% of 2015 assessed value) and is almost fully developed, with a significant portion of the undeveloped land restricted for conservation. Equalized values have been stable, declining at a minimal compound annual rate of 0.7% over the past five years. Positively, values increased 2.3% in fiscal 2015. Future development, though limited, is expected to come from the town center area, and the town has applied to the state to make this area a tax increment financing (TIF) district. The town's unemployment rate of 3.5% in December 2014 remains well below the state (5.0%) and nation (5.4%). Wealth and income levels are strong with per capita and median family incomes representing 182% and 164% of the nation, respectively. Housing values in the town are strong as evidenced by a robust full value per capita of \$191,154 (214% of the US median).

FINANCIAL OPERATIONS AND RESERVES

The financial position will continue to remain healthy given a history of conservative budgeting practices, prudent expenditure management, and sound reserve levels. The town has generated balanced or surplus operations for the past six years, and total General Fund balance has remained stable, averaging 15% of revenues since 2009. Fiscal 2014 audited results reflect another slight surplus of \$174,000, which brings the total General Fund balance to \$5.3 million (15% of revenues). The town remains in compliance with its formal policy to maintain unassigned reserves at 8.33% of revenues (excluding schools), which is equivalent to revenues received in an average one month period. If the town exceeds this target, any additional funds between 100% and 115% of the target will be appropriated towards the next year's budget to mitigate tax levy increases. Because of this policy, the unassigned General Fund balance has remained relatively flat over the past four years, and was \$2.9 million (8.3% of revenues) in fiscal 2014.

The fiscal 2015 budget increased 2.9% from the prior year mostly due to education costs and was balanced with a 3.2% property tax increase. Eight months into the fiscal year, management reports that excise and property taxes are coming in stronger than anticipated, and should help to offset any overage in public works expenses due to the harsh winter. Management expects to end the year with another surplus. The preliminary fiscal 2016 budget will increase approximately 4% due to debt service, health insurance, and salaries. Management anticipates a tax increase of 3.2%, and does not plan to appropriate any reserves.

The town is not heavily reliant on economically sensitive or state revenues, as property taxes represent the largest component (77% in fiscal 2014) and collections remain very strong at over 99% annually. State aid continues to be low at 15% of revenues in fiscal 2014. The town provides education for approximately 1,600 students in grades K-12, and school department costs represented 69% of total General Fund expenditures in fiscal 2014. The town maintains roughly \$780,000 of capacity (as of fiscal 2015) to raise its property tax levy, if necessary, above the limits imposed by Maine's LD-1 property tax limit. Cape Elizabeth's town council has voted once in the past six years to increase the property tax levy above LD-1 limits, and the town's unique charter allows referenda of town council budget approvals when related to capital projects in excess of \$1 million.

Liquidity

The town's net cash position at the close of fiscal 2014 was \$10.1 million, an estimated 28.7% of General Fund revenues.

DEBT AND PENSIONS

The debt position will remain manageable given its modest direct debt burden of 1.0% of equalized value,

satisfactory principal amortization, and moderate future borrowing plans. The capital improvement plan totals approximately \$16.6 million to fund town and school capital needs through 2026, which the town will finance with up to \$1.5 million annually in pay-as-you-go capital funding and a total of \$2.9 million in bonds.

The overall debt burden increases to 1.3% of full value when incorporating overlapping debt for Cumberland County (Aa1) and the regional wastewater utility. The town also has \$3.5 million in contingent debt, the majority of which is related to the Portland Water District (A1), a regional water authority. Pursuant to a long-term agreement, Cape Elizabeth and nine other communities have pledged their full faith and credit to support the debt, if needed.

Debt Structure

All of Cape Elizabeth's debt is fixed rate and amortization of principal is average, with 79.4% repaid within ten years. Debt service in fiscal 2014 comprised a manageable 2.3% of expenditures.

Debt-Related Derivatives

Cape Elizabeth has no derivatives.

Pensions and OPEB

The town participates in several defined benefit pension plans under the Maine Public Employees Retirement System (MainePERS), a defined contribution plan and a social security program, with a minimal combined annual funding contribution of 1% of 2014 expenditures. The town's teachers participate in the MainePERS system, which is administered at the state level, though beginning in fiscal 2014, the town became responsible for approximately half of the normal cost of the teachers' plan. The town contributed \$300,000 in fiscal years 2014 and 2015, and expects to contribute \$302,000 in fiscal 2016. The town's adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, is \$1.6 million, or a modest 0.1 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.

The town does not subsidize retiree health care, but the liability for other post employment benefits (OPEB) is a modest \$1.1 million (as of the last valuation date of January 1, 2014), driven by retirees' access to the town's health insurance plan. Total fixed costs, including pension, OPEB, and debt service, represents \$1.2 million in fiscal 2014, or a manageable 3.4% of expenditures.

MANAGEMENT AND GOVERNANCE

Maine cities and towns have an institutional framework score of "Aa", or strong. Revenues are generally predictable as cities rely mostly on property tax revenue to fund operations. Property taxes are subject to the state property tax cap known as LD-1, but cities and towns have the ability to exceed the cap by a majority vote of the legislative body or voter approval. Expenditures are stable and predictable and can be cut as needed.

Town management employs conservative budgeting and financial management as evidenced in formal fiscal policies and long-term planning for capital expenditures.

KEY STATISTICS

Fiscal 2015 full valuation: \$1.7 billion

Fiscal 2015 full valuation per capita: \$191,154

Median Family Income as % of U.S.: 164.3%

Fiscal 2014 Available General Fund Balance as % of Revenues: 11.7%

5-Year Dollar Change in Available General Fund Balance as % of Revenues: 0.0%

Fiscal 2014 Cash Balance as % of Revenues: 28.7%

5-Year Dollar Change in Cash Balance as % of Revenues: 8.2%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of Full Value: 1.0%

Net Direct Debt / Operating Revenues: 0.5x

3-Year Average ANPL as % of Assessed Value: 0.03%

3-Year Average ANPL / Operating Revenues: 0.02x

OBLIGOR PROFILE

Cape Elizabeth is town with a population of 9,015 located on the southern coast of Maine, approximately five miles southeast of Portland.

LEGAL SECURITY

Debt service on \$4 million of the 2015 bonds is secured by the town's general obligation limited tax pledge, as debt service is subject to the state's property tax limitation known as LD-1. Debt service on \$1.8 million of the 2015 bonds is secured by an unlimited general obligation tax pledge, as debt service on school projects is exempt from LD-1.

USE OF PROCEEDS

Bond proceeds in the amount of \$4 million will finance improvements to the town library. The remaining \$1.8 million in proceeds will finance school improvements, including roof repairs and electrical and HVAC upgrades.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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