Cape Elizabeth (Town of) ME

New Issue - Moody's Assigns Aa1 to Cape Elizabeth, ME's GO Bonds

Summary Rating Rationale
Moody's Investors Service has assigned a Aa1 rating to the Town of Cape Elizabeth, ME's $2.1 million 2016 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa1 rating on $11.2 million of outstanding general obligation debt.

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

Credit Strengths
» Stable financial position guided by sound policies
» Manageable debt profile
» Modest pension and OPEB liabilities

Credit Challenges
» Moderate revenue raising ability due to property tax cap
» Limited opportunity for tax base expansion

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

Factors that Could Lead to an Upgrade
» Significant tax base expansion and diversification
» Improvement in income levels
» Substantial improvement in liquidity and reserves

Factors that Could Lead to a Downgrade
» Significant declines in the tax base or deterioration of the demographic profile
» Decline in reserves and lack of compliance with financial policies
» Material growth in debt burden

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Key Indicators

Exhibit 1

<table>
<thead>
<tr>
<th>Cape Elizabeth (Town of) ME</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy/Tax Base</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total Full Value ($'000)</td>
<td>$1,710,750</td>
<td>$1,685,400</td>
<td>$1,685,300</td>
<td>$1,723,250</td>
<td>$1,840,800</td>
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<tr>
<td>Full Value Per Capita</td>
<td>$188,929</td>
<td>$185,821</td>
<td>$185,340</td>
<td>$191,154</td>
<td>$204,193</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>168.8%</td>
<td>178.8%</td>
<td>176.9%</td>
<td>176.9%</td>
<td>176.9%</td>
</tr>
</tbody>
</table>

Detailed Rating Considerations

Economy and Tax Base: Modest Growth Should Continue Due to Residential Property Value Appreciation and Some Downtown Development

The moderately-sized $1.8 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 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 grown modestly recently, offsetting some declines during the recession. Values increased at a compound annual rate of 0.6% over the past five years (2011-2016). Positively, values increased 6.8% in fiscal 2016 and have almost surpassed the pre-recession peak of $1.9 billion in fiscal 2008. Future development, though limited, is expected to come from the town center area, and the state recently approved this area as a tax increment financing (TIF) district. Per the TIF, the town will keep 100% of the incremental tax revenue to finance infrastructure improvements.

Wealth and income levels are strong with per capita and median family incomes representing 182% and 177% of the nation, respectively. The equalized value per capita is also strong at $204,193 (230% of the US median) and incorporates some second homes and high-valued waterfront properties. The unemployment rate of 2.7% in September 2016 remains well below the state (3.4%) and nation (4.8%).

Financial Operations and Reserves: Sound Financial Position Supported by Formal Policy Will Continue

The financial position will remain stable given conservative budgeting and healthy reserve levels guided by a formal policy. The town generated balanced or surplus operations for at least the past six years (2011-2016), and available General Fund balance averaged 12.8% of revenues. Fiscal 2016 audited results reflect a $621,000 surplus due to overall conservative budgeting of property and excise taxes, as well as turnbacks in most departments. Available fund balance improved to $4.9 million (13.1% of revenues), and of this amount, $3.6 million (9.6%) is unassigned. 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
The fiscal 2017 budget (town and school) increased 3.8% due to debt service (for the current issue), health insurance, and wage increases. The budget was balanced with a 4% tax levy increase and $825,000 of fund balance ($450,000 school and $375,000 town). Management reports that operations are stable five months into the year.

Cape Elizabeth is not reliant on economically sensitive revenues, as property taxes consistently account for over 80% of annual revenues, and state aid represents approximately 15%. Current year property tax collections are very strong at over 99%. Education is the largest expenditure at 67%.

LIQUIDITY
The General Fund cash position has been stable for the past several years, and was $12.9 million, or 34.8% of revenues, in fiscal 2016. When accounting for current liabilities, including summer teachers’ salaries and interfund loans payable, year-end cash declines to $6.5 million, or a still healthy 17.4%.

Debt and Pensions: Debt Burden Will Remain Manageable; Below-average Pension Liability
The 1% direct debt burden (including the new issue) will remain manageable given a strong commitment to pay-as-you-go financing and modest future debt plans. The Capital Improvement Plan (through 2027) totals $16.3 million and the majority of projects will be financed pay-as-you-go. The town will likely issue approximately $2 million in bonds around 2021 to finance a new ladder truck and road work. The town’s charter requires voters to approve single capital projects in excess of $1 million.

The overall debt burden increases to 1.2% of equalized value when incorporating overlapping debt for Cumberland County and the regional wastewater utility. The town also has $3.2 million in contingent debt, the majority of which is related to the Portland Water District (Aa3), 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 debt is fixed rate and amortization of principal is above average with 79.5% repaid within ten years. Debt service, net of self-supporting sewer enterprise debt, accounted for 5.4% of fiscal 2016 expenditures.

DEBT-RELATED DERIVATIVES
The town is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB
Cape Elizabeth contributes to the Maine Public Employees Retirement System’s State Employee and Teacher Plan and the Consolidated Plan for Participating Local Districts, two cost-sharing multi-employer defined benefit pension plans. The town fully funds its required contributions, which was a combined $494,165 in fiscal 2016 or 1.4% of expenditures. The fiscal 2016 three-year combined adjusted net pension liability, under Moody’s methodology for adjusting reported pension data, is $5.3 million, or a low 0.14 times General Fund revenues and 0.3% of equalized value. 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. We determined the town’s share of liability for the state-run plans in proportion to its contributions to the plans.

The OPEB liability is limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan. As of January 2014, the total liability is only $1.1 million.

Total fixed costs for fiscal 2015, including debt service and required pension contributions, represented $2.5 million, or low 6.8% of expenditures.

Management and Governance
The management team employs conservative budgeting and financial management as evidenced in a stable financial position, compliance with a formal fund balance policy, and long-term planning for capital expenditures.

Maine cities and towns have an institutional framework score of “Aa,” or strong. Revenues are highly predictable and mostly consist of property taxes, with a smaller portion coming from state aid. Cities and towns have moderate revenue-raising ability since property taxes are subject to the state property tax cap known as LD 1, although the cap can be exceeded by a majority vote of the legislative...
body or with voter approval. Taxes raised for school purpose, including school debt service, are not subject to LD-1. Expenditure predictability is moderate, as most expenditures are for education, general government and public safety. Cities and towns have a moderate expenditure reduction ability due to public sector union presence.

**Legal Security**
Debt service 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.

**Use of Proceeds**
Bond proceeds will finance improvements to the town’s recycling center and the community pool.

**Obligor Profile**
The Town of Cape Elizabeth has a population of 9,000 and is located on the southern coast of Maine, approximately eight miles southeast of Portland.

**Methodology**

**Ratings**

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<th>Exhibit 2</th>
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<tr>
<td><strong>Cape Elizabeth (Town of) ME</strong></td>
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<tr>
<td>Issue</td>
</tr>
<tr>
<td>2016 General Obligation Bonds</td>
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<tr>
<td>Rating Type</td>
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<td>Sale Amount</td>
</tr>
<tr>
<td>Expected Sale Date</td>
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<tr>
<td>Rating Description</td>
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Source: Moody’s Investors Service
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