

CREDIT OPINION

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Kennebunk (Town of) ME

Update to credit analysis

Summary

Kennebunk (Aa1) benefits from sound fiscal management which has led to consistent operating surpluses and healthy financial reserves. The town has a moderately sized tax base with above average resident wealth and incomes. Long-term liabilities are affordable.

Credit strengths

- » Healthy reserve position supported by a formal policy
- » Strong and experienced management team
- » Low fixed cost structure

Credit challenges

- » Moderate revenue raising ability due to limits on tax increases under state law

Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significant tax base expansion and improvement in the resident wealth and income profile
- » Multiple years of large surpluses leading to a significant growth in reserves

Factors that could lead to a downgrade

- » Operating deficits resulting in a material decline in reserves or liquidity
- » Deterioration in tax base or wealth and income profile
- » Material growth in debt burden

Key indicators

Exhibit 1

Kennebunk (Town of) ME	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$2,097,550	\$2,085,300	\$2,159,200	\$2,245,850	\$2,316,900
Population	-	10,972	11,051	11,161	10,798
Full Value Per Capita	\$192,224	\$190,057	\$195,385	\$201,223	\$214,568
Median Family Income (% of US Median)	145.9%	141.1%	143.8%	141.8%	141.8%
Finances					
Operating Revenue (\$000)	\$33,365	\$35,121	\$35,361	\$36,918	\$38,645
Fund Balance (\$000)	\$8,417	\$9,253	\$9,367	\$9,429	\$9,858
Cash Balance (\$000)	\$9,863	\$15,269	\$12,870	\$15,395	\$15,490
Fund Balance as a % of Revenues	25.2%	26.3%	26.5%	25.5%	25.5%
Cash Balance as a % of Revenues	29.6%	43.5%	36.4%	41.7%	40.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$6,695	\$10,770	\$9,538	\$11,609	\$10,330
3-Year Average of Moody's ANPL (\$000)	\$2,386	\$4,879	\$5,964	\$6,294	\$4,816
Net Direct Debt / Operating Revenues (x)	0.2x	0.3x	0.3x	0.3x	0.3x
Net Direct Debt / Full Value (%)	0.3%	0.5%	0.4%	0.5%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.1x	0.1x	0.2x	0.2x	0.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.2%	0.3%	0.3%	0.2%

Source: Moody's Investors Service; Town audited financial statements

Profile

The Town of Kennebunk has a population of 10,800 and is located on the coast of Maine in York County, approximately 24 miles southwest of Portland (Aa1 stable).

Detailed credit consideration

Economy and Tax Base: Modest growth expected for coastal tax base with above average wealth

The town's moderately-sized \$2.4 billion tax base will continue to grow modestly given ample land available for development and the desirability of homes in this primarily residential coastal community near Portland (Aa1 stable). The equalized full value of the tax base has increased an average of 2.6% annually over the last five years, including 2.7% in fiscal 2018. Future growth will be driven by ongoing commercial and residential development. Building permitting activity remains strong.

Resident incomes are above average compared to the state and US with a median family income of \$96,275 which is 152.5% of state median and 145.6% of US median. The strong equalized value per capita of \$220,444 reflects the number of second homes and high-valued waterfront properties as well as a growing commercial sector. York County's favorable location – in southeastern Maine bordering Cumberland County (Aa1), the economic hub of the state – contributes to the low countywide unemployment rate of 3.2% as of February 2018, similar to the state rate of 3.3% and below the national rate of 4.4%.

Financial Operations and Reserves: Well-managed financial position with healthy reserves

Kennebunk's financial management is very strong and budgets conservatively, consistently balancing recurring revenues and expenditures. The sustained structural operating balance has led to over five consecutive years of operating surpluses. Audited fiscal 2017 results reflect a \$472,000 surplus which increased available General Fund balance to \$9.9 million, a healthy 25.5% of revenue. Positively, the majority of this amount (\$8.6 million representing 22.2% of revenues) remains unassigned. The town's formally adopted

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policy stipulates that unassigned fund balance remains at a minimum of 16.7%, of the current budgets expenditures. The town often appropriates funds above that amount for capital projects, but never to support operating expenses.

The fiscal 2018 budget is 5.4% larger than the 2017 budget, mainly due to rising education assessments. The tax levy increased 4.7%, which is less than allowable under the LD-1 cap. Management reports that operations are stable year to date and expects to end the year balanced or with another modest surplus.

The town benefits from highly predictable revenues as property taxes comprise around 91% of revenues while the town receives less than 3% of its annual revenues from the state. The town's largest expenditures remain education assessments (59.5% of expenditures) which are paid to Regional School Unit 21 (Aa3) which provides education to the town's school age population.

LIQUIDITY

General Fund cash at the close of fiscal 2017 totaled \$15.5 million, a healthy 40.1% of revenues.

Debt and Pensions: Manageable long-term liabilities enhance credit profile

The debt burden totals 0.6% of equalized value, which is below average. It will remain manageable given a strong commitment to pay-go capital spending, fast amortization, and limited future borrowing plans. The overall debt burden incorporating overlapping debt for York County and Regional School Unit 21 (Aa3) is approximately 2% of equalized full value.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is faster than average, with 88% repaid within ten years. Debt service costs are around \$1.8 million and comprise a modest 4.7% of expenditures.

DEBT-RELATED DERIVATIVES

Kennebunk is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Kennebunk's pension liabilities will remain manageable given timely and adequate annual contributions.

The town participates in the Maine Public Employees Retirement Systems Consolidated Plan for Participating Local Districts, a multi-employer defined benefit retirement plan sponsored by the State of Maine (Aa2 stable). The town always funds its required contribution, which was \$208,000 in fiscal 2017, less than 1% of operating expenditures. The combined adjusted net pension liability, under Moody's methodology for adjusting reported pension liabilities, is \$4.2 million, or a below average 0.11 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the towns reported liability information, but to improve comparability with other rated entities. We determined the towns share of liability for the state-run plans in proportion to its contributions to the plans.

The OPEB liability is very modest at \$313,000 and is limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees.

Management and Governance

Town management is strong, as evidenced by a growing and healthy fund balance, careful expense management, formally adopted fiscal policies, and multi-year capital planning.

Maine 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. 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. Expenditure predictability is moderate, as most expenditures are for education, general government and public safety. Towns have a moderate expenditure reduction ability due to public sector union presence.

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