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Summary:

Kennebunk Town, Maine; General Obligation

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Credit Profile

US\$3.049 mil GO bnds ser 2016 dtd 03/01/2016 due 10/01/2030

Long Term Rating AAA/Stable New

Kennebunk Twn GO

Long Term Rating AAA/Stable Affirmed

Kennebunk Twn GO

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Kennebunk Town, Maine's series 2016 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds. Although the town is not restricted to a particular revenue source, Kennebunk could levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite state limitations on levy limits, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. We understand officials plan to use series 2016 bond proceeds to fund various infrastructure and tax-increment financing projects and finance the purchase of new vehicles and equipment, in-line with the town's capital improvement plan (CIP).

The rating reflects our opinion of the following factors for Kennebunk, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.8% of total governmental fund expenditures and 7.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.5% of expenditures and net direct debt that is 32.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 88% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Kennebunk's economy very strong. The town, with an estimated population of 11,042, is located in York County in the Portland-South Portland MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 145% of the national level and per capita market value of \$203,387, which we calculated using the town's equalized state valuation. Overall, the town's market value grew by 4% over the past year to \$2.2 billion in 2016. The county unemployment rate was 5.3% in 2014.

Kennebunk is on the southern coast of Maine, about 24 miles southwest of Portland, along Interstate 95. In addition to commuting into Portland for employment, residents could choose to work at one of the town's leading employers, such as the local school district (366 employees). Other leading employers include:

- Corning (335 employees), a medical-lab-equipment manufacturer;
- Kennebunk Savings Bank (150);
- Sunrise Senior Living (150); and
- Southern Maine Medical Center/Prime Care (150).

Besides various light-industrial and commercial enterprises, several shops, and art galleries, tourism is an important economic resource due to the town's access to the coast. The slated opening of the town's train station on the Downeaster Amtrak line in 2018 should further bolster tourism in the town; the station should strengthen Kennebunk's connection to Boston and other coastal cities.

Assessed valuation (AV) has grown modestly, yet consistently, each fiscal year since fiscal 2010. Management is projecting AV will continue to grow modestly. Officials expect strong housing starts; the construction of a bowling alley and restaurant downtown; the expansion of Kennebunk Savings Bank; a brewery; and a software company in the town's business park to contribute to ongoing property tax base growth, which we believe will cater to a stable budgetary environment. There is no taxpayer concentration with the 10 leading taxpayers accounting for a very diverse 7.9% of AV.

Strong management

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

We view Kennebunk's revenue and expenditure assumptions as conservative, demonstrated by its record of outperforming the budget year after year. The town uses a zero-based approach to budgeting, supplemented by a three-year historical budget analysis. Management makes quarterly reports on budget-to-actual results to the town board. Although Kennebunk does not perform any long-term revenue and expenditure forecasts, it maintains a formal 15-year CIP that it updates annually, albeit without identifying funding sources. Management's formal investment policy calls for quarterly reports to the board on holdings and performance. The town does not have a debt management policy; it, however, maintains a formal reserve policy that targets a minimum 16.7% of unassigned general fund balance, which management adheres to currently.

Strong budgetary performance

Kennebunk's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of 0.4% of expenditures, and slight surplus results across all governmental funds of 1.3% of expenditures in fiscal 2015.

The town has a history of seven consecutive operating surpluses, which management attributes to conservative budgeting. Kennebunk typically appropriates reserves to balance the budget each year then replenishes those reserves, and it ends the fiscal year building fund balance. Management attributes positive fiscal 2015 results, after accounting for recurring transfers, to positive revenue variances across the board; expenditures, except for snow-and-ice removal, came in as expected.

With five months remaining in the current fiscal 2016, management expects to outperform the \$36 million fiscal 2016 budget, which includes a \$1.3 million appropriation that officials have included historically. Management attributes its expected \$500,000 operating surplus to positive revenue variances across the board and expenditures coming in as budgeted.

We also believe Kennebunk maintains a stable and predictable revenue profile: Property taxes generate 85% of general fund revenue. We consider tax collections strong and stable, averaging 99.5% over the past five years. Therefore, we expect budgetary performance, guided by sound management practices and policies, to remain strong. In addition, we believe the town will likely maintain its positive record of stable operations, as it has done historically.

Very strong budgetary flexibility

Kennebunk's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 23% of operating expenditures, or \$7.9 million.

In our opinion, available reserves have consistently remained very strong over the past three fiscal years, ranging between 22.6% of expenditures and 25.8% of expenditures, with no plans to spend them down significantly. Despite an operating surplus posted in fiscal 2015, available fund balance decreased by about \$400,000 to 22.6% of fiscal 2015 expenditures due primarily to the reclassification of some unassigned reserves as committed reserves. Nevertheless, reserve funding has complied with the town's reserve policy of 16.7% of expenditures. Due to Kennebunk's record of several consecutive operating surpluses, coupled with positive results projected for fiscal 2016, as well as a 3.4% levy increase in fiscal 2016 and another increase projected in fiscal 2017, we expect Kennebunk to continue to build on fund balance modestly, as it has done historically.

Very strong liquidity

In our opinion, Kennebunk's liquidity is very strong, with total government available cash at 32.8% of total governmental fund expenditures and 7.3x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Kennebunk's maintenance of its strong access to external liquidity, since it has issued GO bonds four times within the past 10 years, further enhances our view of its liquidity. The town does not currently have investments we consider permissive or aggressive because the entirety of its investment in governmental funds is certificates of deposit. We understand Kennebunk has not entered into any bank loans, direct-purchase debt, or contingent liquidity risks from

financial instruments with payment provisions that change upon the occurrence of certain events. The town has consistently had very strong liquidity; we do not expect these ratios to change, which is consistent with our view of Kennebunk's strong and stable budgetary performance.

Very strong debt and contingent liability profile

In our view, Kennebunk's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.5% of total governmental fund expenditures, and net direct debt is 32.6% of total governmental fund revenue. Overall net debt is low at 2.5% of market value, and approximately 88% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Kennebunk has about \$11.6 million of debt outstanding, and it currently expects to issue an additional \$2.5 million of debt over the next two years to finance various road improvement projects. Officials, however, intend to amortize all medium-term debt plans within 10 years or less; we do not believe these plans will have a material effect on debt. The town currently plans to retire all current debt outstanding by 2031.

Kennebunk's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 0.5% of total governmental fund expenditures in fiscal 2015. The town made its full annual required pension contribution in fiscal 2015.

Kennebunk contributes to the defined-benefit Maine Public Employees' Retirement System (MainePERS) for pensions. Associated costs, which account for less than 1% of expenditures, are not pressuring the budget because the system is currently 83% funded; the town has been meeting its pension requirements annually. Kennebunk offers employees not participating in MainePERS defined-contribution and deferred-compensation plans or a social security retirement program.

Kennebunk is a member of the Maine Municipal Employees' Health Trust, which sponsors an OPEB plan that provides health insurance to retiring employees. The town offers an implicit rate subsidy to retirees, paid by the retirees. In fiscal 2015, the town contributed \$4,221 of its \$31,484 annual required contribution. The OPEB plan is unfunded with an actuarial accrued liability of \$258,827.

We believe that retirement costs do not currently have a material effect on finances or operations and that they will likely remain manageable within the next three years to four years.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Kennebunk's strong management practices and policies that guide strong budgetary performance, which Standard & Poor's expects officials will maintain. In addition, we believe the town's very strong economy, budgetary flexibility, liquidity, and debt profile provide rating stability. Therefore, we do not expect to change the rating within the outlook's two-year period.

Although unlikely to occur, if financial performance were to deteriorate, contributing to reduced reserves to adequate levels, in-line with peers at a lower rating, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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
- Institutional Framework Overview: Maine 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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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