

CREDIT OPINION

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New Issue

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Kennebunk (Town of) ME

New Issue - Moody's upgrades Kennebunk, ME's GO Bonds to Aa1

Summary Rating Rationale

Moody's Investors Service has upgraded to Aa1 from Aa2 the rating on the Town of Kennebunk, ME's \$9.5 million in outstanding general obligation debt. Concurrently, Moody's has assigned a Aa1 rating to the town's \$3 million 2016 General Obligation Bonds.

The upgrade to Aa1 reflects the town's sound fiscal management and multiple operating surpluses leading to strong reserve levels. The rating also incorporates the moderately sized tax base with above average wealth levels, below average debt burden, and low pension and OPEB liabilities.

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 LD-1

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 improvement in the demographic profile
- » Multiple years of large surpluses that leads to a significant growth of reserve levels

Factors that Could Lead to a Downgrade

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

Key Indicators

Exhibit 1

Kennebunk (Town of) ME	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,126,200	\$ 2,128,450	\$ 2,097,550	\$ 2,085,300	\$ 2,159,200
Full Value Per Capita	\$ 196,907	\$ 197,115	\$ 194,254	\$ 193,119	\$ 199,963
Median Family Income (% of US Median)	141.2%	143.2%	145.9%	145.9%	145.9%
Finances					
Operating Revenue (\$000)	\$ 32,338	\$ 32,372	\$ 33,365	\$ 35,121	\$ 35,361
Fund Balance as a % of Revenues	24.6%	25.2%	25.2%	26.3%	26.5%
Cash Balance as a % of Revenues	34.4%	33.3%	29.6%	43.5%	36.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 8,312	\$ 7,469	\$ 6,695	\$ 10,770	\$ 9,538
Net Direct Debt / Operating Revenues (x)	0.3x	0.2x	0.2x	0.3x	0.3x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.3%	0.5%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.0x	0.1x	0.1x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.0%	0.1%	0.2%	0.3%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Modest Growth Expected for Coastal Tax Base with Above Average Wealth

The town's moderately-sized \$2.2 billion tax base will continue to grow modestly given ample land available for development and the desirability of homes in this primarily residential community. Located on the coast, 24 miles southwest of Portland (Aa1 stable), assessed value has increased an average of 1.3% annually from fiscal 2011-2016, including 0.7% in fiscal 2016. Following two years of modest declines (2013-2014), equalized value increased 3.5% and 4% in 2015 and 2016. Future growth will be driven by ongoing commercial and residential development. Total building permit value increased to \$28.3 million in fiscal 2015 from \$21.2 million in 2014. In addition, the Amtrak Downeaster train from Boston will add a summer stop at Kennebunk next year. This should help spur additional tourism, which is already healthy and an important component to the economy.

Wealth levels are above average compared to the state and US with a median family income of \$94,418 (154.5% of state and 145.9% of US). The strong equalized value per capita of \$207,988 incorporates 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 3.5% (3.9% state, 4.8% US).

Financial Operations and Reserves: Well-Managed Financial Position with Healthy Reserves

Kennebunk's financial management is very strong and includes conservative budgeting practices that consistently balance recurring revenues and expenditures. The sustained structural operating balance has led to over five consecutive years of operating surpluses. Audited fiscal 2015 results reflect a \$132,000 surplus which increased available General Fund balance (excludes nonspendable) to \$9.4 million, or a healthy 26.5% of revenue. Positively, the majority of this amount (\$7.7 million or 21.8%) remains unassigned. The town's formal policy stipulates that unassigned fund balance remain at a minimum of 16.7%, of the current budget's expenditures, and the town will often appropriate funds above that amount for capital projects, but never to support operating expenses.

The fiscal 2016 budget increased 4.9% from 2015 due to workers' compensation claims, recycling collection costs, and salary increases. The tax levy increased 3.4% (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.

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.moody's.com for the most updated credit rating action information and rating history.

The primary revenue source is property taxes (91.1% of fiscal 2015 revenues) and collections remain strong with over 97% collected within the current fiscal year. The town receives less than 3% of its annual revenues from the state, which is a credit strength given that the state has made large cuts to municipal revenue sharing in recent years.

LIQUIDITY

General Fund cash at the close of fiscal 2015 totaled \$12.9 million, or a healthy 36.4% of revenues. The liquidity position has been relatively stable at the end of each fiscal year, averaging \$11.9 million from fiscal 2010-2014.

Debt and Pensions: Manageable Long-Term Liabilities Enhance Credit Profile

The debt burden (0.5% of equalized value) is below average and will remain manageable given a strong commitment to pay-go capital spending, fast amortization, and limited future borrowing plans. The overall debt burden increases to 2.5% of equalized value when incorporating overlapping debt for York County and Regional School Unit 21 (Aa3). The overlapping debt burden is a notable increase from prior years due to the RSU's recent \$45 million debt issuance to finance school renovations. The debt was approved by the three member towns.

The town maintains a 15 year Capital Improvement Plan that totals \$27.7 million through fiscal 2031, which will be financed with both debt and pay-as-you-go financing.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is above average, with 88% repaid within ten years. Debt service costs of \$1.6 million in fiscal 2015 comprised a modest 4.4% of expenditures.

DEBT-RELATED DERIVATIVES

Kennebunk has no derivatives.

PENSIONS AND OPEB

Kennebunk participates in the Maine Public Employees Retirement System's 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 \$174,069 in fiscal 2015, or less than 1% of operating expenditures. The combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$4.9 million, or a below average 0.14 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 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 very modest at \$260,000 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. Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented \$1.7 million, or a below average and manageable 4.9% of operating expenditures.

Management and Governance

Town management is strong, as evidenced by a growing and healthy fund balance, formal 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.

Legal Security

The bonds are 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 various capital improvements including infrastructure improvements and equipment and vehicle purchases.

Obligor 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).

Methodology

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

Ratings

Exhibit 2

KENNEBUNK (TOWN OF) ME

Issue	Rating
2016 General Obligation Bonds	Aa1
Rating Type	Underlying LT
Sale Amount	\$3,049,000
Expected Sale Date	02/17/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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