S&P Global Ratings

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Summary:

Kennebunk Town, Maine; General Obligation

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Credit Profile		
US$5.645 mil GO bnds ser 2018 due 10/01/2027		
Long Term Rating	AAA/Stable	New
Kennebunk Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Kennebunk, Maine's series 2018 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on Kennebunk's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds. Kennebunk can levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. We rate the limited-tax GO debt on par with our view of Kennebunk's general creditworthiness.

Officials plan to use series 2018 bond proceeds to fund various capital improvement projects and refund the town's series 2007 GO bonds.

Kennebunk's GO bonds are eligible for a rating above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the town has a predominately locally derived revenue source with 85% of general fund revenue from property taxes; it also has independent taxing authority and treasury management from the federal government.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total-governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.6% of total-governmental-fund expenditures and 8.5x 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 37.7% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 94.9% 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 11,359, is 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 154% of the national level and per capita market value of $182,563. Overall, market value has grown by 0.6% during the past year to $2.1 billion in fiscal 2018. The county unemployment rate was 3.4% in 2016.

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 Regional School Unit 21. Other leading employers include:

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

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 town continues to explore the design and implementation of a seasonal train station on the Downeaster Amtrak line, with full buildout no later than December 2019, which should further bolster tourism in the town. In addition, officials expect the train station to improve the town's connection to Boston and other coastal cities and increase employment opportunities for residents while further strengthening the economy.

Assessed valuation (AV) has grown modestly, yet consistently, each fiscal year since fiscal 2012. Management is projecting AV to continue to grow modestly. A new Hampton Inn hotel opened in fall 2017. Officials also report that three new housing developments, totaling 25-30 units, are under construction and that housing investments remain strong around the town's beach area. There is no taxpayer concentration with the 10 leading taxpayers accounting for a very diverse 7.5% of AV.

Strong management

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

We view Kennebunk's revenue and expenditure assumptions conservatively, demonstrated by its outperforming the budget year after year. The town uses zero-based 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 capital improvement plan 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 slight surplus operating results in the general fund of 1.2% of expenditures and surplus results across all governmental funds of 9% of expenditures in fiscal 2017. General fund operating results have been stable during the past three fiscal years, with a result of 0.3% of expenditures in fiscal 2016 and 0.4% in fiscal 2015.

Fiscal 2017 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Management attributes fiscal 2017 positive results primarily to higher-than-budgeted revenue, including excise taxes, recreation revenue, and building permit fees. In addition, due to the town's conservative budgeting, expenditures were also lower than expected, particularly public-safety and health and welfare costs.

The fiscal 2018 budget totals $39.7 million, a 5.3% increase over fiscal 2017. Officials indicate revenue is, once again, trending favorably. They expect excise taxes to come in approximately $200,000 overbudget by fiscal year-end 2018, as well as recreation revenue roughly $50,000 better than budgeted. Expenditures are generally coming in as budgeted with no major negative variances expected by fiscal year-end 2018. Therefore, management estimates it will end fiscal 2018 with another general fund surplus.

Property taxes account for 85% of general fund revenue followed by excise taxes at 6.4%. Collections have averaged 99% during the past three years. Due to the town's projections and positive record of maintaining stable operations, we expect budgetary performance will likely remain strong.

Very strong budgetary flexibility

Kennebunk's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 23% of operating expenditures, or $8.8 million. During the past three fiscal years, total available fund balance has remained consistent: It totaled 24% of expenditures in fiscal 2016 and 23% in fiscal 2015.

The town has consistently maintained very strong budgetary flexibility with available reserves averaging a steady 23% of expenditures during the past three fiscal years. Although Kennebunk appropriated $996,000 in fund balance for the fiscal 2018 budget, management expects to end fiscal 2018 with an increase in fund balance. Therefore, we expect budgetary flexibility will likely remain very strong. The town also has a formal reserve policy of maintaining unassigned fund balance at a minimum 16.7% of expenditures, which it continues to adhere to currently.

Very strong liquidity

In our opinion, Kennebunk's liquidity is very strong, with total government available cash at 38.6% of total-governmental-fund expenditures and 8.5x governmental debt service in fiscal 2017. In our view, the town has strong access to external liquidity if necessary.

Kennebunk's maintenance of its strong access to external liquidity--it has issued GO bonds within the past 20 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 are in governmental funds such as 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 37.7% of total-governmental-fund revenue. Overall net debt is low at 2.3% of market value and approximately 94.9% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, the town will have about $14.7 million in total direct debt outstanding. Officials currently plan to issue about $5.4 million in additional debt during the next two years to three years for various capital improvement projects.

Kennebunk's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 0.6% of total-governmental-fund expenditures in fiscal 2017. The town made its full annual required pension contribution in fiscal 2017.

Kennebunk contributes to the Maine Public Employees' Retirement System, a defined benefit-plan, for pensions. The town's share of the plan's net pension liability totaled $2 million with an 82% funded ratio at June 30, 2017. Kennebunk also provides OPEB as an implicit rate subsidy to retirees. We believe that retirement costs do not currently have a material effect on finances or operations and that they will remain manageable.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the town's very strong debt-and-contingent-liability profile and budgetary flexibility, supported by strong budgetary performance. We believe the town's strong management and very strong economy further support the rating. We believe management will likely make the necessary budgetary adjustments to maintain balanced financial operations. Therefore, we do not expect to change the rating within the two-year outlook period.

While unlikely, however, a prolonged structural imbalance, resulting in significant deterioration of available reserves, could result in our lower the rating.

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

- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 11, 2018)		
Kennebunk Twn GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Kennebunk Twn GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.