



## New Issue: Moody's assigns Aa2 rating to the Town of Kittery's (ME) \$2.1 million General Obligation Refunding Bonds, 2013

---

Global Credit Research - 22 Mar 2013

### Affirmation of Aa2 rating applies to \$18.3 million in rated debt outstanding, including current offering

KITTERY (TOWN OF) ME  
Cities (including Towns, Villages and Townships)  
ME

#### Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, 2013	Aa2
<b>Sale Amount</b>	\$2,100,000
<b>Expected Sale Date</b>	03/26/13
<b>Rating Description</b>	General Obligation

**Moody's Outlook** NOO

#### Opinion

NEW YORK, March 22, 2013 --Moody's Investors Service has assigned a rating of Aa2 to the Town of Kittery's (ME) \$2.1 million General Obligation Refunding Bonds, 2013. The 2013 issue is secured by the town's general obligation, unlimited tax pledge, as debt service related to school projects falls outside the limitations of Maine's property tax limit known as LD-1. Concurrently, Moody's has affirmed the Aa2 rating on \$18.3 million of rated general obligation debt. Bond proceeds will refund the town's 2002 series for an estimated net present value savings of \$297,000 or 14.1% of refunded principal with no extension of maturity.

#### SUMMARY RATING RATIONALE

The Aa2 rating reflects the town's healthy fiscal profile with lower, but still satisfactory, reserve levels, a stable tax base with robust residential and commercial sectors and significant tax-exempt property, and a modest debt position with no future borrowing plans.

#### STRENGTHS

- Sound financial management policies as evidenced by healthy reserve levels
- Stable tax base with presence of Portsmouth Naval Shipyard and retail outlets

#### CHALLENGES

- 4 years of fund balance draws (FY2007-2010) to fund pay-as-you-go capital program
- Uncertainty of impact of federal budget cuts on Shipyard operations
- Revenue raising limitations due to the LD-1 tax limit

#### DETAILED CREDIT DISCUSSION

#### SOUND RESERVES DESPITE RECENT DRAWS ON RESERVES FOR CAPITAL PROJECTS

Moody's expects Kittery's sound financial position will continue over the near term due to the town's conservative budgeting approach and healthy reserve position guided by a formal fund balance policy. The town has consistently

maintained a reserve position in line with its policy that calls for the undesignated portion of General Fund balance to remain at a level between 1/12th (8.34%) of the town's General Fund budget and 2½ months (20.83%) of operating expenses. In addition, the town expects to replace the current fund balance policy with a new similar fund balance policy in accordance with GASB 54. Despite four years of reserve reductions from 2007 to 2010 (\$2.5 million), due to anticipated transfers to non-major funds and a separate Capital Improvement Fund outside the General Fund, the town ended 2011 with a small operating surplus and full replenishment of the \$666,000 appropriation of fund balance.

Fiscal 2012 audited financials reflect a similar trend as prior years with a slight operating deficit of \$37,000 in which positive variance in both revenues and expenditures almost fully replenished the \$554,000 appropriation of reserves to balance operations. The limited deficit kept the total General Fund balance relatively unchanged at \$5.3 million (20.9% of revenues) and the unassigned fund balance at \$4.3 million (17.1% of revenues). At this level, the stable reserve levels remain healthy compared to other similarly rated credits within the state but below the national average. Going forward, the town's ability to maintain sound reserve levels characteristic of the rating category will be a key factor in future rating reviews.

The town's primary revenue source is property taxes (83.6% of 2012 revenues), which include a strong collection rate of 99% within the current fiscal year, while education costs (52% of 2012 expenditures) represent the largest expenditure of the town. The 2013 budget increased by 2.7% and is balanced with a 5.4% tax levy increase and reduced \$43,000 fund balance appropriation. Positively, fiscal 2013 marks a balanced budget without the use of significant reserves which are at sufficient levels after the planned multi-year draw down. Fiscal 2013 also remains under the state levy limit by \$401,105 for the third consecutive year. Currently, revenues and expenditures are trending on budget and fiscal 2014 budget proposals are still in development.

#### TAX BASE IS STABLE; PROVIDED BY PORTSMOUTH NAVAL SHIPYARD AND RETAIL OUTLETS

Kittery will continue to benefit from its advantageous location on the New Hampshire (GO rated Aa1/stable outlook) border in southern Maine (GO rated Aa2/negative outlook) with favorable access to land and water transportation via I-95, US Route 1, the Piscataqua River and the Atlantic Ocean. The town's \$1.5 billion tax base is primarily residential, with the notable exception of the thriving retail outlet developments along Route 1. Kittery is also home to Portsmouth Naval Shipyard (PNSY), located on Seavey Island where naval vessels have been built and serviced since 1800. The base is the town's largest employer and an important regional employment center. PNSY is one of four remaining naval shipyards in the nation and currently fuels and maintains the United States Navy's Los Angeles and Virginia Class nuclear submarines. Although employment at the base has declined to approximately 4,700 from 8,500 in the 1980's and a peak of 25,000 during World War II, the base is expected to provide stable employment and economic activity after surviving several recommendations for closure, most recently after the federal government's 2005 Base Closure and Realignment Commission (BRAC). Recently, the federal sequestration has caused the base to implement one furlough day per week. Going forward, the concerns regarding federal budget cuts will continue to be an important factor in evaluating the base's economic impact on the town and region. PNSY has recently completed over \$150 million in capital improvements including dry dock improvements and facility upgrades. Although the base is expected to remain tax-exempt indefinitely the value of its 297 acres of land, 179 buildings and equipment is estimated to exceed \$1.5 billion.

Moody's expects that Kittery's tax base will remain relatively stable, with limited growth over the near term supported by ongoing improvements in the town's residential and retail sectors. The Kittery Outlet Malls remain strong with a 95% occupancy rate. The town has seen its assessed value increase annually by 1% on average in the past five years including growth of 0.2% and 0.6% in fiscal years 2012 and 2013, respectively. The town anticipates new tax base growth to continue to slow to less than 1% for fiscal 2014, reflecting continued weakness in the regional real estate market. The town's 2013 equalized value per capita is a strong \$156,807, reflecting the significant commercial sector and the partially-seasonal nature of the residential housing stock, while income levels are average compared to state and national averages with median family income equal to 93.2% and 86.1%, respectively. Also, the unemployment rate of 7.1% (December 2012) remains below the state (7.3%) and US (7.6%).

#### MODERATE DEBT PROFILE WITH NO IMMEDIATE BORROWING PLANS

Kittery's modest direct debt burden of 1.3% of equalized value is expected to remain manageable over the medium term given no immediate borrowing needs. The town has no authorized, unissued debt but does anticipate a possible multi-phase debt issuance beginning in fiscal 2015 or 2016 for sewer expansion. The project is under review and still subject to voter approval in the upcoming June election. Any debt issuance related to the project would be expected to be paid with self-supporting sewer revenues and sewer impact fees. Principal amortization

is below average with 62.3% paid within ten years. Debt service for fiscal 2012 represented only 1.6% of expenditures and the town's entire debt portfolio is comprised of fixed rate obligations with no exposure to derivative products.

The town contributes to the Maine Public Employees Retirement System Consolidated Plan, a cost sharing, multi-employer pension plan. As of June 30, 2012, the plan was 89% funded. The town continues to make its full Annual Required Contribution (ARC), which was \$407,315 in 2012, representing 1.6% of expenditures. Currently, the plan assumes a 7.25% rate of return and a remaining amortization of 15 years. In addition, the town contributes to its Other Post Employment Benefits (OPEB) obligation on a pay-as-you-go basis. In fiscal 2012, the town funded 40% of the \$285,954 OPEB ARC, representing \$115,000. The total Unfunded Actuarial Accrued Liability (UAAL) for OPEB is \$3.1 million, as of June 30, 2011. The town's total fixed costs for 2012, including pension, OPEB and debt service, represented \$918,315 or 3.6% of expenditures.

#### WHAT COULD MAKE THE RATING GO UP

- Significant improvement of the underlying tax base and socio-economic indicators
- Sizeable fund balance growth

#### WHAT COULD MAKE THE RATING GO DOWN

- Reduction of reserves to levels inconsistent with rating category
- Decrease in tax base

#### KEY FACTS:

2010 Population (+/- change 2000 census): 9,490 (-0.6%)

2013 Equalized Valuation: \$1.5 billion

Average Annual Increase in Equalized Valuation (2008-2013): 1%

2013 Equalized Valuation per capita: \$156,807

Median Family Income as a % of state and US median: 93.2% and 86.1%, respectively

FY12 Total General Fund Balance: \$5.3 million (20.9% of General Fund revenues)

FY12 Unassigned Fund Balance: \$4.3 million (17.1% of General Fund revenues)

Amortization of Principal (10 years): 62.3%

Post-sale General Obligation Debt Outstanding: \$23 million (\$18.3 million rated)

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

Please see [www.moody.com](http://www.moody.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity

that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for additional regulatory disclosures for each credit rating.

**Analysts**

Nicholas Lehman  
Lead Analyst  
Public Finance Group  
Moody's Investors Service

Lauren Von Bargen  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

Jeffery Yorg  
Additional Contact  
Public Finance Group  
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
USA



© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR**

## **PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.