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New Issue

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Kittery (Town of) ME

New Issue - Moody's Assigns Aa2 to Kittery, ME's GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Town of Kittery, ME's $1.1 million 2016 General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aa2 rating on $15.4 million of outstanding general obligation debt.

The Aa2 rating reflects the town's diverse tax base with above-average wealth, healthy financial position, and manageable debt and pension burdens.

Credit Strengths

» Stable employment and tax base with presence of Portsmouth Naval Shipyard and retail outlets

» Healthy financial position guided by a formal policy

» Manageable pension and OPEB liabilities

Credit Challenges

» Moderate revenue raising ability due to property tax cap

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 growth and improved socio-economic indicators

» Continued trend of operating surpluses leading to material reserve growth

Factors that Could Lead to a Downgrade

» Significant declines in the tax base or weakening of demographic profile

» Trend of operating deficits resulting in reserve declines

» Material growth in debt burden

Key Indicators

Exhibit 1

Kittery (Town of) ME	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 1,608,850	$ 1,509,300	$ 1,488,100	$ 1,477,550	$ 1,498,600
Full Value Per Capita	$ 168,061	$ 158,241	$ 156,002	$ 154,346	$ 157,914
Median Family Income (% of US Median)	109.3%	115.4%	126.4%	122.8%	122.8%
Finances					
Operating Revenue ($000)	$ 24,981	$ 25,243	$ 27,183	$ 28,033	$ 28,731
Fund Balance as a % of Revenues	17.4%	17.1%	15.3%	15.5%	21.9%
Cash Balance as a % of Revenues	43.4%	41.8%	37.0%	40.8%	40.2%
Debt/Pensions					
Net Direct Debt ($000)	$ 14,711	$ 19,121	$ 20,381	$ 25,309	$ 17,192
Net Direct Debt / Operating Revenues (x)	0.6x	0.8x	0.7x	0.9x	0.6x
Net Direct Debt / Full Value (%)	0.9%	1.3%	1.4%	1.7%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.5x	0.8x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	1.0%	1.6%	1.3%

As of June 30 fiscal year-end
Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Modest Growth Expected for Tax Base Anchored by Portsmouth Naval Shipyard and Retail Outlets

The moderately-sized $1.5 billion tax base will continue to grow modestly given its favorable location on the New Hampshire (Aa1 stable) border with access to land and water transportation and employment opportunities. After declining a total of 13% from fiscal 2011-2014 due to property depreciation, full (state equalized) value increased modestly the past two years at 1.4% and 0.6%. Future growth will be modest and new developments include a new hotel near the outlet stores.

Income levels are enhanced by year-round stable employment opportunities, including the Portsmouth Naval Shipyard (PNSY) and Kittery Outlet Stores, which employ 5,350 and 1,000 people, respectively. Unemployment in the town was 3.2% in June 2016 and has historically tracked below the state and nation. Median family income exceeds state and national averages at 130% and 122.8%, respectively. Full value per capita is strong at $158,878.

The PNSY is an important regional employment center, providing year-round local economic stability, which is an important credit strength for Kittery. Although the base is expected to remain tax-exempt indefinitely, the value of its 297 acres of land, 179 buildings and equipment exceeds $1 billion.

Financial Operations and Reserves: Healthy Financial Position Supported by Formal Policy Will Continue

The financial position will remain stable given conservative budgeting and strong reserve levels guided by a formal policy. The town generated balanced or surplus operations for the past five years (2011-2015), and available General Fund balance (excludes nonspendable and restricted) totaled $6.3 million, or 21.9% of revenues, in 2015. Of this amount, $4 million (13.7%) is unassigned. The town remains in compliance with its policy to maintain unassigned reserves between one and two and a half months of operating expenses (8.3% to 20.8%), with a target of around 12.5%.

Fiscal 2016 ended with another operating surplus of approximately $530,000, mostly due to strong excise tax receipts and overall conservative budgeting. The fiscal 2015 beginning total General Fund balance was restated (increased) by $1.1 million due to a reclassification of some special revenue and capital funds. However, the town notes that these funds will be reclassified out of the General Fund in the fiscal 2016 audit. As a result, despite the operating surplus in fiscal 2016, total fund balance is likely to decline.

However, the decline is not expected to be material and should bring reserves in line with prior years, when available fund balance averaged a healthy 17% (2010- 2014).

The 2017 budget increased 5.2% due to debt service, salaries and benefits. The tax rate will be set next week, and Town Council could vote to override the tax levy limit, as it did in fiscal 2013-2016. The 2016 levy increase was carried forward, establishing a higher levy limit in future years.

Kittery is not reliant on economically sensitive revenues, as property taxes consistently account for over 80% of annual revenues, and state aid represents 7-8%. Current year property tax collections are very strong at over 99%. Education is the largest expenditure at approximately 50%.

LIQUIDITY

The General Fund cash position has been stable for the past five years, and was $11.6 million or 40.2% of revenues in fiscal 2015.

Debt and Pensions: Debt Burden Will Remain Manageable; Below-average Pension Liability

The direct debt burden (2.1% of equalized valuation) will remain manageable given a strong commitment to pay-as-you-go financing and modest future debt plans. The Capital Improvement Plan (through 2021) totals $8.7 million and the majority of projects will be financed pay-as-you-go.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is below-average, with 61.7% repaid within ten years. Debt service, net of self-supporting sewer enterprise debt, accounted for 6.4% of fiscal 2015 expenditures.

DEBT-RELATED DERIVATIVES

Kittery has no derivatives.

PENSIONS AND OPEB

Kittery contributes to the Maine Public Employees Retirement System's State Employee and Teacher Plan and the Consolidated Plan for Participating Local Districts, two cost-sharing multi-employer defined benefit pension plans. The town fully funds its required contributions, which was a combined $592,227 in fiscal 2015 or 2.1% of expenditures. The three-year combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $19.2 million, or a below average 0.7 times General Fund 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 limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan. As of June 2015, the total liability is only $2.9 million.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented $2.5 million, or 8.9% of expenditures.

Management and Governance

The management team employs conservative budgeting and financial management as evidenced in a stable financial position, compliance with a formal fund balance policy, and long-term planning for capital expenditures.

Maine cities and 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. Cities and 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 or with voter approval. Taxes raised for school purpose, including school debt service, are not subject to LD-1. Expenditure predictability is moderate, as most expenditures are for education, general government and public safety. Cities and towns have a moderate expenditure reduction ability due to public sector union presence.

Legal Security

Debt service is 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 refund the outstanding Series 2006 GO bonds for estimated net present value savings of $152,000, equal to 13.4% of refunded principal, with no extension of final maturity.

Obligor Profile

The Town of Kittery has a population of 9,500 and is located in southwestern Maine in York County, approximately 50 miles southwest of Portland (Aa1 stable) and 65 miles northeast of Boston (Aaa 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

Kittery (Town of) ME

Issue	Rating
2016 General Obligation Refunding Bonds	Aa2
Rating Type	Underlying LT
Sale Amount	$1,140,000
Expected Sale Date	09/13/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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