

## CREDIT OPINION

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## Yarmouth (Town of) ME

### Update to credit analysis

#### Summary

Yarmouth (Aa2) benefits from a wealthy tax base conveniently located near the city of Portland. The town also benefit from strong fiscal management that has led to a stable financial position with solid reserve levels. The town's debt and pension burdens are manageable but potential future debt issuances are significant.

#### Credit strengths

- » Healthy reserve levels supported by a formal policy
- » Manageable long-term pension and OPEB liabilities

#### Credit challenges

- » Growing debt burden

#### Rating outlook

Moody's typically does not assign outlooks to local government credits with this amount of debt outstanding.

#### Factors that could lead to an upgrade

- » Improved reserve levels
- » Tax base growth and diversification

#### Factors that could lead to a downgrade

- » Prolonged structural imbalance
- » Deterioration of tax base and demographic profile
- » Significant growth in debt burden

## Key indicators

Exhibit 1

<b>Yarmouth (Town of) ME</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$1,426,850	\$1,436,350	\$1,438,950	\$1,532,200	\$1,635,900
Population	8,402	8,433	8,467	8,502	8,349
Full Value Per Capita	\$169,823	\$170,325	\$169,948	\$180,216	\$195,940
Median Family Income (% of US Median)	149.9%	164.2%	165.2%	161.6%	161.6%
<b>Finances</b>					
Operating Revenue (\$000)	\$33,674	\$34,955	\$38,390	\$37,878	\$38,852
Fund Balance (\$000)	\$4,001	\$3,994	\$4,946	\$5,536	\$5,939
Cash Balance (\$000)	\$9,513	\$7,899	\$6,860	\$8,272	\$9,211
Fund Balance as a % of Revenues	11.9%	11.4%	12.9%	14.6%	15.3%
Cash Balance as a % of Revenues	28.3%	22.6%	17.9%	21.8%	23.7%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$19,053	\$18,922	\$18,921	\$16,869	\$14,823
3-Year Average of Moody's ANPL (\$000)	\$1,782	\$3,714	\$4,968	\$6,318	\$7,334
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.5x	0.4x	0.4x
Net Direct Debt / Full Value (%)	1.3%	1.3%	1.3%	1.1%	0.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.1x	0.1x	0.1x	0.2x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.3%	0.3%	0.4%	0.4%

Source: Moody's Investors Service; Town audited financial statements

## Profile

The town is a wealthy suburb of Portland with an estimated population of 8,502.

## Detailed credit considerations

### Economy and Tax Base: Wealthy suburb of Portland

Yarmouth's \$1.6 billion tax will experience moderate growth in near term given strong permitting activity and residential development projects currently in progress. The town is favorably located only 11 miles from the city of Portland (Aa1 stable), providing residents easy access to employment opportunities. Yarmouth's equalized value grew 6.5% and 6.8% in 2016 and 2017, respectively, as residential developments came onto the tax rolls and housing values climbed. Over the last five years the tax base grew 2% on a compound average annual basis. Wealth and income indices remain strong, exceeding state medians. Median family income is 161.6% of the national level while full value per capita is a healthy \$192,414.

### Financial Operations and Reserves: Healthy financial position will continue

The town will maintain a stable financial position given its history of structurally balanced operations and demonstrated willingness to increase revenues as needed. Over the last five years (fiscal 2012 to 2017) the town's available fund balance has averaged \$4.8 million or a sound 13.5% of revenues. In fiscal 2017 the town added to fund balance for the fourth consecutive year, bringing available to \$5.9 million or 15.3% of revenues. The town maintains a formal reserve policy which calls for the maintenance of a targeted unreserved fund balance of one-twelfth of budgeted expenditures (approximately 8.3%).

Conservative budgeting will contribute to another surplus in fiscal 2018. In budgeting for 2018 the town increased the property tax levy by 3.8% while expenditures climbed 2.6%. The town continued its practice of budgeting for use of fund balance (\$550,000 in 2018) but the town expects to fully replenish the reserve through conservative revenue assumptions and prudent expenditure management. Property taxes remain the town's largest revenue source (75.4% in 2017) and education its largest expenditure (60.7%).

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**LIQUIDITY**

The town's liquidity remains healthy with \$9.2 million or \$23.7 million in net cash at year-end.

**Debt and Pensions: Debt burden is expected to grow to slightly above-average levels**

Yarmouth's current debt burden of 1% of full value and 0.4 times revenues is manageable but will grow to above-average levels for the rating category. The town believes that future debt issuances for a public safety building (\$8.5 million) and school improvements (\$32 million) can potentially increase debt to around 1.4 times revenues. The issuances are not yet approved and could come over the next couple of years. Management believes the increased debt load while above-average, will remain manageable given its plan to layer in the issuances with retiring debt. The town should be able to absorb the increased leverage given its low fixed costs structure (8.4% of expenditures in 2017) which includes debt service, pensions contributions and retiree healthcare payments.

**DEBT STRUCTURE**

All debt is fixed rate and amortization of principal is average, with 74.4% repaid within ten years.

**DEBT-RELATED DERIVATIVES**

Yarmouth has no derivatives.

**PENSIONS AND OPEB**

Yarmouth's pension liabilities will remain low given timely and adequate annual contributions.

The town participates in the Maine Public Employees Retirement System's Consolidated Plan for Participating Local Districts, a multiemployer defined benefit retirement plan sponsored by the State of Maine (Aa2 stable) as well as the Maine Public Employees Retirement System's Teacher Plan, which is administered at the state level. The town's always funds its required contribution, which was \$681,000 in fiscal 2017, or 1.8% of operating expenditures. The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is a combined \$9.6 million, or a low 0.25 times operating revenues.

The town's OPEB liability is \$936,795 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.

**Management and Governance**

Maine cities and towns have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities' and towns' major revenue source, property taxes, are subject to a cap, which can be overridden at the local level. The cap is based on statewide personal income growth and local property growth. The cap allows for moderate revenue-raising ability. Taxes raised for school purposes, including school debt service, are not subject to the cap. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maine has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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