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Summary:

Falmouth, Maine; General Obligation; Note

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Credit Profile		
US$35. mil GO BANs ser 2011 dtd 01/27/2011 due 06/01/2011		
Short Term Rating	SP-1+	New
US$9.315 mil GO rfdg bnds ser 2011 dtd 01/15/2011 due 11/15/2011-2021		
Long Term Rating	AA+/Stable	New
Falmouth GO		
Long Term Rating	AA+/Stable	Affirmed
Falmouth GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'SP-1+' short-term rating to Falmouth, Maine's 2011 general obligation (GO) bond anticipation notes (BANs) and its 'AA+' long-term rating to the town's 2011 GO refunding bonds. Standard & Poor's also affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the town's previously issued GO bonds.

The 'SP-1+' short-term rating reflects our view of Falmouth's:

- History of good market access, and
- General creditworthiness.

In our opinion, the long-term rating and SPUR reflect the town's:

- Participation in the diverse Portland, Maine, metropolitan statistical area (MSA);
- Primarily residential nature and very strong wealth and income indicators;
- Consistent financial performance and very strong reserves; and
- Low debt burden, net of anticipated state support.

The town's full faith and credit pledge secures the BANs and bonds. Officials will use BAN proceeds to roll over $28 million in existing BANs (series 2009B), initially issued to finance the town's elementary school project, and to provide additional new-money funds for the project. Officials plan to permanently finance the BANs with long-term bonds, which have been authorized, in May 2011. Officials plan to use bond proceeds to currently refund the remaining principal outstanding of the town's series 2000 GO bonds originally issued to finance the state-subsidized portion of the town's high school project.

Falmouth, with an estimated population of 10,823, is located in Cumberland County (AA+/Stable) in southeastern Maine, along the Atlantic coast. The town is a primarily residential, affluent suburb of Portland (AA/Stable), with about 41% of residents commuting to the city for employment. The town also maintains an appreciable commercial and retail base; leading employers include TD Banknorth (444 employees, back-office bank operations), Tyler

Technologies (375, computer systems and services), and Hannaford Bros. (200, grocery store). Unemployment levels in the town, despite having increased during the recession, have remained well below both state and national levels. Through July, the 2010 unemployment rate averaged 5.7%, compared with 8.5 in the state and 9.9% in the nation over the same period.

The town's 2011 estimated assessed valuation (AV) totals a sizable $2.24 billion. Corresponding state equalized valuation is estimated at $2.1 billion, or $196,932 per capita, which we consider extremely strong. We also consider the tax base very diverse, as the 10 leading taxpayers account for 6.8% of total AV; the largest taxpayer, a senior facility, accounts for just 1.5%. We also consider town income levels very strong, with median household and per capita effective buying income levels at 169% and 189% of national levels, respectively.

In our view, Falmouth's financial performance remains consistently strong. The town saw very modest fund balance drawdowns in fiscals 2008 and 2009 due, in part, to recessionary pressure on local receipts in addition to the continued funding of capital requirements. In 2010, however, the town realized an $846,000 increase in the fund balance, closing the year with an unreserved general fund balance of $18.4 million, or 48% of general fund expenditures. Of this amount, $10.2 million, or 26% of general fund expenditures, was undesignated, a level we consider very strong. The remaining $8.3 million in unreserved fund balance was designated for various capital improvements and other future expenses.

For fiscal 2011, budgeted expenditures total $36.2 million, a 1.2% decrease from the 2010 budget. Property taxes continue to be the town's largest revenues source, accounting for 72% of budgeted general fund revenues. Current-year collections remain consistent and have averaged 97.7% over the past three fiscal years. Intergovernmental aid, primarily school state aid, accounts for 19% of budgeted town revenue while excise taxes generate an additional 6%. Both state revenue sharing and state school aid have come under pressure in recent years, somewhat mitigated by the receipt of federal stimulus funds ($544,000 in fiscal 2010). The $6.75 million in intergovernmental aid budgeted for fiscal 2011 represents a 7.4% decrease over fiscal 2010 budgeted aid.

Standard & Poor's still considers Falmouth's management practices "good" under its Financial Management Assessment methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Town officials report that 87% of the cost of the elementary school project will be subsidized by the state. Applying this subsidy to the BANs issued for the project, in addition to the 100% subsidy for the refunding bonds, and including overlapping county debt, the town's overall net debt burden is low. It equals just $950 per capita, or 0.5% of market value. The town's debt service carrying charges have been low, averaging 5% over the past three fiscal years. However, with the permanent financing of the elementary school project expected in May, the town's debt ratio and carrying charge measures may increase should the town need to issue additional new money debt. Debt amortization is currently very favorable, with officials planning to retire 81% of GO debt through 2020 and all debt through 2027; however, we expect that this too will change following the permanent financing.

Though the town's capital plans calls for more than $20 million in capital expenses through fiscal 2019, the town does not expect to issue additional debt in the near to intermediate term. Such projects will instead be funded on a pay-as-you-go basis, including appropriation of the aforementioned designated fund balance reserves.

Outlook

The stable outlook on the long-term rating and SPUR reflects the town's primarily residential nature and access to the diverse Portland MSA. Its very strong wealth and income indicators and very strong fund balance levels also provide rating stability. We expect that management will continue to maintain its very strong financial position despite some continued recessionary revenue pressure. Should the town realize a significant decrease in its financial reserve position, the rating could be lowered. If, on the other hand, consistently strong financial operations are coupled with tax base stability or growth, the rating could improve.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Short-Term Debt, June 15, 2007

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