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Summary:
Harpswell, Maine; General Obligation

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Credit Profile		
US$3.5 mil GO bnds ser 2018 due 12/15/2038		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings has assigned its 'AAA' rating to Harpswell, Maine's series 2018 general obligation (GO) bonds. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. Harpswell 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 Harpswell's general creditworthiness. Bond proceeds will finance a portion of the town's previously issued bond anticipation notes.

We rate the town higher than the U.S., because we believe Harpswell can maintain better credit characteristics than the sovereign in a stress scenario based on its predominantly locally derived revenue base, and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In fiscal 2017, local property taxes generated 94% of town revenue, which demonstrated a lack of dependence on central government revenue.

The rating reflects our opinion of the following factors for Harpswell, specifically its:

- 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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 32% of operating expenditures;
- Very strong liquidity, with total government available cash at 35.5% of total governmental fund expenditures and 10.3x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.5% of expenditures and net direct debt that is 40.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Harpswell's economy very strong. The town, with an estimated population of 4,784, is located in Cumberland County in the Portland-South Portland, Maine MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 152% of the national level and per capita market value of $384,690. Overall, the town's market value grew by 0.7% over the past year to $1.8 billion in 2018. The county unemployment rate was 2.9% in 2016.

Harpswell is an affluent coastal town in northeastern Cumberland County, approximately 38 miles from Portland, which provides employment opportunities for residents, and 46 miles from Augusta, the state capital. The town consists of one peninsula and three major islands connected by bridges as well as several smaller islands. It's predominantly a residential and rural community. The town also maintains a sizable number of second homes with about 50% of residential parcels owned by year-round occupants. Tax collections are strong, in our view, averaging 99% over the past three years with no major delinquencies according to management. The town's largest taxpayers account for 2.2% of assessed value (AV), which we consider diverse.

According to officials, Harpswell's tourist and hospitality sectors continue to thrive. Officials indicate the town's population increases to more than 10,000 during the summer months. Its commercial sector is stable and continues to see growth as various businesses invest and expand their operations in the town. Officials also expect the removal of the pier at Mitchell Field will be a catalyst for redevelopment of the waterfront to complement recreational use and multi-use facilities. Therefore, we expect the town's economy to remain very strong.

Harpswell also maintains about 216 miles of coastline. Therefore, it's susceptible to flooding because of sea-level rise, although officials indicate the town has not experienced major flood damage to infrastructure or residences in the past few years. Nevertheless, management is studying the effect of sea-level rise on certain roads in order to assess what it needs to prepare the town's infrastructure as higher tides and storm surge overtop roads more frequently. The study's objective is to develop a long-range plan for managing potential effects of sea-level rise and increased salt-water movement into ponds and wetlands.

Strong management

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

Highlights include conservative budgeting assumptions coupled with a minimum of three years historical analysis and monthly budget-to-actuals reporting to the board. Harpswell maintains a formal investment policy with investment holdings and earnings reported monthly to the board. It also has a formal debt management policy that limits debt service to no more than 8.0% of general fund expenditures and total debt to less than 1.0% of AV. The town's formal reserve policy limits unassigned fund balance to a 8.3% minimum with a target between 16.7% and 25.0% of expenditures, to which the town has historically adhered. It does not have a formal long-term financial plan, but maintains a formal five-year capital improvement plan (CIP). However, the CIP does not fully outline project dates.

Strong budgetary performance

Harpswell's budgetary performance is strong, in our opinion. The town had operating surpluses of 2.5% of expenditures in the general fund and of 3.3% across all governmental funds in fiscal 2017.

The town has maintained strong budgetary performance over the past three years. Fiscal 2017 (year-end Dec. 31) includes adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. According to management, the fiscal 2017 positive performance was primarily due to conservative budgeting, which led to higher-than-expected revenues and lower-than-anticipated expenditures. This included better-than-budgeted excise and building permit fees and cost savings in public safety, overlay, and capital expenditures. Before this, the town posted balanced operations of 0.7% and 0.5% of general fund expenditures in fiscal years 2016 and 2015, respectively.

The fiscal 2018 budget totals $15.4 million and includes a fund balance appropriation of $1.3 million, which Harpswell has historically done in order to maintain a stable tax rate and provide pay-as-you-go capital projects in lieu of bonding. With only two months completed so far this year, officials indicate budget-to-actuals are currently on target with no major negative variances anticipated, and expect to end the year with positive operations. Major expenditure items for the town include education, general government, and public safety. Property taxes account for 94.0% of general fund revenues, followed by miscellaneous revenues at 4.4%. Therefore, we expect the town's budgetary performance to remain strong.

Very strong budgetary flexibility

Harpswell's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 32% of operating expenditures, or $4.3 million.

The town has consistently maintained very strong budgetary flexibility for the past three years. The increase in reserves for fiscal 2017 was due to positive operations. The fiscal 2018 budget includes a fund balance appropriation of $1.3 million, which the town has historically done. Officials, however, don't expect available reserves to decrease by fiscal year-end. Therefore, we expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Harpswell's liquidity is very strong, with total government available cash at 35.5% of total governmental fund expenditures and 10.3x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

Harpswell has issued GO bonds in the past 15 years, supporting its strong access to external liquidity. The town doesn't have investments that we consider permissive or aggressive, as its investment policy only allows demand deposits and short-term investments with maturities of less than three months. The series 2014 GO bonds are privately placed with People's United Bank and have a current balance of $420,000. However, based on a review of the documents, there are no adverse covenants or rating triggers and we consider the likelihood of principal acceleration remote. The town also issues tax anticipation notes (TANs) annually for cash-flow needs, since it receives most of its real estate taxes during the second half of the year. It has always repaid TANs in the same year issued. We expect the town's liquidity position to remain very strong.

Very strong debt and contingent liability profile

In our view, Harpswell's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.5% of total governmental fund expenditures, and net direct debt is 40.5% of total governmental fund revenue. Overall net debt is low at 0.6% of market value, which is in our view a credit strength.

With this issuance, the town will have about $5.7 million in total direct debt. Officials don't plan to issue any additional debt in the next two-to-three years.

Harpswell's pension contributions totaled 0.2% of total governmental fund expenditures in 2017. The town made its full annual required pension contribution in 2017.

It contributes to the Maine Public Employees Retirement System, a defined-benefit plan, for pensions. The town's share of the net pension liability for the defined-benefit plan totaled $112,010, with an 88% funded ratio as of fiscal 2017. Harpswell has made its full actuarially determined contribution the past three years. It also offers a deferred compensation plan for its employees through the International City Management Association Retirement Corp. It also provides other postemployment benefits as an implicit rate subsidy to retirees.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects our opinion of Harpswell's very strong economy and budgetary flexibility with support from the town's strong management. Further supporting the rating is the town's very strong debt and liquidity profile. We expect the tax base to remain a stable revenue source, which should allow management to maintain strong budgetary performance. Therefore, we don't expect to change the rating in the two-year outlook horizon. While unlikely, we could lower the rating if the town's finances deteriorate significantly leading to a drawdown on reserves.

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

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.