

CREDIT OPINION

16 March 2018

Rate this Research >>

Contacts

Chris Salcedo +1.212.553.3761
 Associate Lead Analyst
 chris.salcedo@moodyys.com

Thomas Jacobs +1.212.553.0131
 Senior Vice President
 thomas.jacobs@moodyys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Harpwell (Town of) ME

Update following assignment of Aa2

Summary

Harpwell (Aa2) has a healthy financial position with adequate financial policies and low leverage. The town's moderately sized tax base is stable. The median age of the year round population is unusually high. The largely residential coastal community benefits from an influx of summertime residents.

Credit strengths

- » Low debt and pensions burdens
- » Healthy financial position
- » Stable fiscal management

Credit challenges

- » Small management team
- » Significant coastal footprint increases exposure to storm risk
- » Aging year round population

Rating outlook

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

Factors that could lead to an upgrade

- » Substantial tax base growth
- » Higher resident incomes

Factors that could lead to a downgrade

- » Operating deficits leading to decrease in financial reserves
- » Significant tax base contraction
- » Material growth in debt burden

Key indicators

Exhibit 1

Harpswell (Town of) ME	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$1,791,200	\$1,797,900	\$1,846,200	\$1,852,450	\$1,862,850
Population	4,778	4,780	4,815	4,815	4,815
Full Value Per Capita	\$374,885	\$376,130	\$383,427	\$384,725	\$386,885
Median Family Income (% of USMedian)	130.7%	126.8%	124.6%	124.6%	124.6%
Finances					
Operating Revenue (\$000)	\$12,093	\$12,736	\$13,256	\$13,716	\$13,944
Fund Balance (\$000)	\$4,144	\$3,985	\$3,922	\$4,013	\$4,353
Cash Balance (\$000)	\$5,426	\$5,028	\$4,642	\$4,557	\$4,827
Fund Balance as a % of Revenues	34.3%	31.3%	29.6%	29.3%	31.2%
Cash Balance as a % of Revenues	44.9%	39.5%	35.0%	33.2%	34.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$2,911	\$3,092	\$2,612	\$2,133	\$2,187
3-Year Average of Moody's ANPL (\$000)	NA	\$200	\$188	\$228	\$326
Net Direct Debt / Operating Revenues (x)	0.2x	0.2x	0.2x	0.2x	0.2x
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	NA	0.0x	0.0x	0.0x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	NA	0.0%	0.0%	0.0%	0.0%

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

Profile

Harpswell is located on the coast of Maine, in the northeastern section of Cumberland County approximately 40 miles by road from Portland. The town is a rural community with approximately 216 miles of coastline and an estimated year-round population of 4,815 that doubles during the summer months.

Detailed credit considerations

Economy and Tax Base - An aging, residential tax base with significant summertime population

Harpswell is a coastal community located in Cumberland County approximately 40 miles by road from Portland (Aa1 stable). Its \$1.9 billion tax base is primarily residential. Its year round population of approximately 4,815 more than doubles during the summer months. Harpswell's 216 miles of coastline provides residents ample waterfront property and town management reports a recent uptick in new home permits. The tax base has been stable over the last five years, growing at a compound annual rate of 1.2%. A potential risk to the town's housing values could be FEMA's newly proposed floodplain maps which draws more homes into flood zones, potentially driving up the cost of flood insurance. Like other Maine towns, management has hired a consultant and is appealing the new maps.

The town is home to one of Maine's oldest populations. The median age of approximately 57 years is approximately 13 years older than the state average and 20 years older than the nation's median age. The town's aging population is the result of older residents choosing to remain in their homes ("age in place") as well as retirees moving into the town. The overall population has remained steady and seasonal homeownership has increased slightly in recent years. Incomes of full time residents are above average, with median family income of 132.4% and 124.6% of state and national medians, respectively. The sizeable second home presence contributes to the town's strong full value per capita of \$386,885.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial Operations and Reserves - Healthy financial position supported by formal policies

The town's financial position will remain stable given predictable revenue and expenditures as well as healthy financial reserves guided by formally adopted policies. Since at least 2012, the town has maintained healthy financial flexibility, averaging \$4 million in available fund balance representing 31.4% of revenues. Reserves exceed the town's policy that requires maintenance of unassigned fund balance equal to between 16.6% and 25% of the general fund budget. The town's scope of operations is modest, as evident in its small \$14 million budget with only 17 full-time employees. The town also lacks any noticeable budgetary pressures given low leverage and manageable fixed costs.

The town benefits from predictable revenues and expenditures. Property taxes, at 94% percent of 2017 revenues, are the town's largest revenue source while education assessments, at 55% of expenditures, is its largest expenditure. The most recent budget (fiscal 2018) increased 4.3% and was met with a 4.7% increase in property taxes. The town also increased its budgeted use of fund balance, by about \$300,000 to \$1.3 million. The town typically includes an appropriation of fund balance in its budget which end up being offset by positive budgetary variances.

LIQUIDITY

The general fund cash position has been stable for the past several years, and was \$4.8 representing a healthy 34.6% of fiscal 2017 revenues.

Debt and Pensions - Low leverage and modest fixed costs

Harpswell will maintain a low debt burden and modest fixed costs given no future borrowing plans and rapid amortization of existing debt. Post-issuance, the debt burden will be 0.3% of equalized valuation and 0.4 times revenues, which is low. Annual debt service requirements will be no more than \$562,000 representing a modest 4% of revenues.

DEBT STRUCTURE

All debt is fixed rate and amortization of existing debt is rapid, with all of it scheduled to mature by 2024. The 2018 bonds will be repaid over 20 years.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The town's pension burden will remain modest given adequate annual contributions and the limited number of participating employees.

Harpswell contributes to the Maine Public Employees Retirement System Consolidated Plan, a multi-employer, defined benefit retirement plan. Moody's adjusted net pension liability (ANPL) is \$391,000 or a very small 0.03 times operating revenues. Moody's adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. The town's other-post employment liability is negligible given it is limited to the implicit rate subsidy the town makes its health plans available to retirees.

Total fixed costs for fiscal 2017, including debt service and required pension contributions represented \$481,000, or 3.4% of expenditures.

Management and Governance

Harpswell's management team is small but in line with the town's limited operations. Following education assessments (55% of expenditures) the town's main functions are road maintenance roads, snow removal, operation of a recycling and transfer station in addition to general administrative functions. Public safety (law enforcement) is contracted out to the county.

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.

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND 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. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. 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, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. 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.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

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 or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

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.

Moody's Investors Service, Inc., 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 Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. 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.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms 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 61 003 399 657 AFSL 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 investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454