Saco (City of) ME

New Issue - Moody's assigns Aa3 to Saco, ME's $4.1M GO Bonds

Summary Rating Rationale
Moody's Investors Service has assigned a Aa3 rating to the City of Saco, ME's $4.1 million 2016 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa3 rating on $10.1 million of rated outstanding general obligation debt.

The Aa3 rating reflects the city's stable financial position and adequate reserve levels, moderately sized tax base with above average wealth levels, below average debt burden, and manageable pension liability.

Credit Strengths
» Favorably located tax base should continue to grow given ample available land
» Manageable long-term liabilities
» Low fixed cost structure

Credit Challenges
» Moderate revenue raising ability due to LD-1
» No excess tax levy capacity

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 expansion and improvement in the demographic profile
» Multiple years of General and School Fund surpluses that leads to a significant growth of reserve levels

Factors that Could Lead to a Downgrade
» Operating deficits resulting in a material decline in reserves or liquidity
» Deterioration in tax base or demographic profile
» Material growth in debt burden
Key Indicators

Exhibit 1

<table>
<thead>
<tr>
<th>Saco (City of) ME</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy/Tax Base</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>2,098,800</td>
<td>2,257,699</td>
<td>2,025,700</td>
<td>2,001,150</td>
<td>2,042,100</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$113,613</td>
<td>$122,157</td>
<td>$109,604</td>
<td>$108,276</td>
<td>$110,491</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>111.3%</td>
<td>113.8%</td>
<td>113.8%</td>
<td>113.8%</td>
<td>111.8%</td>
</tr>
<tr>
<td><strong>Finances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>37,178</td>
<td>39,506</td>
<td>44,865</td>
<td>45,584</td>
<td>61,002</td>
</tr>
<tr>
<td>Fund Balance as a % of Revenues</td>
<td>8.9%</td>
<td>11.1%</td>
<td>13.9%</td>
<td>14.3%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Cash Balance as a % of Revenues</td>
<td>2.7%</td>
<td>-0.6%</td>
<td>5.3%</td>
<td>8.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td><strong>Debt/Pensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Direct Debt ($000)</td>
<td>21,510</td>
<td>16,825</td>
<td>15,552</td>
<td>14,676</td>
<td>16,048</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (x)</td>
<td>0.6x</td>
<td>0.4x</td>
<td>0.3x</td>
<td>0.3x</td>
<td>0.3x</td>
</tr>
<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>1.0%</td>
<td>0.7%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Revenues</td>
<td>N/A</td>
<td>0.0x</td>
<td>0.0x</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>N/A</td>
<td>0.0%</td>
<td>0.0%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Fiscal 2016 Total Full Value ($000): $2,122,650
Source: Moody’s Investors Service

Detailed Rating Considerations

**Economy and Tax Base: Modest Growth Expected for Coastal Tax Base with Above Average Wealth**

The moderately-sized $2.1 billion tax base will continue to grow modestly given an abundance of land available for development as well as the city’s desirable location in southern Maine. Located on the coast, 19 miles southwest of Portland, the economic hub of the state, the mostly residential tax base has grown modestly for the past two years. Following some declines due to the recession, equalized value increased 2% and 4% in 2015 and 2016. The city reports several ongoing residential and commercial developments and we expect this trend of modest growth to continue over the medium term. Approximately 56% of the city’s land is available for development.

Wealth levels are above average compared to the state and US with a median family income of $73,470 (121.6% of state and 113.8% of US). The equalized value per capita is solid at $114,850 and incorporates some second homes and high-valued waterfront properties. Like many cities in Southern Maine, Saco’s unemployment (3% in November 2015) remains below the state (3.9%) and nation (4.8%).

**Financial Operations and Reserves: Strong General Fund Operations for Past Four Years; Operating Reserves Remain Adequate Despite Deficit in Newly Created School Fund**

Saco experienced a stark financial turnaround in recent years, generating four consecutive operating surpluses (fiscal 2012-2015) following several years of deficits. Audited fiscal 2015 results reflect a modest $68,000 surplus, which increased available General Fund reserves (excludes nonspendable) to $6.6 million, or a sound 13.9% of revenues. Positively, the majority of this amount remains unassigned ($4.8 million or 10%) and the city is back in compliance with its formal policy to maintain unassigned reserves between 8.3% and 10% of expenses.

The School Operations Fund (created in fiscal 2015 following the city’s withdrawal from Regional School Unit 23 (Baa1) posted a $912,501 deficit due to one-time expenses related to the withdrawal and accounting for accrued summer salaries and benefits. Therefore, on a combined basis, available operating fund balance is $5.7 million, or an adequate 9.3% of revenues. The School Fund deficit is expected to be cured over the near term with tax increases and/or transfers from the General Fund.

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.moodys.com for the most updated credit rating action information and rating history.
The fiscal 2016 budget increased 3.2% (city, school and county) and was balanced with a 4.1% increase to the tax levy and $300,000 of fund balance. Management reports that positive variances year to date should be sufficient to replenish the reserve appropriation.

The primary revenue sources are property taxes (68% of fiscal 2015 revenues) and state aid (25%), including education aid. Property tax collections remain historically strong with over 97% collected within the current fiscal year.

LIQUIDITY
Total operating cash (General and School funds) at the close of fiscal 2015 totaled $4.5 million, or revenues. Due to the recent financial improvement in the General Fund, the city has not issued cash flow notes since fiscal 2012.

Debt and Pensions: Manageable Long-Term Liabilities Are a Credit Strength
The debt burden (0.7% of equalized value) is below average and will remain manageable given a strong commitment to pay-as-you-go capital spending and favorable fast amortization. The overall debt burden increases slightly to 0.9% of equalized value when incorporating overlapping debt for York County and Regional School Unit 23. The $1.8 million Capital Improvement Plan (through fiscal 2020) will be financed entirely with pay-go revenues. The city is currently considering various options for its two pre-Kindergarten through 2nd grade schools, including renovating each school or constructing a new school to consolidate. Given the preliminary nature, the total cost of this project is not known at this time. The city would issue debt to finance the project, and pursuant to the city’s charter and state statute, it would be subject to referendum approval.

DEBT STRUCTURE
All debt is fixed rate and amortization of principal is slightly below average, with 71.5% repaid within ten years. Debt service costs of $2.8 million in fiscal 2015 comprised a manageable 4.5% of operating expenditures.

DEBT-RELATED DERIVATIVES
Saco has no derivatives.

PENSIONS AND OPEB
Saco participates in the Maine Public Employees Retirement System’s Consolidated Plan for Participating Local Districts, a multi-employer defined benefit retirement plan sponsored by the State of Maine (Aa2 stable). The city always funds its required contribution, which was $343,000 in fiscal 2015, or less than 1% of operating expenditures. The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $9.5 million, or a below average 0.16 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

The city’s teachers participate in the Maine Public Employees Retirement System’s Teacher Plan, which is administered at the state level. While the state pays the majority of the costs for this plan, Saco contributed $283,000 in fiscal 2015 and budgeted to contribute $355,000 in fiscal 2016. These contributions represent approximately 1% of operating expenditures and are not expected to pressure budgets over the near term.

The OPEB liability is $1.6 million 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.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented $4.2 million, or a below average and manageable 6.8% of operating expenditures.

Management and Governance
Maine cities 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 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. Expenditure predictability is moderate, as most expenditures are for education, general government and public safety. Cities have a moderate expenditure reduction ability due to public sector union presence.
Legal Security
The bonds are secured by the city’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
Approximately $3.3 million of bond proceeds will refund the outstanding Series 2006 and 2007 bonds for estimated net present value savings of $230,000, or 6.9% of bonds refunded, with no extension of final maturity. The remaining $875,000 of proceeds will provide new money for bridge repairs and energy improvements.

Obligor Profile
The City of Saco has a population of 18,500 and is located on the coast of Maine in York County, approximately 16 miles southwest of Portland (Aa1 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 3

| Saco (City of) ME | | |
|-------------------|-------------------|
| Issue             | Rating            |
| 2016 General Obligation Bonds | Aa3 |
| Rating Type       | Underlying LT    |
| Sale Amount       | $4,145,000       |
| Expected Sale Date| 02/23/2016       |
| Rating Description| General Obligation Limited Tax |

Source: Moody’s Investors Service
MOODY'S INVESTORS SERVICE

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.

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.

MJKK 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 MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.
Saco (City of) ME: New Issue - Moody's assigns Aa3 to Saco, ME's $4.1M GO Bonds

Contacts
Heather Guss  617-535-7693
   Analyst
   heather.guss@moodys.com
Nicholas Lehman  617-535-7694
   Analyst
   nicholas.lehman@moodys.com

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