Summary:

Saco, Maine; General Obligation

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Table Of Contents

Rationale
Outlook
Related Criteria And Research
Summary:
Saco, Maine; General Obligation

Credit Profile

US$4.145 mil GO bnds ser 2016 dtd 03/10/2016 due 10/01/2027

<table>
<thead>
<tr>
<th>Rating</th>
<th>Rating Meaning</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long Term Rating</strong></td>
<td>AA/Stable</td>
<td>New</td>
</tr>
<tr>
<td>Saco GO</td>
<td>AA/Stable</td>
<td>Affirmed</td>
</tr>
<tr>
<td><strong>Unenhanced Rating</strong></td>
<td>AA(SPUR)/Stable</td>
<td>Affirmed</td>
</tr>
</tbody>
</table>

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Saco, Maine's series 2016 general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt.

The city's full-faith-and-credit pledge secures the bonds. Although the city is not restricted to a particular revenue source, Saco has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the city's flexibility under the levy limit. We understand officials will use series 2016 bond proceeds to fund various capital improvements and refund the city's series 2006 and 2007 GO bonds.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a combined slight operating deficit in the general fund and school operations fund and an operating deficit at the total governmental fund level in fiscal 2015;
- Adequate budgetary flexibility, with a combined available fund balance in the general fund and school operations fund in fiscal 2015 of 9.4% of operating expenditures, as well as receivables included in the available fund balance that we do not expect to be collected in the near term;
- Strong liquidity, with total government available cash at 7.4% of total governmental fund expenditures and 1.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 26.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 75.3% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.
Very strong economy
We consider Saco's economy very strong. The city, with an estimated population of 19,030, is located in York County in the Portland-South Portland MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 112% of the national level and per capita market value of $111,542. Overall, the city's market value grew by 3.9% over the past year to $2.1 billion in 2016. The county unemployment rate was 5.3% in 2014.

Saco is about 16 miles southwest of Portland. Residents benefit from a diverse local employment base and easy access to the greater Portland MSA economy via Interstate 95 and U.S. Route 1, both of which intersect the city. Furthermore, the city is an area employment center with 73% of the labor force commuting from areas such as Biddeford and Sanford. Leading local employers include Saco School Department, Sweetser School, Prime Toyota, and General Dynamics. The city continues to see residential and commercial expansion.

Market value has increased by approximately 6% since fiscal 2014. According to management, the mill district is going to see growth since private development will create new housing and retail space in the area. Maine Molecular, a biological research organization, is currently constructing a new state-of-the-art facility. In addition, several residential areas are under redevelopment, including upgraded sewer infrastructure.

Strong management
We view the city's management as strong, with good financial management 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.

We previously viewed the city's financial management practices and policies as strong. We now view the city's financial management practices and policies as good due to its lack of formal long-term financial planning. The city also maintains a basic debt management policy and formal five-year capital improvement plan that it updates annually, including outlining project costs. Other highlights include management's conservative assumptions when budgeting for revenue and expenditures, coupled with a five-year historical trend analysis and monthly reports on budget-to-actual results to the city council. The city's formal investment policy follows state guidelines. In addition, management maintains a formal reserve policy that limits unassigned fund balance between 8.3% of general fund expenditures and 10%; the city complies with this policy.

Adequate budgetary performance
Saco's budgetary performance is adequate in our opinion. With the inclusion of the general fund and school operating fund, which we view as part of the city's normal operations, the city had slight deficit operating results in the general fund of 0.8% of expenditures, and deficit results across all governmental funds of 1.7% of expenditures in fiscal 2015.

On July 1, 2014, Saco withdrew from Regional School Unit No. 23. Therefore, as of fiscal 2015, the city now accounts for school costs in a separate school operations fund, outside of the general fund, which we consider part of normal operations. After adjusting for one-time capital items paid for with capital lease proceeds, the general fund saw an operating surplus of about $67,000. The school operations fund saw a $912,501 operating deficit due mainly to special costs associated with the withdrawal.
The fiscal 2016 general fund budget totals $46.9 million, including the city's funding of the school department. This includes a $300,000 fund balance appropriation the city has done historically. The school department's budget totals about $34 million. Management indicates budget-to-actual results are good; it currently expects, at least, balanced operations by fiscal year-end 2016.

**Adequate budgetary flexibility**
Saco's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 9.4% of operating expenditures, or $5.6 million.

The combined available fund balance totaled $5.6 million in fiscal 2015, which included $6.5 million in the general fund and a negative $943,314 unassigned fund balance in the school operations fund. The city also maintains a formal reserve policy that limits unassigned general fund balance between 8.3% of expenditures and 10%, which it adheres to currently. The general fund also has a $4.1 million receivable from several other governmental and business-type activity funds; the majority of the receivable includes $2.6 million from the wastewater fund and about $1.6 million from special revenue funds. The receivable has been steadily decreasing over the past five fiscal years: It was $7.6 million in fiscal 2011. Management expects these funds to continue to support the general fund, albeit modestly, over time.

**Strong liquidity**
In our opinion, Saco's liquidity is strong, with total government available cash at 7.4% of total governmental fund expenditures and 1.7x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Saco's maintenance of its strong access to external liquidity further enhances our view of the city's liquidity. Saco is a regular market participant, issuing GO bonds frequently within the past several years. We understand Saco has not entered into any bank loans, direct-purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Moreover, the city expects cash balances to improve as it continues to receive reimbursements from the wastewater fund. In addition, management does not currently plan to draw down its cash balance over the next few years. The city did not issue tax anticipation notes in fiscal 2015, and it does not currently plan to issue any over the next few years. Therefore, we expect Saco to maintain its strong liquidity profile.

**Very strong debt and contingent liability profile**
In our view, Saco's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.3% of total governmental fund expenditures, and net direct debt is 26.1% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, and approximately 75.3% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance and including capital leases, the city will have about $16.8 million in total direct debt. Saco does not currently have any significant additional debt plans within the next two years to three years.

Saco's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 0.6% of total governmental fund expenditures in fiscal 2015. The city made its full annual required pension contribution in fiscal
Saco contributes to the Maine Public Employees' Retirement System; it contributed $343,859 in fiscal 2015, which equaled 100% of its actuarially determined contribution. The system is currently 83% funded with the city's proportionate share of the net pension liability at $1.2 million. Saco also provides OPEB, as an implicit rate subsidy, to retirees.

**Strong institutional framework**
The institutional framework score for Maine municipalities is strong.

**Outlook**
The stable outlook reflects Standard & Poor's opinion of Saco's very strong local economy and growing property tax base, supported by its access to the Portland MSA. We believe the city's strong budgetary flexibility and very strong debt and contingent liability profile further support the rating. Due to the city's limited debt plans and our expectation that finances will likely remain stable, coupled with a very strong economy, however, we do not expect to change the rating within the two-year outlook period.

**Upside scenario**
Over time, if the city were to continue to see increases in local economic indicators comparable to other higher rated municipalities and if management were to maintain strong budgetary flexibility through consistent positive financial performance while improving liquidity, we could raise the rating.

**Downside scenario**
Conversely, if budgetary performance were to deteriorate, leading to reductions in available reserves and liquidity, we could lower the rating.

**Related Criteria And Research**

**Related Criteria**
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

**Related Research**
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Maine 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.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.