

RatingsDirect®

Summary:

Ogunquit, Maine; General Obligation

Primary Credit Analyst:

Tyler Fitman, Boston (1) 617-530-8021; tyler.fitman@spglobal.com

Secondary Contact:

Anthony Polanco, Manchester + 1 (617) 530 8234; anthony.polanco@spglobal.com

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| US\$12.75 mil 2024 GO bnds due 05/01/2054 | | |
| Long Term Rating | AA+/Stable | New |

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Ogunquit, Maine's \$12.75 million 2024 general obligation (GO) bonds.
- The outlook is stable.

Security

The town's full-faith-and-credit pledge secures the debt. Ogunquit can levy ad valorem property taxes for bond repayment, subject to the state's LD-1 legislation debt limitations. The town's limited-tax GO debt is on par with our view of Ogunquit's general creditworthiness since the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on the fungibility of resources, supporting our view of the town's overall ability and willingness to pay debt service. The governor has signed legislation repealing LD-1, which is expected to go into effect this summer. The repeal of this limit will not have an effect on our view of the town's creditworthiness.

Proceeds from the bonds will be used to finance various capital and equipment needs, primarily a new municipal campus to house the police department and town administration.

Credit overview

Ogunquit's reliance on a stable tax base that benefits from second homes and summer tourism and an overall conservative approach to financial management has led to a record of stable finances and reserves. The town has a moderate debt burden, and what we view as limited pressure from retirement liabilities due to high funding, manageable liabilities, and overall low costs.

The rating reflects our opinion of the town's:

- Very strong economy supported by a stable, primarily residential tax base;
- Record of strong budgetary performance, with recent growth in available reserves;
- Strong management, with good budgetary controls, an annually updated capital improvement plan, recently adopted investment and reserve policies, and a strong Institutional Framework; and
- Moderate debt burden, with plans to issue some additional debt for improvements to public facilities.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) factors relative to Ogunquit's economy, management, financial measures, and debt-and-liability profile; we view them as neutral in our credit-rating analysis. Due to its coastal location, we view its environmental risk as elevated but similar to that of other coastal locations. There are no residential or commercial properties on the immediate coast and a series of natural and engineered dunes serve as a barrier during storms and elevated tides. The town's wastewater treatment plant is in an area susceptible to flooding and long-term plans have been established to relocate the facility. The town's economy is tied to coastal activities and it has engaged in planning and mitigation, including through a comprehensive plan to protect it from coastal storms and sea-level rise. Ogunquit is also a founding member of the Southern Maine Regional Sustainability and Resilience Program and is enrolled in the state's Community Resilience Partnership program. Borrowing for projects such as the upcoming improvement to the Marginal Way walkway, which has been damaged by storms, may result in increased fixed costs.

Outlook

The stable outlook reflects S&P Global Ratings' view of Ogunquit's record of financial performance, supported by strength in the local and regional economy despite personal income levels that are below those of higher-rated peers but relatively stable.

Downside scenario

We could lower the rating if financial results were to deteriorate, leading to a sustained draw on reserves, or if costs associated with debt or other liabilities were to increase.

Upside scenario

Although we do not expect this, if reserves continue to grow, income metrics materially improve and fixed costs remain manageable, we could raise the rating.

Credit Opinion

Strong local economy, benefiting from participation in the broad and diverse Portland metropolitan area

Ogunquit is a coastal community on the Atlantic Ocean in southern Maine, about 40 miles south of Portland. The town has a year-round population of about 1,000, but the presence of summer homes and tourism swell the population to over 20,000 in the summer. The tax base is primarily residential, and while most development is small-scale residential, property appreciation and improvements have led to an increase in market value of about 20% over the last three years.

Record of consistent financial performance and maintenance of reserves

The town has a history of producing at least balanced results, with contributions to fund balance in most years. For general fund revenue, it relies primarily on property taxes, which accounted for 73% of revenue in 2023. The town also benefits from significant parking fee revenue. In fiscal 2023, it increased the parking rate and extended hours of fee collection, which led to an increase in collections. There is significant tourism activity during the summer, and these

parking fees are the main way revenue is captured directly from this activity. Fiscal 2023 results led to an increase in available reserves by about \$900,000 to over \$5 million, following a slight draw in reserves in the prior year due to expenses associated with a road project.

The adopted 2024 budget totals \$17.8 million, an approximate 4% increase over the prior year. The budget did not contain any new positions or services and the largest expenditure change was standard cost-of-living adjustments. According to management, expenditures are in line with the budget to date and revenues are higher than expected, and a surplus for the year is anticipated. The town has recently finalized the proposed 2025 budget, which includes a new position for parking enforcement, an additional full-time position to meet service needs at the fire department, as well as typical compensation adjustments. From now on, Ogunquit will be focused on competitive compensation and benefits to ensure retention of employees and on maintenance of town facilities. We expect the town will continue to produce stable operating performance leading to consistent growth in reserves.

Good financial management policies, practices under our financial management assessment (FMA)

Ogunquit has a record of generally conservative budgeting, and each year's budget includes consideration of its short- and long-term goals and a three-year look-back at revenue and expenditure trends. While it does not engage in formal long-term financial planning, it has for many years produced an annually updated five-year capital improvement plan and is now producing a ten-year plan that includes projected project costs and projected available funding each year. Management provides a report on budget-to-actual status to the board of selectmen on a monthly basis. The town recently adopted an updated fund balance policy that calls for maintenance of unassigned fund balance equal to 25% of the tax commitment or two months of operating expenditures and calls for amounts in excess to be used for capital funding or tax rate stabilization. Its recently adopted investment policy outlines investment objectives and permissible investments.

The Institutional Framework score for Maine municipalities is very strong.

Moderate debt burden, with plans for some additional borrowing

Following this issuance, the town has about \$20 million in direct debt outstanding. It does not have any additional debt authorized at this time. However, necessary improvements to the Marginal Way coastal walk and a pedestrian bridge may lead to the issuance of about \$5 million in additional debt within the next few years. Third-party contributions may offset the debt service on a portion of this borrowing. We do not expect this debt to alter our view of the town's liability profile.

Pension and other postemployment benefit (OPEB) liabilities

We do not view pension costs as a long-term credit concern for Ogunquit due to high funding, manageable liabilities, and overall low costs. We expect contribution increases will likely remain affordable due to revenue strength, strong reserves, and conservative budgeting.

As of the fiscal 2023 audit, Ogunquit participates in:

- Maine Public Employees Retirement System Consolidated Plan for Local Participating Districts Plan (PLD Plan), a consolidated plan for local participating districts and municipalities, which is 93% funded, with a proportionate share of the net pension liability at \$1.2 million.

Ogunquit made its full annual required pension contribution in fiscal 2023, and it exceeded static and minimum funding progress, indicating that the systems are addressing current costs and making headway addressing their unfunded liabilities.

Ogunquit is a member of Maine Municipal Employees Health Trust (MMEHT), which sponsors OPEB plans that provide health insurance to retiring employees. Eligible retirees must pay 100% of health-insurance premiums to receive health benefits. Therefore, town contributions represent an implicit rate subsidy and audited financial statements reflect the percentage of premiums subsidizing retiree health benefits. Ogunquit's total fiscal 2023 OPEB liability was \$137,000. We expect pension and OPEB carrying costs will likely remain manageable.

| Ogunquit, Maine--Key credit metrics | | | | |
|---|-------------|------------------------|-----------|-------|
| | Most recent | Historical information | | |
| | | 2023 | 2022 | 2021 |
| Very strong economy | | | | |
| Projected per capita EBI % of U.S. | 133 | | | |
| Market value per capita (\$) | 2,410,134 | | | |
| Population | | | 898 | 883 |
| County unemployment rate (%) | | | 2.7 | |
| Market value (\$000) | 2,164,300 | 2,025,250 | 1,797,700 | |
| Ten largest taxpayers % of taxable value | 6.2 | | | |
| Strong budgetary performance | | | | |
| Operating fund result % of expenditures | | 5.4 | (1.3) | 3.8 |
| Total governmental fund result % of expenditures | | 8.5 | 16.3 | 9.4 |
| Very strong budgetary flexibility | | | | |
| Available reserves % of operating expenditures | | 31.5 | 26.1 | 29.0 |
| Total available reserves (\$000) | | 5,299 | 4,378 | 4,499 |
| Very strong liquidity | | | | |
| Total government cash % of governmental fund expenditures | | 50 | 56 | 56 |
| Total government cash % of governmental fund debt service | | 705 | 714 | 892 |
| Strong management | | | | |
| Financial Management Assessment | Good | | | |
| Adequate debt & long-term liabilities | | | | |
| Debt service % of governmental fund expenditures | | 7.0 | 7.8 | 6.3 |
| Net direct debt % of governmental fund revenue | 113 | | | |
| Overall net debt % of market value | 1.2 | | | |
| Direct debt 10-year amortization (%) | 58 | | | |
| Required pension contribution % of governmental fund expenditures | 2.1 | | | |
| OPEB actual contribution % of governmental fund expenditures | 0.0 | | | |
| Very strong institutional framework | | | | |
| EBI--Effective buying income. OPEB--Other postemployment benefits. | | | | |
| Data points and ratios may reflect analytical adjustments. | | | | |

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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