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Summary:

Regional School Unit No. 13, Maine; Appropriations

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Credit Profile

US\$8.595 mil lse rev cust rec ser 2016 due 07/31/2036

Long Term Rating

A+/Stable

New

Rationale

S&P Global Ratings assigned its 'A+' rating to Regional School Unit (RSU) No. 13, Maine's series 2016 lease revenue custodial receipts. The outlook is stable.

The series 2016 custodial receipts will be secured by lease payments in accordance with a lease purchase agreement between the RSU as lessee and Crews & Associates, a private corporation, as lessor. Because the lessor is a private corporation, S&P Global has reviewed the bankruptcy remoteness language provided in the true sale opinion of the private entity. The lease purchase agreement and custodial receipts are considered a direct obligation of the RSU payable from all of the RSU's available funds, subject to annual appropriation.

About 82% of the RSU's general fund revenues are made up of member town assessments, which are annually apportioned to the towns of Thomaston, South Thomaston, Rockland, Owl's Head, and Cushing in accordance with Maine's Private and Special Laws 2007, Chapter 25, and amended by Private and Special Laws 2008, Chapter 42. RSUs in Maine cannot levy taxes directly; under the RSU agreement, however, RSUs apportion capital costs to member municipalities, payable from ad valorem taxes without limitation as to rate or amount. Therefore, we base the rating primarily on the credit quality of the RSU's respective member towns. The district has pledged to annually appropriate lease rental payments from any legally available funds before the conclusion of its fiscal year on June 30, which is more than three months in advance of the following December and June lease payment dates. No debt service reserve will be funded, but the timing of the lease payments in relation to the fiscal year-end mitigates, in our view, the risk of a late budget adoption. As such, since rental payments are subject to annual appropriation, the rating is notched from the district's general credit worthiness, reflecting our opinion of the appropriation risk inherent in the district's pledge of semiannual lease rental payments. Officials plan to use bond proceeds to finance equipment and various energy improvements for various existing facilities.

In our opinion, credit strengths in support of the rating include:

- Primarily residential and very diverse property tax base with very strong wealth and good-to-adequate incomes,
- Strong finances on a budgetary basis, and
- Low overall net debt as a percentage of market value.

Economy

RSU No. 13 serves an estimated population of 17,079 about 78 miles northeast of Portland in Thomaston, South Thomaston, Rockland, Owl's Head, and Cushing in Knox County. It operates nine schools. Enrollment totaled 1,726 in 2015. Management expects it to remain stable with the possibility of slight decreases over the next few years.

In our opinion, median household and per capita effective buying incomes are good to adequate, at 97% and 85%, respectively, of the national levels. Market value has been stable over the past few fiscal years, totaling \$2 billion in fiscal 2015, or a market value of \$121,010 per capita, which we consider extremely strong. County unemployment averaged 3.0% in 2015 compared with the state's 4.4% and the nation's 5.3%. There is no taxpayer concentration as the largest taxpayers account for a very diverse 10.7% of assessed value.

By state statute, the RSU's electorate annually approves its operating budget, including debt service costs, for the ensuing fiscal year. The RSU apportions the balance of the budget, not funded by state subsidy or grants, to member municipalities based on the state equalized valuation (the tax base), and pupil count. Member municipalities then pay their assessments to RSU monthly. For fiscal 2014, assessments of member municipalities accounted for about 82% of general fund revenue; of that amount, the RSU apportioned 19% to Thomaston, 13% to South Thomaston, 37% to Rockland, 17% to Owl's Head, and 14% to Cushing. State aid accounted for 18% of revenue.

Finances

Finances are stable. The RSU ended fiscal 2015 with a general fund surplus of \$485,100, which management attributes to conservative budgeting and improved internal controls and management of expenditures throughout the year. Prior to fiscal 2015, the school unit's fund balance was reported on solely on budgetary basis in its audits, which did not take into account teacher salaries and benefits for July and August. The RSU recognized this liability on budgetary basis but not on a Generally Accepted Accounting Principles (GAAP) basis of accounting in its audit since, under state law, it can pay for these costs in the following year's budget. Starting in fiscal 2015, however, to provide more clarity and conform to standards and common practice, the school unit began reporting its accrued summer salary and benefits for teachers and other smaller liabilities on a GAAP basis of accounting in its audit. As a result, due to this practice, the school unit's fund balance is currently understated compared to what it reports on a budgetary basis. As of June 30, 2015, on a GAAP basis, the school unit had a negative unassigned fund balance of \$775,351, which includes about \$2.2 million in summer salary and benefits for teachers for July and August. However, on a budgetary basis, the school unit unassigned fund balance totaled \$1.5 million as of June 30, 2015, or 5% of expenditures, which we consider good. Prior to this, in fiscal 2014, the school unit's available reserves totaled a negative \$1.2 million on a GAAP basis when accounting for summer salary and benefits. On a budgetary basis, however, available reserves totaled \$845,000, or an adequate 3% of expenditures.

For fiscal 2016, management estimates the RSU ended the year with a general fund surplus of approximately \$523,000 after transfers. This was better than the budgeted \$375,000 use of fund balance in fiscal 2016, which the school unit did not draw down on during the year. Officials attribute the positive performance to conservative budgeting and expenditures coming in lower than budgeted. As a result, the school unit's available fund balance is expected to improve to a negative \$183,786 on a GAAP basis and \$1.8 million on a budgetary basis. State law requires RSUs to maintain a maximum of 3% unallocated fund balance; otherwise, the state will reduce state aid. RSUs, however, can use anything more than 3% in the subsequent fiscal year's budget to reduce member assessments or for capital

improvements. The fiscal 2017 budget totals \$25.9 million and includes a fund balance appropriation of about \$250,000.

Management

We view the RSU's financial management practices and policies as "standard" under our financial management assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Highlights include conservative revenue and expenditure assumptions when developing the budget, coupled with good communications with member municipalities regarding assessments and monthly reports on budget-to-actual results to the board. Management maintains a formal investment policy that mirrors state guidelines with annual reporting on holdings and earnings to the board. It also maintains a formal five-year capital improvement plan that identifies funding sources and is updated quarterly. The RSU does not have formal debt management or fund balance policies because it manages debt and reserves in accordance with state limits.

Debt

Including this issue and the proportionate shares of overlapping debt of its member municipalities and the county, overall net debt, in our view, is low as a percentage of market value, at 0.5%, or very low on a per capita basis, at \$650. Debt service carrying charges are low, at 2.5% of fiscal 2015 total governmental fund expenditures. We consider principal debt below average, with officials planning to retire about 50% of all debt within the next 10 years. With this issue, total direct debt outstanding will equal about \$11 million. Management plans to issue about \$17 million over the next two to three years for various capital projects.

Pension and other postemployment benefit liabilities

The RSU participates in the Maine Public Employees' Retirement System, a cost-sharing, multiemployer, defined-benefit pension plan. The system is 83% funded. In fiscal 2015, RSU contributed \$349,771, or about 1.4% of governmental fund expenditures. It does not provide other postemployment benefits.

The member municipalities

Since we consider payments from member municipalities necessary for the district to pay debt service, we have taken into account our view of the credit profiles of the district's member municipalities, which we consider as having at least very strong capacity to meet their financial commitments.

The member municipalities are characterized by:

- Adequate-to-strong economies;
- Adequate-to-strong budgetary performance;
- Adequate-to-very strong budgetary flexibility;
- Adequate management conditions, with standard financial policies;
- Very strong liquidity, providing very strong available cash to cover debt service and expenditures;
- Very strong debt and contingent liability positions; and
- A strong institutional framework score.

Outlook

The stable outlook reflects S&P Global's opinion of the RSU's very strong, diverse underlying tax base, as well as a stable revenue and expenditure profile. In addition, we believe that the RSU will likely maintain good finances and that the member towns' finances will likely remain stable.

Upside scenario

While we do not expect to change the rating within the two-year outlook period, we could raise it if the RSU's local economic indicators were to improve and if it increases available reserves through consistent positive financial performance, and if management were to implement stronger management policies and practices.

Downside scenario

If the credit profiles of member municipalities weakened, or the RSU's financial performance were to deteriorate, leading to decreased reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

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