

MOODY'S ASSIGNS Aa1 RATING TO THE TOWN OF FALMOUTH'S (ME) \$9.3MM 2011 G.O. REFUNDING BONDS**Aa1 RATING APPLIES TO TOTAL OF \$15.5MM OF LONG-TERM PARITY DEBT, INCLUDING CURRENT OFFERING**

Falmouth (Town of) ME
Municipality
Maine

Moody's Rating

Issue	Rating
2011 General Obligation Refunding Bonds	Aa1
Sale Amount	\$9,315,000
Expected Sale Date	01/11/11
Rating Description	General Obligation Refunding Bonds

NEW YORK, January 10, 2011 -- Moody's Investors Service has assigned a Aa1 rating to the Town of Falmouth's (ME) \$9.3 million 2011 General Obligation Refunding. Concurrently, Moody's has affirmed the Aa1 rating assigned to \$15.5 million of outstanding parity debt.

RATING RATIONALE

The refunding is expected to generate a net present value savings of approximately 13% of refunded principal, without extending the maturity of the debt. The bonds refund Falmouth's Series 2000 bonds, originally issued to finance renovations to the town's high school. The bonds are secured by the town's general obligation unlimited tax pledge as debt service relates to education projects and is not subject to Maine's general government property tax levy limitation known as LD 1. The Aa1 rating reflects the town's affluent and moderately-sized tax base, strong financial position with healthy reserves and modest debt levels when adjusted for state school construction grants.

WELL-MANAGED FINANCIAL POSITION EXHIBITS ROBUST RESERVES AND STABILITY

Moody's anticipates Falmouth's financial position to remain healthy supported by a track record of structurally balanced operations, conservative budgeting practices and ample reserve levels guided by a formal fund balance policy. The town has maintained a significant level of financial flexibility retaining an Unreserved General Fund balance position in excess of 40% of revenues and an Undesignated General Fund balance position in excess of 24% of revenues for the last several fiscal years. At these levels the town remains above the state and national medians for similarly-rated municipalities and also exceeds its formal General Fund Balance Policy which calls for Undesignated General Fund reserves to be maintained at a minimum of 16.7% or two months expenditures. Of note, the difference between Unreserved and Undesignated General Fund balance represents an \$8.2 million designation, primarily for capital projects. The town maintains a healthy level of annual pay-as-you-go capital spending, primarily for roads, parks and equipment purchases, with \$2 million expended in fiscal 2010 and roughly \$2 million projected annually as part of the town's six-year capital improvement plan.

Fiscal 2010 audited results indicate a moderate \$846,000 General Fund surplus, generated through conservative revenue forecasting and tight expenditure management. The surplus more than replenished the aggregate \$549,000 deficit in fiscal 2008 and 2009. Total General Fund balance rose to \$18.5 million, a very solid 47% of General Fund revenues; the Undesignated portion rose to \$10.17 million, a strong 25.8% of revenues. Falmouth's financial position is especially strong when considering the significant funds appropriated annually for capital improvements. The town has experienced over \$600,000 in cumulative budget cuts, including school department reductions, to offset declines in state aid, investment income and excise taxes since fiscal 2008. The adopted fiscal 2011 budget represents a 1% expenditure reduction from the prior year's budget. The budget remains conservative and structurally balanced, without the use of a fund balance appropriation. Notably, the town's overall financial flexibility is enhanced by approximately \$1.1 million of accumulated excess taxing capacity under the provisions of LD-1, representing the amount of allowable levy growth not utilized but available for future budgets. Falmouth's long-term liabilities are manageable with a relatively small \$980,829 liability for other post-employment benefits (OPEB) and a pension liability which is close to 100% funded.

MODERATELY-SIZED RESIDENTIAL SUBURB OF PORTLAND WITH FAVORABLE WEALTH INDICES

Moody's expects the town's \$2.2 billion tax base to remain relatively stable given its favorable location and strong demographic characteristics. Located on the southern coast of Maine just north of the City of Portland (G.O. rated Aa1), the town's assessed value growth has averaged 6.2% annually since 2005, reflecting modest market appreciation and construction of new properties. However, growth in fiscal 2011 was just 0.9%, reflecting regional weakness in real estate markets as well as moderate additions of new single-family homes. Falmouth completed a town-wide property revaluation resulting in a 26.4% increase in assessed values in fiscal 2009 largely reflecting value appreciation since the town's last full revaluation in 2003. Although predominantly a residential community (78% of assessed value), access to major transportation arteries U.S. Route 1, Interstate 295 and Interstate 95 supports a healthy commercial sector (11%). Residents benefit from employment opportunities in these districts as well as convenient access to Portland. Positively, the tax base exhibits a minimal level of concentration with the top ten taxpayers representing just 6.5% of the equalized value. The property tax collection rate remains strong, approximating 98% annually on a current year basis. Income levels are well in excess of national medians with per capita and median family income of 170% and 174% of the nation, respectively. Additionally, reflecting the town's property wealth, the equalized value per capita totals \$196,932 or a strong 221% of the national median.

AFFORDABLE DEBT BURDEN ADJUSTED FOR STATE SCHOOL CONSTRUCTION SUPPORT

Moody's anticipates the town's debt burden will remain manageable despite additional borrowing plans given anticipated state school building support as well as the town's recurring cash appropriations for capital projects and favorable rate of principal amortization. Following this issue and a concurrent \$35 million issuance of bond anticipation notes for school construction (not rated by Moody's) the town's net direct debt burden rises to an above average 2.4% of equalized value. However, adjusting for State school building aid, anticipated at 87% for Falmouth's school projects, the town's debt burden declines to a more moderate 1.1%. On completion of the school project the town has no future borrowing plans or major capital needs. Debt service represented a modest 5.2% of General Fund expenditures in fiscal 2010 and incorporating this issue existing debt will be amortized at a favorable rate of 82.7% within 10 years. The town's debt profile consists entirely of fixed-rate borrowing and the town has not entered into any derivative agreements.

WHAT COULD MOVE THE RATING-UP:

- "Significant tax base expansion with diversification
- "Stronger demographic profile

WHAT COULD MOVE THE RATING-DOWN:

- "Tax base or demographic deterioration
- "Sustained decline in reserves
- "Increase in direct debt burden

KEY STATISTICS:

2010 Population (US Census): 10,823 (+5% since 2000)
2011 Equalized valuation: \$2.1 billion
2011 Equalized value per capita: \$196,932
2000 Per Capita Income: \$36,716 (188% of ME, 170% of US)
2000 Median Family Income: \$87,304 (193% of ME, 174% of US)
Unemployment (October, 2010): 5.5% (ME 6.7%, US 9%)
Net direct debt burden: 2.4%
Adjusted debt burden: 1.1%
Amortization of principal (10 years): 82.7%
FY10 General Fund balance: \$18.5 million (47% of General Fund revenues)
FY10 Unreserved undesignated General Fund balance: \$10.1 million (25.8% of General Fund revenues)
G.O. long term debt outstanding: \$16.8 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October, 2009.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

ANALYSTS:

Susan Kendall, Analyst, Public Finance Group, Moody's Investors Service
Conor McEachern, Backup Analyst, Public Finance Group, Moody's Investors Service
Geordie Thompson, Senior Credit Officer, Public Finance Group, Moody's Investors Service

CONTACTS:

Journalists: (212) 553-0376

Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

Copyright 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.