

RatingsDirect®

Summary:

Windham, Maine; General Obligation

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Credit Profile			
US\$10.617 mil 2024 GO bnds ser 2024 due 11/01/2044			
<i>Long Term Rating</i>	AA+/Stable	New	
Windham GO rfdg			
<i>Long Term Rating</i>	AA+/Stable	Upgraded	

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'AA+' from 'AA' on the Town of Windham, Maine's existing general obligation (GO) debt.
- At the same time, we assigned our 'AA+' long-term rating to Windham's \$10,.617 million series 2024 GO bonds.
- The outlook is stable.
- The upgrade reflects our view of the town's improved reserve position over the past two years, supported by positive financial results, while maintaining a manageable debt and contingent liability profile.

Security

Windham's full-faith-and-credit pledge secures the bonds. The town can levy ad valorem property taxes for bond repayment, subject to Maine's LD-1 legislation limitations. We rate the limited-tax GO debt on par with our view of the town's general creditworthiness, reflecting Windham's revenue-raising flexibility and ability to pay debt service. The governor has signed legislation repealing LD-1, which is expected to go into effect on Aug. 9, 2024. The repeal of this limit will not have an effect on our view of the town's creditworthiness. Officials plan to use bond proceeds to finance various capital improvement projects from the last two years.

Credit overview

Supporting the upgrade is our view of the town's consistently positive operational performance leading to the maintenance of a robust level of reserves, which approached 37% at the end of fiscal 2023. The rating also reflects our opinion of Windham's expanding economic metrics, which have seen notable growth in total assessed value in the past few years spurred by residential and commercial expansion. We understand there are various development projects underway, especially in Windham's northern commercial area, where the town is working with Portland Water District to sewer infrastructure that, when in place, could attract new businesses and allow current businesses to expand.

The 'AA+' GO rating reflects our view of the town's:

- Strong local economy, with high wealth indicators that continues to experience growth in the tax base and benefits from access to the Portland metropolitan statistical area;
- Increased reserve position, which the town achieved through positive operations over the past three years;
- Standard financial management policies and practices, with a strong institutional framework score; and

- Manageable fixed costs, with a low debt burden and retirement liabilities with limited capital needs and continued participation in a well-funded pension plan.

Environmental, social, and governance

We analyzed Windham's environmental, social, and governance factors relative to the town's economy, management, financial measures, and debt and liability profile, and view them as neutral in our credit rating analysis. A small portion of the town is located along Sebago Lake, although flooding is limited. Windham is working with the state of Maine to study local climate resiliency for municipalities on inland lakes. The town is planning a membrane bioreactor project to address rising nitrate and phosphate concentrations in its aquifer related to its water and sewer system. We view the planning efforts to reduce environmental waste and pollution as positive, despite the potential need for additional debt from the water district to finance the project.

Outlook

The stable outlook reflects our expectation that the town will maintain at least balanced operations and very strong reserves, while continuing to demonstrate economic growth. We do not expect to the change to rating during the two-year outlook horizon.

Downside scenario

We could lower the rating if Windham's debt profile weakens and becomes a source of fiscal stress, or if budgetary performance worsens, causing the town's budgetary flexibility to deteriorate materially.

Upside scenario

While unlikely, we could raise the rating if the town's economic metrics, particularly its incomes, improve significantly and if the town were to adopt more robust policies and practices while maintaining or improving other relevant credit factors.

Credit Opinion

Residential suburban economy with robust tax base growth

Windham, a primarily residential community 12 miles northwest of Portland, has been experiencing strong taxbase growth primarily due to higher demand for its residential properties. While the town's population doubles during the summer season because it serves as a gateway to the state's Lakes Region, including the nearby Sebago Lake region, most of the town's population is made up of primary year-round residents. Windham's total assessed values have jumped 15% in 2024 primarily due to home price appreciation but also because of ongoing economic development. We note the town has several development projects underway including more than 700 residential units under construction and numerous commercial developments including the addition of two major hotels. In addition to boosting the base available for property taxes, recent construction has contributed to increased permits and fees for the town's general fund. Much of the subsequent development will occur in Northern Windham while other parts of the town will likely stay unchanged as Windham balances high demand for development and preserving its well-regarded natural land.

Good management conditions with a two-month reserve target

Highlights include:

- Windham's management team works with department heads to examine revenue and expenditure trends when developing the budget. Generally, five years of trend data are used, and management will work with the state and examine federal-level changes when building the budget.
- Budget-to-actual reports are provided monthly to the board, which maintains the ability to amend the budget if necessary. The town regularly meets with the finance committee to discuss long and short objectives within the budget and unanticipated changes to revenues or expenditures.
- The town annually updates a formal, five-year capital plan that identifies projects and funding sources and takes a 10-year approach when looking at equipment replacement or road repair. It does not formally undertake long-term financial projections.
- The formal investment policy adheres to state statutes, and the town adheres to state law limiting debt.
- The formal reserve policy requires a combined unassigned fund balance in the general fund and specified special revenue funds at 16.67% of the subsequent year's budget.
- The town is taking appropriate efforts to address cyber security risk.

Strong and stable finances well above its formal target of at least two months' unassigned reserves

Windham's budgetary performance has been consistently positive, achieving general fund surpluses in four of the past five years, with a draw on fund balance in fiscal 2020 due to planned capital spending. The positive result in fiscal 2023 reflects robust investment income but also positive variances in excise taxes and building permits, which are underpinned by strong economic activity in the area. Similarly, the town anticipates a \$1.8 million surplus in fiscal 2024 due to continued strength in investment income and its local taxes. Local property taxes are the predominant revenue source, accounting for 80% of fiscal 2023 audited general fund revenues, which we believe highlights the predictability of Windham's revenue base.

The fiscal 2025 budget totals \$60.5 million and calls for the use of \$3.0 million in fund balance, although the town has historically included fund balance in its budgets but not ended up using it. The budget includes the expectation for inflationary impacts on expenditures and added positions. While Windham's available fund balance has historically averaged approximately 26% of operating expenditures, we note the town has materially increased its reserves in recent years to approximately 36% of expenditures through consistently positive operations. An improvement in available reserves and the expectation that management is unlikely to spend down its recently built fund balances has led to our improved view of the town's financial flexibility. Therefore, we do not expect any changes to our view of the town's finances or very strong liquidity.

Currently limited debt with upcoming projects to support growth

We calculate that the town will have approximately \$31.2 million in total direct debt following this transaction and is currently considering three projects over the next two-to-three years that could include the use of debt, although we do not currently expect they will materially change the town's overall liability profile. Of these, one is putting a rear access road into an area that has recently seen high and increasing traffic, and the other is a clean water project. We believe Windham's ability to incorporate capital projects into pay-as-you-go spending or through capital reserves has

helped it maintain a strong debt profile despite its growth.

Manageable pension and other postemployment benefits (OPEB) liabilities

We do not view pension costs as a long-term credit risk 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 June 30, 2023, Windham participated in the following plan:

- Maine Public Employees' Retirement System's PLD Plan: 92.3% funded, with a proportionate share of the net pension asset at \$2 million, assuming a 6.50% discount rate.
- Windham is also a member of the Maine Municipal Employees' Health Trust and Maine Education Assn. Benefits Trust, which sponsors OPEB plans that provide health insurance to retiring employees. Eligible retirees must pay 100% of health insurance premiums to receive health benefits. The town's liability of \$911,000 represents an implicit rate subsidy. Therefore, the audited financial statements reflect the percentage of premiums subsidizing retiree health benefits. In our opinion, retirement costs do not currently have a material effect on finances or operations; they will likely remain manageable during our outlook period.

Windham, Maine--Key credit metrics

	Most recent			Historical information		
	2023	2022	2021	2023	2022	2021
Very strong economy						
Projected per capita EBI % of U.S.		108				
Market value per capita (\$)		201,489				
Population (no.)		18,802	18,836	18,285		
County unemployment rate(%)		2.4				
Market value (\$000)	3,788,400	3,292,633	2,734,905			
Ten largest taxpayers % of taxable value		3.4				
Strong budgetary performance						
Operating fund result % of expenditures		6.0	2.0	7.2		
Total governmental fund result % of expenditures		7.5	3.4	8.6		
Very strong budgetary flexibility						
Available reserves % of operating expenditures		36.4	31.3	29.2		
Total available reserves (\$000)		18,266	14,620	13,126		
Very strong liquidity						
Total government cash % of governmental fund expenditures		56	50	47		
Total government cash % of governmental fund debt service		1,385	1,264	1,413		
Strong management						
Financial Management Assessment	Good					
Very strong debt & long-term liabilities						
Debt service % of governmental fund expenditures		4.0	4.0	3.3		
Net direct debt % of governmental fund revenue		58				

Windham, Maine--Key credit metrics (cont.)

	Most recent	Historical information		
	2023	2022	2021	
Overall net debt % of market value	1.1			
Direct debt 10-year amortization (%)	67			
Required pension contribution % of governmental fund expenditures	1.4			
OPEB actual contribution % of governmental fund expenditures	0.1			

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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