

August 10, 2018

Ms. Deborah Cabana
Town of Gray, ME
24 Main Street
Gray, ME 04039

Dear Ms. Cabana:

We wish to inform you that on August 9, 2018, Moody's Investors Service reviewed and assigned a rating of **Aa2** to Town of Gray, ME, 2018 General Obligation Bonds.

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Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Chris Salcedo at 212-553-3761.

Sincerely,

Moody's Investors Service Inc.

Moody's Investors Service Inc.

cc:

Mr. Joe Cuetara
Moors & Cabot, Inc.
111 Devonshire Street
Boston, MA 02109

CREDIT OPINION

9 August 2018



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Gray (Town of) ME

Update to credit analysis

Summary

The Town of Gray (Aa2) is a small suburban community that benefits from proximity to employment opportunities in Portland, ME (Aa1 stable). Resident income and wealth are above-average. The town has a well-managed financial position with healthy reserve levels and very low levels of leverage.

Credit strengths

- » Stable tax base
- » Healthy reserve position bolstered by formal policy
- » Average debt burden with no future borrowing plans
- » No pension or OPEB liability

Credit challenges

- » Limited tax base size
- » Recent large increases in health insurance costs

Rating outlook

Moody's typically does not assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Trend of large operating surpluses that lead to significant growth of reserve levels
- » Substantial increase in the tax base and improvement in income levels

Factors that could lead to a downgrade

- » Operating deficits leading to reserve declines
- » Consecutive declines in the tax base or weakening of income levels
- » Material growth in the debt burden

Key indicators

Exhibit 1

Gray (Town of) ME	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$847,150	\$845,000	\$846,050	\$884,000	\$888,850
Population	7,808	7,860	7,928	7,988	7,988
Full Value Per Capita	\$108,498	\$107,506	\$106,717	\$110,666	\$111,273
Median Family Income (% of US Median)	109.2%	116.5%	110.1%	107.7%	107.7%
Finances					
Operating Revenue (\$000)	\$14,266	\$15,518	\$16,475	\$16,943	\$17,209
Fund Balance (\$000)	\$2,457	\$2,757	\$4,083	\$4,454	\$4,699
Cash Balance (\$000)	\$4,808	\$5,402	\$6,322	\$5,881	\$6,278
Fund Balance as a % of Revenues	17.2%	17.8%	24.8%	26.3%	27.3%
Cash Balance as a % of Revenues	33.7%	34.8%	38.4%	34.7%	36.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$5,007	\$8,312	\$7,420	\$6,548	\$6,236
3-Year Average of Moody's ANPL (\$000)	\$0	\$0	\$0	\$0	\$0
Net Direct Debt / Full Value (%)	0.6%	1.0%	0.9%	0.7%	0.7%
Net Direct Debt / Operating Revenues (x)	0.4x	0.5x	0.5x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Sources: Moody's Investors Service; Town's audited financial statements

Profile

The Town of Gray has a population of 8,000 and is located in Cumberland County (Aa2 stable) approximately 16 miles north of Portland.

Detailed credit considerations

Economy and Tax Base: Stable tax base favorably located near Portland

Gray's suburban tax base will remain stable with modest residential growth over the near term. The town is located in Cumberland County approximately 16 miles north of Portland. The primarily residential \$928 million tax base (fiscal 2018) grew 4.4% over the previous year driven by a strong housing market. The town has ample land available for new development, and near term growth will come from several residential subdivisions. The town is in the process of updating its Comprehensive Plan and zoning laws, which should lead to future commercial and industrial development over the longer term.

The top 10 taxpayers account for just 5.8% of fiscal 2017 total assessed value. Income levels are just above-average, with median family income at 113.7% and 107.7% of the state and nation, respectively (2016 ACS). Full value per capita is healthy at \$116,174. Cumberland County's unemployment rate of 2.5% (March 2017) is below that of the state and nation.

Financial Operations and Reserves: Healthy financial position will continue

Following some fund balance declines in fiscal 2009-2012 for capital outlays, the town has generated surpluses for the past five years and we expect reserves to be maintained around current levels. Management budgets conservatively and consistently adheres to a formal policy to maintain at least a two month reserve (unassigned fund balance), with funds in excess of three months going towards capital. Fiscal 2017 audited results reflect a \$257,000 surplus which increased available General Fund balance (committed, assigned and unassigned) to \$4.7 million or 27.3% of revenues, an improvement over the 17.2% in 2013. The surplus was driven by strong performance in excise taxes and building permits.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Management projects another surplus in fiscal 2018 (June 30) again driven by conservative budgeting of revenues. A large budget driver in fiscal 2019 is the decline in annual pay-go capital as the town instead moves to debt finance several long-term capital project.

The town's primary revenue source is property taxes (90.3% of fiscal 2017 revenues) and the current year collection rate has averaged 98.6% over the past five years. The largest expenditures are assessments paid to the Maine School Administrative District No. 15 (Aa3) (53% of 2017 expenditures) and public works (12.4%). Additionally, very low fixed costs as well as a limited public sector union presence makes its unlikely for the town to experience significant volatility in annual operations.

LIQUIDITY

General Fund cash has been stable over the past several years and was \$6.3 million, or 36.5% of revenues, in 2017.

Debt and Pensions: Debt burden will increase to moderate levels; No pension or OPEB liability

The debt burden will grow to moderate levels after nearly doubling in fiscal 2018. As town management brings forward several capital projects to take advantage of low interest rates, the town's debt burden will climb to around 1.1% of full value or 0.6 times revenues, still in line with the rating category. Management has no future long-term borrowing plans and average amortization. The town has historically allocated at least \$1 million annually for pay-go capital, which will decrease slightly to offset increasing annual debt service requirements. Debt service accounted for 5.1% of expenditures in 2017 and is expected to climb to around 7.7% of expenditures by 2020.

DEBT STRUCTURE

All debt is fixed rate and principal amortization is average with 85.2% repaid within ten years.

DEBT-RELATED DERIVATIVES

Gray is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The town does not offer pension or OPEB benefits.

Management and Governance

Gray is governed by a five-member Town Council who serve staggered three year terms. Management budgets conservatively and adheres to several fiscal policies. In addition, the town maintains a multi-year capital plan.

Maine cities and towns have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities' and towns' major revenue source, property taxes, are subject to a cap, which can be overridden at the local level. The cap is based on statewide personal income growth and local property growth. The cap allows for moderate revenue-raising ability. Taxes raised for school purposes, including school debt service, are not subject to the cap. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maine has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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August 10, 2018

Town of Gray
24 Main Street
Henry Pennell Municipal Complex
Gray, ME 04039
Attention: Ms. Deborah Cabana, Treasurer

**Re: *US\$4,882,000 Town of Gray, Maine, General Obligation Bonds, Series 2018, dated:
Date of delivery, due: October 15, 2038***

Dear Ms. Cabana:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA+" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Public Finance Department
55 Water Street
New York, NY 10041-0003

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cc: ***Ms. Cathy Markavich***
Mr. Joseph P. Cuetara

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Summary:

Gray, Maine; General Obligation

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Secondary Contact:

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

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Gray, Maine; General Obligation

Credit Profile

US\$4.882 mil GO bnds ser 2018 due 10/15/2038

<i>Long Term Rating</i>	AA+/Stable	New
Gray Twn GO rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Gray Twn GO (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Gray, Maine's series 2018 general obligation (GO) bonds. At the same time, we affirmed our 'AA+' long-term rating to the town's outstanding GO debt. The outlook is stable.

The bonds are general obligations of the town, for which it has pledged its full-faith-and-credit. The bonds are payable from ad valorem taxes levied on all property within Gray's territorial limits, which are subject to levy limitations under the state's 'LD-1' property tax levy law (Maine Revised Statutes Title 30-A, section 5721-A).

Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018, on RatingsDirect), we do not differentiate between the town's limited-tax GO debt and its general creditworthiness because the tax limitation imposed on the Gray's ability to raise revenue is already embedded in our analysis of its financial and economic conditions.

We understand that officials intend to use proceeds from the series 2018 GO bonds (approximately \$4.88 million) to permanently finance various town-wide capital projects, including the acquisition of equipment and vehicles, and improvement to facilities.

The rating on Gray reflects the following factors:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.6% of total governmental fund expenditures and 8.0x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt and contingent liability position, with debt service carrying charges at 5.6% of expenditures and net direct debt that is 57.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 79.8% of debt scheduled to be retired over 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Gray's economy very strong. The town, with an estimated population of 8,243, encompasses 46 square miles in Cumberland County in the Portland-South Portland MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 119% of the national level and per capita market value of \$112,580. Overall, the town's market value grew by 4.4% over the past year to \$928.0 million in 2018. The county unemployment rate was 2.5% in 2017.

Gray is a predominantly suburban and residential community, approximately 16 miles north of Portland. The town is traversed by Interstate 95 (the Maine Turnpike) and U.S. Route 202, connecting residents with regional employment opportunities in the greater Portland area. The local economic base features employers in the commercial retail, manufacturing, and professional services sectors. Gray's leading employers include Hannaford (approximately 165 employees), Cole Farms (100), Enercon (100), and Bruns Brothers (52). In our view, the town has little taxpayer concentration, with the 10 leading taxpayers accounting for a diverse 6.1% of assessed value (AV).

In addition to its embeddedness in the broader regional economy, Gray has experienced stable tax base growth, demonstrated by increased commercial and residential building permit activity over the last three years. The town attributes this trend to a mix of new business creation and expansion of existing companies. Furthermore, Gray reports new residential subdivisions are in various stages of development. Based on management's conservative expectation that development will remain steady over the next two years, we do not expect to modify our view of the town's economic profile over the next two years.

Strong management

We view the town's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In development of its annual budget, Gray uses at least four years of the historical information to form its base revenue and expenditure projections. The town works closely with its tax assessor and monitors local economic trends to adjust its mill rate and property tax assumptions. Management also develops an itemized state of estimated appropriations for current expenditures and capital improvements. During the fiscal year, the town monitors revenue and expenditure performance regularly and management presents budget-to-actual results to the town council monthly.

The town has a comprehensive 10-year capital improvement plan (CIP) that outlines projects by department and identifies funding sources. The town develops and incorporates the CIP into the annual budget development process. Gray maintains a formal investment policy that adheres to state guidelines governing use of investments, and management presents earnings and holdings in the annual audit. It also maintains a formal debt-management policy

that limits debt service to no more than 15% of the budget. The town has a formal reserve policy that targets an unassigned fund balance level not less than two months' operating expenditures. The town has met and sustained general fund balance in compliance with this policy.

Gray does not currently conduct any long-term financial planning.

Strong budgetary performance

Gray's budgetary performance is strong in our opinion. The town had operating surpluses of 1.5% of expenditures in the general fund and of 15.1% across all governmental funds in fiscal 2017. For analytical consistency, we adjusted fiscal 2017 operating results for recurring transfers out of the general fund to other governmental funds, and capital outlay expenditures financed with the bond proceeds.

We expect Gray to maintain strong budgetary performance over the next several years, largely due to its strong budget-monitoring framework and its manageable expenditure and fixed-cost profile. Gray also benefits from a historically stable and strong property and excise tax base, which generates approximately 90.3% of general fund revenue. Charges for services represent the second-highest share of general fund revenue at 4.6%, while intergovernmental revenue constitute about 3.8%. Tax collections have remained strong with current collections exceeding 97.5% during the past five fiscal years. Under state law, the town is permitted to levy taxes up to 105% of its net budgeted expenditures each fiscal year, with the amount raised in excess of 100%, which is referred to as overlay.

Management attributes the fiscal 2017 surplus to better-than-budgeted revenue, particularly excise taxes and charges for services. At the same time, the town reported \$156,465 in unexpended overlay and reduced operating transfers out of the general fund. For fiscal 2018, the town indicates that year-end budget projections are trending positive. Although the town reported higher road sand and salt expenditures due to above average winter snowfall, officials conservatively estimate a \$400,000 to \$500,000 surplus at fiscal year-end.

While officials are finalizing the fiscal 2019 budget, the town estimates that it will likely reduce the tax rate from the 19-mill rate in the previous year following new AV growth related to a full property revaluation. The town also budgeted for a decline in capital expenditures compared to the previous year, and management plans to monitor other areas for cost savings throughout the year to sustain at least balanced operations at fiscal year-end. Therefore, based on the year-end projections for fiscal 2018 and management's focus on maintaining balanced operations over the next two years, we expect budgetary performance to remain strong.

Very strong budgetary flexibility

Gray's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 25% of operating expenditures, or \$4.2 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 25% of expenditures in 2016 and 24% in 2015.

The town has maintained very strong budgetary flexibility over the past three audited fiscal years. Based on unaudited year-end projections, management estimates available reserves will increase by approximately \$400,000 to \$500,000 for fiscal year-end 2018. Management conservatively budgeted to sustain at least balanced operations for fiscal 2019, and it does not have any plans to reduce its unassigned fund balance.

In addition, Gray's formal reserve policy stipulates that it maintain a minimum unassigned fund balance of no less than

two months' general fund expenditures, a target it has historically met and sustained. Therefore, we generally expect the town to maintain stable and very strong reserve levels over the next two years.

Very strong liquidity

In our opinion, Gray's liquidity is very strong, with total government available cash at 44.6% of total governmental fund expenditures and 8.0x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

Gray has issued GO bonds within the past 15 years, supporting our view that it upholds strong access to external liquidity. Furthermore, Gray does not currently have investments we consider permissive or aggressive because its investments in governmental funds mainly include savings and money market accounts with maturities of less than one year. In addition, it does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Therefore, we expect the town's liquidity profile to remain very strong.

Very strong debt and contingent liability profile

In our view, Gray's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.6% of total governmental fund expenditures, and net direct debt is 57.0% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, and approximately 79.8% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following the current issuance, the town will have approximately \$10.2 million in total direct debt. Officials indicate that the current issuance will support equipment acquisition and facility improvements outlined in its capital plan for the subsequent five years. Therefore, the town has no additional plans to issue new debt over the next two years. Based on its low debt ratios and limited future capital needs, coupled with rapid amortization of debt within 10 years, we expect Gray's debt-and-contingent-liability profile to remain very strong.

The town does not participate in a defined-benefit pension plan, but it contributes to a self-administered deferred compensation plan at a rate determined by the town council. Full-time employees are eligible to participate in the deferred compensation plan, and the town currently matches up to 6% of the employee contribution annually. The town does not provide any pension or other postemployment benefits to retirees.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Gray will maintain strong financial practices and policies, which contributes to generally stable and predictable budgetary performance, and which will likely support its very strong budgetary flexibility and liquidity. It also reflects the town's stable underlying economy, which benefits from access to and participation in the Portland-South Portland MSA. In addition, we expect it will maintain a very strong debt and contingent liability profile, coupled with manageable post-retirement liabilities. For these reasons, we are unlikely to change the rating during the next two years.

Upside scenario

All other factors remaining stable or improving, we could raise the rating if the town's underlying wealth and income conditions improve to levels commensurate with higher-rated peers, coupled with management implementing long-term financial planning.

Downside scenario

We could lower the rating should the town experience a substantial deterioration in budgetary performance, leading to a material decline in its flexibility or liquidity position.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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