Falmouth, Massachusetts
Debt Overview

February 9, 2012

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FirstSouthwest

Member SIPC/FINRA
# Bond Ratings

<table>
<thead>
<tr>
<th>Moody’s</th>
<th>Standard &amp; Poor’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>AAA</td>
</tr>
<tr>
<td>Aa1</td>
<td>AA+</td>
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<tr>
<td><strong>Aa2</strong></td>
<td>AA</td>
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<tr>
<td>Aa3</td>
<td>AA-</td>
</tr>
<tr>
<td>A1</td>
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<td>A2</td>
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<td>Baa2</td>
<td>BBB</td>
</tr>
<tr>
<td><strong>Baa3</strong></td>
<td>BBB-</td>
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- **Neg. Outlook 3/29/10**
Yield Curves By Rating

![Graph showing yield curves by rating over the years from 2012 to 2030. The graph compares different credit ratings: Aaa, Aa, A, and Baa. Each rating is represented by a different line on the graph, with Aaa being the highest and Baa the lowest. The x-axis represents the years from 2012 to 2030, while the y-axis shows the yield percent ranging from 0 to 6%.

Member SIPC/FINRA
Major Credit Factors

- Economy
- Management
- Debt
- Finances
National Per Capita Income
Moody’s 2010 Medians – Population < 50,000

<table>
<thead>
<tr>
<th>Rating</th>
<th>Income</th>
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<tbody>
<tr>
<td>Falmouth</td>
<td>$20,000</td>
</tr>
<tr>
<td>Aaa</td>
<td>$40,000</td>
</tr>
<tr>
<td>Aa</td>
<td>$30,000</td>
</tr>
<tr>
<td>A</td>
<td>$10,000</td>
</tr>
<tr>
<td>Baa</td>
<td>$10,000</td>
</tr>
<tr>
<td>Ba</td>
<td>$10,000</td>
</tr>
</tbody>
</table>
National Full Value Per Capita
Moody’s 2010 Medians – Population < 50,000

Bar chart showing the median national full value per capita for different ratings.

- Falmouth: $400,000
- Aaa: $200,000
- Aa: $100,000
- A: - (negative value)
- Baa: - (negative value)
- Ba: - (negative value)
National Debt Burden
(Overall Net Debt as a % Full Value)
Moody’s 2010 Medians – Population < 50,000
National General Fund Balance as a % Revenues
Moody’s 2010 Medians – Population < 50,000

Rating

Percent

0.0%
10.0%
20.0%
30.0%
40.0%

Falmouth Aaa Aa A Baa Ba

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Local Per Capita Income
Population < 50,000

Falmouth vs. MA AA+ Rated Communities

- Falmouth
- Burlington
- Cohasset
- Danvers
- Dedham
- Foxborough
- Harwich
- Mashpee
- Orleans
- Scituate
- Watertown
- Wenham
- Westford

 ($)
Local Full Value Per Capita

Population < 50,000

Falmouth vs. MA AA+ Rated Communities
Local
(Overall Net Debt* as a % Full Value)
Population < 50,000

*Direct Net Debt plus the net debt of all overlapping and underlying units of local government that share the governments property tax base, apportioned in accordance with property valuation.

Member SIPC/FINRA
Local General Fund Balance as a % Revenues
Population < 50,000

Falmouth vs. MA AA+ Rated Communities
Proposition 2 ½ and Debt Capacity

- **Statutory Debt Limit** – 5% of EQV - $608,405,480 ($130 million outstanding)
- **Falmouth Debt Burden** - “Low-to-moderate”
- Debt payable within the levy limit – A zero sum game.
- **Exempt Debt** – Indicates capacity and willingness to pay debt service
Tax Levy vs. Tax Levy Limit

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General Fund Balance Trend

($ Millions)

Fiscal Year

2006 2007 2008 2009 2010

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Operating Trends

- Funding the operating budget with non-recurring revenue is unsustainable
  - Necessitates eventual major service disruptions or substantial revenue increases (or both)
  - Threatens market access and increases borrowing costs

- Reasonable reserves should be maintained for unforeseen adverse events not to fund recurring expenditures
Stressors – The Perfect Storm

- Weak national, regional and local economies – Revenue Impacts
  - Unemployment increases
  - New growth declines
  - Local receipts declines
  - State aid cuts
  - Interest income declines
  - Wealth effect - Taxpayer fatigue

- Expenditure Impacts
  - Pension and Health care cost cost increases
Structural Balance & Sustainability

- Demand for resources always exceeds available supply (compounded by the limitations of Proposition 2 ½)
- Budget operating expenses to recurring revenues
- Decrease expenses, Increase revenues (or both)
Standard and Poor’s
Top Management Characteristics

1. Established rainy day/budget stabilization reserve
2. Regular economic and revenue reviews
3. Prioritized spending plans and establish contingency plans for operating budgets
4. Formalized CIP
   - Assess future infrastructure requirements
5. Long term planning for all liabilities
6. Pay as you go financing as part of operating and capital budgets
7. Effective management
Standard and Poor’s
Financial Management Assessment

- Strong
- Good
- Standard
- Vulnerable
Standard and Poor’s Assessment

- Rating report dated 9/15/11—S&P considered Falmouth’s strengths as having a stable, primarily residential tax base, strong wealth and income levels, an adequate financial position and good financial management practices.

- “We note that the town’s reserve levels have narrowed considerably in recent years and are currently very modest relative to budget. While the town has in recent years taken corrective actions to stabilize and begin rebuilding reserves, should there be a decrease in total reserves, a downgrade could result.”
Falmouth Debt Summary
Exempt Debt (Excluded from Prop. 2 ½)

Exempt Debt (Excluded from Prop. 2 1/2)

Member SIPC/FINRA
Falmouth Debt Summary
Non-Exempt Tax-Supported Debt

Non-Exempt Tax-Supported Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt (Millions)</th>
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<tbody>
<tr>
<td>2012</td>
<td>$4</td>
</tr>
<tr>
<td>2014</td>
<td>$2</td>
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<tr>
<td>2016</td>
<td>$1</td>
</tr>
<tr>
<td>2018</td>
<td>$0.5</td>
</tr>
<tr>
<td>2020</td>
<td>$0.2</td>
</tr>
<tr>
<td>2022</td>
<td>$0</td>
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<td>2024</td>
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<td>2026</td>
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<td>2028</td>
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<tr>
<td>2030</td>
<td>$0</td>
</tr>
<tr>
<td>2032</td>
<td>$0</td>
</tr>
<tr>
<td>2034</td>
<td>$0</td>
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Member SIPC/FINRA
Falmouth Debt Summary
CPA (Land Bank) Debt

CPA (Land Bank) Debt

[Graph showing CPA (Land Bank) Debt from 2012 to 2034 with a decrease in debt over time.]