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New Issue

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Bangor (City of) ME

New Issue - Moody's Assigns Aa2 to Bangor, ME's $4.2M GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the City of Bangor, ME's $4.2 million 2016 General Obligation Bonds, consisting of $3.3 million Series A and $920,000 Series B (Federally Taxable). Concurrently, Moody's has affirmed the Aa2 rating on $101.4 million of outstanding rated general obligation debt.

The Aa2 rating reflects the city's stable tax base that is a regional economic center, well-managed financial position with stable reserves, above-average debt burden, and manageable pension and OPEB liabilities.

Credit Strengths

» Stable tax base which serves as regional economic center

» Stable financial position guided by a formal policy

» Manageable pension and OPEB liabilities

Credit Challenges

» Moderate revenue raising ability due to state statutes

» Above average debt burden

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Material improvement in liquidity and reserves

» Strengthening of the tax base and demographic profile

» Material decline in the debt burden

Factors that Could Lead to a Downgrade

» Trend of operating deficits resulting in reserve declines

» Contraction of local economic activity

» Significant declines in the tax base or deterioration of the demographic profile

» Material growth in debt burden

Key Indicators

Exhibit 1

Bangor (City of) ME	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 2,466,000	$ 2,456,450	$ 2,462,650	$ 2,464,250	$ 2,481,850
Full Value Per Capita	$ 74,639	$ 74,438	$ 74,710	$ 75,422	$ 76,205
Median Family Income (% of US Median)	90.4%	84.2%	84.2%	84.2%	84.2%
Finances					
Operating Revenue ($000)	$ 100,577	$ 98,196	$ 97,053	$ 100,554	$ 104,766
Fund Balance as a % of Revenues	12.5%	13.0%	12.3%	12.9%	14.1%
Cash Balance as a % of Revenues	13.5%	13.5%	8.4%	12.7%	11.2%
Debt/Pensions					
Net Direct Debt ($000)	$ 58,456	$ 80,674	$ 145,581	$ 147,232	$ 131,819
Net Direct Debt / Operating Revenues (x)	0.6x	0.8x	1.5x	1.5x	1.3x
Net Direct Debt / Full Value (%)	2.4%	3.3%	5.9%	6.0%	5.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	N/A	0.3x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	N/A	1.3%	1.3%

As of June 30 fiscal year-end
Source: Moody's Investor's Service

Detailed Rating Considerations

Economy: Regional Economic Center Experiencing Modest Growth; Below-average Socio-economic Indices

Bangor's $2.5 billion tax base continues to grow at a modest pace, consistent with regional trends. Full value increased 2.5% in fiscal 2016, the largest annual increase since 2010, and the compound annual growth in full value was 0.6% from 2011 to 2016. Management reports new residential and commercial development is steady, and new growth will continue to be modest. We expect the city will remain the primary regional economic center, as retail and trade activities attract customers from much of eastern and northern Maine and the maritime Canadian provinces. Further, the Bangor International Airport and related industrial parks further contribute to the city's importance as a vital trade and distribution center.

The tax base is slightly concentrated, with the top ten taxpayers representing 13.8% of fiscal 2016 total assessed valuation. The two largest taxpayers, Hollywood Casino and General Electric Company (A1 stable), which maintains a manufacturing facility in the city, make up a combined 5.8% of the base. Tax abatements were filed by both of these taxpayers, but the potential loss in property tax revenue is not expected to pressure the city's financial position.

Wealth and income levels remain below state and national medians, with median family income at 90% and 84%, respectively. Full value per capita is $78,104 (90% of the national median). The February 2016 unemployment rate of 3.9% is below the state (4.5%), reflective of the fundamentally stable economy.

Finances and Reserves: Stable Financial Position Supported by Formal Policy

The financial position will remain stable given conservative budgeting and sound reserve levels guided by a formal policy. The available General Fund balance (excludes nonspendable and restricted) has remained stable over the past six years, averaging a sound 13% of revenues. The city generated a $700,000 operating surplus in fiscal 2015 (net of bond proceeds) due to strong excise tax receipts, and available fund balance increased to $14.7 million, or 14.1% of revenues. Positively, the majority of this amount - $10 million or 9.5% - remains unassigned.

The city remains in compliance with its formal policy to maintain unassigned reserves between 8.3% and 16.7% of the previous year's expenditures, net of debt service. In addition, the city maintains $4.1 million of capacity (as of fiscal 2016) to raise its property tax levy, if necessary, above the limits imposed by Maine's LD-1 property tax limit.

Management reports that fiscal 2016 operations are trending positively due to the mild winter, fuel savings, and a decline in health insurance premiums. Because of the positive operations over the past few years, the city has built up fund balance and management plans to make some one-time purchases in order to realign unassigned reserves with the formal policy. As a result, unassigned reserves are expected to remain flat despite an expected operating surplus in 2016.

Salaries and benefits are primary budget drivers in fiscal 2017, and the budget will be balanced with a moderate tax increase of roughly 2.5%. Management does not appropriate reserves to balance budgets. Bangor derives its revenues from property taxes (56.7% of fiscal 2015 revenues) and state aid (28%).

LIQUIDITY

The city's year-end cash position has been stable for the past several years, and was $11.8 million, or 11.2% of revenues, in fiscal 2015.

Debt and Pensions: Debt Burden Will Remain Elevated; Manageable Pension and OPEB Liabilities

Bangor's net debt burden (4.9% of full valuation) will remain elevated but affordable given slow principal amortization and modest additional borrowing plans. The debt burden includes $54 million of general obligation bonds issued in July 2012 to fund the construction of an arena and convention center. The bonds are ultimately supported by the city's general obligation pledge, but so far the debt service has been self-supporting through revenues other than ad valorem taxes.

The city issued pension obligation bonds (POBs) in 2002, $25.3 million of which remain outstanding. When removing this issuance, for increased comparability to other Maine cities, the adjusted debt burden falls to a still-elevated 3.9% of full value. Future debt plans include annual borrowings of approximately $3 to $4 million to support the capital improvement plan and continued upgrades to the wastewater treatment plant.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is below-average, with 59% repaid within ten years. Debt service accounted for a manageable 5.3% of fiscal 2015 expenditures.

DEBT-RELATED DERIVATIVES

Bangor has no derivatives.

PENSIONS AND OPEB

As mentioned, the city issued POBs in 2002 to fully fund its initial unfunded actuarial liability to the former Maine State Retirement System. For employees hired before 2001, Bangor participates in the Maine Public Employees Retirement System's Consolidated Plan for Participating Local Governments, a cost-sharing multi-employer defined benefit pension plan. The city funds its required contribution, which was $807,117 in fiscal 2015. The city's teachers participate in the Maine Public Employees Retirement System's Teacher Plan, which is administered at the state level. While the state pays the majority of the costs for this plan, Bangor was required to contribute $668,126. The combined contributions represent only 1.4% of expenditures.

The fiscal 2015 combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $31.7 million, or a below average 0.35 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

The OPEB liability is limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees. As of June 2015, the total liability is $6.8 million.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented $5.9 million, or a below average 7% of expenditures.

Governance

Maine cities have an institutional framework score of "Aa," or strong. Revenues are highly predictable and mostly consist of property taxes, with a smaller portion coming from state aid. Cities have moderate revenue-raising ability since property taxes are subject to the state property tax cap known as LD 1, although the cap can be exceeded by a majority vote of the legislative body or with voter approval. Expenditure predictability is moderate, as most expenditures are for education, general government and public safety. Cities have a moderate expenditure reduction ability due to public sector union presence.

The management team employs conservative budgeting and financial management as evidenced in a stable financial position, compliance with a formal fund balance policy, and long-term planning for capital expenditures.

Legal Security

Debt service is secured by the city's general obligation limited tax pledge as debt service is subject to the state's property tax limitation known as LD-1.

Use of Proceeds

Approximately $1.7 million of Series A bond proceeds will be used to finance a portion of the city's 2016 Capital Improvement Program. The remaining Series A proceeds ($1.6 million) will refund the outstanding 2007 bonds for estimated net present value savings of $162,000, equal to 10.4% of refunded principal, with no extension of final maturity.

Series B proceeds will finance improvements at the Bangor International Airport.

Obligor Profile

Bangor is a city with a population of 33,000 located in eastern Maine, approximately 140 miles northeast of Portland (GO Aa1 stable).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Bangor (City of) ME

Issue	Rating
2016 General Obligation Bonds - Series A	Aa2
Rating Type	Underlying LT
Sale Amount	$3,294,000
Expected Sale Date	05/10/2016
Rating Description	General Obligation
2016 General Obligation Bonds - Series B (Federally Taxable)	Aa2
Rating Type	Underlying LT
Sale Amount	$920,000
Expected Sale Date	05/10/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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