

## CREDIT OPINION

5 May 2016

New Issue

Rate this Research >>

### Contacts

Heather Guss 617-535-7693  
 Analyst  
 heather.guss@moody's.com

Nicholas Lehman 617-535-7694  
 Assistant Vice  
 President  
 nicholas.lehman@moody's.com

## 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.

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

### 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.moody.com](http://www.moody.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

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. 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 or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1025543