

RatingsDirect®

Summary:

Bangor, Maine; General Obligation

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Credit Profile

US\$3.294 mil GO bonds ser A dtd 06/01/2016 due 09/01/2030

Long Term Rating AA-/Stable New

US\$1.05 mil GO bonds ser B dtd 06/06/2016 due 09/01/2027

Long Term Rating AA-/Stable New

Bangor GO

Long Term Rating AA-/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Bangor, Maine's series 2016A and B general obligation (GO) bonds. At the same time, we affirmed our 'AA-' long-term rating on the city's GO debt outstanding. The outlook on all issues is stable.

The city's full faith and credit pledge secures the bonds. Although the city is not restricted to a particular revenue source, Bangor could levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite state limitations on levy limits, we did not make a rating distinction for the limited-tax GO pledge due to the city's flexibility under the levy limit. We understand officials plan to use series 2016A bond proceeds to fund various capital projects as well as partially refund the city's 2007 bond series and the 2016B series to finance capital projects.

In our view, the ratings reflect our assessment of the following factors for the city, including its:

- Weak economy, with projected per capita effective buying income (EBI) at 82.8% of the national level and market value per capita of \$81,111;
- Adequate management, with "standard" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 at 14.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.0% of total governmental fund expenditures and 3.6x governmental debt service, as well as access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt at 96.8% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Bangor's economy weak. The town, with an estimated population of 32,683, is located in Penobscot County. The town has a projected per capita effective buying income of 82.8% of the national level and per capita

market value of \$81,111. Overall, the town's market value grew by 1.5% over the past year to \$2.7 billion in 2016. The county unemployment rate was 6.2% in 2014.

Bangor not only serves as the employment, retail, health care, and commercial hub for 11 communities in the region, but also attracts visitors from Eastern Canada and the rest of Eastern Maine. The city is advantageously located along Interstate 95 and includes Bangor International Airport. Leading area employers include Eastern Maine Medical Center (3,400 employees), Bangor Mall (1,450), and the city itself (1,100).

Bangor is an urban, commercial, industrial, and residential community with some rural characteristics. The tax base has experienced modest, yet consistent growth annually since fiscal 2011 and we expect for this pattern to continue given the city's consistent residential and commercial development.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Standard & Poor's revised the city's FMA to "standard" from "good", indicating that the finance department maintains adequate policies in some, but not all, key areas. We based the revision on our understanding that the city no longer regularly reports budget-to-actuals or investment performance and holdings to the city council. Management looks at three to five years of historical data when drafting the budget, which is presented to the city council with actuals two to four times a year. The city does not perform any long-term revenue and expenditure forecasting but there is a strong focus on capital planning as management maintains a rolling five-year capital plan that identifies funding sources. The city maintains a debt policy that does not meet our criteria and follows a formal investment policy and reports investment performance and holdings to the council once a year in the audit. The city's reserve policy statutorily establishes a target of maintaining an unassigned general fund balance equal to 10% of expenditures and sets a minimum of 8.3%.

Strong budgetary performance

Bangor's budgetary performance is strong, in our opinion. It had balanced operating results in the general fund at 0.4% of expenditures and a slight deficit result across all governmental funds at 0.7% in fiscal 2015.

The city's historical performance has been strong and stable, demonstrated by five operating surpluses in the last seven years. The 2015 budget included no fund balance appropriation or tax increase and the city ended that year with a surplus, after adjusting for recurring interfund transfers and bond proceeds, which management attributes to stronger-than-anticipated excise taxes. The 2016 budget was also balanced but management is expecting a \$400,000-\$500,000 surplus, about half of which will be used for one-time purchases and the other half going to fund balance. Management attributes its projected operating surplus for fiscal 2016 to a mild winter and lower energy costs.

Currently, we expect Bangor's operating performance to remain strong. Based on our macroeconomic forecasts (See "U.S. Public Finance 2016 Credit Conditions Outlook: Expect Growth But Hold The Cheer," published Jan 11, 2016, on RatingsDirect), credit conditions in New England are stable. On the whole, the city maintains a predictable operating profile as property taxes constitute 57% of general fund revenues and state aid about 28%. Tax collections are strong and stable, with Bangor typically receiving 97% on a current basis.

Given the stability of Bangor's tax base and the recent and projected operating surpluses, we expect for general fund and total governmental fund performance to remain strong in the future.

Strong budgetary flexibility

Bangor's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 at 14.2% of operating expenditures, or \$14.6 million.

Available reserves (assigned and unassigned) have consistently remained strong over the past three fiscal years, growing to 14.1% of 2015 expenditures from 12.2% of expenditures in fiscal 2013 with no plans to spend them down. Furthermore, the city has adhered to its minimum reserve policy of maintaining an unassigned fund balance above 8.3% of expenditures. It maintained a flat tax levy over fiscal 2015 but raised it 0.7% in fiscal 2016 and is preliminarily expecting a 2.5% increase for fiscal 2017. We did not make a positive adjustment for the tax cap as the city has not overridden the LD1 limit in recent years. Due to Bangor's record of recent operating surpluses, coupled with positive results projected for fiscal 2016, as well as levy increases in fiscal years 2016 and 2017, we expect Bangor to continue to build on fund balance modestly in the future, consistent with our view of its strong budgetary performance.

Very strong liquidity

In our opinion, Bangor's liquidity is very strong, with total government available cash at 17.0% of total governmental fund expenditures and 3.6x governmental debt service in 2015.

Further enhancing our opinion of Bangor's liquidity position is our view that it maintains strong access to external liquidity. The city is a regular market participant, having issued GO bonds and capital leases frequently in the past several years. We understand the city doesn't have any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The city does not currently have investments we consider permissive or aggressive because nearly the entirety of its investment portfolio is in mutual funds and highly rated U.S. treasury securities. City policy prohibits investment in derivative instruments. Bangor has consistently had very strong liquidity; we do not expect these ratios to change, which is consistent with our view of the city's strong and stable budgetary performance.

Adequate debt and contingent liability profile

In our view, Bangor's debt and contingent liability profile is adequate. Total governmental fund debt service is 4.8% of total governmental fund expenditures, and net direct debt is 96.8% of total governmental fund revenue.

After this issue, the city will have about \$149 million in debt outstanding, about \$33 million of which we view as self-supporting. The city typically issues about \$2 million-\$3 million annually to address capital needs, in line with its capital improvement plan and amortizing liabilities. However, management plans to issue slightly more over the next two to three years, about \$10 million-\$12 million overall, to fund the second phase of a wastewater project. We do not believe the debt plans will have a material effect on the debt burden. All current debt is scheduled to be repaid by 2035.

Bangor's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 1.4% of total governmental fund expenditures in 2015. It made its full annual required pension contribution in 2015.

Bangor contributes to the Consolidated Plan for Participating Local Districts (PLD) and State Employment Teacher

Plan (SETP), plans administered by the Maine Public Employees Retirement System (MainePERS), a cost-sharing multiemployer, public employee retirement system. We view both plans as well funded at 94.1% and 83.9%, respectively, based on Governmental Accounting Standards Board Statement No. 68. In 2002, the city issued pension obligation bonds to pay its unfunded portion of the state plan; these bonds mature in 2026. However, all employees hired on or after April 1, 2001, participate in the city's defined-contribution 401(k) pension plan. Before that date, employees were part of the aforementioned state employees' defined-benefit plan. Bangor also offers its employees the option to participate in a deferred compensation plan offered by the International City/County Management Assn., as well as a social security retirement program.

The city's OPEB liability is due to the implicit subsidy of retirees' eligibility to enroll in the city's health care plan at 100% of the premium cost to the retiree. As of the June 30, 2015, actuarial valuation study, the unfunded OPEB obligation was a minimal \$6.8 million.

We believe that retirement costs do not currently have a material effect on finances or operations and that they will likely remain manageable in the next three years to four years.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects our assessment of Bangor as a regional employment, retail, and commercial center for area communities, which we believe lends stability to its economic profile. We believe the city's predictable operating profile should translate into sustained budgetary performance we view as strong, contributing to available reserves also remaining at least strong. Furthermore, we expect Bangor to maintain very strong liquidity across all municipal funds. As such, we do not expect to change the rating within the outlook's two-year horizon.

Upside scenario

All else remaining equal, over time, S&P Global could raise the rating should the city's underlying economic metrics improve to levels in line with peers at a higher rating.

Downside scenario

Downward rating pressure could result from budgetary pressures that cause deterioration of the city's budgetary flexibility to levels in line with peers at a lower rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015

- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- 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

Ratings Detail (As Of May 3, 2016)		
Bangor GO bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bangor GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bangor GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bangor GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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