

RatingsDirect®

Summary:

Bangor, Maine; General Obligation

Primary Credit Analyst:

Andrew R Teras, Boston (1) 617-530-8315; andrew_teras@standardandpoors.com

Secondary Contact:

Victor M Medeiros, Boston (1) 617-530-8305; victor_medeiros@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Bangor, Maine; General Obligation

Credit Profile

US\$2.8 mil GO qual sch const bnnds ser 2012 due 07/15/2035

<i>Long Term Rating</i>	AA/Stable	New
-------------------------	-----------	-----

Bangor GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
-------------------------	-----------	----------

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to Bangor, Maine's series 2012 general obligation (GO) qualified school construction bonds (QSCBs), and affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is stable.

The ratings reflect our view of the city's:

- Consistently strong financial position and good financial management practices;
- Moderate overall debt burden with an above-average debt retirement schedule; and
- Role as a regional economic hub coupled with low unemployment relative to state and national averages.

Partially offsetting these rating strengths are, in our opinion, the city's below-average, albeit adequate, income measures.

The city's full faith and credit pledge secures the bonds. The city will use the bond proceeds for various school projects. We understand that the district intends to issue the bonds as federally taxable QSCBs and that it has elected to receive a direct subsidy payment from the U.S. Treasury in an amount equal to the lesser of 100% of the interest payable on the bonds or the amount of the applicable tax credit rate published by the U.S. Treasury on the bonds' issuance date. The subsidy is not pledged to the bonds and the city is obligated to pay full principal and interest regardless of whether or not it receives the subsidy payments. We understand that, as with its series 2011 QSCBs, the city will budget for debt service net of the federal subsidy. However, the total combined annual federal subsidy for both series of bonds is projected to be roughly \$350,000, which is a minimal amount that officials believe could easily be absorbed within the operating budget if the federal subsidy is eliminated or delayed.

The bonds are structured with small annual mandatory sinking fund contributions and a bullet maturity (projected principal amount of \$2.7 million) due in 2035. However, we understand the district intends to make annual contributions in excess of the mandatory sinking fund requirements to a separate sinking fund via an escrow agreement with Bank of New York Mellon; monies held in the sinking fund will be invested in U.S. Treasuries and used to pay principal in 2035. According to officials, in the event the federal interest subsidy were reduced, eliminated, or delayed, the city would consider refunding the bonds with tax-exempt debt.

Overall, in our opinion, the city continues to maintain a strong financial position. For fiscal 2011, it generated a \$1.1

million operating surplus (net of transfers), its fifth consecutive surplus, due to positive variances of revenues of \$1.5 million (1.6% of spending) and expenditures of \$4.9 million (5% of spending). Property tax collections remained strong at 97.2%, up from 96% for fiscal 2010. Total general fund balance increased to \$17 million and, with the implementation of Governmental Accounting Standards Board 54, the city's financial statements for fiscal 2011 indicate an available fund balance (combined assigned and unassigned fund balance) of \$12.5 million, equivalent to 12.6% of expenditures and transfers out, which we consider strong. General fund liquidity was sufficient, with the \$13.5 million of cash on the general fund balance sheet at year-end equating to 49 days' expenses. According to officials, favorable revenue and expenditure variances have contributed to another operating surplus for fiscal 2012 (unaudited, ended June 30) and an addition of \$400,000 to \$500,000 to fund balance.

The 2013 budget totals \$91.9 million, an increase of 1.9% over fiscal 2012, with a total tax levy increase of 2.3%. Bangor's nonschool operations tax levy remains well within limitations of LD-1. The city has amassed nearly \$4.8 million of excess levy capacity as of fiscal 2013, which can be used in future budgets. However, it should also be noted that the city can increase or exceed the levy limit in any budget year by a majority vote of the city council. Property tax revenues account for about 51% of 2013 budgeted general fund revenues. State aid, reimbursements, and revenue sharing account for 28%.

The city's financial practices are considered "good" under Standard & Poor's Financial Management Assessment. This indicates that practices exist in most areas although not all may be formalized or regularly monitored by officials. The current fund balance policy calls for an unassigned fund balance of 8.33% of the operating budget, excluding debt service. We understand voters will consider a charter amendment on the Nov. 6, 2012, municipal ballot that would identify a larger target range for unassigned fund balance, with 8.33% designated as the minimum threshold.

Bangor's overall debt profile has increased but still remains at a level we consider moderate. Net of self-supporting enterprise debt, the debt burden is roughly \$3,400 per capita and 4.4% of market value. Tax-supported debt service carrying charges have historically been low and are budgeted at approximately 7% for 2013. Amortization of debt is above average, with 50% of principal scheduled to be retired in 10 years and 80% within 20 years. City officials report tentative plans to issue approximately \$5 million of bonds in January 2013 to fund various infrastructure improvements.

The city has also placed a proposed charter amendment on the Nov. 6 ballot which would require voter approval for the city to issue GO bonds in excess of five one-hundredths of 1% of the city's last certified state valuation, which amounts to roughly \$1.2 million. We understand that refundings and certain debt issued to finance general infrastructure would be exempted. We will continue to monitor these developments, but do not believe the proposal has any near-term impact on the city's credit profile.

All employees hired on or after April 1, 2001, participate in the city's defined-contribution pension plan. Before that date, employees were part of the state employees' defined-benefit plan. In 2002, the city issued pension obligation bonds to pay its unfunded portion of the plan; these bonds mature in 2026. Total pension contributions for fiscal 2011 were \$2.1 million, equivalent to 2% of general fund spending. The city's other postemployment benefits (OPEB) liability is due to the implicit subsidy of retirees being eligible to enroll in the city's health care plan at 100% of the premium cost to the retiree. As of the October 2011 actuarial valuation study, the unfunded OPEB obligation was \$4.5

million.

Bangor (estimated population: 33,000) is Maine's third-largest city and serves as the employment, retail, and commercial hub of an 11-community area. The city is located along Interstate 95 and includes Bangor International Airport. Following a 1.8% reduction in the city's assessed valuation (AV) in fiscal 2011, AV for 2012 and 2013 has been essentially flat; annual AV growth averaged more than 6% from fiscal years 2006 to 2010. Value per capita is strong, in our view, at roughly \$80,000. The city's unemployment rate has historically tracked below state and national averages; however, it was 6.9% as of August 2012 (seasonally adjusted), slightly above the state's 6.9% but below the national rate of 8.2%. We consider income measures adequate, but below average, with median household and per capita effective buying income at only 73% and 88% of the respective national levels. Retail sales per capita are very strong at more than 300% of the national average.

In May 2011, by a three-to-one margin, voters approved the financing and construction of a 5,800-seat arena and adjoining convention center in downtown Bangor. City officials believe that the new facility, which will replace the 55-year old Bangor Auditorium/Civic Center, will enhance the vibrancy of Bangor's downtown core while increasing tourism activity through the capture of a larger share of the regional entertainment market. The estimated cost of the project is \$68 million, financed by the issuance of the 2012B bonds in August 2012 in the amount of \$53.8 million as well as an \$11 million equity contribution from the city. Construction on the facility began in August 2011. The bonds are secured by a GO pledge of the city but officials have identified two sources to pay debt service which they expect will eliminate any impact of the bonds on the operating funds. First, the city will dedicate incremental property tax revenues from its Downtown Development TIF District. The city also intends to use resources from its arena special revenue fund, which receives revenue generated from the downtown Hollywood Casino Hotel and Raceway, operated by Penn National Gaming.

Outlook

The outlook is stable. We do not expect to revise our rating within the two-year outlook period, as we expect the city will continue to make the necessary adjustments to maintain structural balance and strong reserves. While the arena project potentially exposes the city to increased enterprise risk, we do not believe the financing or operation of the new facility will place material pressure on the general operating budget in the near to intermediate term. Downward rating pressure could be triggered by deterioration of the city's financial position or additional issuance that heightens the city's debt burden. Upward rating potential would be strengthened by additional growth in reserves, a return to annual tax base growth, higher income indicators, and no further increase in the debt burden.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of October 19, 2012)

Bangor GO

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Ratings Detail (As Of October 19, 2012) (cont.)

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.