

**New Issue: Moody's assigns Aa2 to Bangor, ME's \$4.7M GO Bonds**

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Global Credit Research - 08 Apr 2015

**Affirms Aa2 on \$128.4M of outstanding debt**

BANGOR (CITY OF) ME  
Cities (including Towns, Villages and Townships)  
ME

**Moody's Rating**

**ISSUE** **RATING**

2015 General Obligation Bonds Series B (Federally Taxable) Aa2

**Sale Amount** \$1,600,000

**Expected Sale Date** 04/14/15

**Rating Description** General Obligation

2015 General Obligation Bonds Series A Aa2

**Sale Amount** \$3,120,000

**Expected Sale Date** 04/14/15

**Rating Description** General Obligation

**Moody's Outlook** NOO

NEW YORK, April 08, 2015 --Moody's Investors Service has assigned a Aa2 rating to the City of Bangor's (ME) \$4.7 million 2015 General Obligation Bonds, consisting of \$3.1 million Series A and \$1.6 million Series B (Federally Taxable). Concurrently, Moody's has affirmed the Aa2 rating on \$128.4 million of outstanding general obligation debt. The city has an additional \$12.5 million of debt outstanding that we do not rate.

**SUMMARY RATING RATIONALE**

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

**OUTLOOK**

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

**WHAT COULD MAKE THE RATING GO UP**

- Material improvement in liquidity and reserves
- Strengthening of the tax base and demographic profile to levels more consistent with higher rating categories
- Material decline in the debt burden

**WHAT COULD MAKE THE RATING GO DOWN**

- 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

#### STRENGTHS

- Stable tax base which serves as regional economic center
- Stable financial position guided by a formal policy
- Manageable pension and OPEB liabilities

#### CHALLENGES

- Moderate revenue raising ability due to State Statutes
- Enterprise risk following issuance of 2012 bonds for city arena and convention center
- Above average debt burden

#### RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

#### DETAILED RATING RATIONALE

##### ECONOMY AND TAX BASE: SIZEABLE TAX BASE THAT IS A REGIONAL ECONOMIC CENTER; BELOW-AVERAGE SOCIO-ECONOMIC INDICES

Bangor's \$2.5 billion tax base will continue to grow at a modest pace, consistent with regional trends, as compound annual growth in full value was a modest 0.4% from 2010 to 2015. Management reports that several new retail projects are underway. 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 city's tax base is slightly concentrated, with the top ten taxpayers representing 14% of total assessed valuation. The two largest taxpayers, Hollywood Slots and General Electric Company (Aa3 stable), which maintains a manufacturing facility in the city, make up a combined 6% of the base. Wealth and income levels remain below state and national medians, with median family income at 98% and 90%, respectively. Full value per capita is \$75,960 (88% of the nation). The December 2014 unemployment rate of 4.1% is below the state (5%), reflective of the fundamentally stable economy.

##### FINANCIAL OPERATIONS AND RESERVES: STABLE FINANCIAL POSITION SUPPORTED BY FORMAL POLICY

The city's financial position will remain stable given conservative budgeting and sound reserve levels guided by a formal policy. The available General Fund balance (unassigned, assigned, and committed) has remained stable over the past six years, averaging a sound 12.9% of revenues. The city generated a \$1.9 million surplus in fiscal 2014 due to positive variances in permit fees and excise taxes, which increased the available fund balance to \$13 million (12.9% of revenues). At year-end, unassigned reserves totaled \$9.6 million, or 9.7% of expenditures, which is in compliance with the city's formal policy to maintain unassigned reserves between 5% and 10% of the previous year's expenditures, net of debt service. As part of the policy, the city targets an 8.3% position. Positively, the city maintains roughly \$4.1 million of capacity (as of fiscal 2015) to raise its property tax levy, if necessary, above the limits imposed by Maine's LD-1 property tax limit.

The fiscal 2014 financial statements include a \$3.5 million inter-fund payable to the General Fund, and the majority of the payable (\$2 million) is associated with the Bass Park Enterprise Fund. As in prior years, the city continues to designate \$1.9 million of its General Fund balance against this amount. In previous years, the city has made annual transfers to the Bass Park fund to subsidize operations, but the fund was self-supporting in fiscal years 2014 and 2015. Going forward, officials are optimistic that following the replacement of the Bangor Auditorium/Civic Center at Bass Park, which began in 2011 and is now complete, the fund will remain self-supporting. Future support may be needed, however, but we note that the stable and healthy cash position (which has averaged 12.4% of revenues since 2009) helps mitigate the credit impact of these receivables. We will continue to monitor the condition of the city's enterprise funds in future rating reviews.

The fiscal 2015 budget increased 1.8% due to health insurance and cost-of-living increases for employees. The budget was balanced with a \$1.00 mill rate increase. Management does not appropriate reserves to balance budgets. Nine months into the fiscal year, management anticipates another surplus of approximately \$300,000 to \$500,000. The fiscal 2016 budget process is underway and will likely result in a moderate tax rate to support health insurance increases.

#### Liquidity

The city's net cash position increased to \$12.7 million (12.7% of revenues) in fiscal 2014 from \$8.1 million (8.3%) in 2013.

#### DEBT AND PENSIONS: DEBT BURDEN WILL REMAIN ELEVATED; MANAGEABLE PENSION LIABILITY DUE TO ISSUANCE OF POBs

Bangor's debt burden (5.5% of full valuation) will remain elevated but affordable, given slow principal amortization and minimal additional borrowing plans. The debt burden excludes approximately 7% of city debt that is self-supporting from net revenues of the sewer utility. The city issued pension obligation bonds (POBs) in 2002, \$26.6 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 4.8% of full value. Future debt plans include annual borrowings of approximately \$3 to \$4 million to support the capital improvement plan.

The city issued \$54 million of general obligation bonds 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 management reports that so far, debt service has been paid with revenues from the Downtown TIF, net revenues from Hollywood Casino, a gaming facility operated by Penn National Gaming, Inc. (Ba2 stable) and other revenues generated by the arena, including naming rights revenues. Given the nonessential nature of this project, coupled with the city's plan to fund debt service from sources other than ad valorem revenues, the city's enterprise risk exposure increased significantly following the issuance of the Series 2012B bonds. We believe that these risks are somewhat offset by the city's historically strong management, but a decline in Downtown TIF, Hollywood Casino or other revenues could result in negative pressure on the city's rating.

#### Debt Structure

All debt is fixed rate and amortization of principal is below-average, with 56% repaid within ten years. Debt service accounted for 5.2% of expenditures in fiscal 2014.

#### 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 (MSRS). For some retirees, the city participates in the Maine State Public Employee Retirement Systems (successor to MSRS), a multi-employer, defined benefit retirement plan sponsored by the State of Maine (Aa2 stable). The city funds its annual required contribution (ARC), which was \$956,000 million in fiscal 2014, or 1% of General Fund expenditures. The combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$25.5 million, or a low 0.26 times operating 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.

The city's teachers participate in the Maine Public Employees Retirement System's Teacher Plan, which is administered at the state level. Beginning in fiscal 2014, the city is responsible for approximately half of the normal cost of the teachers' plan. The city's contributions in fiscal 2014 and 2015 were offset by an increase in state aid, and the same is expected in fiscal 2016.

The city's 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 the June 2013 valuation, the total liability is a modest \$6.9 million.

#### MANAGEMENT AND GOVERNANCE: MODERATE REVENUE RAISING FLEXIBILITY; MODERATE FIVE-YEAR OPERATING HISTORY DUE TO CONSERVATIVE BUDGETING

Maine cities and towns have an institutional framework score of "Aa", or strong. Revenues are generally predictable as cities and towns rely mostly on property tax revenue to fund operations. Property taxes are subject to the state property tax cap known as LD 1, but cities and towns have the ability to exceed the cap by a majority vote of the legislative body or voter approval. Expenditures are stable and predictable and can be cut as needed.

City management employs conservative budgeting and financial management as evidenced in stable reserve levels, formal fiscal policies, and long-term planning for capital expenditures. The city's five-year operating history (revenues/expenditures from 2010 to 2014) of 1.0 times reflects fund balance growth in fiscal years 2010, 2011 and 2014, and slight declines in fiscal 2012 and 2013 due to planned transfers to the Capital Projects Fund and the use of excess federal stimulus funds for the school department. The three years of surpluses were modest, averaging 1.1% of revenues.

#### KEY STATISTICS

Fiscal 2015 full valuation: \$2.5 billion

Fiscal 2015 full valuation per capita: \$75,960

Median Family Income as % of U.S.: 90.4%

Fiscal 2014 Available General Fund Balance as % of Revenues: 12.9%

5-Year Dollar Change in Available General Fund Balance as % of Revenues: 0.1%

Fiscal 2014 Cash Balance as % of Revenues: 12.7%

5-Year Dollar Change in Cash Balance as % of Revenues: 0.1%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.0x

Net Direct Debt as % of Full Value: 5.5%

Net Direct Debt / Operating Revenues: 0.4x

3-Year Average ANPL as % of Assessed Value: 1.0%

3-Year Average ANPL / Operating Revenues: 0.3x

#### OBLIGOR PROFILE

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

#### LEGAL SECURITY

Debt service on the rated debt 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

The Series A bond proceeds will be used to finance a portion of the city's 2015 Capital Improvement Program, including school building renovations, street and sidewalk improvements, and equipment purchases. The Series B bond proceeds will finance terminal renovations at the Bangor International Airport.

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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