

# RatingsDirect®

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## Summary:

# Bangor, Maine; General Obligation

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Credit Profile		
US\$2.313 mil GO bnds ser 2021A dtd 03/30/2021 due 04/01/2041		
<i>Long Term Rating</i>	AA-/Stable	New
US\$2.305 mil GO bnds (federally taxable) ser 2021B dtd 03/30/2021 due 04/01/2041		
<i>Long Term Rating</i>	AA-/Stable	New
Bangor GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA-' rating to the City of Bangor, Maine's \$2.313 million series 2021A and \$2.305 million series 2021B (federally taxable) general obligation (GO) bonds. At the same time, S&P Global affirmed the 'AA-' rating on the city's parity GO bonds. The outlook is stable.

The city's full-faith-and-credit pledge secures the GO bonds. Bangor can levy ad valorem property taxes for bond repayment, subject to the state's LD-1 legislation limitations. We rate the limited-tax GO debt on par with our view of Bangor's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on resource fungibility, which supports our view of the city's overall ability and willingness to pay debt service.

Officials will use bond proceeds from the series 2021A GO issue on street, sidewalk, culvert, equipment, building, and wastewater treatment plant improvements. In addition, officials plan to use proceeds from the series 2021B (federally taxable) GO issue on improvements at Bangor International Airport.

## Credit overview

We anticipate Bangor's steady tax base growth will continue in the near term. While the retail and gaming sector activity has waned in the past year, our view of the city's economic profile has remained stable and unemployment rates continue to trend below the state and national levels. Furthermore, Bangor's financial position remains very strong as budget assumptions going into 2021 were conservative for the more sensitive revenue streams and actual budget performance has outpaced assumptions year to date. In addition, we anticipate the American Rescue Act Stimulus funds allocated to the city, school, and airport during the next two years will provide additional liquidity and flexibility for capital investments and recovering revenues affected by the COVID-19 pandemic.

The rating reflects our opinion of the city's:

- Weak economy, with projected per capita effective buying income at 83.9% of the national level and market value per capita of \$83,120;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment

(FMA) methodology;

- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2020, which closed with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 37.2% of total governmental fund expenditures and 6.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 5.4% of expenditures and net direct debt that is 50.4% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

We have analyzed Bangor's environmental factors and determined that they are slightly above our view of the sector standard. A more significant environmental risk is associated with pollution and water quality, which the city is currently remediating, resulting from consent decrees from the Maine Department of Environmental Protection for coal tar cleanup in the Penobscot River and the Environmental Protection Agency (EPA) with regard to violation of the Clean Water Act to address combined sewer outflows discharge into the Kenduskeag and Penobscot rivers. Bangor's costs for the lawsuit and remediation efforts to date have amounted to about \$12-\$15 million. The first two stages of remediation are complete and additional remediation efforts will be identified in the current year. If necessary, Bangor has \$1.59 million remaining from the 2011 bond authorization that could be issued to support additional expenditures. To comply with the EPA requirements, the city developed and invested in a long-term capital plan in the early 1990s to reduce combined sewer outflows (CSOs), which has reduced discharge volumes more than predicted. Phase two of long-term control plan for CSO reduction is under development with a portion of the capital requirements potentially funded with proceeds from a \$15 million bond issuance in 2021 and 2022 that will be secured by enterprise revenue. Overall, while the risk is elevated, the city continues to incorporate the remediation effort requirements and potential risks in their annual capital planning process.

The city's exposure to physical risks from sea level rise and severe winter weather storms creates the potential for property damage and disruption in revenue collections, which could pressure the city's budget performance or flexibility; however, this has not been an issue to date. In addition, the city is consulting with a third party to assess its carbon footprint and help develop a strategy to reduce greenhouse gas emissions and improve energy utilization.

We believe Bangor's governance and social risks relative to the city's economy, management, financial measures, and debt and liability profile are all in line with our view of the sector standard.

## **Stable Outlook**

### **Downside scenario**

While not expected, we could lower the rating should budget performance deteriorate to an extent that the city's

budget flexibility declines to levels in line with that of lower-rated peers.

### Upside scenario

We could raise the rating if Bangor's underlying economic metrics sustain a trend to improved levels in line with that of higher-rated peers and capital needs ahead do not adversely affect budget capacity, performance, and reserve levels.

## Credit Opinion

### Weak economy

We consider Bangor's economy weak. The city, with an estimated population of 32,098, is in Penobscot County. The city has a projected per capita effective buying income of 83.9% of the national level and per capita market value of \$83,120. Overall, Bangor's market value grew by 0.9% over the past year to \$2.7 billion in 2021. The county unemployment rate was 3.2% in 2019. We do not anticipate the county level unemployment rate will rise to an elevated level for the 2020 annualized unemployment rate. We estimate the 2020 annual average unemployment rate, including the December preliminary monthly figure, at 5.6%. The monthly unemployment rate spiked to 10.3% in April 2020, just as many other local governments across the nation experienced due to the coronavirus pandemic, before moderating to 4.4% for the November 2020 monthly rate, which has remained below the state and national unemployment rates. Our economic outlook for Bangor aligns with our view of the national economic outlook, which has improved with stronger projections for real gross domestic product and consumer sentiment for 2021 and unemployment levels recovering to pre-pandemic levels by second-half 2023. For S&P Global Economics' latest outlook see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect.

Bangor is Maine's third-largest city, behind Portland and Lewiston. It not only serves as the employment, retail, health care, and commercial hub for the area but also attracts visitors from eastern Canada and the rest of northern and eastern Maine. The city has Interstate 95 access, includes Bangor International Airport, and is located along the Penobscot River. Leading area employers include Northern Light Eastern Maine Medical Center, Hannaford Supermarkets, City of Bangor, St. Joseph Hospital, and Walmart/Sam's Club.

The city has a diverse economic base with health care, educational, professional, retail, manufacturing, and governmental sectors represented. Bangor also includes large tracts of forest, farmlands, open space, and riverfront areas. The city's retail sector has historically served a broad geographic area ranging from eastern Maine to the Canadian Maritimes, with a projected population exceeding 3.1 million, and has driven Bangor's sales tax distributions. Bangor Mall, one of the city's several retail centers, began to experience closures of stores and increases in vacancies, similar to many other retail centers across the nation, due to an increase in online shopping ahead of the pandemic that was further exacerbated by the pandemic and related closure of the Canadian border.

The property tax base has experienced modest, yet consistent, growth totaling about \$200 million over the past 10 years. Building permit activity has waned; however, the construction value has increased in the past three calendar years. Therefore, we anticipate the tax base growth trend to continue. According to city officials, there have been no challenges with the leading taxpayers or leading employers at present. The top 10 taxpayers are diverse, representing 11.3% of the city's taxable value. GLP Capital L.P., a gaming real estate business, is the largest taxpayer at 2.8%; it

leases the majority and owns a portion of the land on which Hollywood Casino Bangor, one of the state of Maine's two casinos, sits. The casino has a 152-room hotel and four-story parking garage, along with a standard bred racetrack and grandstand with capacity for 3,500 spectators. Currently the casino is open but running at limited capacity to comply with social-distancing standards for the wellbeing and public safety of the community. Harness races are scheduled to start in April 2021 after a shorter racing season the previous year (from June to November 2020) due to the onset of the pandemic.

### **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.

Management looks at three-to-five years of historical data when budgeting. The city no longer regularly reports budget-to-actual results or investment performance and holdings to the council. Management does not perform any long-term revenue and expenditure forecasting, but there is a strong focus on capital planning because management maintains a rolling five-year capital plan that identifies funding sources for the current year. Bangor maintains a debt policy but it does not meet our criteria.

The city follows a formal investment policy and reports investment performance and holdings to the council once a year in the audit. Bangor's reserve policy statutorily establishes maintaining an unassigned general fund balance at no more than 16.66% of expenditures but no less than 8.33% of prior-year expenditures.

### **Strong budgetary performance**

Bangor's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 1.0% of expenditures, and surplus results across all governmental funds of 4.8% in fiscal 2020. Our assessment accounts for the fact that we expect budgetary results could improve from 2020 results in the near term.

For analytical consistency, we adjusted budgetary performance to account for recurring transfers as well as expenditure of bond proceeds. The city's historical performance has been strong and stable, in our opinion, as demonstrated by consecutive operating surpluses and management's conservative budgeting practices. We expect Bangor can maintain a strong level of budgetary performance in the future due to the city's revenue composition and capacity to adjust expenditures when necessary.

The fiscal 2020 year-end operating result is attributed to revenues and expenditures outperforming budget assumptions along with expenditure controls during the year, including delay of a debt issuance, position vacancies, and public safety cost savings from March to June 2020 due to less public activity at the onset of the pandemic. The net effect was a larger operating surplus than the previous year at \$1.2 million. Bangor maintains a predictable operating profile because property taxes generate 55% of general fund revenue and state aid accounts for about 31%. In our opinion, tax collections are strong and stable. The city has its own school operations for which state aid revenue and school operational budget are accounted for in the general fund.

We understand the city expects to have at least balanced operating fund results and will potentially add to fund balance in fiscal 2021, despite budgeted use of \$500,000 of the unassigned fund balance and \$500,000 from contingency reserves in case of a material drop in excise revenues and state-shared revenues during the fiscal year.

Year-to-date excise revenues have trended about \$200,000 above budget assumptions and state-shared revenues have remained on target; therefore, use of the unassigned fund balance and contingency reserve appropriations is not expected with only three months remaining in the fiscal year.

Bangor is anticipating about \$21 million in American Rescue Act stimulus funds in the near term subsequent a \$300,000 distribution in Coronavirus Aid Relief and Economic Security Act funds in the previous year. The city is, as are many others across the nation, awaiting further guidance from the federal government on use of the stimulus funds but is preliminarily considering using the funds for broadband infrastructure enhancements and rather than for recurring expense items, which we believe is prudent and will likely well position the city to maintain a strong performance position in the near term.

### **Very strong budgetary flexibility**

Bangor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 20% of operating expenditures, or \$23.1 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 20% of expenditures in 2018 and 2019.

Available reserves (assigned and unassigned) have consistently remained what we consider at least very strong in the past five fiscal years. There are no plans to spend down reserves significantly. Furthermore, Bangor has adhered to its minimum reserve policy of maintaining an unassigned fund balance above 8.3% of expenditures. Due to Bangor's recent operating surpluses and positive results projected for fiscal 2021, we expect the city will maintain a very strong level of total available reserves during the two-year outlook horizon.

### **Very strong liquidity**

In our opinion, Bangor's liquidity is very strong, with total government available cash at 37.2% of total governmental fund expenditures and 6.9x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

Further enhancing our opinion of Bangor's liquidity is the city's maintenance of strong access to external liquidity through Bangor's role as a regular market participant that has issued GO bonds frequently in the past several years. We understand the city does not have any bank loans, direct purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

At present, Bangor does not have investments we consider aggressive because nearly all of its investments are in mutual funds, highly rated U.S. Treasury securities, and certificates of deposit. City policy prohibits investment in derivative instruments. Bangor has consistently had very strong liquidity; we do not expect the liquidity profile to deteriorate materially in the near term given the lack of liquidity risks and projections for maintenance of structural balance in the near term.

### **Very strong debt and contingent liability profile**

In our view, Bangor's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.4% of total governmental fund expenditures, and net direct debt is 50.4% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is in our view a positive credit factor.

Subsequent this issuance, the city has \$68.2 million in total net direct debt outstanding. We adjust for \$66.9 million in

enterprise supported-tax revenue debt among the sewer utility, Bass Park, airport, and non-major proprietary funds pursuant to our debt statement analysis criteria.

The city plans to issue \$2.73 million in GO bonds to fund Cameron Stadium improvements in 2021 and \$6 million in GO bonds authorized to rehabilitate city hall and upgrade buildingwide systems in 2022. In addition, Bangor intends to issue about \$15 million in enterprise revenue-supported debt in 2022 to make necessary wastewater treatment plant improvements to comply with the Clean Water Act and recent consent decree associated with overflow and CSO reduction. Should tax base growth not keep pace with planned debt, the city's debt profile could worsen, leading to a debt burden that exceeds 3% of assessed value.

### **Pension and other postemployment benefits**

- We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate source of credit pressure for Bangor, given the well-funded status of the pension plans and the limited long-term liabilities.
- A large portion of the city's retirement plans consist of defined contributions with manageable costs and participation in a highly funded pension plan.
- Furthermore, Bangor offers OPEB but recognizes no liability. The liability for the plan represents an implicit rate subsidy.

As of June 30, 2020, the city participated in the following plans:

- A single-employer, defined-contribution plan administered by Bangor. The city is required to contribute 8%-15% of payroll depending on contracted status and classification of employees.
- Maine Public Employees Retirement System Consolidated Plan for the Local Participating Districts Plan (PLD Plan), which is 88.4% funded, with an \$8.2 million net pension liability (NPL).
- Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan), which is 81.0% funded, with a \$4.1 million NPL.

In 2002, the city issued pension obligation bonds to pay its unfunded portion of the state plan; these bonds' final maturity is in 2026. However, all employees hired on or after April 1, 2001, participate in Bangor's defined-contribution 401(k) pension plan. Before that date, employees were part of the state employees' defined-benefit plan. Bangor also offers its employees the option to participate in a deferred compensation plan from the International City and County Management Association and social security. As of July 1, 2018, police and fire personnel have the option, upon hire, to choose to participate in either the defined-contribution plan or the PLD defined-benefit plan. The PLD and SET plans are cost-sharing, multiple-employer, defined-benefit pension plans. Both systems use a 6.75% discount rate. Positively, both plans met our static funding metric in the most recent year as well as our minimum funding progress calculation, indicating that the systems are addressing current costs and making headway addressing their unfunded liabilities.

Bangor's OPEB liability is due to the implicit subsidy of its retirees' eligibility to enroll in the city's health care plan at 100% of the premium cost to the retiree. At June 30, 2020, the last actuarial valuation study, the net OPEB liability was \$8.9 million.

The city's combined required pension and actual OPEB contributions totaled 1.9% of total governmental fund expenditures in 2020. Bangor made its full annual required pension contribution in 2020. We believe that the city's retirement costs will likely remain manageable.

**Strong institutional framework**

The institutional framework score for Maine municipalities is strong.

**Related Research**

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 25, 2021)		
Bangor GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bangor GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Bangor GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bangor GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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