

RatingsDirect®

Summary:

Bangor, Maine; General Obligation

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile

US\$48.445 mil GO rfdg bnds dtd 09/15/2020 due 07/15/2042

Long Term Rating AA-/Stable New

Bangor GO

Long Term Rating AA-/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating and stable outlook to the City of Bangor, Maine's series 2020 general obligation (GO) refunding bonds and affirmed its 'AA-' rating, with a stable outlook, on the city's existing GO debt.

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 the 2020 bond proceeds, totaling about \$48.5 million, to advance refund, on a federally taxable basis, portions of the city's 2012 series B GO bonds and 2013 series B GO bonds.

Credit overview

The city has also maintained very strong reserve levels over the past three years. We expect Bangor to maintain its strong budgetary flexibility through balanced financial operations and make the necessary budgetary adjustments to avoid a material drawdown on reserves. Management expects to end fiscal 2020 with at least balanced operations and likely an increase to reserves. Nevertheless, in our view, there still remains some uncertainty related to the potential effects of the pandemic and recession on the budget, which we will continue to monitor throughout the outlook period. Although the full impact of the COVID-19 pandemic remains to be seen, we believe the city's very strong budgetary flexibility, conservative budgeting, and low retirement costs should provide Bangor with cushion to absorb any unanticipated declines in revenues or unexpected stagnation in its economy because of recessionary pressures or pandemic-related events. Therefore, the stable outlook reflects our view that the city's economy should remain relatively stable and Bangor's retirement costs and liabilities will remain manageable, and our expectation that management will continue to make the necessary budgetary adjustments to maintain balanced operations. Our outlook is generally for two years, but we see some risks because of the COVID-19 pandemic and U.S. recession over the next six-to-12 months.

The long-term rating reflects our opinion of Bangor's:

- Weak economy, with projected per capita effective buying income at 84.4% of the national level and market value

per capita of \$81,905;

- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with break-even operating results in the general fund but an operating surplus at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 26.9% of total governmental fund expenditures and 4.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 6.1% of expenditures and net direct debt that is 78.4% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of the pandemic, we consider the city's social risks in line with those of the sector. Although rising sea levels pose a long-term risk for Bangor, we believe management continues to plan and implement resiliency efforts to help reduce the potential impact. We have analyzed the city's environmental factors and determined that they are in line with our view of the sector standard for coastal communities. In addition, we believe Bangor's governance 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

Downward rating pressure could result from budgetary pressures arising that lead to deterioration of the city's budgetary flexibility to levels in line with that of lower-rated peers.

Upside scenario

Although we do not expect to raise the rating over the outlook period, we could raise the rating if Bangor's underlying economic metrics improve to levels in line with that of higher-rated peers and the city implements stronger financial management policies and procedures.

Credit Opinion

Weak economy

We consider Bangor's economy weak. The city, with an estimated population of 32,280, is located in Penobscot County. The city has a projected per capita effective buying income of 84.4% of the national level and per capita market value of \$81,905. Overall, the city's market value grew by 2.6% over the past year to \$2.6 billion in 2020.

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 11 communities in the region but also attracts visitors from eastern Canada and the rest of northern and eastern Maine. The city, advantageously located along Interstate 95, includes Bangor International Airport. Leading area employers include Eastern Maine Medical Center, Bangor Mall, University of Maine, and the city itself.

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

While the city's economy has remained stable over the past few years, we believe the effects of the pandemic could have a negative impact on the local economy, especially as we forecast a notable decline in regional and national GDP for much of the remainder of the year (for more information, please see "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect). Although we currently do not expect a major change in the city's overall economy, we believe its local unemployment figures (averaged 3.2% in 2019) could increase significantly if the current economic disruption is prolonged or if the commercial sectors experience further contraction. This could result in a weakening of the city's economic metrics and potentially change our view of its economy.

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 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.

Adequate budgetary performance

Bangor's budgetary performance is adequate in our opinion. The city had break-even operating results in the general fund, but a surplus result across all governmental funds of 2.0% in fiscal 2019.

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, in our opinion, strong and stable, as demonstrated by consecutive operating surpluses and management's conservative budgeting practices. We expect these types of actions will continue, as needed, to ensure continues strong budgetary performance.

The fiscal 2019 year-end operating result is also a result of careful budgeting. As noted above, the fiscal 2019 general fund result was due to a transfer from the general fund into the capital projects fund. City officials indicated that in fiscal 2018 they received stronger-than-expected excise taxes and were able to transfer that general fund money into

this account in fiscal 2019 to address street-paving needs and to purchase a generator for its school. Overall, revenues and expenditures generally outperformed the budget, which management attributes to strong motor vehicle excise taxes and building permit revenue.

We understand the city expects to have generated another surplus, albeit smaller than the year before, in fiscal 2020. Revenues came in below budget following the outbreak of COVID-19 but were offset by \$2 million in expenditure reductions due to cost-savings measures. 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, with Bangor typically receiving 98%.

The proposed fiscal 2021 budget reflects the revenue challenges and uncertainties resulting from the pandemic. Unrestricted aid from Maine was likely to be the largest revenue pressure and as a result, the city reduced state aid estimates for the fiscal 2021 budget. However, the State Revenue Forecasting Committee recently released revised state revenue sharing estimates. These projections estimate the city will receive about \$4.4 million in revenue sharing funds during fiscal 2021, which is \$1 million more than anticipated in the adopted fiscal 2021 budget. Overall, we believe management's actions to address the potential budgetary impact from the pandemic are reasonable and that Bangor's very strong flexibility will allow it to deal with any additional revenue or expenditure pressures that could emerge.

Very strong budgetary flexibility

Bangor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 20% of operating expenditures, or \$22.4 million.

Available reserves (assigned and unassigned) have consistently remained what we consider at least strong in the past several fiscal years. There are no plans to spend down reserves significantly. Furthermore, the city 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 2020, we expect the city to continue to build the fund balance modestly and consistently 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 26.9% of total governmental fund expenditures and 4.4x governmental debt service in 2019. 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 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 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 6.1% of total governmental fund expenditures, and net direct debt is 78.4% of total governmental fund revenue.

After this issue, the city will have about \$129.4 million in debt outstanding, about \$27 million of which we view as self-supporting debt. Bangor 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 during the next two years to three years--about \$19 million overall--to fund sewer infrastructure improvements. In addition, they might issue an additional \$2 million a year for three years for school improvements but the amounts have not been finalized. We do not believe additional debt plans will have a material effect on overall debt.

Pension and other postemployment benefits

- We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate source of credit pressure for the city, 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, the city offers OPEB but recognizes no liability. The liability for the plan represents an implicit rate subsidy.

As of June 30, 2019, 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 90.62% funded and has a \$4.1 million net pension liability (NPL).
- Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan), which is 82.73% funded and has a \$3.5 million NPL.

Bangor's combined required pension and actual OPEB contributions totaled 1.9% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

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 the city'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 hiring, 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 both 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, 2019, the last actuarial valuation study, the net OPEB liability was a minimal \$8.8 million.

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

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
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 14, 2020)

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.

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