

RatingsDirect®

Summary:

Bangor, Maine; General Obligation

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Summary:

Bangor, Maine; General Obligation

Credit Profile

US\$3.6 mil GO bnds ser 2018

Long Term Rating

AA-/Stable

New

Bangor GO

Long Term Rating

AA-/Stable

Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Bangor, Maine's series 2018A and 2018B general obligation (GO) bonds and affirmed its 'AA-' rating, with a stable outlook, on the city's existing GO debt.

The bonds are a GO of the city, for which it has pledged its full-faith-and-credit-taxing power. The bonds are payable from ad valorem taxes levied on all property within Bangor's territorial limits, subject to levy limitations under the state's LD-1 property-tax-levy law (Maine Revised Statutes Title 30-A, section 5721-A).

Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, on RatingsDirect, we do not differentiate between the city's limited-tax GO debt and general creditworthiness because the tax limitation imposed on Bangor's ability to raise revenue is already embedded in our analysis of its financial and economic conditions.

We understand officials intend to use series 2018 bond proceeds to finance various citywide capital projects--including the acquisition of equipment and sewer infrastructure, as well as road improvements--and refund the city's series 2009A bonds for interest-cost savings.

The rating reflects our opinion of Bangor's:

- Weak economy, with market value per capita of \$79,216 and projected per capita effective buying income at 81.9% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total-governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.5% of total-governmental-fund expenditures and 3.8x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 6.2% of expenditures and net direct debt that is 74.2% of total-governmental-fund revenue; and

- Strong institutional framework score.

Weak economy

We consider Bangor's economy weak. The city, with an estimated population of 32,537, is in Penobscot County. The city has a projected per capita effective buying income of 81.9% of the national level and per capita market value of \$79,216. Overall, market value has been stable during the past year and is \$2.6 billion in fiscal 2019. The county unemployment rate was 3.7% in 2017.

Bangor is Maine's third-largest city. 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 Bangor.

Bangor 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 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.

Management looks at three years 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.

Bangor maintains a debt policy that does not meet our criteria. It 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 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 0.8% of expenditures and surplus results across all governmental funds of 3% of expenditures in fiscal 2017.

The city's historical performance has been, in our opinion, strong and stable, demonstrated by four consecutive operating surpluses. Management is projecting another surplus for fiscal 2018. The fiscal 2017 budget included no fund-balance appropriation; the city ended fiscal 2017 with a surplus after adjusting for recurring interfund transfers, which management attributes to stronger-than-expected excise taxes. Officials also balanced the fiscal 2018 budget, and management expects a surplus. Management attributes the fiscal 2018 projected operating surplus to strong motor-vehicle-excise taxes and building permit revenue. The fiscal 2019 budget does not include the use of fund balance, and the budget is currently on target.

Bangor maintains a predictable operating profile because property taxes generate 57% of general fund revenue and

state aid accounts for about 28%. Tax collections are, in our opinion, strong and stable with Bangor typically receiving 98%.

Due to Bangor's tax base stability and recent and projected operating surpluses, we expect general fund and total-governmental-fund performance to remain strong.

Very strong budgetary flexibility

Bangor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 17% of operating expenditures, or \$18.6 million.

Available reserves (assigned and unassigned) have consistently remained, at least, what we consider, strong during the past four fiscal years; they grew to, what we view as, a very strong 17.3% of fiscal 2017 expenditures from 12.2% in fiscal 2013. There are no plans to spend down reserves. 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 2018, we expect the city to continue to build 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 23.5% of total-governmental-fund expenditures and 3.8x governmental debt service in fiscal 2017. In our view, the city has strong access to external liquidity if necessary.

Further enhancing our opinion of Bangor's liquidity is its maintaining strong access to external liquidity through its role as a regular market participant that has issued GO bonds frequently during 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 upon the occurrence of certain events.

Bangor does not currently have investments we consider aggressive because nearly all 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 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 6.2% of total-governmental-fund expenditures, and net direct debt is 74.2% of total-governmental-fund revenue.

After this issue, the city will have about \$134 million in debt outstanding, about \$42.5 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 \$15 million overall--to fund an Environmental Protection Agency-approved wastewater project. We do not believe additional debt plans will have a material effect on overall debt.

Bangor's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 1.6% of total-governmental-fund expenditures in fiscal 2017. The city made its full annual required pension contribution in

fiscal 2017.

Bangor contributes to the Maine Consolidated Plan for Participating Local Districts (CPPLD) and the Maine State Employment Teachers' Plan (SETP), both of which Maine Public Employees' Retirement System--a cost-sharing, multiemployer, public-employee retirement system--administers. We view both the CPPLD and SETP plans as well funded at 81.61% and 76.21%, respectively, based on Governmental Accounting Standards Board Statement No. 68 standards. 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 International City/County Management Assn. 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 CPPLD defined-benefit plan.

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, 2017, the last actuarial valuation study, the unfunded OPEB obligation was a minimal \$6.2 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 years to four years.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' view of Bangor as a regional employment, retail, and commercial center for area communities; S&P Global Ratings believes this lends stability to Bangor's economic profile. We believe the city's predictable operating profile will likely translate into sustained budgetary performance we view as strong, contributing to available reserves remaining, at least, strong. Furthermore, we expect Bangor to maintain very strong liquidity across all municipal funds. Therefore, we do not expect to change the rating within the outlook's two-year period.

Upside scenario

With all else remaining equal, we could raise the rating over time if economic metrics were to improve to levels we consider in-line with Bangor's higher-rated peers.

Downside scenario

We could lower the rating if budgetary pressure were to result in deteriorated budgetary flexibility to levels we consider in-line with Bangor's lower-rated peers.

Related Research

- 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
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of September 10, 2018)		
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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