

# RatingsDirect®

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## Summary:

# Bangor, Maine; General Obligation

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### Credit Profile

US\$6.992 mil GO bnds ser 2017 due 03/01/2037

*Long Term Rating* AA-/Stable New

Bangor GO

*Long Term Rating* AA-/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AA-' rating to Bangor, Maine's series 2017 general obligation (GO) bonds, and affirmed its 'AA-' rating on the city's existing GO debt. The outlook is stable.

The city's full-faith-and-credit pledge secures the bonds. Although the city is not restricted to a particular revenue source, it has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite limitations imposed by the state-levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the city's flexibility under the levy limit. The school project portion of this issuance is excluded from LD-1 limitations.

We understand officials will use series 2017 bond proceeds to fund capital projects throughout the city.

The rating reflects our opinion of the following factors for the city:

- Adequate economy, with projected per capita effective buying income at 86.9% of the national level and market value per capita of \$81,005;
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.0% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.0% of expenditures and net direct debt that is 69.5% of total governmental fund revenue; and
- Strong institutional framework score.

### Adequate economy

We consider Bangor's economy adequate. The city, with an estimated population of 32,726, is located in southern Penobscot County. The city has a projected per capita effective buying income of 86.9% of the national level and per capita market value of \$81,005. Overall, the city's market value was stable over the past year at \$2.7 billion in 2017. The county unemployment rate was 4.4% in 2016.

Bangor, is Maine's third-largest city, and 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 is advantageously located along Interstate 95 and includes Bangor International Airport. Leading area employers include Eastern Maine Medical Center, Bangor Mall, University of Maine, and the city itself.

Bangor is an urban, commercial, industrial, and residential community with some rural characteristics. The tax base has experienced modest, yet consistent, growth annually since fiscal 2011, and we expect for this pattern to continue given 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 to five years of historical data when drafting the budget, which is presented to the city council with actuals two to four times a year. The city no longer regularly reports budget-to-actual results or investment performance and holdings to the city council. The city does not perform any long-term revenue and expenditure forecasting but there is a strong focus on capital planning, as management maintains a rolling five-year capital plan that identifies funding sources for future projects. The city maintains a debt policy but 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 a target of maintaining an unassigned general fund balance to no more than 16.66% and no less than 8.33% of prior year expenditures.

### **Strong budgetary performance**

Bangor's budgetary performance is strong in our opinion. The city had operating surpluses of 2.9% of expenditures in the general fund and of 3.3% across all governmental funds in fiscal 2016.

The city's historical performance has been strong and stable, demonstrated by three consecutive operating surpluses and projecting another for fiscal 2017. The 2016 budget included no fund balance appropriation and the city ended that year with a surplus, after adjusting for recurring interfund transfers, which management attributes to stronger-than-anticipated excise taxes. The 2017 budget was also balanced and management is expecting a surplus. Management attributes its projected operating surplus for fiscal 2017 to a health insurance cost less than budgeted and strong motor vehicle excise revenues. The fiscal 2018 budget does not include the use of fund balance and is currently tracking on budget.

On the whole, the city maintains a predictable operating profile as property taxes constitute 57% of general fund revenues and state aid about 28%. Tax collections are strong and stable, with Bangor typically receiving 97% on a current basis.

Given the stability of Bangor's tax base and the recent and projected operating surpluses, we expect for general fund and total governmental fund performance to remain strong in the future.

### **Very strong budgetary flexibility**

Bangor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 16% of operating expenditures, or \$17.1 million.

Available reserves (assigned and unassigned) have consistently remained at least strong over the past three fiscal years, growing to very strong levels of 16.4% of 2016 expenditures from 12.2% of expenditures in fiscal 2013, and there are no plans to spend them down. 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 record of recent operating surpluses, coupled with positive results projected for fiscal 2017, as well as levy increases in fiscal years 2016 of 0.7% and 2.5% in 2017, we expect the city to continue to build on fund balance modestly in the future, consistent 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 18.0% of total governmental fund expenditures and 3.6x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

Further enhancing our opinion of Bangor's liquidity position is our view that it maintains strong access to external liquidity. The city is a regular market participant, having issued GO bonds frequently in the past several years. We understand the city doesn't have any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The city does not currently have investments we consider permissive or aggressive because nearly all of its investment portfolio is 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 5.0% of total governmental fund expenditures, and net direct debt is 69.5% of total governmental fund revenue.

After this issue, the city will have about \$141 million in debt outstanding, about \$31 million of which we view as self-supporting. The city typically issues about \$2 million to \$3 million annually to address capital needs, in line with its capital improvement plan and amortizing liabilities. However, management plans to issue slightly more over the next two to three years, about \$20 million to \$21 million overall, to fund an Environmental Protection Agency-ordered wastewater project. We do not believe the debt plans will have a material effect on the debt burden. All current debt is scheduled to be repaid by 2037.

Bangor's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 1.6% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

Bangor contributes to the Consolidated Plan for Participating Local Districts and the State Employment Teacher Plan, both administered by the Maine Public Employees Retirement System, a cost-sharing, multi-employer, public employee retirement system. We view both plans as well funded at 88.27% and 81.18%, respectively, based on Governmental Accounting Standards Board Statement No. 68. In 2002, the city issued pension obligation bonds to pay its unfunded portion of the state plan; these bonds mature 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 aforementioned state employees' defined-benefit plan. Bangor also offers its employees the option to participate in a

deferred-compensation plan offered by the International City/County Management Assn., as well as a social security retirement program.

The city's OPEB liability is due to the implicit subsidy of retirees' eligibility to enroll in the city's health care plan at 100% of the premium cost to the retiree. As of the June 30, 2016, actuarial valuation study, the unfunded OPEB obligation was a minimal \$6.8 million.

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

**Strong institutional framework**

The institutional framework score for Maine municipalities is strong.

**Outlook**

The stable outlook reflects our assessment of Bangor as a regional employment, retail, and commercial center for area communities, which we believe lends stability to its economic profile. We believe the city's predictable operating profile should translate into sustained budgetary performance we view as strong, contributing to available reserves also remaining at least strong. Furthermore, we expect Bangor to maintain very strong liquidity across all municipal funds. As such, we do not expect to change the rating within the outlook's two-year horizon.

**Upside scenario**

All else remaining equal, we could raise the rating should the city's economic metrics improve to the level of higher-rated peers.

**Downside scenario**

We could lower the rating if there were budgetary pressures that weaken budgetary flexibility to the level of lower-rated peers.

Ratings Detail (As Of September 11, 2017)		
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
<b>Bangor GO</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/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.

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