STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Bangor, Maine; General Obligation

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Summary:

Bangor, Maine; General Obligation

Credit Profile		
US$3.12 mil Gen Oblig Bnds ser 2015 A		
Long Term Rating	AA-/Stable	New
US$1.6 mil Gen Oblig Bnds (Federally Taxable) ser 2015 B		
Long Term Rating	AA-/Stable	New
Bangor GO		
Long Term Rating	AA-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Bangor, Maine's series 2015 A and B general obligation (GO) bonds. The outlook is stable.

At the same time, Standard & Poor's affirmed its 'AA-' long-term rating, with a stable outlook, on the city's general obligation (GO) debt outstanding.

In our view, the ratings reflect our assessment of the following factors for the city:

- Weak economy, with projected per capita effective buying income (EBI) at 93.6% of that of the national average, and market value per capita of $79,200;
- Strong budgetary flexibility, with available reserves of more than 13% of expenditures in fiscal 2014, and expected to improve slightly in fiscal 2015;
- Strong budgetary performance, due to conservative budgeting and a relatively stable revenue profile;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Strong management environment, with good policies that are well embedded and likely sustainable;
- Adequate debt and liability profile with minimal long-term liability costs; and
- A strong institutional framework score.

Bangor's full faith and credit secures the bonds. We understand that bond proceeds will be used to finance various capital items throughout the city, as well as for renovations within the airport's main terminal.

Weak economy

Bangor (estimated population of 33,984) is Maine's third-largest city and serves as the employment, retail, and commercial hub for 11 communities in the region. The city is advantageously located along Interstate 95 and includes Bangor International Airport. Leading area employers include Eastern Maine Medical Center (3,400 employees); Bangor Mall (1,450); and the city itself (1,100).

Bangor's 2015 tax base totals $2.61 billion, a less than 1% increase over 2014; however, the city's growth has been stable and management expects growth to continue to improve from 1% to 2% in the next three-to-four years. The city's projected per capita EBI is at 93.6% of the U.S. level and per capita market value is $79,221. Unemployment in

Penobscot County was 7.0% in 2013, and currently stands at 5.3% as of December 2014.

All else remaining equal, over time, if the city's tax base continues to grow modestly, resulting in a market value per capita greater than $80,000, we could see an improvement in the city's economy score.

Strong budgetary performance

In our opinion, the city's budgetary performance is strong with a general fund surplus of $1.7 million (1.8% of budget) and a total governmental funds surplus of $4.2 million (3.7% of budget), after adjusting for $9.3 million in capital outlay funded by bond proceeds in the city's capital projects fund. Management indicates the fiscal 2014 surplus was driven by a strong revenue performance in motor vehicle excise taxes, as well as building permits. Bangor's fiscal 2015 budget is balanced and totals $95.2 million, and city officials project the fiscal year will close with a general fund surplus of $300,000-$500,000. We understand the fiscal 2016 budget process is ongoing, and management expects a slight increase over the 2015 budget.

Currently, we expect Bangor's operating performance to remain strong. Based on our macroeconomic forecasts (See "U.S. State And Local Government Credit Conditions Forecast: The Economy Looks To Pick Up Steam In 2015 After A Slow Start," published April 2, 2015, on RatingsDirect), credit conditions in New England are stable. On the whole, property taxes constitute 54% of revenues and state aid accounts for about 31%. Tax collections are strong and stable, with Bangor typically receiving 97% on a current basis.

Strong budgetary flexibility

In our opinion, the city's budgetary flexibility has been relatively stable over the past three fiscal years. Audited fiscal 2014 reserves (assigned and unassigned general fund balance) improved to $13 million or 13.2% of general fund expenditures. Management expects to add $300,000-$500,000 in available reserves at the close of fiscal 2015. With no immediate plans to spend them down, we expect the city's reserves to remain above 8% of expenditures, the minimum outlined in its fund balance policy.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity, with total government available cash at 25.6% of total governmental fund expenditures and at 494% of debt service. 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 and bond anticipation notes frequently in the past several years.

Strong management

Bangor's financial policies are "good" under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. The city's reserve policy establishes a target of maintaining an unassigned general fund balance equal to 10% of expenditures and sets a minimum of 8.3%. Additional management strengths include policies on budgetary control and the city's focus on capital planning. Management maintains a capital improvement plan that identifies funding sources and projects that are reprioritized yearly.

Adequate debt and contingent liability profile

After this issue, Bangor will have about $143 million of total direct debt. On the whole, total governmental funds debt service is 5.2% of total governmental funds expenditures, and net direct debt is 105% of total governmental funds revenue, which excludes about $20.6 million in self-supporting enterprise debt. We consider these levels adequate. Debt amortization is average, in our view, with 56% of principal debt due over 10 years and 100% through 2043. Management expects to layer new debt to address ongoing capital needs. So we expect net direct debt and the debt service carrying charges to remain in line with years past through the medium term.

Pension liabilities are manageable, in our view. All employees hired on or after April 1, 2001, participate in the city's defined-contribution pension plan. Before that date, employees were part of the state employees' defined-benefit plan. In 2002, the city issued pension obligation bonds to pay its unfunded portion of the state plan; these bonds mature in 2026. Total pension contributions for fiscal 2014 were $956,000 equivalent to about 1% of expenditures. The city's other postemployment benefits (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, 2013, actuarial valuation study, the unfunded OPEB obligation was a minimal $6.9 million. Combined pension and OPEB contributions totaled $1.2 million in fiscal 2014, equivalent to 1.1% of expenditures.

Strong institutional framework

We consider the institutional framework score for Maine municipalities as 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 good management practices and predictable operating profile should translate into available reserves remaining strong. Furthermore, we expect Bangor to maintain very strong liquidity across all municipal funds. Downward rating pressure could result from deterioration of the city's budgetary flexibility or additional issuance that heightens Bangor's debt burden and weakens budgetary performance. All else remaining equal, over time, Standard & Poor's could raise the rating if the city's underlying economic metrics improve and the city continues to improve upon and sustain its available reserve levels.

Related Criteria And Research

Related Criteria

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- U.S. Not-For-Profit Health Care Outlook Remains Negative Despite A Glimmer Of Relief , Dec. 17, 2014

Related Research

- Institutional Framework Overview: Maine Local Governments

Ratings Detail (As Of April 10, 2015)		
Bangor GO bnds		
Long Term Rating	AA-/Stable	Affirmed

Ratings Detail (As Of April 10, 2015) (cont.)		
Bangor GO qual sch const bnds taxable ser 2012 dtd 11/20/2012 due 07/15/2035		
Long Term Rating	AA-/Stable	Affirmed
Bangor GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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