

# RatingsDirect®

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## Summary:

# Bangor, Maine; General Obligation

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## Summary:

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### Credit Profile

US\$8.04 mil GO bnds ser 2014 due 03/12/2034

<i>Long Term Rating</i>	AA-/Stable	New
Bangor GO		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Bangor GO bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
<b>Bangor GO</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services lowered its long-term rating on Bangor, Maine's general obligation (GO) debt one notch to 'AA-' from 'AA' based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

The downgrade also reflects our opinion of the city's weak economy, which lacks the characteristics of a broad and diverse economic base.

At the same time, Standard & Poor's assigned its 'AA-' long-term rating and stable outlook to the city's series 2014 GO bonds.

Bangor's full faith and credit secures the bonds. We understand that \$8.7 million of the proceeds will be used to finance various capital items.

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) of at 85.5% of that of the national average, and market value per capita of \$78,800;
- Strong budgetary flexibility, with available reserves of more than 12% of expenditures;
- Adequate financial performance, despite a slow-growth regional economy, 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; and
- Adequate debt and liability profile.

### Weak economy

Bangor (estimated population of 33,000) 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 2014 tax base totals \$2.6 billion and has been stable. The city's projected per capita EBI is at 85.5% of the U.S. level and per capita market value is \$78,800. Unemployment in Cumberland County was a low 7.8% in 2012.

### **Strong budgetary flexibility**

In our opinion the city's budgetary flexibility has been relatively stable over the past three fiscal years. Audited fiscal 2013 reserves (assigned and unassigned general fund balance) were \$11.9 million, or 12.2% of general fund expenditures. This is slightly down from fiscal 2012 levels as the city instituted additional services during the fiscal year that were unbudgeted as well as expended grant money within the school department. Management expects to add \$150,000-\$200,000 in available reserves at the close of fiscal 2014. 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.

### **Adequate budgetary performance**

In our opinion, the city's budgetary performance has been adequate in the past three years. We believe Bangor's good financial policies and strong management conditions have contributed to its stable financial operations in the past few years. We calculate the city closed audited fiscal 2013 with a slight \$1.5 million general fund deficit, equal to 1.5% of general fund expenditures. The deficit is not structural and is largely due to the addition of services during the fiscal year. We understand these services are accounted for in the fiscal 2014 budget. The city closed fiscal 2013 with a total governmental fund surplus of 2.1%, after excluding capital outlay paid from bond proceeds, and a debt service payment in its arena fund related to the permanent financing of bond anticipation notes.

The favorable budgetary performance stems from conservative budgeting and a modest recovery in local fees and taxes due to the slowly improving economy. Currently, we expect Bangor's operating performance to remain stable. Based on our macroeconomic forecasts (See U.S. State And Local Government Credit Conditions Forecast," published Dec. 17, 2013, 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.

### **Very strong liquidity**

Supporting the city's finances is what we consider very strong liquidity, with total government available cash at 21.3% of total governmental fund expenditures and at 422% 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 bonds frequently in the past several years, including GO bonds.

### **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 that are reprioritized yearly.

### **Adequate debt and contingent liability profile**

Bangor maintains about \$102 million of net direct debt. On the whole, total governmental funds debt service is 5.1% of total governmental funds expenditures, and net direct debt is 81% of total governmental funds revenue. We consider these levels adequate. Debt amortization is average, in our view, with 53% 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 2013 were \$1.4 million, equivalent to 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 Jan. 1, 2011, actuarial valuation study, the unfunded OPEB obligation was a minimal \$6.9 million.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Maine municipalities as strong. (See the Institutional Framework score for Maine, published Sept. 12, 2014.)

## **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. Over time, Standard & Poor's could raise the rating based on very strong management conditions that lead to stronger available reserves, strong budgetary performance, improved wealth and income indicators, and no further increase in the city's debt and liability profile.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

### **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, Dec. 17, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Maine Local Governments, Sept. 12, 2013

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