

RatingsDirect®

Summary:

Bangor, Maine; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$8.99 mil GO bnds ser 2013 A due 11/01/2032

<i>Long Term Rating</i>	AA/Stable	New
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US\$4.29 mil GO bnds (Taxable) ser 2013 B due 11/01/2033

<i>Long Term Rating</i>	AA/Stable	New
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Bangor GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Bangor, Maine's series 2013A and 2013B general obligation (GO) bonds, and affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is stable.

The ratings reflect our view of the city's:

- Consistently strong financial position and good financial management practices;
- Role as a regional economic hub coupled with unemployment below state and national averages; and
- Higher but still moderate debt burden, net of GO bonds supported by the enterprise funds.

Partially offsetting these rating strengths are the city's below-average, albeit adequate, income measures.

The bonds are general obligations of the city. While not restricted to a particular revenue source, Bangor has the power to levy ad valorem property taxes for bond repayment, subject to the limitations of the state's LD-1 legislation. The city will use the series 2013A bond proceeds to fund portions of its 2013 capital improvement program and to refinance several series of existing GO bonds. The city will use series 2013B bonds to finance improvements at Bangor International Airport and refinance its series 2005B GO Bonds.

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. The unemployment rate continues to trend below state and national averages; it was 6.9% in 2012, below the state's 7.3% and the nation's 8.1%. We consider income measures adequate, but below average, with median household and per capita effective buying income at only 73% and 88% of the respective national levels. Retail sales per capita are very strong at more than 300% of the national average.

Following a 1.8% reduction in the city's assessed valuation (AV) in fiscal 2011, AV in 2012 and 2013 has been essentially flat; annual AV growth averaged more than 6% from fiscal years 2006 to 2010. City officials report that development activity has begun to pick up, and they expect a resumption of tax base growth in the next few years. Value per capita is strong, in our view, at roughly \$80,000.

Bangor continues to maintain a strong financial position. After five consecutive surpluses from 2007-2011, it reported a slight \$252,000 general fund operating deficit in 2012, though this result is net of a planned one-time \$744,000 transfer to the capital projects fund. Available fund balance (committed, assigned, unassigned) was \$12.7 million, or about 13% of spending. General fund liquidity remains sufficient, with the \$13.2 million of cash on the general fund balance sheet at year-end equating to 50 days' expenses. Property tax collections remained strong at 97.33% on a current basis.

The 2013 general operating budget totals \$91.9 million, an increase of 1.9% over fiscal 2012, with a total tax levy increase of 2.3%. Bangor's non-school operations tax levy remains well within limitations of LD-1. The city has amassed nearly \$4.8 million of excess levy capacity as of fiscal 2013, which can be used in future budgets. Further, the city can increase or exceed the levy limit in any budget year by a majority vote of the city council. Property taxes account for about 51% of budgeted revenues. State aid, reimbursements, and revenue sharing account for 28%. The city currently anticipates a small surplus at year-end (June 30, 2013).

The governor's proposed biennial fiscal 2014-2015 state budget proposal includes cuts to municipal aid and revenue sharing that would reduce Bangor's state source revenues by as much as \$5.5 million in the city's 2014 fiscal year. City officials indicate that they do not expect the adopted state budget to include cuts to this extent. While the city manager's proposed 2014 budget (final budget expected to be adopted in June) includes state revenues at 2013 levels (roughly \$30 million), the city's record of proactive and sound financial management supports our belief that officials would successfully implement budget adjustments to largely mitigate the impact of any cuts, should they be enacted.

Bangor's financial practices are considered "good" under Standard & Poor's Financial Management Assessment. This indicates that practices exist in most areas, although not all may be formalized or regularly monitored by officials. The fund balance policy was revised in November 2012 to specify a target range for unassigned fund balance of 8.33% and 16.66% of general fund spending, excluding debt service. The previous range was 5% to 15%. The city has consistently complied with the revised policy.

Bangor's overall debt profile has increased but still remains at a level we consider moderate. Net of GO debt paid from enterprise revenues, the debt burden is roughly \$3,500 per capita and 4.5% of market value. Tax-supported debt service carrying charges (including pension obligation bonds) have historically been low and are budgeted at approximately 7% for 2013. We believe that debt service supported from general operating resources will continue to remain near current levels. Amortization of debt is above average, with about 50% of principal scheduled to be retired in 10 years and 80% within 20 years. City officials reports tentative plans to issue about \$3 million of debt to fund repairs to the Bangor Public Library in fiscal 2014.

In November 2012, residents approved a charter amendment requiring voter ratification for the city to issue GO bonds in excess of five one-hundredths of 1% of the city's last certified state valuation, which amounts to roughly \$1.2 million. We understand that refundings, debt issued to finance certain general infrastructure, and debt to be paid from self-supporting enterprise funds are exempted. Standard & Poor's will continue to monitor these developments, but we do not believe the proposal has any near-term impact on the city's credit profile.

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 2012 were \$2.2 million, equivalent to 2% of general fund spending. 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 \$4.5 million.

In May 2011, voters approved the financing and construction of a 5,800-seat arena and adjoining convention center in downtown Bangor by a three-to-one margin. City officials believe that the new facility, which will replace the 55-year old Bangor Auditorium/Civic Center, will enhance the vibrancy of Bangor's downtown core while increasing tourism activity. The cost of the project is \$68.7 million, financed by the series 2012B bonds and an \$11 million equity contribution from the city. Construction is ongoing and the facility is expected to open in September 2013. The bonds are secured by a GO pledge of the city but officials have identified two sources to pay debt service (about \$3 million annually), which they expect will eliminate any impact of the bonds on the operating funds. First, the city has dedicated incremental property tax revenues from its Downtown Development TIF District. The city will also use resources from its arena special revenue fund, which receives revenue generated from the downtown Hollywood Casino Hotel and Raceway, operated by Penn National Gaming.

Outlook

The outlook is stable and we do not expect to revise our rating within the next two years, as we expect the city will continue to make the necessary adjustments to maintain structural balance and strong reserves. While the arena project exposes the city to additional enterprise risk, we do not believe the financing or operation of the new facility will place material pressure on the general operating budget in the near-to-intermediate term. Further, we expect that the city will successfully adapt if the state reduces municipal aid and revenue sharing. Downward rating pressure could result from deterioration of the city's financial position or additional issuance that heightens the city's debt burden. Standard & Poor's could raise the rating based on higher reserves, a return to annual tax base growth, higher income indicators, and no further increase in the debt burden.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of May 17, 2013)		
Bangor GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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