Moody's Investors Service
Global Credit Research

Global Credit Research
New Issue
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MOODY'S ASSIGNS AA2 RATING TO THE CITY OF BANGOR'S (ME) $13.3 MILLION 2013 GENERAL OBLIGATION BONDS

BANGOR (CITY OF) ME
Cities (including Towns, Villages and Townships) Maine

Moody's Rating

Issue	Rating
2013 General Obligation Bonds - Series A	Aa2
Sale Amount $8,990,000	
Expected Sale Date 05/28/13	
Rating Description General Obligation	
2013 General Obligation Bonds - Series B (Federally Taxable)	Aa2
Sale Amount $4,290,000	
Expected Sale Date 05/28/13	
Rating Description General Obligation	

NEW YORK, May 16, 2013 -- Moody's Investors Service has assigned a Aa2 rating to the City of Bangor's (ME) $9 million 2013 General Obligation Bonds - Series A and $4.3 million 2013 General Obligation Bonds - Series B (Federally Taxable). The bonds are secured by the city's limited property tax pledge and are subject to Maine's LD-1 municipal property tax levy limitations. Moody's maintains a Aa2 rating on $132 million of outstanding general obligation bonds.

SUMMARY RATINGS RATIONALE

Assignment of the Aa2 rating incorporates the city's satisfactory financial position with sound reserves and an above-average debt position. The rating also factors in the city's below average wealth levels that are partially mitigated by the city's stable tax base, which serves as the primary economic center for the region, and its low unemployment rate. Bond proceeds of Series A will fund various capital projects and refund portions of several outstanding series of bonds, with no extension of maturities. Proceeds of Series B will fund capital projects at the Bangor International Airport and refund select maturities of the city's Series 2005B bonds.

STRENGTHS:

- Stable tax base which serves as primary economic center for the region
- Stable reserve position supported by a formal fund balance policy
- Track record of positive operating results and conservative budgeting practices

CHALLENGES:

- Wealth levels that trail medians of similarly rated municipalities
- Revenue weakness, including the potential for state aid reductions
- Above-average debt burden

ENTERPRISE RISK INCREASED FOLLOWING ISSUANCE OF SERIES 2012B BONDS

The city issued $54 million of general obligation bonds in July 2012 to fund the construction of an arena and convention center. While the bonds are ultimately supported by the city's general obligation pledge, the city plans to service the debt with revenues from the Downtown TIF, net revenues from Hollywood Slots, a gaming facility operating by Penn National Gaming, Inc. (senior secured Ba1/stable outlook) and other revenues generated by the arena, such as naming rights revenues. Following a reduction in commercial values realized in fiscal 2011, the city currently assesses the Downtown TIF district at 75% of taxable values, which totaled $83.7 million in fiscal 2013 and generated $1.6 million in revenues. Officials report that the remaining land available for development in the TIF district, the majority of which is owned by the city, continues to be marketed and redeveloped. Additionally, the city has the ability to increase the Downtown TIF assessments to 100%. The city receives rental payments from Hollywood Slots ($1.7 million in fiscal 2012), as well as revenue from the state-based fee on gaming revenues ($530,000 in fiscal 2012). City officials project that their gaming revenues will increase going forward given the opening of table games in March 2012. Revenues from both sources in fiscal 2011 yielded 1.2 times coverage of annual debt service on the bonds ($3.2 million, level throughout the life of the bonds). The city recently sold the naming rights to the arena, which will generate $200,000, annually, for 15 years, and has sold nine suites averaging $65,000 each annually for seven-year terms.

Given the nonessential nature of this project, coupled with the city's plan to fund debt service from sources other than ad valorem revenues, Moody's notes that the city's enterprise risk exposure increased significantly following the issuance of the Series 2012B bonds. We believe that these risks are somewhat offset by the city's historically strong management and officials' plan to include debt service in the city's annual General Fund budget. A decline in Downtown TIF, Hollywood Slots or other revenues could result in negative pressure on the city's rating.

STABLE FINANCIAL POSITION WITH ADEQUATE RESERVE LEVELS

Moody's believes Bangor's financial position will remain satisfactory over the near term as the city is relatively well positioned to manage continued economic weakness. The city has augmented its reserve position in each of the last five fiscal years between fiscal years 2007 and 2011 and reported a modest deficit in fiscal 2012. In fiscal 2012, the city reported a $252,000 deficit due to a planned transfer to the Capital Projects Fund, which decreased total fund balance to $16.8 million (17.1% of revenues). At year-end, unassigned reserves totaled $7.6 million or 7.7% of expenditures, a level in line with the city's formal policy, which calls for the maintenance of unassigned reserves between 5% and 10% of the previous year's expenditures, net of debt service. As part of the policy, the city targets an 8.3% position. Of note, the fiscal 2012 financial statements include a $4.5 million inter-fund payable to the General Fund, $2.7 million of which are associated with two of the city's Enterprise Funds, Bass Park and Park Woods Funds. As in prior years, the city continues to designate $1.9 million of its General Fund balance against a portion of this amount. The city does make annual transfers to the Bass Park fund to subsidize operations. However, officials are optimistic that following the replacement of the Bangor Auditorium/Civic Center at Bass Park, which began in August 2011, the fund will be able to repay the loan and be self-supporting. The city is also pursuing other means to repay or write off the Park Woods Fund receivable. While the city's consistently stable cash position (13.4% of revenues in fiscal 2012) helps mitigate the credit impact of these receivables, we will continue to monitor the condition of the city's Enterprise Funds in future rating reviews, as well as the arena project discussed earlier.

The fiscal 2013 budget represents a 1.9% increase compared to the fiscal 2012 budget, which is largely due to a 1.5% cost-of-living increase for all employees. Budgetary growth is offset by a 0.45 mill rate increase. Officials currently project a modest surplus by year end due to expenditure savings. The fiscal 2014 budget process is underway and will likely result in a tax rate increase due to loss of State and Federal funding and to support cost of living adjustments and health insurance increases. Notably, the city's overall financial flexibility is enhanced by $4.8 million of accumulated excess taxing capacity under the provisions of LD 1, representing the amount of allowable levy growth not utilized but available for future budgets. Further, the city's Other Post Employment Benefits (OPEB) liability is modest, limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees.

CITY SERVES AS THE REGION'S PRIMARY ECONOMIC CENTER

Growth of Bangor's $2.5 billion tax base is expected to remain modest, consistent with regional trends. However, Moody's expects Bangor to remain the primary regional economic center, as retail and trade activities attract customers from much of eastern and northern Maine and the maritime Canadian provinces. Further, the Bangor International Airport and related industrial parks further contribute to the city's importance as a vital trade and distribution center. Reflecting economic conditions, the city's five-year average annual increase in full value has slowed to 0.9% as of 2013 from 6.4% in 2009. Additionally, fiscal 2012 showed the city's first equalized value reduction (0.4%) in recent history, driven largely by a decrease in commercial values; however, values rebounded slightly in fiscal 2013. Prior to recent value losses, tax base growth had been supported by the development of Hollywood Slots Casino and Raceway. The facility consists of over 150 hotel rooms, 16 gaming tables and 923 slot machines. The city's tax base does exhibit an above-average degree of concentration, with the top ten taxpayers representing 14.8% of total assessed valuation. The two largest taxpayers, Hollywood Slots and General Electric (senior unsecured Aa3/stable outlook), which maintains a manufacturing facility in the city, make up 4.4% and 2.5% of the base, respectively. Notably, the gaming facility is part of the Downtown TIF district and the city has not included any revenue received from gaming in its operating budget. Instead, funds have been set aside in a separate Arena Fund, currently dedicated toward the development of a new city arena.

Wealth and income levels, which have fallen over each of the last three censuses, are just below average state medians, and poverty rates exceed the state level (16.6% compared with 11%). However, full value per capita of $74,538 remains strong and unemployment levels of 6.7% for March 2013) are slightly below state levels of 7.6%, reflective of the fundamentally stable economy.

DEBT BURDEN REMAINS ELEVATED

Moody's anticipates that the city's debt burden, which is an elevated 4.7% of full value, will remain above average but affordable, given minimal additional borrowing plans. The debt burden excludes the approximately 18% of city debt that is self-supporting from net revenues of the sewer utility and airport operations. The city issued pension obligation bonds in 2002, $28.8 million of which remain outstanding. When removing this issuance, for increased comparability to other Maine cities, the adjusted debt burden falls to a still-elevated 3.6% of full value. Amortization of principal is below average, with 50.7% retired within 10 years, and debt service represented a manageable 4.9% of revenues in fiscal 2012. Future debt plans include annual borrowings to support the city's capital improvement plan. The city's debt profile consists entirely of fixed rate borrowing and the city has not entered into any derivative agreements. With the issuance of the pension obligation bonds, the city's plan is 100% funded and it has no outstanding pension liability.

WHAT COULD MOVE THE RATING UP

-- Continued improvement in the city's financial position
-- Strengthening of tax base and demographic profile to levels more consistent with higher rating categories

WHAT COULD MOVE THE RATING DOWN

-- Protracted structural budget imbalance
-- Depletion of General Fund balance
-- Deterioration of the city's tax base and demographic profile
-- Significant increase in debt burden

KEY STATISTICS

2010 population: 33,039 (+5% since 2000)
Fiscal 2013 Equalized Valuation: $2.5 billion

Fiscal 2013 Equalized Value per capita: $74,538
2010 Per Capita Income: $24,179 (95.2% of the state, 88.5% of the nation)
2010 Median Family Income: $37,467 (79.8% of the state, 72.2% of the nation)
Net direct debt burden: 4.7%
Adjusted debt burden: 3.6%
Amortization of principal (10 years): 50.7%
FY12 General Fund balance: $16.8 million (17.1% of General Fund revenues)
FY12 Unassigned Fund Balance: $7.6 million (7.7% of General Fund revenues)
Post-sale outstanding long-term general obligation debt: $145 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.
PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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