Moody's Investors Service
Global Credit Research

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MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF BANGOR'S (ME) $6.5 MILLION 2012 GENERAL OBLIGATION REFUNDING BONDS

Aa2 RATING APPLIES TO $97 MILLION IN PARITY BONDS OUTSTANDING, INCLUDING THE CURRENT ISSUE

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

Moody's Rating

Issue	Rating
General Obligation Refunding Bonds 2012	Aa2
Sale Amount $6,525,000	
Expected Sale Date 01/24/12	
Rating Description General Obligation	

Moody's Outlook - NONE

NEW YORK, January 19, 2012 -- Aa2 RATING APPLIES TO $97 MILLION IN PARITY BONDS OUTSTANDING, INCLUDING THE CURRENT ISSUE

Moody's Investors Service has assigned a Aa2 rating to the City of Bangor's (ME) $6.5 million 2012 General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aa2 rating on the city's outstanding long term debt. The bonds are secured by the town's limited property tax pledge, subject to Maine's LD-1 municipal property tax levy limitations.

SUMMARY RATINGS RATIONALE

Assignment of the Aa2 rating incorporates the city's satisfactory financial position with sound reserves and an average debt position. The rating also factors the city's below average wealth levels which 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 will refund the city's Series 2002 bonds for an expected net present value savings of 11.9% of the refunded principal with no extension of maturity. The bonds also contain $1.2 million of new money for various highway and wastewater treatment plant projects and vehicle purchases.

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 median of similarly rated municipalities
- Revenue weakness, including the potential for state aid reductions

DETAILED CREDIT DISCUSSION

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 four fiscal years following a series of reserve reductions between fiscal years 2007 and 2010. The city was able to fully replenish its $1.34 million fund balance appropriated for the school department and add $463,000 to reserves in fiscal 2010 due to controlled expenditures, including a positive $4.5 million school department budget variance. At year-end, undesignated reserves totaled $8.5 million or 8.6% 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 expenditures, net of debt service. As part of the policy, the city targets 8.3%.

The fiscal 2011 budget represents a 0.6% ($560,000) reduction from the fiscal 2010 budget. The city controlled expenditure growth with modest position reductions and collective bargaining agreements which did not include cost of living increases. The city reported a $1.1 million surplus due to school department revenues over budget driven by the receipt of unbudgeted federal stimulus funds, which increased total fund balance to $17 million (16.9% of revenues). Of note, the fiscal 2011 financial statements include a $3.3 million inter-fund payable to the General Fund, $2.4 million of which we consider illiquid. The inter-fund receivables are associated with two of the city's Enterprise Funds, including its 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 two funds to subsidize operations. However, officials are optimistic that following a renovation of the Bangor Civic Center at Bass Park, which began in August 2011, the fund will be able to repay the loan and be self-supporting. While the city's consistently stable cash position (13.2% of revenues) 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.

The fiscal 2012 budget represents a modest 0.5% reduction relative to the prior year's budget driven by a reduction in expenditures in the school department budget following the elimination of stimulus funds. As in prior years, the budget appropriates $1.0 million from School Department restricted fund balance. Notably, the city's overall financial flexibility is enhanced by $2.5 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 southern 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 2.1% from 6.4% in 2009.

Additionally, fiscal 2012 is expected to show the city's first equalized value reduction (0.4%) in recent history, driven largely by a decrease in commercial values. 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 and in excess of 1,000 slot machines. The city's tax base does exhibit an above average degree of concentration with the top ten taxpayers representing 14.7% of total assessed valuation. The two largest taxpayers, Hollywood Slots and General Electric, which maintains a manufacturing facility in the city, make up 4.3% and 2.5%, respectively. Notably, the gaming facility is part of a downtown TIF district and the city has not included any of the 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 $77,655 remains strong and unemployment levels (5.8% for November 2011, compare favorably with the state and national levels of 6.7% and 8.2% respectively) reflect the fundamentally stable economy.

DEBT BURDEN EXPECTED TO REMAIN SLIGHTLY ELEVATED; SIZABLE ARENA BORROWING POSSIBLE

Moody's anticipates that the city's debt burden (2.7% of full value) will remain affordable, given the large portion of self-supporting sewer and airport debt and modest additional borrowing plans. The debt burden excludes the approximately 35% 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, $30.5 million of which remains outstanding. When removing this issuance, for increased comparability to other Maine cities, the adjusted debt burden falls to a more moderate 1.4% of full value. Amortization of principal is below average, with 75.6% retired within 10 years and debt service represented a manageable 4.8% of revenues in fiscal 2011. The city's debt profile consists entirely of fixed rate borrowing and the city has not entered into any derivative agreements.

In addition to a modest amount of future borrowing to support the city's capital improvement plan, Bangor is planning a sizable debt issuance for the construction of a new arena. Voters recently approved the $65 million project, which is anticipated to be financed through the issuance of general obligation bonds with debt service being paid from a combination of gaming and TIF revenues. As previously mentioned, the city has accumulated $8.02 million in its Arena Fund which would be utilized to offset debt service costs. Looking ahead, the impact of the additional debt, and increased enterprise risk from arena operations, will be important considerations in evaluating long-term credit strength.

WHAT COULD MOVE THE RATING UP

-- Continued improvement to 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 (estimated): 33,039 (+5% since 2000)
Fiscal 2012 Equalized Valuation: $2.5 billion
Fiscal 2012 Equalized Value per capita: $74,350
1999 Per Capita Income: $19,925 (98.8% of the state, 89.4% of the nation)
1999 Median Family Income: $42,074 (93.1% of the state, 84% of the nation)
Net direct debt burden: 3.9%
Adjusted debt burden: 2.7%
Amortization of principal (10 years): 75.6%
FY11 General Fund balance: $17 million (16.9% of General Fund revenues)
FY11 Unassigned Fund Balance: $8 million (8% of General Fund revenues)
Post-sale outstanding long-term general obligation debt: $97 million

PRINCIPAL METHODOLOGY

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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