STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Bangor, Maine; General Obligation

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Credit Profile		
US$56.5 mil GO bnds (Bangor Arena Proj) ser 2012 B dtd 08/15/2012 due 07/15/2032		
Long Term Rating	AA/Stable	New
Bangor GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to Bangor, Maine's series 2012B 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;
- Higher but still moderate overall debt burden with an above-average debt retirement schedule, when incorporating the issuance of the series 2012B bonds; and
- Role as a regional economic hub coupled with low unemployment relative to state national averages.

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

Bangor's full faith and credit pledge secures the bonds. The city will use the bond proceeds to retire $30 million of bond anticipation notes and to provide additional funds to construct a new downtown arena and adjoining convention center.

While the city's GO pledge secures the 2012B bonds, officials have identified two dedicated sources to meet its debt service obligations on the bonds, consisting of revenues from the city's arena special revenue fund and incremental property tax revenue from the city's Downtown Development Tax Increment Financing (TIF) District. Both are established revenue streams that have never been used for general operations. However, officials expect that a portion of the operational costs for the new arena and convention center facility will need to be subsidized by the city's general fund. Management represents that it does not expect the annual general fund subsidy for operations to be greater than the subsidy provided for the current auditorium/civic center, which has historically ranged from $250,000 to $500,000 per year.

Overall, in our opinion, the city continues to maintain a strong financial position. For fiscal 2011, the city generated a $1.1 million operating surplus (net of transfers), its fifth consecutive surplus, due to positive variances of revenues of $1.5 million (1.6% of spending) and expenditures of $4.9 million (5% of spending). Property tax collections remain strong at 97.2% for fiscal 2011, up from 96% for fiscal 2010. Total general fund balance increased to $17 million and, with the implementation of Governmental Accounting Standards Board (GASB) 54, the city's financial statements for fiscal 2011 indicate an available fund balance (combined assigned and unassigned fund balance) of $12.5 million, equivalent to 12.6% of expenditures and transfers out, which we consider strong. General fund liquidity is sufficient, with the $13.5 million of cash on the general fund balance sheet at year-end equating to 49 days' expenses. City officials represent that favorable revenue and expenditure variances have contributed to another operating surplus for fiscal 2012 (unaudited, ended June 30) and an addition of $300,000 to fund balance at year end.

The 2013 budget totals $91.2 million, an increase of 1.9% over fiscal 2012, with a total tax levy increase of 2.3%. Bangor's nonschool 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. However, it should also be noted that the city can increase or exceed the levy limit in any budget year by a majority vote of the city council. The city's revenue profile is primarily composed of property tax revenues, which account for about 51% of 2013 budgeted general fund revenues. State aid, reimbursements, and revenue sharing account for 28%.

The city's financial practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). In our framework, an FMA of good indicates that practices exist in most areas although not all may be formalized or regularly monitored by officials. The city's current fund balance policy now sets a target unassigned fund balance of 8.33% of the operating budget, excluding debt service. Reserves currently exceed this target. We understand the city council will soon introduce a charter amendment that would identify a larger target range for unassigned fund balance, with 8.33% designated as the minimum threshold.

The city's overall debt profile has increased but still remains at a level we consider moderate. Net of self-supporting enterprise debt, but including the city's pension obligation bonds and the series 2012B bonds, the debt burden is roughly $3,700 per capita and 4.6% of market value. The city's tax-supported debt service carrying charges have historically been low and are budgeted at approximately 7% for 2013. Amortization of outstanding debt is above average, with 50% of principal scheduled to be retired in 10 years and 80% within 20 years. City officials report tentative plans to issue approximately $4.9 million of bonds in January 2013 to fund various infrastructure improvements.

In July 2012, a citizen petition process was initiated to amend the city charter to require voter approval 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 and certain debt issued to finance general infrastructure would be exempted. The petitioners have until Aug. 15, 2012, to submit signatures of not less than 20% of the total votes cast in the last gubernatorial election; if the petitioners are successful, the proposed amendment would be submitted to the voters. We also understand that the Bangor City Council is considering introducing a separate charter amendment that would propose similar limitations on GO debt issuance. We will continue to monitor these developments, but do not believe this has any near-term impact on the city's credit profile.

Effective April 1, 2001, all new employees participate in the city's defined contribution pension plan. Before that date, the city's 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 plan these bonds fully mature in 2026. The city's total pension contributions for fiscal 2011 were $2.1 million, equivalent to 2% of general fund spending. The city's other postemployment benefits

(OPEB) liability is due to the implicit subsidy of retirees being eligible to enroll in the city's health care plan at 100% of the premium cost to the retiree. As of the October 2011 actuarial valuation study, the city's unfunded OPEB obligation was $4.5 million.

Bangor (estimated population 33,000) is the state's third-largest city and serves as the employment, retail, and commercial hub of an 11-community area. The city is located along Interstate 95 and includes Bangor International Airport. Following a 1.8% reduction in the city's assessed valuation (AV) in fiscal 2011, AV for 2012 and 2013 has been essentially flat; annual AV growth averaged more than 6% from fiscals 2006 to 2010. Value per capita is strong, in our view, at roughly $80,000. The city's unemployment rate has historically tracked below state and national averages; it was 7.2% as of May 2012 (seasonally adjusted), compared with the state and national rates of 7.4% and 8.2%, respectively. 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.

Outlook

The outlook is stable. We do not expect to revise our rating on the city's debt within the two-year outlook period, as we expect the city will continue to make the necessary adjustments to maintain structural balance and strong reserves. While the arena project potentially exposes the city to increased enterprise risk, we do not believe the financing or operation of the new facility will place material pressure on the city's general operating budget in the near to intermediate term. Downward rating pressure could be triggered by deterioration of the city's financial position or the issuance of additional debt that results in a significant increase in the city's debt burden. Upward rating potential would be strengthened by additional growth in reserves, a return to annual tax base growth, higher income indicators, and no further increase in the city's debt burden.

Arena Project

In May 2011, by a three-to-one margin, voters approved the financing and construction of a new 5,800-seat arena and adjoining convention center in downtown Bangor. 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 through the capture of a larger share of the regional entertainment market. The total estimated cost of the project is $68 million, financed by the 2012B bonds as well as an $11 million equity contribution from the city. Construction on the facility began in August 2011.

Officials have identified two sources to pay debt service on the 2012B bonds. First, the city will dedicate incremental property tax revenues from its Downtown Development TIF District. Currently the city is only capturing 75% of the incremental AV in the TIF area, but we understand that, as authorized by the state, officials intend to increase the captured value to 100%. Since its inception in 2006, revenues from the Downtown Development TIF have been used for capital purposes and have never been used for general operations. The city has received in excess of $1.5 million in each of the past three years.

The city also intends to use resources from its arena special revenue fund, which currently receives revenue generated from the downtown Hollywood Casino Hotel and Raceway, operated by Penn National Gaming. The city collects a portion of the net revenues from this facility directly from Penn National as rent (the city owns the harness racing track associated with the facility), as well as a portion of the state tax on slots and, as of March 2012, table games. These revenues have been placed into the arena fund since 2006 and have been amassed to fund the new arena project; they have never been used for general operations. The city has collected in excess of $2.2 million of revenue from the casino and raceway facility in each of the past three years. We also understand that the city intends to deposit into the arena fund future revenues generated from the naming rights of the new arena and convention center, as well as excess incremental property tax revenues from some of the city's other TIF districts, as permitted by state statute.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of July 26, 2012)		
Bangor GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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