

## CREDIT OPINION

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# Bangor (City of) ME

## Update to credit analysis

### Summary

Bangor (Aa2) benefits from a regionally important economy with a significant retail and trade presence in eastern Maine (Aa2 stable). The city is challenged by below average resident wealth and income profiles. The city's financial position is well-managed with historically stable reserve levels. Overall leverage is moderate given manageable pension and OPEB liabilities that offset an elevated debt burden.

### Credit strengths

- » Stable tax base which serves as regional economic center
- » Stable financial position guided by a formal policy
- » Manageable pension and OPEB liabilities

### Credit challenges

- » Moderate revenue raising ability due to state statutes
- » Above average debt burden
- » Below average resident wealth and income levels

### Rating outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Material improvement in liquidity and reserves
- » Strengthening of the tax base and demographic profile
- » Material decline in the debt burden

### Factors that could lead to a downgrade

- » Trend of operating deficits resulting in reserve declines
- » Contraction of local economic activity
- » Significant declines in the tax base or deterioration of the demographic profile
- » Material growth in debt burden

## Key indicators

Exhibit 1

Bangor (City of) ME	2013	2014	2015	2016	2017
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$2,462,000	\$2,464,250	\$2,481,850	\$2,543,700	\$2,553,900
Population	32,900	32,800	32,695	32,491	31,985
Full Value Per Capita	\$74,833	\$75,130	\$75,909	\$78,289	\$79,847
Median Family Income (% of US Median)	78.4%	78.4%	75.2%	75.8%	75.8%
<b>Finances</b>					
Operating Revenue (\$000)	\$97,053	\$100,554	\$104,766	\$107,075	\$108,591
Fund Balance (\$000)	\$11,931	\$13,019	\$14,749	\$17,075	\$18,900
Cash Balance (\$000)	\$8,108	\$12,751	\$11,761	\$12,065	\$18,929
Fund Balance as a % of Revenues	12.3%	12.9%	14.1%	15.9%	17.4%
Cash Balance as a % of Revenues	8.4%	12.7%	11.2%	11.3%	17.4%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$145,581	\$147,232	\$131,819	\$128,071	\$118,520
3-Year Average of Moody's ANPL (\$000)	N/A	\$31,288	\$31,037	\$32,423	\$33,105
Net Direct Debt / Full Value (%)	5.9%	6.0%	5.3%	5.0%	4.6%
Net Direct Debt / Operating Revenues (x)	1.5x	1.5x	1.3x	1.2x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.3%	1.3%	1.3%	1.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.3x	0.3x	0.3x	0.3x

Source: Moody's Investors Service; City audited financial statements

## Profile

Bangor is a city with a population of 33,000 located in eastern Maine, approximately 140 miles northeast of Portland (Aa1 stable).

## Detailed credit considerations

### Economy and Tax Base: Regional economic center experiencing modest growth; Below-average socio-economic indices

Bangor's \$2.6 billion tax base continues to grow at a modest pace, consistent with regional trends. While the city's annual growth in full value has been modest it has also been very steady, growing every year in the last decade except once in 2012. Compound annual growth in full value was 0.8% from 2012 to 2017. Management reports ongoing new residential and commercial development which suggests continued stability. We expect the city will 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 contribute to the city's importance as a vital trade and distribution center.

The tax base is slightly concentrated, with the top ten taxpayers representing 12% of fiscal 2017 total assessed valuation. Two of the city's major employers, University of Maine and Eastern Maine Healthcare Systems, are experiencing some budgetary challenges and therefore not expected to be a source of growth. That said, they will both remain a source of stability for Bangor, given their regional importance.

Wealth and income levels remain below-average and showing declining trends. Median family income is at 77.7% and 83.1% of national and state medians, respectively. Full value per capita is \$79,847. The May 2018 unemployment rate of 3.0% is consistent with the state (3.0%) and national (3.6%) levels.

### Financial Operations and Reserves: Stable financial position supported by conservative budgetary management

Bangor's financial position will remain stable given conservative budgeting and sound reserve levels. This stability and conservative management is a significant strength for the city and supportive of the assigned rating. The available General Fund balance (excludes

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nonspendable and restricted) has remained stable over the past six years, averaging a sound 14.3% of revenues. The city generated a large \$1 million operating surplus in fiscal 2017, due again to strong excise tax receipts. Available fund balance increased to \$18.9 million, or 17.4% of revenues. The majority of this amount, \$12.1 million or 11.2%, remains unassigned.

The city remains in compliance with its formal policy to maintain unassigned reserves between 8.3% and 16.7% of the previous year's expenditures, net of debt service. In addition, the city maintains \$5.6 million of capacity to raise its property tax levy, if necessary, above the limits imposed by Maine's LD-1 property tax limit.

Continuing with the trend of strong management and a stable financial position, city officials indicate fiscal 2018 (June 30th year end) closed with another surplus. The city projects a surplus of around \$500,000, resulting from conservative budgeting of excise taxes.

The fiscal 2019 budget increased by 3.2% over the previous year driven by public safety and education. The budget is balanced with a moderate tax increase of roughly 2.0%. Management does not appropriate reserves to balance budgets. Bangor derives its revenues from property taxes (56.8% of fiscal 2017 revenues) and state aid (28.2%).

#### LIQUIDITY

The city's year-end cash position has been stable for the past several years, and was \$18.9 million, or 17.4% of revenues, in fiscal 2017.

#### Debt and Pensions: Debt burden is elevated but offset by manageable pension and OPEB liabilities

Bangor's net debt burden (5% of full valuation) will remain elevated but affordable given slow principal amortization and modest additional borrowing plans. The debt burden includes \$50.7 million of general obligation bonds issued in July 2012 to fund the construction of an arena and convention center. The bonds are ultimately supported by the city's general obligation pledge, but so far the debt service has been supported through a combination of arena, casino and TIF revenues.

Future debt plans include annual borrowings of approximately \$3 to \$4 million to support the capital improvement plan. Additionally, the city may have to issue \$10 to \$20 million to address a consent decree for its wastewater system that is expected to be supported by increased sewer rates. Given the city's already elevated debt burden, future rating reviews will continue to monitor the health of the various funds and revenue streams that support general obligation debt.

#### DEBT STRUCTURE

All debt is fixed rate and amortization of principal is below-average, with 51.2% repaid within ten years. Debt service accounted for a manageable 5.3% of fiscal 2017 expenditures.

#### DEBT-RELATED DERIVATIVES

Bangor has no derivatives.

#### PENSIONS AND OPEB

The city issued POBs in 2002 to fully fund its initial unfunded actuarial liability to the former Maine State Retirement System. Bangor participates in the Maine Public Employees Retirement Systems Consolidated Plan for Participating Local Governments, a cost-sharing multi-employer defined benefit pension plan.

Moody's adjusted net pension liability (ANPL) is \$37.9 million or a modest 0.35 times operating revenues. Moody's adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

The OPEB liability is limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees. As of June 2015, the total liability is \$6.8 million.

Total fixed costs for fiscal 2017, including debt service, required pension contributions and retiree healthcare payments, represented \$13.5 million, or a below average 12.5% of expenditures.

#### Management and Governance

The management team employs conservative budgeting and financial management as evidenced in a stable financial position, compliance with a formal fund balance policy, and long-term planning for capital expenditures.

Maine Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities major revenue source, property taxes, are subject to a cap, which can be overridden at the local level. The cap is based on statewide personal income growth and local property growth. The cap allows for moderate revenue-raising ability. Taxes raised for school purposes, including school debt service, are not subject to the cap. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maine has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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