Moody's Investors Service
Global Credit Research

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New Issue
March 4, 2014

MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF BANGOR'S (ME) $8.7 MILLION GO BONDS

Affirms $147MM of outstanding parity bonds

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

Moody's Rating

Issue	Rating
2014 Series A General Obligation Bonds	Aa2
Sale Amount $8,669,000	
Expected Sale Date 03/12/14	
Rating Description General Obligation	

Moody's Outlook - NOO

NEW YORK, March 04, 2014 -- Moody's Investors Service has assigned a Aa2 rating to the City of Bangor's (ME) $8.7 million 2014 Series A General Obligation Bonds. Concurrently, Moody's has affirmed the Aa2 rating on $147 million of outstanding general obligation bonds. The bonds are secured by the city's unlimited property tax pledge and are 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 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 will fund various capital projects, including library roof replacement and street and bridge work.

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

DETAILED CREDIT DISCUSSION

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 Casino, 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 Casino, as well as revenue from the state-based fee on gaming revenues. 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 Casino 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. While the city increased reserves in each of the fiscal years between 2007 and 2011, the city reported modest draws on total fund balance in fiscal 2012 and 2013 due to planned transfers to the Capital Projects Fund and the use of excess federal stimulus funds for the school department. In fiscal 2013, the city reported a $1.6 million deficit, which decreased total fund balance to $15.2 million (15.6% of revenues) from $16.8 million (17.7% of revenues). At year-end, unassigned reserves totaled $7.7 million or 8% 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 2013 financial statements include a $6.4 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, the transfer in fiscal 2013 decreased significantly to $26,000 from $430,000 in fiscal 2012 and 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 (averaging 12.3% of revenues over the last five fiscal years) 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 2014 budget represents a 1.8% increase compared to the fiscal 2013 budget, which is largely due to a 1.5% cost-of-living increase for all employees. The budget includes a $1.4 million fund balance appropriation, $1 million of which is for the school department. Budgetary growth, as well as a decline in state revenue sharing, is offset by a 1.25 mill rate increase. Officials do not report any major variances year-to-date. The fiscal 2015 budget process is underway and will likely result in a moderate tax rate to support cost of living adjustments and health insurance increases. Notably, the city's overall financial flexibility is enhanced by $4.1 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 0.7% as of 2014 from 6.4% in 2009. Recent tax base growth had been supported by the development of Hollywood 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 15% of total assessed valuation. The two largest taxpayers, Hollywood Slots and General Electric Company (senior unsecured Aa3/stable outlook), which maintains a manufacturing facility in the city, make up 4.4% and 2.4% 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 state medians. However, full value per capita of $74,758 remains strong and unemployment levels of 4.9% for December 2013 are below state levels of 6.2%, reflective of the fundamentally stable economy.

DEBT BURDEN REMAINS ELEVATED

Moody's anticipates that the city's debt burden, which is an elevated 5.5% of full value, will remain above average but affordable, given minimal additional borrowing plans. The debt burden excludes the approximately 8% of city debt that is self-supporting from net revenues of the sewer utility. While an additional $8.7 million of outstanding debt is related to airport operations, the fund reported less than 1 times debt service coverage in fiscal 2013 and therefore is not backed out. In practice, however, this fund is self-supporting and does not rely on transfers from the General Fund. The city issued pension obligation bonds in 2002, $27.8 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 4.4% of full value. Amortization of principal is below average, with 53% retired within 10 years, and debt service represented a manageable 4.9% of revenues in fiscal 2013. 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

Full Value, Fiscal 2014: $2.5 billion
Full Value Per Capita, Fiscal 2014: $74,758
Median Family Income as % of US Median (2012 American Community Survey): 93.2%
Fund Balance as % of Revenues, Fiscal 2013: 12.3%
5-Year Dollar Change in Fund Balance as % of Revenues: 0.34%
Cash Balance as % of Revenues, Fiscal 2013: 8.4%
5-Year Dollar Change in Cash Balance as % of Revenues: -2.7%
Institutional Framework: "Aa"
5-Year Average Operating Revenues / Operating Expenditures: 1.0x
Net Direct Debt as % of Full Value: 5.5%
Net Direct Debt / Operating Revenues: 1.39x
3-Year Average ANPL as % of Full Value: 0.4%
3-Year Average ANPL / Operating Revenues: 0.09x

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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