MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to the City of Bangor's (ME) $56.5 million 2012 General Obligation Bonds - Series B (Bangor Arena Project)

Global Credit Research - 24 Jul 2012

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

Moody's Rating

ISSUE	RATING
General Obligation Bonds - Series B (Bangor Arena Project)	Aa2
Sale Amount $56,500,000	
Expected Sale Date 07/31/12	
Rating Description General Obligation	

Moody's Outlook

Opinion

NEW YORK, July 24, 2012 --Moody's Investors Service has assigned a Aa2 rating to the City of Bangor's (ME) $56.5 million 2012 General Obligation Bonds - Series B (Bangor Arena Project). The bonds are secured by the city'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 above-average debt position following the current issuance. The rating also factors in 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.

A portion of the current issue will permanently finance the city's outstanding $30 million bond anticipation notes (BANs). The BANs were issued to fund a portion of the construction of a 5,800-seat arena and convention center to replace the Bangor Auditorium/Civic Center. Remaining bond proceeds will be used to complete the arena project. While the bonds are ultimately secured by the city's general obligation pledge, officials expect to use Downtown Development Tax Increment Finance District ("Downtown TIF") revenues and a portion of revenues generated by the Arena Fund, which is comprised of gaming revenues, naming rights and excess Mall TIF revenues, to pay debt service.

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 THE CURRENT BONDS

Although the current issue is ultimately supported by the city's general obligation pledge, the city plans to use revenues from the Downtown TIF, net revenues from Hollywood Slots, a gaming facility operating by Penn National Gaming, Inc. and other revenues generated by the arena. 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 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 rents from Hollywood Slots ($1.7 million in fiscal 2012), as well as revenue from the state based on gaming revenues ($530,000 in fiscal 2012). The city's gaming revenues are projected to 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).

Given the nonessential nature of the current 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 increases significantly following the issuance of the 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 or Hollywood Slots 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. In fiscal 2011 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). At year-end, unassigned reserves totaled $8 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 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 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. While the city's consistently stable cash position (13.5% 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 represented 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 appropriated $1.0 million from the School Department restricted fund balance. Officials project a $700,000 General Fund surplus, $400,000 of which will be used for pre-opening costs of the arena in fiscal 2013. The surplus was driven by public safety expenditures under budget following several retirements, public works expenditures under budget due to a milder than normal winter, and increased revenues from the city's waterfront concert series and afterschool programs. 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. 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 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 0.9% as of 2012 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. 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 7.4% for May 2012) are slightly below state and national levels of 7.5% and 7.9% respectively, reflective of the fundamentally stable economy.

DEBT BURDEN INCREASES SIGNIFICANTLY WITH CURRENT SALE

Moody's anticipates that the city's debt burden, which increases to 4.8% of full value following the current issuance, 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, $30.5 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 64.2% retired within 10 years, and debt service represented a manageable 4.8% of revenues in fiscal 2011. 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.

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: 4.8%

Adjusted debt burden: 3.6%

Amortization of principal (10 years): 64.2%

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: $145.9 million

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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