

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Bar Harbor, ME's \$3M GO Bonds

Global Credit Research - 20 Aug 2015

Affirms Aa2 on \$16.1M of outstanding GO debt

BAR HARBOR (TOWN OF) ME
Cities (including Towns, Villages and Townships)
ME

Moody's Rating

ISSUE	RATING
2015 General Obligation Bonds	Aa2
Sale Amount \$2,970,000	
Expected Sale Date 08/25/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, August 20, 2015 --Moody's Investors Service has assigned a Aa2 rating to the Town of Bar Harbor's (ME) \$3 million 2015 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa2 rating on \$16.1 million of outstanding general obligation debt.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the town's moderately-sized coastal resort tax base, well-managed financial position with sound reserves, and manageable debt burden.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Significant increase in General Fund reserves
- Significant tax base expansion and diversification
- Improvement in the demographic profile to levels more consistent with higher rating categories

WHAT COULD MAKE THE RATING GO DOWN

- Trend of operating deficits resulting in a material decline in reserves
- Significant declines in the tax base or deterioration of the demographic profile
- Significant increase in debt burden

STRENGTHS

- Stable tax base that benefits from institutional presence
- Manageable debt burden
- Modest pension and OPEB liabilities

CHALLENGES

- Moderate revenue raising ability due to property tax cap
- Limited excess levy capacity
- Large tourism component to local economy

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: COASTAL RESORT TAX BASE BENEFITS FROM INSTITUTIONAL STABILITY

Bar Harbor's \$1.4 billion tax base should experience moderate growth over the long-term given its desirable resort location and employment opportunities. Although full value declined a total of 7.1% from 2010 to 2013, reflecting housing value depreciation, values have started to stabilize and increased a modest 0.5% and 1% in fiscal years 2014 and 2015, respectively. The town's substantial full value per capita of \$268,214 reflects the significant presence of second homes (approximately one-third of residences) and a year-round population of 5,235 that swells to approximately 18,000 in the summer and fall. Income levels are enhanced by year-round stable employment opportunities and exceed state and national averages - median family income is 140% and 130% of the state and nation, respectively.

The Jackson Laboratory (A1 stable), a non-profit research center with 1,276 employees, is the town's and Hancock County's (Aa2) top employer. Additional major employers are Mount Desert Island Hospital (560 local employees), the College of the Atlantic (115 employees), and Acadia National Park (85 year-round full-time equivalents). The presence of these institutions provides year-round local economic stability, which is an important credit strength for Bar Harbor.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL POSITION REMAINS SOUND DESPITE FUND BALANCE DRAWS FOR CAPITAL PROJECTS

For the three fiscal years ending in 2015, the town has modestly drawn down fund balance to fund capital projects. Despite the draw downs, the financial position remains healthy and reserve levels remain adequate for the rating category. In addition, the town has a policy of maintaining a working capital reserve equal to 10% of the previous year's revenues, maintained as assigned General Fund balance. The town continues to budget annual transfers of at least \$1.7 million to the capital reserve, providing significant budgetary flexibility. Through this practice, the town has built a \$3.5 million reserve for future capital spending.

Fiscal 2014 audited results reflect a \$210,000 decline in fund balance, which decreased the available General Fund balance slightly to \$3.3 million, or a healthy 17.6% of revenues. Management indicates that fiscal 2015 operations tracked close to budget, but fund balance will decline by approximately \$380,000 due to planned capital projects and to cover a \$147,000 snow and ice deficit. As a result, the town expects available fund balance to fall to approximately 15% of revenues. The fiscal 2016 budget increased 3.2%, mostly due to education costs, new staff, and salary increases. The budget was balanced with a 3% tax levy increase and a \$110,000 fund balance appropriation for capital projects. Management indicates that fiscal 2016 is the last planned year of using fund balance for capital projects and further reviews will focus on management's ability to maintain stable reserve levels.

The town is not reliant on economically sensitive revenues, as property taxes consistently account for over 80% of annual revenues. Current year collections have remained above 96% for the past several years and the town is successful at collecting almost 100% in subsequent years. The town has limited enterprise risk after acquisition of a private water system, though current enterprises are self-supporting through water and sewer system revenues.

Liquidity

The town's fiscal 2014 General Fund cash position was \$8.8 million, or 46.5% of revenues. Of this amount, \$4.6 million is due to the Capital Projects Fund for future projects.

DEBT AND PENSIONS: MANAGEABLE DEBT AND PENSION BURDEN

Bar Harbor's modest overall debt burden (0.8% of full value) will remain manageable given limited future borrowing

plans and favorable amortization of principal. The town's five year million Capital Improvement Plan totals \$12.8 million through 2020. While the majority of projects will be financed pay-as-you-go from the General Fund and reserves in the Capital Projects Fund, \$5.3 million will be financed with future bond proceeds. Projects to be financed with debt include renovations to the transfer station and recycling facility, as well as road construction.

Debt Structure

All debt is fixed rate. Amortization of principal is slightly below average, with 63.3% repaid within ten years, in line with the town's policy to retire at least 60% of outstanding debt within ten years. Fiscal 2014 debt service, net of self-supporting enterprise debt, accounted for a manageable 3% of expenditures.

Debt-Related Derivatives

Bar Harbor has no derivatives.

Pensions and OPEB

The town participates in the Maine Public Employees Retirement System Consolidated Plan for Participating Districts, a multi-employer defined benefit retirement plan sponsored by the State of Maine (Aa2 stable). The town funds its annual required contribution, which was less than 1% of 2014 expenditures. The town's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$4.1 million, or a manageable 0.23 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plans in proportion to its contributions to the plans. The town's unfunded OPEB liability is a modest \$449,000.

MANAGEMENT AND GOVERNANCE

Maine cities and towns have an institutional framework score of "Aa", or strong. Revenues are generally predictable as cities and towns rely mostly on property tax revenue to fund operations. Property taxes are subject to the state property tax cap known as LD 1, but cities and towns have the ability to exceed the cap by a majority vote of the legislative body or voter approval. Expenditures are stable and predictable and can be cut as needed.

KEY STATISTICS

Fiscal 2015 Full Valuation: \$1.4 billion

Fiscal 2015 Full Valuation per Capita: \$268,214

Median Family Income as % of U.S.: 129.5%

Fiscal 2014 Available Operating Fund Balance as % of Revenues: 17.6%

5-Year Dollar Change in Available General Fund Balance as % of Revenues: 5.8%

Fiscal 2014 Cash Balance as % of Revenues: 46.5%

5-Year Dollar Change in Cash Balance as % of Revenues: 21.8%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of Full Value: 0.8%

Net Direct Debt / Operating Revenues: 0.6x

3-Year Average ANPL as % of Full Value: 0.3%

3-Year Average ANPL / Operating Revenues: 0.2x

OBLIGOR PROFILE

Bar Harbor has a year-round population of 5,200 and is located on the coast of Maine in the southern section of

the County of Hancock (Aa2), approximately 45 miles southeast of the City of Bangor (Aa2).

LEGAL SECURITY

Debt service on the bonds is secured by the town's general obligation limited tax pledge as debt service is subject to the state's property tax limitation known as LD-1.

USE OF PROCEEDS

Bond proceeds in the amount of \$2.1 million will finance water main improvements and renovations to the public safety building. The remaining proceeds will refund the outstanding Series 2005 bonds for estimated NPV savings of \$76,000, equal to 8.7% of refunded principal, with no extension of final maturity.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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