

## CREDIT OPINION

27 October 2017

New Issue

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## Bar Harbor, ME

New Issue – Moody's assigns Aa2 to Bar Harbor, ME's GO Bonds

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Town of Bar Harbor, ME's \$3.1 million 2017 General Obligation Bonds. Concurrently, Moody's maintains the Aa2 rating on \$16.6 million of outstanding general obligation debt and the underlying issuer rating. The issuer rating is equivalent to the General Obligation Unlimited Tax (GOULT) rating we would assign to GOULT debt of the issuer; the limited tax rating is at the same level.

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

### Credit Strengths

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

### Credit Challenges

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

### Rating Outlook

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

### Factors that Could Lead to an Upgrade

- » 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

### Factors that Could Lead to a Downgrade

- » 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
- » Potential credit risk associated with the purchase and renovations to an idle Ferry Terminal

## Key Indicators

Exhibit 1

Bar Harbor (Town of) ME	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 1,389,150	\$ 1,383,750	\$ 1,390,700	\$ 1,404,100	\$ 1,428,800
Full Value Per Capita	\$ 265,612	\$ 263,321	\$ 263,940	\$ 265,125	\$ 272,932
Median Family Income (% of USMedian)	121.7%	121.6%	111.7%	104.1%	104.1%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 17,745	\$ 18,135	\$ 18,594	\$ 19,152	\$ 19,780
Fund Balance as a % of Revenues	19.3%	19.2%	17.8%	14.6%	15.4%
Cash Balance as a % of Revenues	47.4%	45.6%	47.2%	52.9%	43.7%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 4,709	\$ 11,709	\$ 7,311	\$ 11,047	\$ 11,722
Net Direct Debt / Operating Revenues (x)	0.3x	0.6x	0.4x	0.6x	0.6x
Net Direct Debt / Full Value (%)	0.3%	0.8%	0.5%	0.8%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.4x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.5%	0.6%	0.6%

Source: Moody's Investors Service; Bar Harbor's audited financial statements

## Detailed Rating Considerations

### Economy and Tax Base: Coastal Resort Tax Base Benefits from Institutional Stability

Bar Harbor's \$1.5 billion tax base should experience moderate growth over the long-term given its desirable resort location and employment opportunities. The town's full value has experienced four years of consecutive growth and most recently increased 4.5% in fiscal 2017. The five year compound average annual growth is more modest at 1.5%. The town's substantial full value per capita of \$272,932 reflects the significant presence of second homes (approximately one-third of residences) and a year-round population of 5,296 that swells to approximately 18,000 in the summer and fall. Income levels are enhanced by year-round stable employment opportunities and are in line with state and national averages. Median family income is 110.3% and 104.1% of the state and nation, respectively.

The Jackson Laboratory (A1 stable), a non-profit research center with 1,346 employees, is the town's and Hancock County's (Aa2) top employer. Additional major employers are Mount Desert Island Hospital (512 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

### Financial Operations and Reserves: Financial Position Remains Stable; Reserve Levels will be Critical Factor in Future Reviews

The town's financial position will remain stable given conservative management and commitment to maintain adequate reserve levels. Over the last five years (2012-2016) available fund balance has averaged around \$3.2 million or a below average but solid 17.3% of revenues. These levels are despite management's annual transfers of about \$1.7 million to fund a capital reserve. More recently, in fiscal 2016, the town had a small surplus that brought available fund balance to \$3 million or 15.4% of revenues. The surplus of \$255,000 was driven by more aggressive arrears tax collection policy, positive budgetary variances in auto excise taxes and lower health insurance costs. Given the town's below average fund balance levels, future reviews will focus on management's ability to maintain stable reserves.

While it is currently unclear how the town's general fund closed in fiscal 2017 (unaudited, June 30th year-end), management believes its operations excluding education, had another small surplus. The surplus was supported by greater than expected permitting and excise revenues as well as lower wages (due to temporary staff shortages).

The fiscal 2018 budget increased 3.5% while the property tax levy increased 3.1%. Management again budgeted to transfer \$1.7 million for capital improvements. Positively, the town is not reliant on economically sensitive revenues, as property taxes consistently account for over 80% of annual revenues.

#### LIQUIDITY

The town's fiscal 2016 general fund cash position was \$8.6 million, or a strong 43.7% of revenues. When netting out for inter-fund payables/receivables this declines to a solid \$4.5 million or 22.9% of revenues.

### Debt and Pensions: Manageable Debt and Pensions Burdens; Potential for a Significant Increase

Bar Harbor's modest overall debt burden (0.9% of full value and 0.69 times revenues) is manageable but has the potential to increase significantly if it decides to purchase and operate an idle Ferry Terminal. The purchase of the Ferry Terminal itself would be modest (approximately \$3.5 million) but could require significant capital outlays depending on the town's ultimate plans for the terminal. The town has until June 2018 to decide on the purchase and receive voter approval for funding. The level of capital spending needed will be a critical factor to the town's credit profile and therefore future reviews.

Total fixed costs for fiscal 2016, including debt service, pension and other post-employment (OPEB) contributions represented \$1 million or a modest 5.3% of expenditures.

#### DEBT STRUCTURE

All debt is fixed rate. Amortization of principal is slightly below average, with 65% repaid within ten years. Fiscal 2016 debt service, net of enterprise debt, accounted for a manageable 4.5% of expenditures in 2016.

#### 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). Moody's adjusted net pension liability (ANPL) is \$5.9 million or a below-average 0.30 times operating revenues. Moody's adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

Additionally, the town's unfunded OPEB liability is a modest \$449,000.

### 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. The town's fund balance policy is to maintain a working capital reserve equal to 10% of the previous year's revenues, maintained as assigned general fund balance.

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.

### Legal Security

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

### Use of Proceeds

The bond proceeds will be primarily used to finance renovations to the town's transfer station and recycling facility.

### 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).

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

### Ratings

Exhibit 2

#### Bar Harbor (Town of) ME

Issue	Rating
2017 General Obligation Bonds	Aa2
Rating Type	Underlying LT
Sale Amount	\$3,070,000
Expected Sale Date	10/31/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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