

RatingsDirect®

Summary:

Bar Harbor, Maine; General Obligation

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Credit Profile

US\$2.875 mil Go bnds ser 2019A due 10/15/2038

Long Term Rating AAA/Stable New

US\$1.225 mil Go bnds (fed taxable) ser 2019B due 10/15/2038

Long Term Rating AAA/Stable New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Bar Harbor, Maine's series 2019A and 2019B general obligation (GO) bonds and affirmed its 'AAA' rating on the town's outstanding GO debt. The outlook is stable.

We rate Bar Harbor higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, due to its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2016, local property taxes generated 82% of general fund revenue, demonstrating a lack of dependence on central government revenue. (See , " published Nov. 19, 2013, on RatingsDirect.)

The town's full-faith-and-credit pledge secures the bonds. Although Bar Harbor is not restricted to a particular revenue source, it has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite limitations imposed by the state-levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit.

We understand that proceeds from the tax-exempt 2019A bonds will be used to fund new electronic parking meters and the acquisition of an existing ferry terminal. The taxable 2019B bonds will also provide funding for the ferry terminal acquisition, but are attributable to the portion of the terminal to be used by a private operating entity.

Bar Harbor is perhaps best known for being home to Acadia National Park. The town is a seasonal tourist destination due to the park and its coastline and seashore, with high-end hotels throughout. Management continues to produce annual operating surpluses, resulting in maintenance of high reserve levels. We expect the strength of the economy and management's careful budget development and monitoring will lead to continued positive financial performance and maintenance of the 'AAA' rating.

The long-term rating reflects our view of the following factors, including Bar Harbor's:

- Very strong economy, with a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the

total governmental fund level in fiscal 2018;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.9% of total governmental fund expenditures and 9.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 3.6% of expenditures and net direct debt that is 78.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Bar Harbor's economy very strong. The town, with an estimated population of 5,390, is in Hancock County. It benefits, in our view, from a stabilizing institutional influence. It has a projected per capita effective buying income of 111% of the national level and per capita market value of \$303,071. Overall, market value grew by 3.6% over the past year to \$1.6 billion in 2019. The county unemployment rate was 3.8% in 2017.

Bar Harbor benefits from considerable seasonable tourism, supported by its status as the gateway to Acadia National Park, which receives about 3.5 million visits per year. While not directly linked to a broad and diverse economy, the town benefits from the stabilizing presence of Jackson Laboratory, which has nearly 1,400 employees and is the county's leading employer. The laboratory is a nonprofit biomedical research institution headquartered in the town since 1929 and hosts Ph.D.s, M.D.s, and D.V.M.s researching the genetic basis of cancer, heart disease, and Alzheimer's, among other diseases and conditions. The town also is home to the Mount Desert Island Biological Laboratory (78 employees), a lab focused on therapies to regenerate human tissue, as well as the College of the Atlantic (35 faculty, 350 students). Other leading employers include Mount Desert Island Hospital (538 employees) and Acadia National Park (245). We expect that the acquisition of the ferry terminal and subsequent redevelopment will further enhance the town's waterfront, which is a centerpiece for tourism in Bar Harbor.

Given the underlying strength of the town's economy, along with management's initiatives to expand tourism and support existing non-profits and businesses, we expect that Bar Harbor's economy will remain very strong throughout the outlook period.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Bar Harbor maintains a five-year capital improvement plan that it updates annually, including project funding sources. The town uses at least three years of historical trend analysis when developing budgetary revenue and expenditure assumptions. Management provides monthly reports on budget-to-actual results, mandated by the town's charter, to the town council. Formal amendments are possible through the town council. It has formally adopted policies that manage investments and debt issuance. Bar Harbor maintains a fund balance policy of sustaining at least 10% of the previous fiscal year's total general fund revenue, and it is currently complying with this policy. The town does not

currently have any formal long-term financial planning policies.

Strong budgetary performance

Bar Harbor's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.3% of expenditures, and surplus results across all governmental funds of 2.2% in fiscal 2018. General fund operating results of the town have been stable over the last three years, with results of 1.7% in 2017 and 1.7% in 2016.

We adjusted fiscal 2018 results to account for recurring transfers into the capital improvement projects fund, as well as for the expenditure of bond proceeds. Over the past several years, management has consistently produced operating surpluses, which it attributes primarily to careful budgeting and monitoring throughout the year. In fiscal years 2017 and 2018, management notes that ambulance revenues were somewhat under budget, but were offset by expenditures coming in under budget and auto excise taxes and recycling fees coming in over budget.

The fiscal 2019 adopted operating budget is an approximately 5.7% increase over fiscal 2018. Management attributes the increase primarily to school department capital projects. It reports that wastewater enterprise fund revenues are slightly under budget, due to a faulty meter at a large ratepayer, but is expecting no major shortfalls. The operating budget is tracking on budget and management expects similar results at year-end to the previous few years. For 2020, the town added a new revenue source (parking meters), which management expects to generate at least \$500,000 annually. While budget development is still underway, management does not expect major expenditure changes. We note that the town's labor contracts are settled until 2020 or 2021.

Bar Harbor incorporates the majority of its capital improvement projects into the tax levy and annual budget. It budgets for an annual budgetary fund balance drawdown for capital improvement and from school department reserves, but on a GAAP basis, the town has consistently produced surplus results. In fiscal 2018 audited results, local taxes accounted for 82% of general fund revenues, while departmental revenues were 9%. Intergovernmental revenues in fiscal 2018 were about 6% of general fund revenues. We believe the predominance of locally derived revenues from property taxes provides stability and predictability. Given management's history of producing GAAP surpluses, along with a policy of maintaining reserves, we expect budgetary performance will remain strong.

Very strong budgetary flexibility

Bar Harbor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 17% of operating expenditures, or \$3.7 million.

Bar Harbor's available fund balance has continued to strengthen over the past several years. While the town budgets for minor reserve drawdowns, we expect it will continue to produce GAAP surpluses and will maintain very strong reserves. We expect its budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Bar Harbor's liquidity is very strong, with total government available cash at 34.9% of total governmental fund expenditures and 9.6x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

Bar Harbor's issuance of GO bonds within the past 20 years demonstrates its strong external liquidity. The town does

not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. We do not anticipate and reduction in cash reserves and expect the town's liquidity to remain very strong.

Strong debt and contingent liability profile

In our view, Bar Harbor's debt and contingent liability profile is strong. Total governmental fund debt service is 3.6% of total governmental fund expenditures, and net direct debt is 78.4% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, which is, in our view, a positive credit factor.

Following this issuance, Bar Harbor will have approximately \$22.8 million in outstanding GO debt and capital leases, approximately \$6.6 million of which we consider self-supporting debt backed by user charges from the water and wastewater enterprise funds. Due to a slight decline in coverage within the wastewater fund in fiscal 2018, we no longer view the wastewater debt as fully self-supported. However, we understand that the town is addressing this and we expect the fund will return to full self-support. Additionally, as currently scheduled, 64.4% of the town's debt will be repaid within ten years, which is slightly below the 65% threshold for what we consider rapid. As the town has no plans to issue new-money debt within the next few years, we expect our view of the debt profile will improve concurrent with principle repayment exceeding 65% in ten years; we calculate that will happen as soon as 2020. We understand that the town is in early discussions regarding capital investments in the town's school infrastructure. While it is too early to fully incorporate potential school debt issuances into our analysis, as the town has not decided which of several options to pursue, depending on final financing and structure, it could have a negative effect on our view of the debt profile. However, we do not anticipate this would have a significant effect on the town's overall credit quality.

Bar Harbor's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 1.8% of total governmental fund expenditures in 2018. The town made its full annual required pension contribution in 2018.

The town participates in the Consolidated Plan for Participating Local Districts (PLD) and the State Employment Teacher Plan (SET), both administered by the Maine Public Employees Retirement System. Both PLD and SET are cost-sharing, multiple-employer, public employee retirement systems. It contributes its full actuarially determined contribution annually and expects to continue doing so. As of June 30, 2018, the town's proportionate share of the SET net pension liability was \$103,174 and of the PLD plan it was \$1.96 million. SET and PLD both use a 6.875% discount rate, which is below average. PLD, the larger of the two plans, is 91% funded, while SET is 81% funded.

For fiscal 2018, the town implemented GASB Statement No. 75. The only OPEBs provided by the town are calculated as an implicit rate subsidy for retirees who access the town's group health plan. Retirees pay 100% of the premium. As of June 30, 2018, the town reported a net OPEB liability of approximately \$430,000. Additionally, it recognized a net OPEB liability for costs associated with retired school department personnel totaling nearly \$44,000. This plan has a special funding situation and the state makes all payments on behalf of the town for participating retired teachers.

Given the funding status of the pension plans, combined with low net OPEB liabilities and retirement carrying charges, we do not expect these liabilities to pressure the town's budget.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Bar Harbor will continue to produce at least balanced operating results, supported by very strong budgetary flexibility and good management. The very strong economy, with a stabilizing institution, provides additional rating stability. If the town's debt ratios were to worsen to levels we consider adequate and if budgetary performance were to weaken, leading to deterioration of available reserves, we could lower the rating. Currently, we do not expect to change the rating within the outlook's two-year period.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of March 15, 2019)		
Bar Harbor Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bar Harbor Twn GO bnds due 10/15/2035		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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