

## CREDIT OPINION

13 March 2020

 Rate this Research

### Contacts

Christopher Yared +1.617.535.7693  
Associate Lead Analyst  
christopher.yared@moodys.com

Nicholas Lehman +1.617.535.7694  
VP-Senior Analyst  
nicholas.lehman@moodys.com

### CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

## Bar Harbor (Town of) ME

### Update to credit analysis

#### Summary

Bar Harbor, ME (Aa2) benefits from a moderately sized coastal resort tax base, well-managed financial position with sound reserves, manageable debt burden and low pension and OPEB liabilities.

#### 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

Moody's does not usually assign outlooks 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

## Key indicators

Exhibit 1

Bar Harbor (Town of) ME	2015	2016	2017	2018	2019
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$1,404,100	\$1,428,800	\$1,493,600	\$1,577,200	\$1,633,550
Population	5,296	5,296	5,356	5,425	5,425
Full Value Per Capita	\$265,125	\$269,789	\$278,865	\$290,728	\$301,115
Median Family Income (% of US Median)	104.10%	104.10%	119.30%	113.30%	113.30%
<b>Finances</b>					
Operating Revenue (\$000)	\$19,152	\$19,780	\$20,334	\$21,313	\$23,087
Fund Balance (\$000)	\$2,796	\$3,051	\$3,357	\$3,652	\$4,117
Cash Balance (\$000)	\$10,132	\$8,648	\$8,980	\$10,227	\$10,561
Fund Balance as a % of Revenues	14.60%	15.40%	16.50%	17.10%	17.80%
Cash Balance as a % of Revenues	52.90%	43.70%	44.20%	48.00%	45.70%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$11,047	\$11,722	\$10,689	\$12,651	\$15,936
3-Year Average of Moody's ANPL (\$000)	\$7,874	\$8,372	\$6,876	\$8,032	\$8,249
Net Direct Debt / Full Value (%)	0.80%	0.80%	0.70%	0.80%	1.00%
Net Direct Debt / Operating Revenues (x)	0.6x	0.6x	0.5x	0.6x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.60%	0.60%	0.50%	0.50%	0.50%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.4x	0.4x	0.3x	0.4x	0.4x

Source: Moody's Investors Service and issuer's audited financial statements

## Profile

Bar Harbor is located on the coast of Maine approximately 45 miles southeast of Bangor, ME (Aa2). The year-round population of 5,200 swells to over 18,000 during the summer months.

## Detailed credit considerations

### Economy and Tax Base: Coastal resort tax base benefits from institutional stability

Bar Harbor's \$1.7 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 six years of consecutive growth and most recently increased 4.9% in 2020. The five year compound average annual growth is strong at 4.1%. The town's substantial full value per capita of \$327,230 reflects the significant presence of second homes (approximately one-third of residences) and a year-round population of 5,200 that swells to approximately 18,000 in the summer and fall. In the near term, housing construction and redevelopment projects are expected to provide a boost to assessed values.

The Jackson Laboratory (A1 stable), a non-profit research center with almost 1,400 employees, is the town's largest employer. Additional major employers are Mount Desert Island Hospital (538 employees) and the National Park Service (245 employees). The presence of these institutions provides year-round local economic stability, which is an important credit strength for Bar Harbor given its large tourist population.

The recent spread of COVID-19, a novel coronavirus, could have temporary, but severe impacts on economies, like Bar Harbor, which rely on tourism. Fortunately for the town, only 8% of the town's 3 million annual tourists arrive via cruise ships, with the remaining 92% traveling by land through Maine.

Income levels are enhanced by year-round stable employment opportunities and are in line with state and national averages. Median family income represents 126% of state and 119% of US medians. Median home value is even stronger at 176% of state and 164% of US medians.

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

The town's financial position will remain stable given conservative management and commitment to maintain adequate reserve levels. Fiscal 2019 audited results reflect a \$831,000 surplus driven by conservative budgeting and stronger than expected excise tax revenues. The surplus increased available fund balance to \$4.1 million or 17.8% of revenues. Positively, the town derives a large majority of its revenues from property taxes, which contributed 80% of fiscal 2019 revenues. The town's largest expenditures are education at 30% of the budget, assessments at 17%, and public safety at 14%.

Eight months into fiscal 2020, management is anticipating another surplus at year end. The fiscal 2020 budget increased by 3.6% from the prior year. To balance the increase, the tax levy increased by 2.7% and management appropriated \$55,000 of fund balance. The town is benefitting from its first full year of parking meter revenues, which so far tally \$1.7 million, well above the original budget of \$500,000. Management expects to use that surplus to fund various capital improvement projects.

While the fiscal 2021 budget is still under construction, management expects an increase of about 3.5% to be funded with a proposed tax levy increase of 1.5% and another \$55,000 of appropriated fund balance.

### LIQUIDITY

Cash and investments at the end of fiscal 2019 represented \$10.6 million or 45.7% of revenues.

### Debt and Pensions: New debt projects will generate additional revenue sources; manageable pension burdens

Bar Harbor's modest overall debt burden at 0.9% of full value is manageable but has the potential to increase significantly as the town considers building or renovating an elementary school. Those plans are still preliminary, however, and management does not expect to issue the debt until authorized.

### DEBT STRUCTURE

The entire debt portfolio is fixed rate with 71% of principal retired in ten years. Fiscal 2019 debt service represented \$1.5 million or 6.4% of revenues.

### DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or derivative agreements.

### PENSIONS AND OPEB

While the town's unfunded pension and OPEB liabilities are smaller than its debt burden today, they represent a potential future credit challenge. The town participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis. The table below summarizes the town's 2019 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

	Amount (\$ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	23,087		
Reported Unfunded Pension Liability	1,366	5.92%	6.75%
Moody's Adjusted Net Pension Liability	6,583	28.51%	4.14%
Reported Net OPEB Liability	1,323	5.73%	-
Moody's Adjusted Net OPEB Liability	1,383	5.99%	-
Pension Contribution	426	1.84%	-
Pension Tread Water Gap [1]	(104)	-0.45%	-
OPEB Contribution	38	0.16%	-
Net Direct Debt	15,936	69.03%	-
Debt Service	1,480	6.41%	-
Total Fixed Costs	1,944	8.42%	-

[1] A negative pension tread water gap reflects pension contribution in excess of the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A positive tread water gap reflects the opposite.

Source: Moody's Investors Service and issuer's audited financial statements

Favorably, the town's 2019 pension contributions exceeded tread water, the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the town participates experience returns on assets that fall short of their assumptions, the town's required pension contribution will increase.

Fiscal 2019 fixed costs, comprised of pensions, OPEB and debt service, represented a low 8.4% of operating revenues. However, return on assets in the state run pension plans and future escalation of OPEB costs could materially affect fixed costs going forward.

## ESG Considerations

### Environmental considerations

There are no major environmental concerns. The town benefits from having most of its buildings above FEMA flood levels and the island itself being made of bedrock.

### Social considerations

There are no major social concerns.

### Management and Governance considerations

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 towns and cities have an Institutional Framework score of "Aa," which is strong. The sector's major revenue source of 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 less than 25% of expenditures. Fixed costs are driven mainly by debt service. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

## Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

## Exhibit 3

Bar Harbor (Town of) ME		
Scorecard Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	\$1,713,050	Aa
Full Value Per Capita	\$315,770	Aaa
Median Family Income (% of US Median)	113.3%	Aa
Notching Factors:[2]		
Other Analyst Adjustment to Economy/Taxbase Factor:		Down
Finances (30%)		
Fund Balance as a % of Revenues	17.8%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	3.5%	A
Cash Balance as a % of Revenues	45.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	7.7%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.9%	Aa
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.5%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.4x	Aaa
		Scorecard-Indicated Outcome
		Assigned Rating
		Aa2
		Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Source: US Census Bureau, Moody's Investors Service

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1217562

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454