MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Bar Harbor, ME's $2.4M Ser. 2014 GO Bonds

Global Credit Research - 30 Jul 2014

Affirms Aa2 affecting $12.8M of GO debt outstanding

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

Moody's Rating

ISSUE	RATING
2014 General Obligation Bonds	Aa2
Sale Amount $2,442,000	
Expected Sale Date 08/05/14	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, July 30, 2014 --Moody's Investors Service has assigned a Aa2 rating to the Town of Bar Harbor's (ME) $2.4 million 2014 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa2 rating assigned to $12.8 million of outstanding parity bonds. The bonds are secured by the town's unlimited property tax pledge, subject to Maine's LD-1 municipal property tax levy limitations. Bond proceeds will finance renovations to the town office building and the purchase of new signage for downtown.

SUMMARY RATINGS RATIONALE

The Aa2 rating reflects the town's sound financial position characterized by sizable transfers for capital spending, moderately-sized coastal resort tax base, and manageable debt burden.

STRENGTHS

- Stable tax base that benefits from institutional presence

- Stable reserve position supported by a formal fund balance policy

- Modest debt profile

CHALLENGES

- Large tourism component to local economy

- Below average rate of amortization

DETAILED CREDIT DISCUSSION

STABLE FINANCIAL POSITION WITH ADDITIONAL FLEXIBILITY IN CAPITAL RESERVES

Bar Harbor's financial position will remain healthy given its sound fiscal policies as well as the significant financial flexibility provided by its capital reserve. The fiscal 2013 General Fund balance equaled $3.7 million, a slight $89,000 decrease from fiscal 2012 but a still-sound 19.9% of General Fund revenues. The town has a policy of maintaining a working capital reserve, equal to 10% of the previous year's revenues, which has historically been met ($1.7 million in fiscal 2013) and is maintained in assigned fund balance. The town continues to budget annual transfers of at least $1.5 million to the capital reserve, providing significant budgetary flexibility. Through this practice, the town has built a $4.5 million reserve for future capital spending. The town also maintains a modest margin of accumulated excess taxing capacity under the provisions of LD 1 ($432,000 as of fiscal 2015), representing the amount of allowable levy growth not utilized but available for future budgets. Management reports that operations in fiscal 2014 (June 30 year end) were balanced, with expenditure savings offsetting negative variances in three revenue line items including ambulance fees, recycling fees and interest earnings. The savings, however, were not enough to replenish the fund balance appropriation so total fund balance is expected to decline by approximately $227,000. The adopted fiscal 2015 budget represents a 2.66% spending increase relative to 2014 and is balanced with a 1.2% tax levy increase and a $265,000 appropriation of fund balance, most of which will be used for capital improvements.

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 around 96% for the past several years and the town is successful at collecting almost 100% in subsequent years. The town's largest expenditure is education (45.8% of 2013 expenditures), followed by general government (13.6%) and public safety (13.1%) costs. The town has limited enterprise risk after acquisition of a private water system; current enterprises are self-supporting through water and sewer system revenues. Moody's expects the town to continue to manage its financial position in compliance with its financial policies, with balanced annual operations and healthy reserve levels.

COASTAL TAX BASE BENEFITS FROM INSTITUTIONAL STABILITY

Bar Harbor's $1.4 billion tax base should experience long-term growth given its desirable resort location and employment opportunities. The town's full value has declined at a modest 1.2% compound annual rate over the last five years (2009 - 2014), reflecting property value declines during the national recession. The town's substantial full value per capita of $265,654 reflects its appeal as a resort community and preponderance of second homes (approximately one-third of residences). Income levels are enhanced by year-round stable employment opportunities and exceed state and national averages - median family and per capita incomes are 130% of the nation. The town's population of 5,235 increases to approximately 18,000 in the summer. The Jackson Laboratory (A1 stable), a non-profit research center with 1,254 employees, is the town's top employer. Additional major employers are Mount Desert Island Hospital (565 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.

AFFORDABLE DEBT BURDEN WITH MANAGEABLE FUTURE BORROWING PLANS

Bar Harbor's modest overall debt burden (0.8% of full value) will remain manageable given limited future borrowing plans and average amortization of principal (63.7% within ten years), which is in line with the town's policy to retire debt at a pace of at least 60% within ten years. The town does not have any near-term borrowing plans as the five year $9.5 million Capital Improvement Plan will be funded primarily from pay-as-you-go General Fund revenues. Ongoing roadwork ($7 million) claims the majority of the plan, and other large projects include school ($758,000) and fire department ($723,000) upgrades. The town has no variable rate debt outstanding and has not entered into any derivative agreements.

Over the medium term, the town may issue approximately $2.7 million in general obligation bonds, though the debt is expected to be self-supporting through water usage fees. The borrowing will depend on the State Department of Transportation's decision to begin major road improvements on State Route 3. The state is currently conducting engineering studies, and if the project is approved (a decision is expected in Spring 2015), then the town would issue the debt to finance the costs of relocating and upgrading water mains located on the road, if necessary.

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 (rated Aa2 stable). The town funds its annual required contribution, which was less than 1% of 2013 expenditures. The town's teachers participate in the Maine Public Employees Retirement System's Teacher Plan, which is administered at the state level. Beginning in fiscal 2014, the town is responsible for approximately half of the normal cost of the teachers' plan. The town contributed $77,000 in fiscal 2014 and expects to contribute the same amount in fiscal 2015. This additional contribution is not expected to pressure the town's financial position over the near term. The town's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $4.5 million, or a manageable 0.25 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.

WHAT COULD MAKE THE RATING GO UP

- Significant tax base expansion and diversification

- Improvement in the demographic profile to levels more consistent with higher rating categories

- Significant increase in unassigned General Fund reserves

WHAT COULD MAKE THE RATING GO DOWN

- Trend of operating deficits resulting in a material decline in reserves

- Declines in the tax base or deterioration of the demographic profile

- Significant increase in debt burden

KEY STATISTICS

2014 Full Value: $1.4 billion

2014 Full Value Per Capita: $265,654

Median Family Income as % of US: 129.5%

Fiscal 2013 Available General Fund balance as a % of Revenues: 18.9%

5-Year Dollar Change in Fund Balance as % of Revenues: 7.9%

Fiscal 2013 Cash Balance as % of Revenues: 44.98%

5-Year Dollar Change in Cash Balance as % of Revenues: 15.4%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.0%

Net Direct Debt as a % of Full Value: 0.8%

Net Direct Debt / Operating Revenues: 0.6x

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

3-Year Average of Moody's ANPL / Operating Revenues: 0.3x

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.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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