

# RatingsDirect®

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## Summary:

# Bar Harbor, Maine; General Obligation

### **Primary Credit Analyst:**

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

### **Secondary Contact:**

Apple Lo, Boston (1) 617-530-8316; apple.lo@standardandpoors.com

## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

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### Credit Profile

US\$2.442 mil 2014 GO bnds dtd 08/15/2014 due 10/15/2034

*Long Term Rating* AAA/Stable New

Bar Harbor Twn GO

*Long Term Rating* AAA/Stable Affirmed

#### **Bar Harbor Twn GO bnds**

*Unenhanced Rating* AAA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Bar Harbor, Maine's series 2014 general obligation (GO), bonds and affirmed its 'AAA' rating on the town's existing GO debt, based on Standard & Poor's local GO criteria, published Sept. 12, 2013. The outlook on all the ratings is stable.

The town's full-faith-and-credit pledge secures the bonds. Officials intend to use bond proceeds for an extensive renovation of the town offices and to install new signage downtown.

The rating reflects our opinion of Bar Harbor's:

- Strong economy, albeit a seasonal, tourism-based economy, but with high per capita wealth indicators;
- Very strong budgetary flexibility, with fiscal 2013 audited available reserves in excess of 15% of expenditures;
- Adequate budgetary performance in 2013, and a very stable revenue profile that is independent from state and federal revenues;
- Strong management conditions, with "good" financial management practices under our Financial Management Assessment (FMA) methodology;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures; and
- Very strong debt and contingent liabilities profile, bolstered by low debt-to-market value ratios and aggressive amortization.

### **Strong economy**

Bar Harbor is a small tourist town on the coast of Maine, and a gateway to the popular Acadia National Park, which ranks ninth among national parks, with 2.4 million visitors annually. Bar Harbor's economy is tied closely to seasonal tourism, with a thriving accommodations industry served also by a steady supply of cruise ships.

While not directly linked to a broad and diverse metropolitan area, the local economy is enhanced by the presence of Jackson Laboratory, a biomedical research institution with 1,250 employees; Mount Desert Island Hospital; and the College of the Atlantic. Although unemployment, at 8.1% in 2013, is higher than the national average, projected per capita income is 110.7% of the U.S.

Mirroring trends in other resort communities, market value per capita for the 5,340 Bar Harbor residents is very high at \$270,544. We don't expect any considerable fluctuations here, because the national park, abundant coastlines, and attractive shops serve as economic anchors.

There is also little evidence that tourism will wane in the coming years, but the cyclical nature of the economy and the heavy dependence on retail and services could put downward pressure on incomes, which may lower the town's economic score in the future. Based on our regional forecasts, we expect the New England region to have modest economic growth, but we also note that growth in Maine has historically lagged behind its regional and national peers.

### **Very strong budget flexibility**

In our opinion, Bar Harbor's finances have remained very strong over the past few fiscal years. For fiscal 2013, audited reserves (unassigned and assigned general fund balance) closed with a balance of \$3.5 million, or 19.2% of expenditures. The fund balance has been increasing over the last three years, from \$2.9 million in 2011. Although Bar Harbor does expect a slight drawdown of general fund reserves in 2014 to pay its portion of Route 3 highway improvements, we anticipate overall budgetary reserves will be maintained near 15% of expenditures. The town has a policy to annually maintain reserves at 10% of expenditures--levels the town has traditionally exceeded.

### **Adequate budgetary performance**

In our view, overall budgetary performance in 2013 was adequate. Bar Harbor maintained operating surpluses in fiscal years 2011 and 2012 of 1.9% and 2.8%, respectively. Despite projecting a surplus in fiscal 2013, Bar Harbor ended that year with a general fund operating deficit of 0.5% (or \$89,000), and a governmental funds operating deficit of 1.4% (or \$260,000), because of higher general fund appropriations toward capital projects.

We believe the town's revenue profile is very stable, and independent from state and federal revenues. Property taxes generate about 82.4% of general fund revenue, while state aid accounts for 14%. This lack of dependency on state aid puts Bar Harbor in a better position than other municipalities in Maine that are more vulnerable to pressures of continued reduction in state support. Expenditures have traditionally fared well compared with budgeted levels. Education is the leading expenditure and largest cost driver with an effect on the budget.

### **Very strong liquidity**

Supporting Bar Harbor's finances is, what we consider, very strong liquidity, with total government available cash of 45.9% of total governmental funds expenditures and 17x debt service. Bar Harbor's maintenance of strong access to external liquidity further supports our view of the town's liquidity.

The town is a regular market participant, since it has issued bonds frequently over the past several years. In fiscal 2013, Bar Harbor borrowed \$3.35 million of GO bonds for a new public works garage and office complex. It borrowed \$2.68 million in 2012 for water system improvements and \$5 million in 2011 for both sewer and water upgrades. The town does not expect to issue debt in the coming two years.

### **Strong management conditions**

We view Bar Harbor's management conditions as strong, with "good" financial management practices, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Bar Harbor has shown robust capital planning and strong policies for debt management and fund balance

maintenance. The town provides selectmen with monthly consolidated reports of assumptions and actuals, ensuring timely budgetary amendments. Town leadership relies on a five-year capital budget that has a designated stream of revenue. It also mandates monthly reporting of town investments to the council and town manager. Bar Harbor maintains a fund balance policy of sustaining at least 10% of the previous fiscal years' total general fund revenues, and is currently in compliance with this policy.

We believe Bar Harbor could benefit from more forward-looking financial planning for revenues and expenditures and better alignment with the budget process for education.

### **Very strong debt and contingent liabilities profile**

Following this bond issue, Bar Harbor has roughly \$9.7 million of total direct debt outstanding. Total governmental funds debt service is 2.7% of total governmental funds expenditures, and net direct debt is 51.7% of total governmental funds revenue. Overall, Bar Harbor is in a healthy position in regard to debt, though a large portion (37%) is back-ended, which we view as a negative credit factor.

In our opinion, Bar Harbor's pension and other postemployment benefits (OPEB) liabilities remain favorable. Bar Harbor participates in the Maine Public Employees Retirement System (MainePERS), and contributed \$128,619 to the plan in 2013, equal to the annual required contribution. At present, contributions related to the teachers group are made by the Maine Department of Education on the town's behalf. Bar Harbor also does not provide OPEB. The actuarial liability is calculated as the implicit rate subsidy. OPEB costs accounted for just 0.37% of total governmental expenditures in fiscal 2012. Retirement spending only accounted for 0.7% of expenditures.

### **Strong institutional framework**

We consider the Institutional Framework score for Maine towns strong.

## **Outlook**

The stable outlook reflects our opinion that Bar Harbor will maintain its strong liquidity position and budgetary flexibility. Furthermore, we anticipate the town's stable revenue profile, good management, and minimal pension and OPEB liabilities will allow it to maintain adequate budgetary performance over our two-year outlook period. Drawdowns on available reserves, and potential changes to projected per capita incomes due to its heavy reliance on retail and tourism, might put downward pressure on the rating. We do not anticipate changing the rating, given the town's strong management conditions and strong budgetary performance through various cycles of the economy.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

### **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

- Institutional Framework Overview: Maine Local Governments

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