

Bar Harbor (Town of) ME

MOODY'S ASSIGNS Aa2 RATING TO THE TOWN OF BAR HARBOR'S (ME) \$5.1 MILLION 2011 GENERAL OBLIGATION BONDS

Aa2 RATING AFFECTS \$11.3 MILLION IN PARITY BONDS OUTSTANDING

Bar Harbor (Town of) ME
Municipality
Maine

Moody's Rating

Issue	Rating
2011 General Obligation Bonds	Aa2
Sale Amount	\$5,055,000
Expected Sale Date	08/24/11
Rating Description	General Obligation

NEW YORK, August 17, 2011 -- Moody's Investors Service has assigned a Aa2 rating to the Town of Bar Harbor's \$5.1 million 2011 General Obligation Bonds. At this time, Moody's has also affirmed the Aa2 rating on the town's \$11.3 million in outstanding parity bonds, including the current issue. The current issue is secured by the town's limited property tax pledge. Approximately \$2.5 million of bond proceeds will be used to finance projects for upgrades to the town's self-supporting water system; the remainder of the proceeds will be used to refund the town's Series 2001 bonds for an expected net present value savings of 5% of refunded principal, with no extension of maturity.

SUMMARY RATINGS RATIONALE

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

STRENGTHS:

- Stable tax base that benefits from institutional presence
- Stable reserve position supported by a formal fund balance policy
- Track record of positive operating results and conservative budgeting practices

CHALLENGES:

- Local economy dependent on tourism
- Below average rate of amortization

COASTAL TAX BASE BENEFITS FROM INSTITUTIONAL STABILITY

Moody's expects Bar Harbor's \$1.4 billion tax base will experience long-term growth given its desirable resort location and employment opportunities. Outside of a revaluation in fiscal 2007, which saw a 60% jump in assessed values, the town's valuation has grown at a modest 0.7% average annual rate over the last five years. Over the same period, full value has grown at a pace of 5.7%, evidencing solid market value appreciation during the national recession. The town's substantial full value per capita of \$275,778 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 in the town and exceed state and national averages and the town's population of 5,235 is estimated to increase to

approximately 18,000 in the summer. The Jackson Laboratory (revenue bonds rated A1/stable outlook), a non-profit research center with 1,212 employees, is the town's top employer. Additional major employers are Mount Desert Island Hospital, employing roughly 510, Acadia National Park, employing approximately 241 year-round full-time equivalents, and the College of the Atlantic, with 115 employed. The presence of these institutions provides year-round local economic stability, which is an important credit strength for Bar Harbor.

STABLE FINANCIAL POSITION WITH ADDITIONAL FLEXIBILITY IN CAPITAL RESERVES

Bar Harbor's financial position is expected to remain strong, despite recessionary pressures including reduced state aid, given its conservative budgeting practices and policies as well as the significant financial flexibility provided by its capital reserve. The 2010 General Fund balance equaled \$2.3 million, a moderate \$560,000 increase from fiscal 2009 but a still-reasonable 13.4% of General Fund revenues. The town has a policy of maintaining a working capital reserve equal to 10% of the previous year's revenues. The town continues to budget annual transfers of at least \$1 million to the capital reserve, providing significant budgetary flexibility. Through this practice, the town has built a \$2.3 million reserve for future capital spending. The town also maintains a modest margin of accumulated excess taxing capacity under the provisions of LD 1, representing the amount of allowable levy growth not utilized but available for future budgets. Operations in fiscal 2011 are expected to yield a modest \$200,000 surplus, with revenues and expenditures producing comfortable margins relative to budget. The town reported a \$2.3 million, or 0.2%, decline in assessed valuation and a 1.7% increase in the property tax rate to balance the fiscal 2012 budget. Bar Harbor is heavily reliant on property taxes, which represented 87% of general fund revenues in fiscal 2010. The town has limited enterprise risk after acquisition of a private water system; current enterprises are self-supporting through water and sewer system revenues, although operating deficits are occasionally incurred prior to rate increases, which for the water system must be approved by Maine's Public Utility Commission. 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.

AFFORDABLE DEBT BURDEN WITH MANAGEABLE FUTURE BORROWING PLANS

Moody's anticipates that Bar Harbor's modest overall debt burden (0.9% of full value) will remain low given limited future borrowing plans and average amortization of principal (69.7% 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. Recently-adopted debt policies set a maximum for outstanding debt of 5% of assessed valuation, well above current debt levels and below the 15% allowed by state statute. The town's five-year capital improvement plan totals \$12 million, including the current issue. Ongoing roadwork (\$9.2 million) claims the majority of the plan; other larger projects include town office building renovations (\$1.2 million) and various school upgrades (\$548,000). The town expects to fund approximately \$4.5 million, or 37% of the total CIP, with bond proceeds; the remainder of the projects will be funded with pay-as-you-go capital. Debt service claimed a very reasonable 0.1% of expenditures in fiscal 2010 and the increase from this issue is not expected to significantly impact the annual debt service burden. Bar Harbor has issued only fixed-rate debt and has no exposure to derivatives.

What could move the rating up:

- Continued improvement to the town's financial position
- Strengthening of tax base and demographic profile to levels more consistent with higher rating categories

What could move the rating down:

- Protracted structural budget imbalance
- Depletion of General Fund balance
- Deterioration of the town's tax base and demographic profile
- Significant increase in debt burden

KEY STATISTICS

2010 Population: 5,235 (+8.6% since 2000)
2011 Full Valuation: \$1.4 billion
2010 Full Value Per Capita: \$275,778
Overall Debt Burden: 0.9%
Direct Debt Burden: 0.7%
Payout of Principal (10 years): 69.7%
FY10 General Fund Balance: \$2.3 million (14.7% of General Fund Revenues)
2000 Per Capita Income: \$24,103 (123.4% of ME, 111.7% of US)
2000 Median Family Income: \$51,989 (115.1% of ME, 103.9% of US)
Post-sale Long-Term Debt Outstanding: \$11.3 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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