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Summary:

Bar Harbor, Maine; General Obligation

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Credit Profile

US\$3.35 mil GO bnds ser 2013 dtd 08/15/2013 due 08/13/2033

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating, and stable outlook, to the town of Bar Harbor, Maine's series 2013 general obligation (GO) bonds. At the same time, Standard & Poor's has affirmed its 'AA' long-term and underlying ratings on the town's previously issued GO debt.

The 'AA' ratings reflect what we view as the town's:

- Stable, albeit seasonal, economic base rooted in tourism;
- Stable property tax base, with strong wealth and good income measures;
- Strong financial position, coupled with good financial management policies; and
- Low debt burden, coupled with limited future capital needs.

The town's full faith and credit pledge secures the bonds. Bar Harbor officials plan to use the series 2013 bond proceeds to build a new public works garage and office complex. The town will own the building and lease approximately one-third of the facility to the Water Division, that portion of which will be paid from water usage charges.

Bar Harbor is on the coast of Maine in southern Hancock County, about 45 miles south of Bangor, Maine. Acadia National Park, with more than 4 million annual visitors, ranking it second among all national parks, is adjacent to Bar Harbor. The town's local economy is somewhat seasonal, given its proximity to the national park, which has strong tourist activity in the summer months. Bar Harbor's year-around population is about 5,339. However, this figure increases to between 15,000 and 20,000 in the summer months. The town also has become a popular cruise line stop during the summer, which helps to further fuel summer retail activity along the harbor; the estimated economic impact of the cruise ships on the region is about \$10 million. The town's unemployment trends reflect the seasonality of the local economy. In 2012, unemployment peaked at 18.9% in February, only to fall to just 3.5% in August. The 2012 annual unemployment rate averaged 10.4%. Several leading employers such as The Jackson Laboratory, Mount Desert Island Hospital, and the College of the Atlantic somewhat mitigate the seasonality in the workforce. Consequently, income levels are good to strong, in our opinion, with per capita effective buying income measuring 114% and 121% of national and state averages, respectively.

The town's property tax base has been relatively stable coming out of the recession, experiencing some softening in regional home values. After increasing 3% in fiscal 2010, assessed valuation (AV) decreased slightly for fiscal years 2011 and 2012. However, AV rose by 1.1% year-over-year from fiscal years 2012 to 2013 to \$1.42 billion.

Corresponding state equalized value (EQV) decreased a slight 0.4% to \$1.38 billion, equal to \$259,178 per capita based on the year-round population of 5,339. Bar Harbor's population swells to between 15,000 and 20,000 during the summer months, which would lower the per capita market valuation to between about \$69,187 and \$92,250. The tax base is very diverse, in our opinion, with the 10 leading taxpayers accounting for 7.4% of total AV.

Bar Harbor's financial performance has been favorable, in our opinion, posting three consecutive operating surpluses, net of transfers. As a result, we consider Bar Harbor's financial position to be very strong. The town closed fiscal 2012 with a \$547,000 operating surplus (3.1% of budget), bringing its total available fund balance, assigned and unassigned, to \$3.4 million, or 22% of general fund expenditures and transfers. For fiscal 2013, town management estimates that it has added about \$200,000-\$250,000 to its total available fund balance, bringing it to about \$3.7 million or a very strong 23.6% of general fund expenditures. Liquidity is also strong, in our opinion, with fiscal 2012 total governmental cash and equivalents totaling \$9.9 million or equivalent to 231 days' operating liquidity.

The town's fiscal 2014 budget totals \$17.4 million, which is a slight increase over the fiscal 2013 budget. The operating budget includes a \$117,160 appropriation of fund balance to fund its capital improvement program. Bar Harbor is responsible for \$600,000 of costs associated with Maine's highway construction project within the town. As a result, it will transfer \$117,160 over the next five years to its capital improvement fund.

Property taxes continue to be the town's primary revenue source, accounting for about 88% of 2014 budgeted general fund revenues; current-year collections have average 96.5% over the past three fiscal years. Intergovernmental aid accounts for just 1.2% of total general fund revenue; as such, we do not believe the town is particularly susceptible to state or federal cuts.

Standard & Poor's considers Bar Harbor's financial management practices "good" under its Financial Management Assessment methodology, indicating that the town's management policies and practices are good, but not all are formal or monitored regularly. The town maintains a fund balance policy of sustaining at least 10% of the previous fiscal years' total general fund revenues, and the town is currently in compliance with this policy.

At the close of this issue, Bar Harbor will have overall net debt of \$10.5 million outstanding, net of self-supported enterprise debt and including its proportionate share of overlapping debt for the school district and county. In our opinion, the town's debt profile is favorable, with a low overall net debt burden of \$1,968 per capita, or just 0.8% of EQV. Including this issue and the town's enterprise and general obligation debt outstanding, principal amortization is above average, with about 62% retired by year-end 2022 and the remainder by 2034. The town has a five-year, approximately \$10 million capital improvement plan. After this issuance, Bar Harbor will not have authorized unissued debt, but management expects to issue about \$2 million in bonds in calendar 2015.

A long-term credit consideration is the town's pension and other postemployment benefit (OPEB) liabilities. Bar Harbor participates in the Maine Public Employees Retirement System. Its fiscal 2012 contribution was \$104,296, or 0.74% of total governmental activities, equal to the annual required contribution (ARC). At present, contributions related to the teachers group are made by the Maine Department of Education on the town's behalf. Bar Harbor also provides OPEB as an implicit rate subsidy to certain retirees. As of July 1, 2012, its unfunded actuarial accrued liability was \$582,677 and was 0% funded. In fiscal 2012, the ARC was \$51,871, and the town contributed 100%. OPEB costs

accounted for just 0.37% of total governmental expenditures in fiscal 2012. We believe Bar Harbor's long-term liabilities are manageable, as together they accounted for just 1.1% of total governmental expenditures in fiscal 2012.

Outlook

The stable outlook reflects our opinion of the town's strong reserve position and stable tax base. We believe management will continue its proactive fiscal approach making the necessary revenue and expenditure adjustments to maintain at least balanced operations. While unlikely in the next two years, we would consider a higher rating if Bar Harbor's tax base continued to strengthen to a level that is in line with a 'AA+' rating. A favorable budgetary environment and maintenance of a very strong financial and liquidity position would also be important factors in an upgrade.

Related Criteria And Research

- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

| Ratings Detail (As Of August 9, 2013) | | |
|---|-----------------|----------|
| Bar Harbor Twn GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Bar Harbor Twn GO bnds | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance. | | |

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