Moody's Investors Service
Global Credit Research

Municipal Credit Research
New Issue Report
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Moody's assigns Aa2 to Bar Harbor, ME's 2013 GO Bonds
Aa2 rating affects $15 million in parity bonds outstanding

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

Moody's Rating

Issue	Rating
2013 General Obligation Bonds	Aa2
Sale Amount $3,350,000	
Expected Sale Date 08/13/13	
Rating Description General Obligation	

Moody's Outlook - NOO

NEW YORK, August 08, 2013 -- Moody's Investors Service has assigned a Aa2 rating to the Town of Bar Harbor's $3.4 million 2013 General Obligation Bonds. At this time, Moody's has also affirmed the Aa2 rating on the town's $15 million in outstanding parity bonds, including the current issue. The current issue is secured by the town's limited property tax pledge. Bond proceeds will fund the construction of a new public works complex.

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:

- Large tourism component to local economy
- 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. The town's valuation has grown at a modest 0.8% average annual rate over the last five years. Over the same period, full value has grown at a pace of 0.4%, evidencing modest property value declines during the national recession. The town's substantial full value per capita of $264,327 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 1,282 employees, is the town's top employer. Additional major employers are Mount Desert Island Hospital, employing roughly 565, the College of the Atlantic, with 115 employed, and Acadia National Park, employing approximately 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.

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 2012 General Fund balance equaled $3.7 million, a moderate $477,000 increase from fiscal 2011 but a sound 20.8% 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 2012) and maintained in assigned fund balance. 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 $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, representing the amount of allowable levy growth not utilized but available for future budgets. Operations in fiscal 2013 are expected to yield a modest $200,000 to $300,000 surplus, with revenues and expenditures producing comfortable margins relative to budget. The town's adopted fiscal 2014 budget represents a 2.1% increase relative to the prior year and includes a modest $173,000 appropriation of fund balance, most of which will be used for capital.

Bar Harbor is heavily reliant on property taxes, which represented 79.8% of general fund revenues in fiscal 2012. 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.

AFFORDABLE DEBT BURDEN WITH MANAGEABLE FUTURE BORROWING PLANS

Moody's anticipates that Bar Harbor's modest overall debt burden (0.8% of full value) will remain low given limited future borrowing plans and average amortization of principal (63.4% 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. Town 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 $11 million, including the current issue. Ongoing roadwork ($7 million) claims the majority of the plan; other larger projects include town office building renovations ($2.2 million) and various school upgrades ($663,000). The town expects to fund approximately $2.2 million, or 20% of the total CIP, with bond proceeds, although no debt has been approved yet; the remainder of the projects will be funded with pay-as-you-go capital. Debt service claimed a very reasonable 3.6% of expenditures in fiscal 2012 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.

The town participates in the Maine Public Employees Retirement System Consolidated and Teachers' Plans, two multi-employer, defined benefit retirement plans sponsored by the State of Maine (GO rated Aa2/negative). The town's combined annual required contribution (ARC) for the plans was $211,000 in fiscal 2011, or 1.2% of General Fund expenditures. The town's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $1.9 million, or approximately a moderate 0.1 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 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)
2013 Full Valuation: $1.4 billion
2013 Full Value Per Capita: $264,327
Overall Debt Burden: 0.8%
Direct Debt Burden: 0.7%
Payout of Principal (10 years): 63.4%
FY12 General Fund Balance: $3.7 million (20.8% of General Fund Revenues)
2010 Per Capita Income: $31,082 (118.7% of ME, 111.3% of US)
2010 Median Family Income: $82,358 (137.2% of ME, 128.1% of US)
Post-sale Long-Term Debt Outstanding: $15 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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