

# RatingsDirect®

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## Summary:

# Bar Harbor Town, Maine; General Obligation

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### Credit Profile

US\$2.97 mil GO bnds due 10/15/2035

*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 and stable outlook to Bar Harbor Town, Maine's series 2015 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds. Although the town is not restricted to a particular revenue source, it can levy ad valorem property taxes for bond repayment, subject to the limitations of the state's LD-1 legislation.

Officials intend to use a portion of series 2015 bond proceeds to current refund the town's series 2005 bonds for a present value savings of about \$76,000, which the town will take over the bonds' life. There is no extension of maturities. We understand officials plan to use the remaining portion of bond proceeds to fund various capital projects related to the public safety building renovation and the Route 3 water main project.

The rating reflects our opinion of the town's:

- Very strong economy, with a local stabilizing institutional influence;
- Strong management, with "good" financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash of 25.2% of total governmental fund expenditures and 10.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 2.4% of expenditures and net direct debt that is 59.6% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 65.1% of debt scheduled to be retired within 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

### **Very strong economy**

We consider Bar Harbor's economy very strong. The town, with an estimated population of 5,343, is located in Hancock County. The town benefits, in our view, from a stabilizing institutional influence. The town has a projected per capita effective buying income of 108.1% of the national level and per capita market value of \$271,219. Overall, the town's market value grew by 4.2% over the past year to \$1.4 billion in fiscal 2015. The county unemployment rate was 7% in 2014.

Bar Harbor is on the coast of Maine, about 45 miles southeast of Bangor. The town benefits from considerable seasonable tourism, supported by its status as the gateway to Acadia National Park, which receives about 2.5 million visits per year. While not directly linked to a broad and diverse economy, the town benefits from the stabilizing presence of Jackson Laboratory, which has more than 1,200 employees and which is the county's leading employer. The laboratory is a nonprofit biomedical research institution headquartered in the town since 1929. Other leading employers include Mount Desert Island Hospital (560 employees) and Acadia National Park (213).

Until 2006, the CAT ferry had provided seasonal ferry service between Bar Harbor and Nova Scotia; it, however, closed when the Canadian government discontinued subsidies. Maine Port Authority and Marine Atlantic have nearly completed negotiations for the purchase of the ferry terminal, and officials expect the terminal will allow more cruise ships to dock. Although this will result in the loss of about \$5 million from the town's tax base and roughly \$58,000 from the tax levy, we expect property wealth to remain extremely strong. We understand officials are budgeting for the lost revenue, and they do not expect any negative effect on the town's finances.

### **Strong management**

We view the town's management as strong, with "good" financial management policies and practices under our FMA methodology, indicating financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis.

Bar Harbor maintains a five-year capital improvement plan that it updates annually, including project funding sources. The town uses historical trend analysis for revenue and expenditure assumptions. Management provides monthly reports on budget-to-actual results, mandated by the town's charter, to the town council. The town has formally adopted policies that manage investments and debt issuance. Bar Harbor maintains a fund balance policy of sustaining at least 10% of the previous fiscal year's total general fund revenue, and it is currently complying with this policy. The town does not currently have any formal long-term financial planning policies.

### **Strong budgetary performance**

Bar Harbor's budgetary performance is strong, in our opinion. The town had balanced operating results of 0% in the general fund and 0% across all governmental funds in fiscal 2014.

Management has adjusted fiscal 2014 results for recurring transfers into the capital improvement projects fund, as well as for one-time capital expenditures related to the completion of the Route 3 construction project in partnership with Maine Department of Transportation. Officials largely attribute fiscal 2014 performance to planned drawdowns related to the Route 3 project and several one-time operational costs that resulted in a slight deficit of about \$93,000.

Officials are projecting fiscal 2015 will end with another fund balance drawdown of roughly \$400,000. Management

attributes the drawdown to planned transfers into the capital projects fund for the last portion of the Route 3 project and about \$147,000 of overbudget snow-and-ice removal costs.

The adopted fiscal 2016 budget totals \$18.4 million, a year-over-year increase of about 3.1% from fiscal 2015. The budget includes an appropriation of \$110,000 of fund balance into the capital improvement fund. We expect performance to remain strong-to-adequate over the next few fiscal years due largely to capital projects funded through pay-as-you-go financing.

### **Very strong budgetary flexibility**

Bar Harbor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 18% of operating expenditures, or \$3.3 million.

Although officials are projecting a fund balance draw down of about \$400,000 in fiscal 2015, we expect reserves to remain more than 15% of expenditures. Furthermore, the town has a policy of maintaining reserves at 10% of expenditures annually, which it has met historically. Sustained drawdowns that diminish reserves to levels we consider strong, however, could pressure the rating.

### **Very strong liquidity**

In our opinion, Bar Harbor's liquidity is very strong, with total government available cash of 25.2% of total governmental fund expenditures and 10.6x governmental debt service in fiscal 2014. In our view, the town has strong access to external liquidity if necessary.

Bar Harbor's issuance of GO bonds within the past 15 years demonstrates its strong external liquidity. The town does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Due to the town's strong budgetary performance and very strong reserves, we do not foresee any deterioration in liquidity.

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

In our view, Bar Harbor's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.4% of total governmental fund expenditures, and net direct debt is 59.6% of total governmental fund revenue. Overall net debt is low at 0.9% of market value and approximately 65.1% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

Bar Harbor plans to issue roughly \$3 million in new-money debt over the next two years for projects related to the waste transfer and recycling facilities, as well as ongoing road improvements. We expect this to have a slight effect on the town's debt profile.

The town contributes to the Maine Public Employees' Retirement System. Fiscal 2014 contributions totaled \$143,400.

Bar Harbor's combined pension and other postemployment benefit (OPEB) contribution totaled 0.9% of total governmental fund expenditures in fiscal 2014. The town made its full annual required pension contribution in fiscal 2014. The only OPEB provided by the town is calculated as an implicit rate subsidy.

## **Strong institutional framework**

The institutional framework score for Maine municipalities is strong.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion that Bar Harbor will likely maintain its very strong liquidity, supported by good management. The town's very strong underlying economy, supported by a stabilizing institution, provides additional rating stability. We, however, could lower the rating if the town were to sustain weakened budgetary performance deterioration, resulting in the deterioration of available reserves. We do not currently expect to change the rating within the outlook's two-year period.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Institutional Framework Overview: Maine Local Governments

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