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Summary:

Bar Harbor, Maine; General Obligation

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Credit Profile

US\$3.07 mil GO bnds ser 2017 due 10/15/2037

Long Term Rating AAA/Stable New

Bar Harbor Twn GO

Long Term Rating AAA/Stable Affirmed

Bar Harbor Twn GO bnds due 10/15/2035

Long Term Rating AAA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Bar Harbor, Maine's issue of 2017 general obligation (GO) bonds and affirmed its 'AAA' rating on the town's outstanding GO debt. The outlook is stable.

We rate Bar Harbor higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, due to its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2016, local property taxes generated 85% of general fund revenue, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

The town's full-faith-and-credit pledge secures the bonds. Although Bar Harbor is not restricted to a particular revenue source, it has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite limitations imposed by the state-levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. We understand that proceeds will be used to finance the purchase of a ladder fire truck, for renovations to the public safety building, and for capital projects at the transfer station facility.

The rating reflects our opinion of Bar Harbor's:

- Very strong economy, with a local stabilizing institutional influence;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 35.1% of total governmental fund expenditures and 8.5x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 4.1% of expenditures and net direct debt that is 58.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of

- market value, 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 5,411, is in Hancock County on the coast of Maine, about 45 miles southeast of Bangor. It benefits, in our view, from a stabilizing institutional influence. The town has a projected per capita effective buying income of 119% of the national level and per capita market value of \$273,794. Overall, market value grew by 0.6% over the past year to \$1.5 billion in 2017. The county unemployment rate was 4.7% in 2016.

Bar Harbor 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 1,300 employees and is the county's leading employer. The laboratory is a nonprofit biomedical research institution headquartered in the town since 1929 and hosts 305 Ph.D.s., M.D.s, and D.V.M.s researching the genetic basis of cancer, heart disease, and Alzheimer's, among other diseases and conditions. The town also is home to the Mount Desert Island Biological Laboratory (72 employees), a lab focused on therapies to regenerate human tissue, as well as the College of the Atlantic (40 faculty, 350 students). Other leading employers include Mount Desert Island Hospital (512 employees) and Acadia National Park (245).

The town continues to consider the purchase of an existing ferry terminal, which until the termination of ferry service in 2006, had been the landing for seasonal ferry service between Bar Harbor and Nova Scotia. The state currently owns the terminal and the town has until November 2017 to determine if it is moving ahead with the purchase, subject to approval at the June 2018 town meeting. Depending on the structure of the transaction, the cost would be between \$2 million-\$3.5 million. Should the town forego the purchase, it would likely be sold to a private developer, increasing the tax base.

Strong management

We view the town's management as strong, with "good" financial 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 surplus operating results in the general fund of 1.7% of expenditures, and balanced results across all governmental funds of 0.3% in fiscal 2016. General fund operating results of the town have been stable over the last three years, with a result of 1.3% in 2015 and a result of

0.0% in 2014.

We adjusted fiscal 2016 results for recurring transfers into the capital improvement projects fund, as well as for the spend-down of previously received bond proceeds. Town management attributes the 2016 results to improved collection of previous-year uncollected taxes, which were partially offset by reduced ambulance revenues. On the expenditures side, health insurance and benefits came in under budget.

Management anticipates reporting a modest surplus in fiscal 2017 of approximately \$250,000, due to increased cruise ship revenue and better-than-budgeted revenues and expenditures in the general fund. While still early in the fiscal year, 2018 revenues and expenditures are on-budget. Management reports actively trying to build fund balance, and is working to continue to produce positive operating results annually.

Bar Harbor budgets for an annual budgetary fund balance drawdown for capital improvement, but on a GAAP basis, expects to continue to produce positive operating results. In fiscal 2016, local taxes accounted for 84.8% of general fund revenues, while departmental revenues were 7.6%. Intergovernmental revenues in fiscal 2016 were 5.4% of general fund revenues.

Very strong budgetary flexibility

Bar Harbor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 at 16% of operating expenditures, or \$3.1 million.

Given the projected fiscal 2017 surplus, which would add to available reserves, along with the town's 2018 revenue and expenditures trending on budget, we anticipate that Bar Harbor will maintain very strong reserves over the next two years.

Very strong liquidity

In our opinion, Bar Harbor's liquidity is very strong, with total government available cash at 35.1% of total governmental fund expenditures and 8.5x governmental debt service in 2016. 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 on 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.

Strong debt and contingent liability profile

In our view, Bar Harbor's debt and contingent liability profile is strong. Total governmental fund debt service is 4.1% of total governmental fund expenditures, and net direct debt is 58.2% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, which is, in our view, a positive credit factor. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

Following this issuance, Bar Harbor will have \$20.31 million in outstanding GO debt, of which we consider approximately \$8.6 million self-supporting debt backed by user charges from the water and wastewater enterprise funds. Our analysis incorporates the potential for the town to issue up to \$3.5 million for acquisition of the ferry

terminal. The town expects that this debt will be fully self-supported once issued. If the ferry terminal debt demonstrates self-support, we anticipate that in the absence of other major debt issuances, the debt profile will improve in the future. Additionally, as currently scheduled, 64.5% of the town's debt will be repaid within ten years, which is slightly below the 65% threshold for what we consider to be rapid. Improvement in the speed of repayment of the existing debt would likely also improve the town's debt score.

Bar Harbor's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 1.7% of total governmental fund expenditures in 2016.

The town participates in the Consolidated Plan for Participating Local Districts (PLD) and the State Employment Teacher Plan (SET), both administered by the Maine Public Employees Retirement System, a cost-sharing, multiemployer, public employee retirement system. In fiscal 2016, Bar Harbor contributed \$110,513 to SET for the school, \$13,181 to PLD for the school, and \$192,895 to PLD for the town, for a total pension contribution of \$316,589. As of June 30, 2016, it reported a net pension liability of \$102,069 for SET and \$1.422 million for PLD. Both plans use a 7.125% discount rate. PLD, the larger of the two plans, is 82% funded. The town paid its full actuarial determined contribution in fiscal 2016 and anticipates that it will continue to do so.

The only OPEBs provided by the town are calculated as an implicit rate subsidy for retirees who access the town's group health plan. Retirees pay 100% of the premium.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Bar Harbor will continue to produce at least balanced operating results, supported by very strong budgetary flexibility and good management. The very strong economy, with a stabilizing institution, provides additional rating stability. If the town's debt ratios were to worsen to levels we consider adequate, and if budgetary performance were to weaken, leading to deterioration of available reserves, we could lower the rating. Currently, we do not expect to change the rating within the outlook's two-year period.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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