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## Summary:

# Bar Harbor Town, Maine; General Obligation

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## Summary:

# Bar Harbor Town, Maine; General Obligation

### Credit Profile

US\$2.15 mil GO rfdg bnds ser 2020 due 05/01/2030

<i>Long Term Rating</i>	AAA/Stable	New
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Bar Harbor Twn GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Bar Harbor, Maine's series 2020 general obligation (GO) refunding bonds (totaling \$2.15 million) and affirmed its 'AAA' rating on the town's GO debt outstanding. The outlook is stable.

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 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 2019, local property taxes generated 80% 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.)

We believe the town's stable, property-tax based revenue source is unlikely to result in materially delayed collections or revenue volatility in the current environment. While we continue to monitor events related to COVID-19, we do not currently expect it to affect the town's ability to maintain budgetary balance and pay debt service costs. For more information, see our article "COVID-19's Potential Effects In U.S. Public Finance Vary By Sector" (published March 5, 2020, on RatingsDirect).

We understand that proceeds from the 2020 bonds will be used to refund the remainder of the town's 2010 bonds.

### Credit overview

Bar Harbor is perhaps best known for being home to Acadia National Park. The town is a seasonal tourist destination due to the park and its coastline and seashore, with high-end hotels throughout. 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.

The long-term rating reflects our view of the following factors for Bar Harbor:

- 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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 35.7% of total governmental fund expenditures in 2019.
- Very strong debt and contingent liability profile, with debt service carrying charges at 6.5% of expenditures and net direct debt that is 64.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 67.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

## **Stable Two-Year Outlook**

### **Downside scenario**

Although we do not expect this to occur in our two-year outlook horizon, we could lower the rating 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.

## **Credit Opinion**

### **Very strong economy**

We consider Bar Harbor's economy very strong. The town, with an estimated population of 5,401, 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 103.9% of the national level and per capita market value of \$317,173. Overall, the town's market value grew by 4.9% over the past year to \$1.7 billion in 2020. The county unemployment rate was 3.8% in 2018.

While not directly linked to a broad and diverse economy, the town benefits from the stabilizing presence of Jackson Laboratory, which has nearly 1,400 employees and is the county's leading employer. The laboratory is a nonprofit biomedical research institution headquartered in the town since 1929 and hosts Ph.Ds., M.Ds, and D.V.Ms 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 (78 employees), a lab focused on therapies to regenerate human tissue, as well as the College of the Atlantic (35 faculty, 350 students). Other leading employers include Mount Desert Island Hospital (538 employees) and Acadia National Park (245). We expect that the acquisition of the ferry terminal and subsequent redevelopment will further enhance the town's waterfront, which is a centerpiece

for tourism in Bar Harbor.

In our view, the global spread of COVID-19 (referred to as Coronavirus) presents an evolving credit risk that could continue to give rise to volatility particularly in the town's tourism industry. Bar Harbor benefits from considerable seasonable tourism, supported by its status as the gateway to Acadia National Park, which receives about 3.25 million visits per year. In addition, the town has also become an active port for cruise ships. In fiscal 2019, 157 passenger ships docked in Bar Harbor disembarking approximately 233,000 passengers. Due to the overall effects of COVID-19, we expect cruise activity to decline in the short term. However, we note that cruise ships account for only 8% of tourists to Mount Desert Island. We understand that the situation will remain fluid in the short term, and we will continue to watch for latent credit stressors for the town, including deterioration in economic and financial performance.

Given the underlying strength of the town's economy, along with management's initiatives to expand tourism and support existing non-profits and businesses, we expect that Bar Harbor's economy will remain very strong throughout the outlook period.

### **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 at least three years of historical trend analysis when developing budgetary revenue and expenditure assumptions. Management provides monthly reports on budget-to-actual results, mandated by the town's charter, to the town council. Formal amendments are possible through the council. It 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.

We also note that the town has taken significant steps to mitigate exposure to cyber-related risks and has actively begun to address concerns related to rising sea levels that could directly affect taxable properties. In particular, Bar Harbor has created and funded a task force to inform its decisions on how to respond to climate change. Its goals include reducing the carbon footprint of the town, making improvements toward solar energy, and safeguarding its infrastructure from possible sea level rise. In addition, the town, and other neighboring communities, are seeking grants from the Environmental Protection Agency to further study the effects of sea rise.

### **Strong budgetary performance**

Bar Harbor's budgetary performance is strong in our opinion. The town had operating surpluses of 3.7% of expenditures in the general fund and of 4.9% across all governmental funds in fiscal 2019.

Fiscal 2019 results include adjustments for recurring transfers and one-time capital expenditures paid with bond proceeds. Officials mainly attribute the fiscal 2019 general fund surplus to higher-than-budgeted revenue, including excise taxes and licenses and permits. The town benefits from its growing economy and desirable location on the ocean.

Bar Harbor also had cost savings in health insurance expenditures, as well as other areas, which contributed to the fiscal 2019 surplus. For the past several audited fiscal years (before fiscal 2019), it achieved an operating surplus or almost break-even results despite facing state revenue pressure. Management mainly attributes past favorable budgetary performance to conservative budgeting and modest local fee and tax recovery in an improving economy.

In fiscal 2010, the town established a cruise ship fund as part of the general fund to account for fees collected from visiting cruise ships. The current fee is \$4.46 per passenger. The cruise ships are billed when they disembark onto shore and since we expect that cruise activity might decline in the short term due to the overall effects of COVID-19, we also expect that fees to be collected will decline slightly. However, for fiscal 2019, the town has collected more than a \$1 million in fees, and since fiscal 2010, Bar Harbor has collected more than \$6 million. Furthermore, the town currently maintains \$537,759 in assigned cruise ship reserves in the general fund. Bar Harbor uses this money for capital projects along the waterfront and for associated debt service, if any. The remainder of the money is transferred into the town's capital improvement fund. Therefore, we expect this decline have no material impact on Bar Harbor's overall credit profile.

The fiscal 2020 adopted operating budget is an almost 4% increase over fiscal 2019. The operating budget is tracking favorably and management expects similar results at year-end to the previous few years. Furthermore, for 2020 the town added a new revenue source (parking meters), which management expects to generate at least \$500,000 annually, with \$1.7 million collected in calendar 2019. We note that the town's labor contracts are settled until 2020 or 2021.

Property taxes generate 80% of general fund revenue, followed by intergovernmental aid at 6.7%. Tax collections remain strong, averaging 99% in the past three years. We believe the predominance of locally derived revenues from property taxes provides stability and predictability. Given management's history of producing surpluses on a generally accepted accounting principles basis (GAAP), along with a policy of maintaining reserves, we expect budgetary performance will remain strong.

### **Very strong budgetary flexibility**

Bar Harbor's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 19% of operating expenditures, or \$4.1 million.

The town's available fund balance has continued to strengthen over the past several years. While Bar Harbor budgets for minor reserve drawdowns, we expect it will continue to produce GAAP surpluses and will maintain very strong reserves. We expect its budgetary flexibility to remain very strong.

### **Very strong liquidity**

In our opinion, Bar Harbor's liquidity is very strong, with total government available cash at 35.7% of total governmental fund expenditures in 2019. In our view, the town has strong access to external liquidity if necessary.

Bar Harbor's issuance of GO bonds within the past 20 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. We do not anticipate a reduction in cash reserves and expect the town's liquidity to remain very strong.

### **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 6.5% of total governmental fund expenditures, and net direct debt is 64.5% of total governmental fund revenue.

Overall net debt is low at 0.9% of market value, and approximately 67.6% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issuance, Bar Harbor will have approximately \$21.2 million in outstanding GO debt and capital leases, approximately \$5.9 million of which we consider self-supporting debt backed by user charges from the water and wastewater enterprise funds. Due to a slight decline in coverage within the wastewater fund in fiscal 2018, we no longer view the wastewater debt as fully self-supported. However, we understand that the town has addressed this in fiscal 2019 and that the wastewater fund has increased to full coverage. Therefore, we expect the fund will return to full self-support. We also understand that Bar Harbor is in early discussions regarding capital investments in its elementary school infrastructure. While it is too early to fully incorporate potential school debt issuances into our analysis, depending on final financing and structure, these could have a negative effect on our view of the debt profile. However, we do not anticipate this would have a significant effect on the town's overall credit quality.

### **Pension and other postemployment benefits**

In our opinion:

- Pension and other postemployment benefits (OPEB) liabilities are not an immediate source of credit pressure for the town, given the well-funded status of the pension plans and the limited long-term liabilities.
- Any increases in contributions will likely remain affordable, based on the strength of Bar Harbor's revenue base, strong reserves, and conservative budgeting.

The town offers OPEB but recognizes no liability. The liability for the plan represents an implicit rate subsidy.

Bar Harbor participates in the following plans:

- Maine Public Employees Retirement System Consolidated Plan for Local Participating Districts Plan (PLD Plan), which is 90.62% funded and has a \$1.4 million net pension liability (NPL).
- Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan), which is 82.73% funded and has a \$173,000 NPL.

The town's combined required pension and actual OPEB contributions totaled 2.1% of total governmental fund expenditures in 2019. Bar Harbor made its full annual required pension contribution in 2019. The PLD and SET plans are cost-sharing, multiple-employer, defined-benefit pension plans. Both systems use a 6.75% discount rate. Positively, both plans met both our static funding metric in the most recent year as well as our minimum funding progress calculation, indicating that the systems are addressing current costs and making headway addressing their unfunded liabilities.

Bar Harbor's OPEBs provided by the town are calculated as an implicit rate subsidy for retirees who access its group health plan. Retirees pay 100% of the premium. As of June 30, 2019, the town reported a net OPEB liability of approximately \$857,000. In addition, it recognized a net OPEB liability for costs associated with retired school

department personnel totaling nearly \$49,000. This plan has a special funding situation and the state makes all payments on behalf of Bar Harbor for participating retired teachers.

We believe that retirement costs do not have a material effect on finances or operations at present and that they will likely remain manageable in the next three-to-four years.

### Strong institutional framework

The institutional framework score for Maine municipalities is strong.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments

### Ratings Detail (As Of March 16, 2020)

Bar Harbor Twn Go bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bar Harbor Twn Go bnds (fed taxable)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bar Harbor Twn GO bnds due 10/15/2035		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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