MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Auburn, ME's $7.2M 2014 GO Bonds

Global Credit Research - 09 Oct 2014

Affirms Aa3 affecting $57.2M of GO debt outstanding

AUBURN (CITY OF) ME
Cities (including Towns, Villages and Townships)
ME

Moody's Rating

ISSUE		RATING
2014 General Obligation Bonds		Aa3
Sale Amount	$7,200,000	
Expected Sale Date	10/15/14	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, October 09, 2014 --Moody's Investors Service has assigned a Aa3 rating to the City of Auburn, ME's $7.2 million 2014 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa3 rating on the city's approximately $57.2 million in outstanding general obligation debt. The current issue will fund various capital projects for the city and the school department. The school bonds ($2.1 million of the current issue) are secured by the city's general obligation unlimited tax pledge. The remainder of the bonds are secured by the city's general obligation limited tax pledge as debt service for municipal purposes is subject to the state's property tax limitation known as LD-1.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the city's healthy and stable financial position, moderately-sized tax base with average wealth levels, and above-average debt burden.

STRENGTHS

- Sound reserve position supported by a formal fund balance policy and conservative budgeting practices

- Ample property tax levy capacity under LD-1 limit

- Minimal pension and OPEB liabilities

CHALLENGES

- Above average debt burden

- Rising education costs to comply with state mandated school funding requirement

DETAILED CREDIT DISCUSSION

CAREFULLY MANAGED FINANCIAL POSITION

Auburn's financial position will remain stable given conservative budgeting practices, management's commitment to maintaining healthy reserve levels as reflected in a formal policy, and flexibility provided by significant property tax levy capacity. Following multiple years of balanced or surplus operations, fiscal 2013 ended with a planned

$1.6 million draw on General Fund balance. The city has a formal policy to maintain available reserves (unassigned plus assigned fund balance) at a minimum of 12.5% of school and municipal expenditures, and the city has generally maintained reserves in excess of that policy. Following the draw down, this balance declined to $9.9 million (13.5% of expenditures) from $11.7 million (16.4% of expenditures) in fiscal 2012. The total General Fund balance was $12.4 million (a healthy 17.2% of revenues) at the end of fiscal 2013.

According to fiscal 2014 unaudited results, the city expects total fund balance to decline by $300,000 to $12.1 million (16.8% of revenues) and available reserves will remain above 13% of expenditures. Fiscal 2014 excise taxes exceeded budgeted projections, although fire department overtime and truck repairs came in over budget. The fiscal 2015 budget increased 3.85% over the prior year due to the addition of EMT services (which were formally outsourced) and increased education costs to comply with the state's school funding requirement. Budgetary growth is offset by projected increases in excise taxes, a 2% property tax levy increase, and a $2.1 million fund balance appropriation. Education costs will continue to be a budget driver, especially over the near term, as the city is required to increase student funding to comply with state mandated levels within the next two years. Management anticipates this will cost the city approximately $2 million. Notably, the city's overall financial flexibility is enhanced by a significant $7.5 million of accumulated excess taxing capacity under the provisions of LD-1, representing the amount of levy growth available for future budgets.

The city is exposed to moderate enterprise risk after leasing a new ice arena that had been constructed by a private developer. The arena opened in November 2013 and the city has entered into an agreement to reimburse the developer for construction costs. The total project is expected to cost the city a total of $8.2 million, amortized over 30 years. Total payments per year will remain level at approximately $504,000 ($42,000 monthly) which represents less than 1% of the city's annual budget. Arena usage fees are expected to be sufficient to pay all operating costs as well as the payments to the developer, but General Fund revenues will be used for any shortfalls. Moody's considers this risk manageable and we will continue to monitor what pressure, if any, the ice area imposes on the city's General Fund.

MODEST GROWTH EXPECTED FOR MODERATELY SIZED TAX BASE WITH HEALTHY COMMERCIAL PRESENCE

Following multiple years of tax base declines, the city's moderately-sized $1.9 billion tax base should begin to stabilize in the near term and experience modest growth over the medium term given new commercial development. The tax base, which is 51% residential and 34% commercial/industrial, experienced declines in four of the last five years, leading to an compound annual decrease of 0.6% between 2009 and 2014. While the city does maintain an above average degree of taxpayer concentration, with the top ten taxpayers representing 11.9% of the total assessed value, the largest taxpayer, Tambrands (3.1% of 2014 assessed value), a division of The Procter & Gamble Company (Aa3 stable), has recently made sizable capital investments at its Auburn facility and hired 60 new employees. Additional new development includes a new industrial park, expansion of a trucking company, and the construction of a Hobby Lobby. The city's median family income is on par with the state (97%) and below the nation (90%), and full value per capita is $83,548. The July 2014 unemployment (5.0%) is below that of the state (5.2%) and nation (6.5%).

CITY WILL REMAIN HIGHLY LEVERAGED

Auburn's debt position will remain above average yet manageable given rapid amortization of principal and future borrowing plans to partially support the Capital Improvement Plan. Including the current issue, the city's debt position is an above average 3.3% of full value, although the city has no overlapping debt. Pension obligation bonds (POBs) issued in 2003 represent a small portion of the city's total outstanding debt (3.5%). Debt service accounted for an above average 9.0% of 2013 expenditures but principal is amortized rapidly, with 95.2% of retired within 10 years. The city's only additional authorized debt relates to a $5 million parking garage project, debt that officials do not expect to issue. While there is currently no other authorized unissued debt outstanding, the city expects to borrow $20 to $25 million over the next four years. Additionally, the city is considering constructing a new high school, although approval of this project will depend on state support. Should the state approve subsidies, pursuant to the city's charter, the project would be subject to referendum approval. All of the city's debt is fixed rate and it is not party to any derivative agreements.

The city issued pension obligation bonds in 2003, which were subsequently refunded in 2012, to fully fund its initial unfunded actuarial liability to the Maine State Retirement System. In addition, the city maintains a single employer defined benefit plan for police and fire employees who joined prior to the city's participation in the state plan. The reported unfunded liability is less than $1 million for 14 retirees. The city's teachers participate in the Maine Public Employees Retirement System's Teacher Plan, which is administered at the state level. Beginning in fiscal 2014, the city is responsible for approximately half of the normal cost of the teachers' plan. The city contributed $491,000 in fiscal 2014. This additional contribution is not expected to pressure the city's financial position over the near term. The OPEB liability is modest at $3.5 million as it is limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees.

WHAT COULD MAKE THE RATING GO UP

- Substantial growth of reserve levels

- Sustained trend of material tax base growth and diversification

- Significant improvement in demographic profile relative to state and national medians

- Material decline in the debt burden

WHAT COULD MAKE THE RATING GO DOWN

- Trend of operating deficits resulting in a material decline in reserves

- Declines in the tax base or deterioration of the demographic profile

- Material growth in debt burden

KEY STATISTICS:

2014 Full Value: $1.9 billion

2014 Full Value Per Capita: $83,548

Median Family Income as % of US: 90.0%

Fiscal 2013 Available Fund balance as a % of Revenues: 13.8%

5-Year Dollar Change in Fund Balance as % of Revenues: -0.9%

Fiscal 2013 Cash Balance as % of Revenues: 15.6%

5-Year Dollar Change in Cash Balance as % of Revenues: -0.8%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.0x

Net Direct Debt as % of Full Value: 3.3%

Net Direct Debt / Operating Revenues: 0.9x

3-Year Average of Moody's ANPL as % of Full Value: 0.7%

3-Year Average of Moody's ANPL / Operating Revenues: 0.2x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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