MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Auburn, ME's $5.7M GO Bonds

Global Credit Research - 16 Oct 2015

Affirms Aa3 on $45.6M of outstanding GO debt

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

Moody's Rating

ISSUE	RATING
2015 General Obligation Bonds	Aa3
Sale Amount $5,700,000	
Expected Sale Date 10/21/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, October 16, 2015 --Moody's Investors Service has assigned a Aa3 rating to the City of Auburn's (ME) $5.7 million 2015 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa3 rating on $45.6 million of outstanding general obligation debt.

SUMMARY RATING RATIONALE

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

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Trend of operating surpluses resulting in a material improvement in liquidity and reserves

- Significant tax base growth or material improvement in the demographic profile

- Material decline in the debt burden

WHAT COULD MAKE THE RATING GO DOWN

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

- Significant declines in the tax base or deterioration of the demographic profile

- Material growth in debt burden

- Trend of General Fund transfers to support the ice arena

STRENGTHS

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

- Ample property tax levy capacity under LD-1 limit

- Manageable pension and OPEB liabilities

- Rapid amortization of debt

CHALLENGES

- Above average debt burden

- Enterprise risk from ice arena could pressure the General Fund

- Reliance on fund balance appropriations to balance operations

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

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

Following multiple years of tax base declines, the city's tax base began to stabilize in fiscal 2015, as equalized value increased 1.9% to $2 billion. We expect values to increase moderately over the near term given new commercial development. The city maintains an above average degree of taxpayer concentration, as the top ten taxpayers represent 12% of the total assessed value. The largest taxpayer, Tambrands (3.1% of 2015 assessed value), a division of The Procter & Gamble Company (Aa3 stable), recently made sizable capital investments at its Auburn facility and hired 60 new employees. Permits in fiscal 2015 (283 permits with a value of $30.6 million) represented a healthy increase from the prior year (257 valued at $19.1 million) due to a new Hobby Lobby that recently opened, expansions of a trucking company, a bank, and a new building on the Central Maine Community College campus. Additional new development includes 10 to 20 single-family homes and the repurposing of an old shoe mill to a medical recuperation facility for Chinese tourists. The city's median family income is on par with the state (102%) and nation (95%), and full value per capita is $85,168. Unemployment remains slightly below the state and nation.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL POSITION REMAINS SATISFACTORY DESPITE ANNUAL RESERVE APPROPRIATIONS; ENTERPRISE RISK FROM ICE ARENA

Auburn's financial position will remain adequate given management's conservative budgeting practices and commitment to maintain reserves in compliance with its formal fund balance policy. In addition, the city has additional financial flexibility provided by significant property tax levy capacity. This flexibility mitigates a growing concern about the city's ability to reduce fund balance appropriations and return to a more structurally balanced operating position. Fiscal 2014 audited results reflect a slight $317,000 decline in fund balance, and available reserves (unassigned plus assigned fund balance) declined to $9.5 million, or 12.7% of revenues. The city has a formal policy to maintain available reserves at a minimum of 12.5% of school and municipal expenditures, and the city has generally maintained reserves in excess of that policy. Total General Fund balance was $12.1 million or 16.2% of revenues.

The fiscal 2015 budget was balanced with a $2.1 million fund balance appropriation, and positive operating results will allow approximately half to be replenished. Revenues in fiscal 2015 were $170,000 over budget mostly due to favorable excise taxes, and total expenditures were under budget by $750,000, partially attributable to a budgeted $375,000 contingency that was not used. Total fund balance will decline to approximately $10.8 million (roughly 14.6% of revenues), though available fund balance will be fairly flat due to less restricted items, and will remain in compliance with the policy. The fiscal 2016 budget (city and education) increased 1.9% mostly due to education, and was balanced with a $1.7 million fund balance appropriation ($400,000 less than the previous year) and a 1.4% tax levy increase. Notably, the city's overall financial flexibility is enhanced by a significant $8.2 million (as of fiscal 2016) of accumulated excess taxing capacity under the provisions of LD-1, representing the amount of levy growth available for future budgets.

The city's exposure to enterprise risk could pressure its General Fund if usage fee revenues are insufficient to support operations. The city leased a new ice area that was constructed by a private developer, and the city entered into a lease agreement to reimburse the developer for construction costs totaling $8.2 million. The monthly payments of $42,000 ($504,000 annually) began in July 2015.The city has committed to subsidize the arena's operations with General Fund revenues if usage fees are insufficient to pay all operating costs and payments to the developer. Management reports that the arena ran a $311,000 operating deficit in fiscal 2015. Transfers from the General Fund were not needed in fiscal 2015, but the deficit will decrease the total net position in this fund to approximately $37,000. The arena's total operating costs for were budgeted at $1.2 million in fiscal 2016, which represents approximately 1.5% of annual General Fund revenues. We will continue to monitor any pressure the ice area imposes on the city's General Fund, and annual subsidies could pressure the rating.

Liquidity

The fiscal 2014 year-end General Fund cash position was $5.3 million, or 7.1% of revenues. This represents a decrease from fiscal 2013 year-end, when cash was $11.3 million (15.6%). The difference is due to an $8.1 million interfund receivable from the Capital Projects Fund, which was paid at the beginning of fiscal 2015.

DEBT AND PENSIONS: CITY WILL REMAIN HIGHLY LEVERAGED

Auburn's debt position will remain above average yet manageable given future borrowing plans and rapid principal amortization. Including the current issue, the city's debt position is an above average 3.1% of equalized value. The city has no overlapping debt. The city expects to borrow $22 million over the next four years to partially support the Capital Improvement Plan. Additionally, the city is considering constructing a new high school, although approval of this project will depend on state support. The project is currently third on the state's priority list, and should the state approve subsidies, pursuant to the city's charter, the project would be subject to referendum approval.

Debt Structure

All debt is fixed rate and amortization of principal is rapid, with 96.4% repaid within ten years. Debt service accounted for an above average 8.5% of expenditures in fiscal 2014.

Debt-Related Derivatives

Auburn has no derivatives.

Pensions and OPEB

The city issued pension obligation bonds in 2003, which were subsequently refunded in 2012, to fully fund its initial unfunded actuarial liability to the former Maine State Retirement System (MSRS). For some retirees, the city participates in the Maine State Public Employee Retirement Systems (successor to MSRS), a multi-employer, defined benefit retirement plan sponsored by the State of Maine (Aa2 stable). The city funds its annual required contribution (ARC), which was $714,403 in fiscal 2014, or 1.0% of General Fund expenditures. 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 city contributed $149,845 towards this plan in fiscal 2014, and the reported unfunded liability is less than $1 million for 13 retirees and beneficiaries. The combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $16.9 million, or a low 0.2 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

The city's teachers participate in the Maine Public Employees Retirement System's Teacher Plan, which is administered at the state level and therefore the city is not responsible for the plan's unfunded liability. Beginning in fiscal 2014, the district is responsible for 50% of the normal cost of the teachers' plan and makes annual contributions to the state. The city contributed $491,000 and $475,000 in fiscal 2014 and 2015, respectively, budgeted to contribute $598,000 in fiscal 2016. These contributions represent less than 1% of annual expenditures and are not expected to pressure the city's budgets over the near term.

The OPEB liability is modest at $3.5 million and is limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees. Total fixed costs for fiscal 2014, including debt service, required pension contributions and social security payments, represented $7.7 million, or a manageable 10.3% of expenditures.

MANAGEMENT AND GOVERNANCE

Maine cities and towns have an institutional framework score of "Aa", or strong. Revenues are generally predictable as cities and towns rely mostly on property tax revenue to fund operations. Property taxes are subject to the state property tax cap known as LD 1, but cities and towns have the ability to exceed the cap by a majority vote of the legislative body or voter approval. Expenditures are stable and predictable and can be cut as needed.

KEY STATISTICS

Fiscal 2015 Equalized Valuation: $2 billion

Fiscal 2015 Equalized Valuation per Capita: $85,168

Median Family Income as % of U.S.: 94.9%

Fiscal 2014 Available General Fund Balance as % of Revenues: 12.7%

5-Year Dollar Change in Available General Fund Balance as % of Revenues: -1.7%

Fiscal 2014 Cash Balance as % of Revenues: 7.1%

5-Year Dollar Change in Cash Balance as % of Revenues: -27.4%

Institutional Framework: Aa

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

Net Direct Debt as % of Full Value: 3.1%

Net Direct Debt / Operating Revenues: 0.8x

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

3-Year Average ANPL / Operating Revenues: 0.2x

OBLIGOR PROFILE

Auburn has a population of 23,000 and is located in southern Maine (Aa2 stable), approximately 34 miles north of Portland (Aa1 stable) and 35 miles southwest of Augusta, the state capital.

LEGAL SECURITY

The majority of the bonds ($4.7 million) are secured by the city's general obligation limited tax pledge as debt service is subject to the state's property tax limitation known as LD-1. The remaining $1 million is secured by an unlimited general obligation tax pledge, as debt service is expect from LD-1 since proceeds are for school purposes.

USE OF PROCEEDS

Bond proceeds will finance various capital projects for the city and the school department.

PRINCIPAL METHODOLOGY

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.

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