

# RatingsDirect®

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## Summary:

# Auburn, Maine; General Obligation

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## Summary:

# Auburn, Maine; General Obligation

### Credit Profile

US\$5.7 mil GO bonds ser 2015 due 09/01/2025

*Long Term Rating*

AA-/Stable

New

Auburn GO

*Long Term Rating*

AA-/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to the city of Auburn, Maine's series 2015 general obligation (GO) bonds. At the same time, Standard & Poor's has affirmed its 'AA-' rating on Auburn's outstanding GO debt. The outlook is stable.

The city's full faith and credit pledge secures the bonds. We understand that officials will use bond proceeds to fund various capital improvements.

The rating reflects our assessment of the following factors for Auburn, specifically what we consider its:

- Adequate economy, with market value per capita of \$87,449 and projected per capita effective buying income at 91.8% of the national level;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Weak budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 12.6% of operating expenditures;
- Very strong liquidity, with total government available cash of 22.9% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 8.8% of expenditures and net direct debt that is 66.6% of total governmental fund revenue and low overall net debt at less than 3% of market value and rapid amortization with 96.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### Adequate economy

We consider Auburn's economy adequate. The city, with an estimated population of 22,698, is located in Androscoggin County. The city has a projected per capita effective buying income of 91.8% of the national level and per capita market value of \$87,449. Overall, the city's market value fell by 1% over the past year to \$2 billion in 2015. The county unemployment rate was 5.5% in 2014.

The city serves as the county seat and is approximately 34 miles north of Portland and adjacent to Lewiston. The city is a regional center for retail, wholesale, banking, medical and other major services. Auburn's largest employers include

Walmart, Tambrands and LePage Bakery, each employing more than 500. Auburn has shown a rebound from the recession when unemployment was at an all-time high of 8.3%. Unemployment has fallen, due partly to a number of revitalization efforts and the economic benefit from new businesses in the area. According to management, a Chinese developer is planning a \$40 million medical tourism center in Auburn which officials expect will add to the tax base. Assessed values have remained relatively flat over the past three years at \$1.98 billion in 2015.

### **Strong management**

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

Key policies include an established fund balance policy to maintain at least 12.5% of expenditures, with a formal plan to replenish reserves if it drops below that level. Budgetary assumptions are based on historical trend analysis and the city is typically conservative in its approach to more volatile revenue items such as excise tax. In addition, monitoring practices are sound in our view; department heads and the city council review variance reports and investment holdings monthly. Auburn also maintains a formal capital plan to manage future capital outlays. The city does not perform formal long-term financial planning or maintain a formal debt management plan aside from state guidelines.

### **Weak budgetary performance**

Auburn's budgetary performance is weak in our opinion. The city had a slight deficit in the general fund of 0.5% of expenditures, and a deficit for all governmental funds of 2.9% in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate from 2014 results in the near term.

The 2014 audited operating results were adjusted for recurring transfers out of the general fund. Further, we adjusted out a one-time capital expenditures funded from bond proceeds. We understand the main driver of the city's 2014 operating deficit was higher-than-expected expenditures related to the Business Equipment Tax Exemption Program.

For fiscal 2015 (June 30 year- end), management estimates ending the year with an operating deficit of about \$1.65 million. Total governmental fund results are unknown at this time but will likely be in line or below general fund results. The budget included a drawdown of \$1.35 million. Management attributes the negative variance to budget to higher-than-anticipated snow and ice expenditures and overtime costs. The city's 2016 adopted budget totals \$77.6 million, representing a 1.8% increase from 2015. The budget includes a tax levy increase within the state's LD1 limit. Further, the budget includes a \$1.65 million appropriation of reserves which is in line with historical practice. Management believes it should likely be able to replenish this amount throughout the year. Tax revenue, which we consider a stable source, generates about 60% of general fund revenues, followed by intergovernmental revenue at 37.5%.

### **Strong budgetary flexibility**

Auburn's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 12.6% of operating expenditures, or \$9.5 million.

Given the anticipated operating deficit in 2015, we believe the city's available reserve position will decline by approximately \$1.65 million but still remain strong overall. For 2016, should the city draw down on the budgeted \$1.65

million appropriation of fund balance, we estimate that reserves would be reduced to approximately 8.5% of expenditures, a level we still view as strong although nearly adequate.

### **Very strong liquidity**

In our opinion, Auburn's liquidity is very strong, with total government available cash of 22.9% of total governmental fund expenditures and 2.6x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Auburn's cash and liquid investment position declined by about \$5 million between 2013 and 2014 due to the completion of various capital projects. Management estimates that the city's cash and liquid investments will again decline slightly in 2015 to about \$17.2 million--a level we believe is still very strong--because of the estimated operating deficit.

Auburn's strong external liquidity is demonstrated by its issuance of GO bonds in the past 15 years. The city has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

### **Strong debt and contingent liability profile**

In our view, Auburn's debt and contingent liability profile is strong. Total governmental fund debt service is 8.8% of total governmental fund expenditures, and net direct debt is 66.6% of total governmental fund revenue. Overall net debt is low at 2.8% of market value and approximately 96.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Over the next two years, the city will likely issue \$5 million to \$10 million of additional debt for various capital improvements, which is consistent with past practice and coincides with amortizing liabilities. It is possible that the city may issue additional debt beyond our two-year outlook horizon in connection with the renovation or new construction of the high school. The total cost of the project is estimated \$50 million to \$60 million and it is unclear at this point how much, if any, will be financed through bond proceeds.

Auburn's combined pension and other postemployment benefits (OPEB) contributions totaled 3.1% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

Auburn participates in the Maine State Retirement System and offers employees the option to participate in a defined contribution plan offered by the International City/County Management Association. Auburn sponsors a postretirement benefit plan providing retirees with health insurance. The retirees pay 100% of the monthly premium set by the Maine Municipal Employees Health Trust.

### **Strong institutional framework**

The institutional framework score for Maine municipalities is strong.

## **Outlook**

The stable outlook reflects our view of Auburn's strong management and strong reserves. We do not expect to change the rating in our two-year horizon due to management's expectation of a level fund balance of 12.5% of expenditures,

and the economy being adequate.

### Upside scenario

We believe the rating is currently constrained due to adequate economic fundamentals and weak budgetary performance. Consideration of a positive rating action would likely depend on improvement in budgetary performance and flexibility, coupled with growth in the economy.

### Downside scenario

We could lower the rating if budgetary performance continues to be weak, resulting in a decrease in the city's available reserves.

## 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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

### Ratings Detail (As Of October 16, 2015)

#### Auburn GO

*Unenhanced Rating*

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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