

# RatingsDirect®

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## Summary:

# Brewer, Maine; General Obligation

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## Summary:

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*(Editor's Note: In the summary analysis published March 10, 2014, the affirmed rating was misstated. A corrected version follows.)*

### Credit Profile

Brewer GO

Long Term Rating

AA-/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' rating on Brewer, Maine's general obligation (GO) debt, based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

A pledge of the city's full faith and credit secures the bonds.

The rating reflects our assessment of the following factors for the city:

- We consider Brewer's economy very strong. Brewer, with a population of 9,075, is in southeastern Penobscot County on the eastern shore of the Penobscot River, directly across from the city of Bangor. Its projected per capita effective buying income is 94% of the U.S. and per capita market value is \$82,940.
- Brewer's budgetary performance is adequate. The city realized a deficit in the general fund of \$1 million equal in fiscal 2013, or negative 3.1% of expenditures. Across all funds, the city's operations also realized a deficit of 2.9% of expenditures, after factoring in capital spent from bond proceeds. The deficits were largely planned as management used reserves to offset tax increases and the loss of school state aid appropriations. For fiscal 2014, the city is projecting a budgetary surplus as it raised taxes to accommodate budget growth and eliminate its use of reserves. The projected surplus suggests general fund performance is expected to improve.
- While the city has been using budgetary reserves over the past few years, we still view the city's budgetary flexibility as strong. Audited fiscal 2013 reserves were \$4.5 million, or 12.9% of expenditures. Management expects 2014 reserves to remain in line with years past.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash at 17% of total governmental fund expenditures and roughly 3x debt service. Moreover, based on past debt issuance, we believe the city has strong access to capital markets to provide for liquidity needs, if necessary.
- We view the city's management conditions as strong with "good" financial practices under Standard & Poor's Financial Management Assessment. This indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Highlights include a five-year capital improvement plan updated annually, a formal investment policy, and weekly budget reporting to the city council.
- In our opinion, Brewer's debt and contingent liability profile is adequate. The city maintains roughly \$38 million of total direct debt, of which \$14 million is enterprise-related and paid from user charges. Total governmental fund debt service is 5.5% of total governmental fund expenditures, and net direct debt is 64% of total governmental fund revenue. Pension and other postemployment benefit costs are also manageable at a low 1.4% of expenditures.
- We consider the Institutional Framework score for Maine cities strong.

## **Outlook**

The stable outlook reflects our view of Brewer's focus on maintaining strong operating flexibility. We believe strong management conditions are also a stabilizing rating factor. We expect the city to budget for structurally balanced operations and limit the use of reserves for ongoing operations. We believe budgetary performance is projected to improve and the debt and liability profile will remain adequate. For these reasons, we do not anticipate revising the rating over the next two years.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

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