

ISSUER COMMENT

11 April 2019

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

Contacts

Isaac Rauch +1.212.553.4346
Associate Lead Analyst
isaac.rauch@moodys.com

Thomas Jacobs +1.212.553.0131
Senior Vice President/Manager
thomas.jacobs@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

City of Brewer, ME

Annual Comment on Brewer

Issuer Profile

The City of Brewer is located in Penobscot County in south central Maine, approximately 60 miles northeast of Augusta. The county has a population of 152,284 and a low population density of 45 people per square mile. The county's median family income is \$61,325 (3rd quartile) and the January 2019 unemployment rate was 4.6% (2nd quartile) ². The largest industry sectors that drive the local economy are health services, retail trade, and state government.

Credit Overview

Brewer's credit position is high quality, and its Aa3 rating matches the US cities median of Aa3. The key credit factors include a very solid financial position, a healthy wealth and income profile, a modestly sized tax base, an affordable pension liability, but a very heavy debt burden.

Finances: Brewer has a strong financial position, which is in line with the assigned rating of Aa3. The city's cash balance as a percent of operating revenues (22.6%) is below the US median, but rose between 2014 and 2018. Fund balance as a percent of operating revenues (15.3%) is also lower than the US median.

Economy and Tax Base: The economy and tax base of Brewer are satisfactory, if slightly weak when compared to the assigned rating of Aa3. The median family income is a solid 108% of the US level. Full value per capita (\$79,730) is roughly equivalent to other Moody's-rated cities nationwide, and grew modestly from 2014 to 2018. However, the total full value (\$721 million) is below the US median.

Debt and Pensions: The pension liability of Brewer is affordable and is slightly favorable when compared to its Aa3 rating. The Moody's-adjusted net pension liability to operating revenues (0.58x) favorably is materially lower than the US median, and stayed flat between 2014 and 2018. On the contrary, Brewer has a very heavy debt burden which is a weakness in relation to the assigned rating of Aa3. The city's net direct debt to full value (5.1%) is significantly above the US median.

Management and Governance: Maine cities have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. cities' major revenue source, property taxes, are subject to a cap, which can be overridden at the local level. The cap is based on statewide personal income growth and local property growth. The cap allows for moderate revenue-raising ability. Taxes raised for school purposes, including school debt service, are not subject to the cap. Unpredictable revenue fluctuations tend to be minor,

or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maine has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Maine Cities

Maine's economy continues to underperform, resulting in slow state revenue growth and therefore flat state aid to cities. As a result, cities will continue to increase property taxes, within the limits of the state-wide property tax cap, to fund expenditure growth. Positively, most cities have excess levy capacity under the cap that could mitigate future unexpected declines in state aid. Property values are stabilizing, but new growth remains limited. Cities will only experience slight benefits from employment growth as this growth is primarily in low paying jobs.

EXHIBIT 1

Key Indicators ⁴ ⁵ Brewer

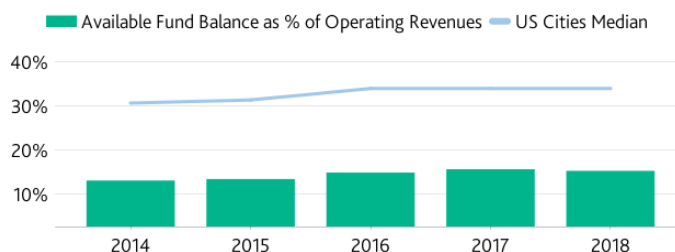
	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$715M	\$707M	\$721M	\$718M	\$721M	\$1,867M	Stable
Full Value Per Capita	\$76,217	\$75,731	\$77,698	\$79,498	\$79,730	\$89,200	Stable
Median Family Income (% of US Median)	108%	109%	108%	108%	108%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	13.1%	13.4%	14.9%	15.6%	15.3%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	15.9%	18.5%	20.9%	23.2%	22.6%	36.9%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	5.6%	5.5%	5.2%	5.1%	5.1%	1.1%	Improved
Net Direct Debt / Operating Revenues	1.11x	1.08x	1.03x	0.99x	0.98x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.4%	2.7%	2.9%	2.6%	3.0%	1.8%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.48x	0.52x	0.57x	0.52x	0.57x	1.51x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	9,391	9,341	9,284	9,043	9,043	N/A	
Available Fund Balance (\$000s)	\$4,710	\$4,829	\$5,347	\$5,721	\$5,711	\$7,419	
Net Cash Balance (\$000s)	\$5,740	\$6,647	\$7,510	\$8,488	\$8,449	\$8,404	
Operating Revenues (\$000s)	\$36,021	\$36,024	\$35,960	\$36,610	\$37,407	\$21,930	
Net Direct Debt (\$000s)	\$40,159	\$38,895	\$37,152	\$36,417	\$36,649	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$17,216	\$18,769	\$20,585	\$19,013	\$21,494	\$32,507	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 2

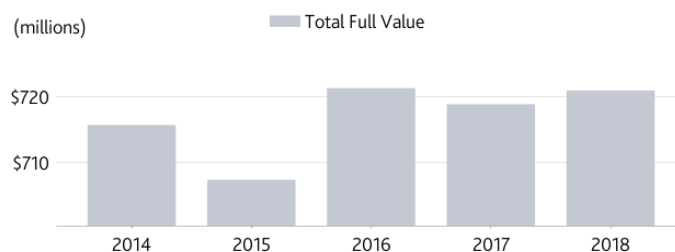
Available fund balance as a percent of operating revenues was stable from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

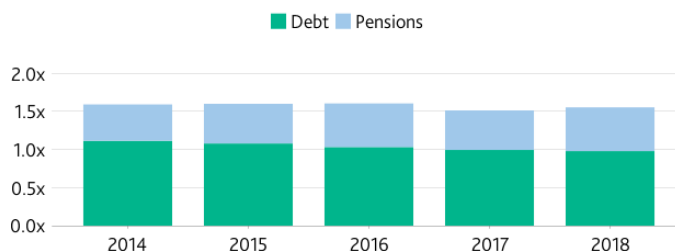
Full value of the property tax base was stable from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues was stable from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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