

## ISSUER COMMENT

21 October 2016

### RATING

#### General Obligation (or GO Related)<sup>1</sup>

Aa3 No Outlook

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## 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. Penobscot County has a population of 153,414 and a population density of 45 people per square mile. The county's per capita personal income is \$35,914 (3rd quartile) and the June 2016 unemployment rate was 4.3% (2nd quartile).<sup>2</sup> The largest industry sectors that drive the local economy are health services, retail trade, and state government.

#### Credit Overview

Brewer has a high quality credit position, and its Aa3 rating matches the median rating of Aa3 for cities nationwide. Notable credit factors include a favorable financial position, and a modestly sized tax base with a healthy socioeconomic profile. It also takes into account a very heavy debt burden with a small pension liability.

**Finances:** The financial position of the city is favorable, which is consistent with its assigned rating of Aa3. The available fund balance as a percent of operating revenues (13.4%) is lower than the US median. In addition, Brewer's net cash balance as a percent of revenues (18.5%) is below other Moody's-rated cities nationwide, and this metric fell slightly between 2012 and 2015.

**Economy and Tax Base:** The city has a satisfactory economy and tax base, which is a slight weakness relative to its Aa3 rating. The full value per capita (\$75,327) is consistent with the US median. Furthermore, the median family income is a solid 108.3% of the US level. Lastly, the total full value (\$707 million) is below other Moody's-rated cities nationwide and declined modestly from 2012 to 2015.

**Debt and Pensions:** The pension liability of Brewer is manageable and a credit strength in comparison to its Aa3 rating. Brewer's Moody's-adjusted net pension liability to operating revenues (0.52x) favorably is materially lower than the US median, even though it grew modestly between 2012 and 2015. On the other hand, the city has a somewhat elevated debt liability, which is weaker than its Aa3 rating position. The net direct debt to full value (5.5%) far exceeds the US median.

**Management and Governance:** The ability to generate balanced financial operations is a component of good financial management. On average, Brewer's operations were approximately break-even over the past several years.

Maine cities have an institutional framework score <sup>3</sup> of "Aa," or strong. Revenues are highly predictable and mostly consist of property taxes, with a smaller portion coming from state

aid. Cities have moderate revenue-raising ability since property taxes are subject to the state property tax cap known as LD 1, although the cap can be exceeded by a majority vote of the legislative body or with voter approval. Expenditure predictability is moderate, as most expenditures are for education, general government and public safety. Cities have a moderate expenditure reduction ability due to public sector union presence.

## 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 in 2016 will remain limited. Cities will only experience slight benefits from employment growth as this growth is primarily in low paying jobs.

Exhibit 1

### Key Indicators<sup>4 5</sup>

Brewer, ME

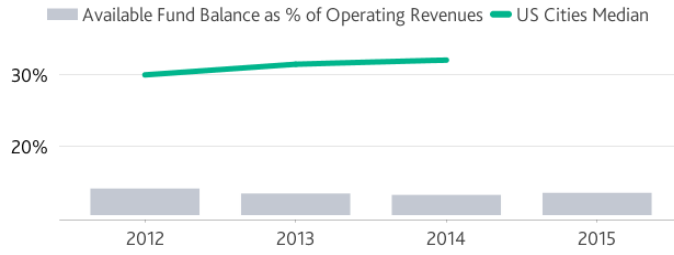
|   | 2012     | 2013     | 2014     | 2015     | US Median | Credit Trend |
|---|----------|----------|----------|----------|-----------|--------------|
| <b>Economy / Tax Base</b>   |          |          |          |          |           |              |
| Total Full Value  | \$732M   | \$716M   | \$716M   | \$707M   | \$1,722M  | Stable       |
| Full Value Per Capita   | \$77,460 | \$75,944 | \$76,217 | \$75,327 | \$85,195  | Stable       |
| Median Family Income (% of US Median)                                       | 106.2%   | 105.8%   | 108.3%   | 108.3%   | 115.2%    | Stable       |
| <b>Finances</b>   |          |          |          |          |           |              |
| Available Fund Balance as % of Operating Revenues                           | 14%      | 13.3%    | 13.1%    | 13.4%    | 32.1%     | Stable       |
| Net Cash Balance as % of Operating Revenues                                 | 19.7%    | 19.2%    | 15.9%    | 18.5%    | 34.4%     | Stable       |
| <b>Debt / Pensions</b>  |          |          |          |          |           |              |
| Net Direct Debt / Full Value  | 5.8%     | 5.7%     | 5.6%     | 5.5%     | 1.2%      | Stable       |
| Net Direct Debt / Operating Revenues  | 1.25x    | 1.20x    | 1.12x    | 1.08x    | 0.94x     | Stable       |
| Moody's-adjusted Net Pension Liability (3-yr average) to Full Value         | 0.80%    | 1.3%     | 2.4%     | 2.7%     | 1.7%      | Weakened     |
| Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues | 0.17x    | 0.27x    | 0.48x    | 0.52x    | 1.35x     | Stable       |

Source: Moody's

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

Exhibit 2

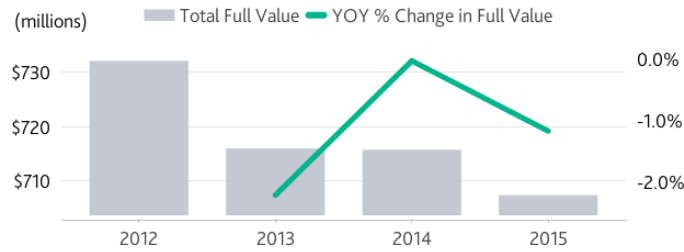
**Available fund balance as a percent of operating revenues decreased slightly between 2012 and 2015**  
**Available Fund Balance as a Percent of Operating Revenues**



Source: Issuer financial statements; Moody's

Exhibit 3

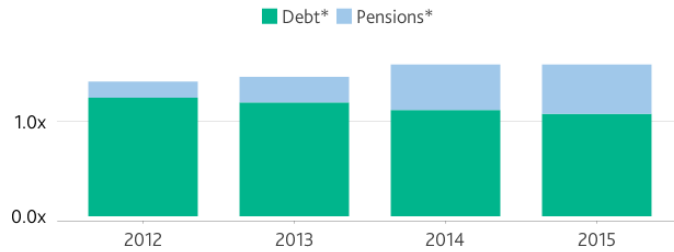
**Total full value decreased modestly from 2012 to 2015**  
**Total Full Value**



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

Exhibit 4

**Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2015**  
**Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues**



\*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.  
 Source: Issuer financial statements; Government data sources; Offering statements; Moody's

## Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as 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 guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to 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 first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 5.1 % for June 2016.
- 3 The institutional framework score measures 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 \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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