

## ISSUER COMMENT

25 April 2018

### RATING

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

Aa3 No Outlook

### Contacts

Nikki S Carroll +1.212.553.1742  
Associate Lead Analyst  
nikki.carroll@moodys.com

Thomas Jacobs +1.212.553.0131  
Senior Vice President  
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. Penobscot County has a population of 152,978 and a low population density of 45 people per square mile. The county's median family income is \$58,638 (3rd quartile) and the December 2017 unemployment rate was 2.8% (1st 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 strong credit position, and its Aa3 rating is level with the US cities median of Aa3. The notable credit factors include a favorable financial position, a healthy wealth and income profile, a modestly sized tax base, a low pension liability, but a very heavy debt burden.

**Finances:** Brewer's financial position is solid and is slightly favorable in relation to the assigned rating of Aa3. The city's cash balance as a percent of operating revenues (23.2%) is below the US median. Additionally, the fund balance as a percent of operating revenues (15.6%) is materially lower than the US median. Favorably, both metrics improved between 2013 and 2017.

**Economy and Tax Base:** Brewer has a solid economy and tax base, which are largely aligned with the assigned rating of Aa3. The median family income equates to a solid 108.5% of the US level. Furthermore, the city's full value per capita (\$78,939) is consistent with the US median, and grew modestly between 2013 and 2017. Lastly, the total full value (\$719 million) is weaker than other Moody's-rated cities nationwide.

**Debt and Pensions:** The pension liability of Brewer is low and is favorable in comparison to its Aa3 rating. The Moody's-adjusted net pension liability to operating revenues (0.52x) favorably is materially below the US median, and remained stable from 2013 to 2017. However, the city has a very heavy debt burden and is a weakness relative to the assigned rating of Aa3. The net direct debt to full value (5.1%) is significantly above the US median.

**Management and Governance:** Maine cities have an Institutional Framework score <sup>3</sup> 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 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

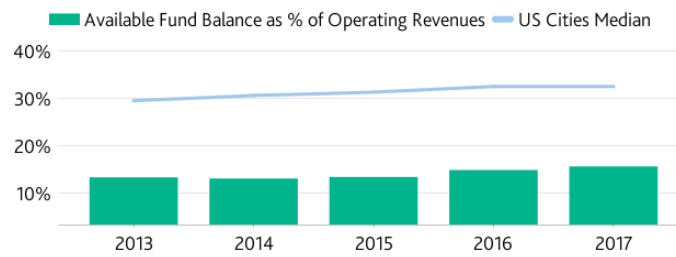
#### Key Indicators <sup>4 5</sup> Brewer

	2013	2014	2015	2016	2017	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$716M	\$715M	\$707M	\$721M	\$718M	\$1,787M	Stable
Full Value Per Capita	\$75,944	\$76,217	\$75,731	\$79,208	\$78,939	\$88,380	Stable
Median Family Income (% of US Median)	106%	108%	109%	109%	109%	113%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	13.3%	13.1%	13.4%	14.9%	15.6%	32.5%	Stable
Net Cash Balance as % of Operating Revenues	19.2%	15.9%	18.5%	20.9%	23.2%	35.4%	Stable
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	5.7%	5.6%	5.5%	5.2%	5.1%	1.2%	Improved
Net Direct Debt / Operating Revenues	1.20x	1.11x	1.08x	1.03x	0.99x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.3%	2.4%	2.7%	2.9%	2.6%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.27x	0.48x	0.52x	0.57x	0.52x	1.46x	Stable
	2013	2014	2015	2016	2017	US Median	
<b>Debt and Financial Data</b>							
Population	9,428	9,391	9,341	9,107	N/A	N/A	
Available Fund Balance (\$000s)	\$4,511	\$4,710	\$4,829	\$5,347	\$5,721	\$7,221	
Net Cash Balance (\$000s)	\$6,487	\$5,740	\$6,647	\$7,510	\$8,488	\$7,930	
Operating Revenues (\$000s)	\$33,858	\$36,021	\$36,024	\$35,960	\$36,610	\$21,262	
Net Direct Debt (\$000s)	\$40,650	\$40,159	\$38,895	\$37,152	\$36,417	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$9,310	\$17,216	\$18,769	\$20,585	\$19,013	\$29,896	

Source: Moody's Investors Service

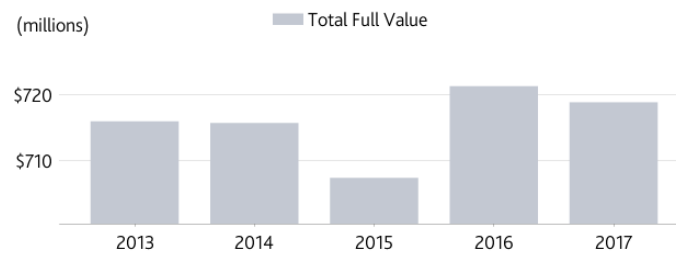
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## EXHIBIT 2

**Available fund balance as a percent of operating revenues increased from 2013 to 2017**

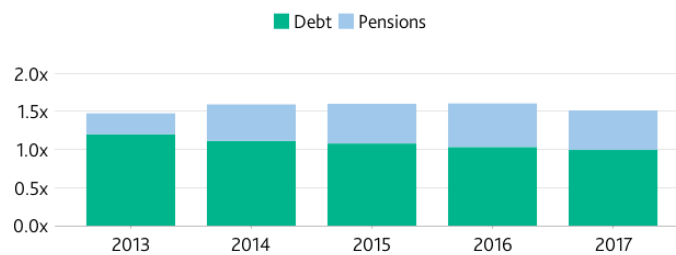
Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

**Full value of the property tax base increased from 2013 to 2017**

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

## EXHIBIT 4

**Moody's-adjusted net pension liability to operating revenues increased from 2013 to 2017**

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

## Endnotes

- 1 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.
- 2 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.
- 3 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.
- 4 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.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) 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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