

CREDIT OPINION

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Brewer (City of) ME

Update to credit analysis

Summary

Brewer, ME (Aa3) benefits from a moderately sized tax base with above average resident wealth and incomes, an adequate financial position, and manageable long term liabilities including debt, pension, and OPEB.

Credit strengths

- » Low fixed costs driven by below average long term liabilities
- » Fiscal 2021 fund balance increased significantly from prior year

Credit challenges

- » Limited tax base growth over past five years
- » Moderate taxpayer concentration

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significant tax base expansion
- » Material increase in reserves

Factors that could lead to a downgrade

- » Structural imbalance leading to declines in reserves
- » Significant growth in fixed costs

Key indicators

Exhibit 1

Brewer, ME	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$718,900	\$721,000	\$732,700	\$762,350	\$782,200
Population	9,167	9,123	9,090	9,672	9,672
Full Value Per Capita	\$78,423	\$79,031	\$80,605	\$78,820	\$80,873
Median Family Income (% of US Median)	97.0%	100.5%	92.1%	92.1%	92.1%
Finances					
Operating Revenue (\$000)	\$36,610	\$37,407	\$37,477	\$39,630	\$41,759
Fund Balance (\$000)	\$5,721	\$5,711	\$5,976	\$6,305	\$7,733
Cash Balance (\$000)	\$8,488	\$8,449	\$8,287	\$8,460	\$8,960
Fund Balance as a % of Revenues	15.6%	15.3%	15.9%	15.9%	18.5%
Cash Balance as a % of Revenues	23.2%	22.6%	22.1%	21.3%	21.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$36,417	\$36,649	\$33,607	\$31,964	\$34,958
3-Year Average of Moody's ANPL (\$000)	\$19,013	\$20,338	\$20,066	\$19,278	\$21,913
Net Direct Debt / Full Value (%)	5.1%	5.1%	4.6%	4.2%	4.5%
Net Direct Debt / Operating Revenues (x)	1.0x	1.0x	0.9x	0.8x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.6%	2.8%	2.7%	2.5%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.5x

Source: US Census Bureau, Brewer (City of) ME's financial statements and Moody's Investors Service

Profile

Brewer is a mixed residential-commercial/industrial community adjacent to Bangor, ME (Aa2) with a population of 9,672.

Detailed credit considerations

Economy and Tax Base: Moderately sized tax base with slow growth

The city's \$782 million tax base (2021 full valuation) has grown at a 1.6% CAGR over the past five years. The largest taxpayers make up 18% of 2021 assessed value, which is slightly elevated, but notably the largest taxpayers are predominantly utilities. Management reports some ongoing residential developments including a 36-unit development, but there are no significant commercial developments at this time.

Resident wealth and incomes are average with median family income representing 92% of the US median and median home values representing 75%.

Financial Operations and Reserves: Improving financial position but wage pressures rising

The city's financial position should continue to improve over the next several years driven by conservative budgeting practices. Fiscal 2021 audited results reflected a \$936,000 surplus which pushed available fund balance to 22% of revenues, the highest level in six years. The city received more state revenue sharing than it had originally budgeted, driven by the state's limited negative impact from the ongoing COVID-19 pandemic. In fiscal 2021, property taxes and state aid comprised 49% and 40% of total revenues, respectively, while education and public safety were the largest expenses at 55% and 12% of the budget. Fiscal 2022 year to date results are likely to result in another surplus at year end of around \$500,000.

Liquidity

Cash and investments at the end of fiscal 2021 represented \$9 million or 22% of revenues.

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.

Debt and Pensions: Manageable long term liabilities

The city's debt burden will remain manageable given limited additional debt plans. The city typically issues yearly bonds through the Maine Municipal Bond Bank's general resolution program (Aa2) for about \$1-2 million per year. Outside of yearly bond bank issues, the city does not expect to issue new money bonds over the next several years.

Notably, the city's water and wastewater funds have issued a significant amount of debt in the past with those funds currently having more debt outstanding than the city's general fund. That investment was related to a combined sewer overflow (CSO) abatement program originally established with the EPA in 1994. After investing \$25 million to comply with state and federal mandates, the city has fully completed its responsibilities under the CSO program.

Legal security

Debt service is secured by the city's general obligation limited tax pledge as debt service is subject to the state's statutory property tax limitation known as LD-1.

Debt structure

The entire debt portfolio is fixed rate with 70% of principal retired in ten years. Fiscal 2021 debt service represented \$2.5 million or 6% of revenues.

Debt-related derivatives

The city is not party to any interest rate swaps or derivative agreements.

Pensions and OPEB

The city's unfunded pension and OPEB liabilities are smaller than its debt burden at this time. However, while currently manageable, these unfunded liabilities represent a potential future credit challenge. The city participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis. The table below summarizes the city's 2021 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

2021	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	41,759	n/a	n/a
Reported Unfunded Pension Liability	4,452	11%	6.75%
Moody's Adjusted Net Pension Liability	28,552	68%	2.70%
Reported Net OPEB Liability	7,126	17%	2.48%
Moody's Adjusted Net OPEB Liability	6,985	17%	2.68%
Net Direct Debt	34,958	84%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	70,495	169%	n/a
Pension Contribution	1,156	2.77%	n/a
OPEB Contribution	170	0.41%	n/a
Debt Service	2,478	5.93%	n/a
Total Fixed Costs	3,804	9.11%	n/a
Tread Water Gap	(481)	-1.15%	n/a
Moody's Adjusted Fixed Costs	3,323	7.96%	n/a

Source: Moody's Investors Service and issuer's audited financial statements

Favorably, the city's 2021 pension contributions exceeded tread water, the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the city participates experience returns on assets that fall short of their assumptions, the city's required pension contribution will increase.

ESG considerations

Environmental

Moody's ESG Solutions considers flooding to be the highest environmental risk for the city among the various environmental hazards we review. The city's significant investment in its water and wastewater departments reflects ongoing focus related to managing the city's asset base with respect to environmental risks.

Social

Social risks are limited given the city's average resident wealth and income levels.

Governance

Management maintains an updated capital improvement plan in addition to maintaining formal fund balance policies. The city has experienced multiple cyberattacks in recent years, though no attack has resulted in any payouts or loss of system functionality. Further, the city maintains cybersecurity related insurance policies.

Maine Cities have an institutional framework score ¹ of "Aa", which is strong. The sector's major revenue source of 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 less than 25% of expenditures. Fixed costs are driven mainly by debt service. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Brewer (City of) ME

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$782,200	A
Full Value Per Capita	\$86,051	Aa
Median Family Income (% of US Median)	92.1%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	18.5%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	5.7%	A
Cash Balance as a % of Revenues	21.5%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	3.5%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	4.5%	Baa
Net Direct Debt / Operating Revenues (x)	0.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.8%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.5x	Aa
	Scorecard-Indicated Outcome	A1
	Assigned Rating	Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, issuer's audited financial statements, and Moody's Investors Service

Endnotes

1 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 \(July 2020\)](#) methodology report for more details.

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