

RatingsDirect®

Summary:

Brewer, Maine; General Obligation

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US\$14.155 mil GO bnds ser 2022 due 04/01/2042

Long Term Rating AA-/Stable New

Brewer GO

Long Term Rating AA-/Stable Affirmed

City of Brewer High Sch Dist GO qual sch const bnds

Long Term Rating AA-/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Brewer, Maine's roughly \$14.155 million series 2022 general obligation (GO) public-improvement and refunding bonds and affirmed its 'AA-' rating, with a stable outlook, on the city's existing GO debt.

Brewer's full-faith-and-credit pledge secures the bonds. The city can levy ad valorem property taxes for bond repayment, subject to Maine's LD-1 legislation limitations. We rate the limited-tax GO debt on par with our view of the city's general creditworthiness, reflecting Brewer's revenue-raising flexibility and ability to pay debt service.

Officials intend to use series 2022 bond proceeds to finance general capital projects and refund series 2012 bonds and U.S. Department of Agriculture bonds.

Credit overview

Brewer, adjacent to Bangor, is a retail and commercial center for surrounding communities. Wealth and income are lower than higher-rated peers, but property values have shown consistent growth. Management has produced consistent positive finances, which has led to steady reserve growth during the past few years. We do not expect to change the rating during the two-year outlook.

The rating reflects our opinion of the city's:

- Stable local economy, supported by manufacturing and retail;
- Strong financial-management environment with a strong Institutional Framework;
- Stable revenue and expenditure profiles, leading to high cash and reserves; and
- Manageable debt and low retirement costs.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to Brewer's economy, management, financial measures, and debt-and-liability profile and determined all are in-line with our view of the sector standard.

The city sits on the bank of the Penobscot River, and it has performed projects to control stormwater and protect the riverbanks to mitigate potential flood effects associated with the river on the city.

Stable Outlook

Upside scenario

We could raise the rating if reserves were to continue to improve and wealth and income were to increase to levels we consider comparable with higher-rated peers.

Downside scenario

We could lower the rating if financial performance were to deteriorate, leading to a persistent reserve drawdown and resulting in available reserves below that of its peers.

Credit Opinion

A stable economic profile

Brewer is in eastern Maine, 76 miles northeast of Augusta and across the Penobscot River from Bangor. Brewer serves as a retail and distribution hub for the area, and the 10 leading taxpayers are primarily retail and manufacturing entities. Leading taxpayers include two manufacturing businesses that plan to invest in their Brewer facilities. Assessed value (AV) has grown steadily during the past few fiscal years due primarily to property appreciation. AV grew by 3.3% from fiscal years 2020-2021. New multifamily developments are underway, totaling approximately 80 new units. Brewer unemployment has typically been below Penobscot County and state levels; county unemployment was 5.4% for 2020 due to COVID-19 and 4.2% as of December 2021.

Walmart Inc. has filed appeals for its fiscal years 2020-2022 tax assessments as it has done in other Maine communities. The appeal is awaiting a determination by the State Board of Property Tax Review. City officials do not expect this appeal to have a material effect on Brewer, and they would pay abatements through a combination of overlay reserves and fund balance.

Well-embedded financial policies and an overall strong financial-management environment

When developing the budget, Brewer incorporates historical trend analysis and tracks spending commitments over a three-year period. Management tracks budget-to-actual performance and reports results to the city council monthly. Brewer maintains a 15-year capital plan it updates annually and identifies project funding. While the city does not currently maintain an investment-management policy, it develops investment reports for the council monthly. There are no formal debt-management or reserve policies.

Consistent financial performance, supporting maintaining very strong reserves, cash

Brewer has a history of outperforming its budget due to stable revenue and expenditures and conservative budgeting. The city developed an especially conservative budget for fiscal 2021, including revenue forecasts due to COVID-19. Higher-than-budgeted state revenue sharing of \$500,000 reflects state sales and income taxes that held up well through COVID-19. Brewer also realized higher-than-budgeted excise tax revenue. It did not experience a disruption in tax collections, which remained high at more than 98%.

The city continued fund balance growth in fiscal 2021 with 22% year-over-year available fund balance growth and 44% growth during the past five fiscal years. The federal government allocated Brewer \$950,000 in American Rescue Plan Act of 2021 funds; while management has not committed these funds for anything yet, it is contemplating using them for capital projects.

The fiscal 2022 budget added one police position and introduced a 3% cost-of-living increase for nonunion employees, including using approximately \$589,000 of fund balance, an increase of 11% over fiscal 2021. Expenditures and revenue are on target to this point in fiscal 2022, and state revenue sharing is overbudget. Management expects to contribute an additional \$500,000 to fund balance.

The fiscal 2023 budget includes a 5% cost-of-living adjustment for non-union employees to remain competitive in the tight labor market. All labor units have contracts settled through 2024, which we view as mitigating factors regarding current labor cost pressure. The budget includes expenditures increasing, offset by higher nonproperty tax revenue. Brewer has reduced the tax rate slightly since 2020, and it expects to continue that for fiscal 2023 to partially offset appreciating values.

We expect liquidity will likely remain very strong. Brewer has demonstrated strong access to external liquidity through frequent debt issuance. Furthermore, Brewer does not currently have any contingent-liquidity risk from financial instruments with payment provisions that change upon certain circumstances.

Stable debt with no material expected changes

The par amount for the series 2022 bonds is roughly \$14.1 million; the city expects to receive an approximately \$2.3 million in unamortized premium. Following this issuance, Brewer has about \$55 million in total direct debt outstanding. We include approximately \$22 million of Brewer High School District debt as direct debt for the city. While the district is a distinct legal entity, it has no operations. It owns and constructs all city school buildings, and it submits annual debt-service bills to the city. Brewer has approximately \$25,000 in overlapping debt attributed to the county; direct debt is partially offset by about \$17 million in self-supporting enterprise debt and \$13.9 million in state aid reimbursement for high school district debt. Brewer does not have any authorized, but unissued, debt remaining; it expects limited additional debt during the next few years with any new debt issued to fund projects outlined in the capital-improvement plan.

Low pension and other postemployment benefit (OPEB) costs

We do not view pension costs as a long-term credit concern for Brewer due to high funding, manageable liabilities, and overall low costs.

As of June 30, 2021, Brewer participates in:

- Maine Public Employees' Retirement System's (MPERS) consolidated plan for local participating districts, which is 101% funded, with a \$414,000 proportionate share of the net pension asset; and
- MPERS' state employees' and teachers' plan, which is 91% funded, with a \$230,000 proportionate share of the net pension liability.

Both pension plans use a 6.5% discount rate, while more than our 6% guideline, we do not think is likely to lead to

significant contribution volatility due to high funding in the respective plans. Brewer is also a member of Maine Municipal Employees' Health Trust and Maine Education Association Benefits Trust, which sponsor OPEB plans that provide health insurance to retiring employees. Eligible retirees must pay 100% of health-insurance premiums to receive health benefits. Therefore, contributions made by the city represent an implicit rate subsidy; audited financial statements reflect the percent of premiums subsidizing retiree health-care benefits. Brewer's reported OPEB liability is \$5.7 million.

Strong Institutional Framework

The Institutional Framework score for Maine municipalities is strong.

	Most recent	--Historical information--		
		2021	2020	2019
Adequate economy				
Projected per capita effective buying income as a % of U.S.	87.1			
Market value per capita (\$)	88,867			
Population		9,297	9,365	
County unemployment rate(%)		5.4		
Market value (\$000)	826,199	799,516	761,988	
10 leading taxpayers as a % of taxable value	17.6			
Strong budgetary performance				
Operating fund result as a % of expenditures		2.0	(1.1)	0.5
Total governmental fund result as a % of expenditures		4.1	0.1	(3.7)
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		18.4	15.3	15.4
Total available reserves (\$000)		7,732	6,304	5,977
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		17.6	17.7	18.2
Total government cash as a % of governmental fund debt service		329.1	303.4	325.5
Strong management				
Financial Management Assessment	Good			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		5.4	5.8	5.6
Net direct debt as a % of governmental fund revenue	52.8			
Overall net debt as a % of market value	3.1			
Direct debt 10-year amortization (%)	87.3			
Required pension contribution as a % of governmental fund expenditures		2.8		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

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