

Summary:

Brewer, Maine; General Obligation

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Credit Profile

US\$21.25 mil GO rfdg bnds ser 2012 due 04/01/2042

Long Term Rating

AA-/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating and underlying rating (SPUR) to Brewer, Maine's 2012 general obligation (GO) debt and affirmed its existing GO debt. The outlook is stable.

The long-term rating reflects Brewer's:

- Participation in the Bangor metropolitan area,
- Good financial position despite ongoing budget stress, and
- Moderate debt burden.

The city's full faith and credit secures the bonds. Bond proceeds will be used to refund bonds issued to finance water system improvements. The city is not extending any of its maturities.

Brewer, with a population of 9,075, is located in the southeastern section of Penobscot County on the eastern shore of the Penobscot River directly across from the city of Bangor. While the local economic base is somewhat limited, area residents are afforded additional employment opportunities in nearby Bangor's more diverse economy. Historically, the city's unemployment rate has been below average. The 2011 unemployment rate was 7.1% compared with 7.5% for the state and 8.9% for the nation. The city's wealth and income levels are good but below average, in our opinion, with median household effective buying income at 99% of the state level and 88% of the national level.

Reflecting the recent economic downturn, fiscal 2012 assessed value (AV) fell to \$773 million, from fiscal 2009's reported value of \$786 million. Until 2010, the city was experiencing strong AV growth, averaging 7.1% annually from fiscal 2005 to 2009. Despite the recent declines, market values remain very strong at \$90,000 per capita. Taxpayer concentration is diverse, with the leading 10 taxpayers accounting for 19.1% of total AV.

Despite ongoing stress due largely to state aid cuts and a slight decline in the tax base, Brewer's financial operations remain favorable. In fiscal 2011, the city implemented Governmental Accounting Standards Board (GASB) Statement No. 54, which is intended to make fund balance reporting more consistent and transparent.

On the whole, the city had an overall total fund balance of \$5.9 million, or roughly 18% of expenditures, which we view as strong. The city realized a modest operating surplus of \$343,000, equivalent to 0.1% of budget. The total fund balance comprises \$3.4 million of unassigned fund balance (10% of expenditures) and roughly \$1.1 million of assigned fund balance. The city maintains its unassigned fund balance above its policy target of 8.3% of expenditures.

For the current fiscal 2012, the city is estimating balanced operating results. For fiscal 2013, the city is proposing a

budget increase of about 2% from a year earlier, to about \$34.4 million, mainly for the education department. Property taxes are the major revenue source, accounting for 48% of total general fund revenues for fiscal 2012.

Brewer's financial management practices are considered "good" under Standard and Poor's Financial Management Assessment. This indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Highlights include a five-year capital improvement plan that is updated annually, a formal investment policy, and weekly budget reporting to the city council.

The debt burden remains manageable. Following this bond issue, the overall net debt per capita and net debt as a percentage of market value are moderately high. The overall net debt is roughly \$6,003 per capita, or 7% of market value. The debt burden mainly comprised debt associated with the high school district. The city is 100% responsible for the \$35.4 million of the district's bonds outstanding. We note that \$29 million of that amount is being paid through a state subsidy. The city's direct debt carrying charges were low at 5.5% of total governmental expenditures in 2011. The enterprise debt is fully self-supporting.

Outlook

The stable outlook reflects management's ability to maintain balanced operating results and strong reserves. We do not anticipate changing the rating within our two-year horizon.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

| Ratings Detail (As Of June 4, 2012) | | |
|---|------------------|----------|
| Brewer GO | | |
| <i>Unenhanced Rating</i> | AA-(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance. | | |

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