STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Auburn, Maine; General Obligation

Primary Credit Analyst:
Apple Lo, Boston (1) 617-530-8316; apple.lo@standardandpoors.com

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

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Summary:

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Credit Profile		
US$7.2 mil GO bnds ser 2014 dtd 10/30/2014 due 09/01/2024		
Long Term Rating	AA-/Stable	New
Auburn GO		
Long Term Rating	AA-/Stable	Affirmed
Auburn GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating and stable outlook to the City of Auburn, Maine's series 2014 general obligation (GO) bonds. At the same time, Standard & Poor's has affirmed its 'AA-' rating on Auburn's GO debt outstanding. The city's full faith and credit pledge secures the bonds.

We understand that officials will use bond proceeds to fund various capital improvements.

The rating reflects our assessment of the following factors for Auburn, specifically what we consider its:

- Adequate economy, which serves as a regional center for retail, wholesale, banking, and other major services and benefits from its shared economy with Lewiston;
- Strong budgetary flexibility, with projected available reserves after a planned drawdown at or above 12.5% of general fund expenditures;
- Adequate budgetary performance, with planned drawdowns in the general fund and in the total governmental funds;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions, with formal policy and commitment to adherence; and
- Strong debt and contingent liability position, driven mostly by the city's low pension liabilities.

Adequate economy

Auburn has an estimated population of 23,000 and serves as the county seat in Androscoggin County in central Maine. The city, which is about 34 miles north of Portland and adjacent to Lewiston, serves as a regional center for retail, wholesale, banking, medical, and other major services. Its largest employers include Walmart, Tambrands, and LePage Bakery, each employing more than 500. Auburn has shown a rebound from the recession, when unemployment was at an all-time high of 8.3%. Now, in addition to new businesses and a number of revitalization efforts, Auburn has an improved unemployment rate of 6.4% and a higher projected per capita buying income of 91.5% of nationwide averages. Assessed value was $2 billion in 2013, with a resulting per capita market value of $88,393.

Very strong budget flexibility

In our opinion the city's budgetary flexibility remains very strong with available general fund at $9.9 million or 13.5% of expenditures in fiscal 2013. However, management expects to continue to draw down on the fund balance until it reaches 12.5% of expenditures, which represents the target level, according to city policy. Although management hoped to reduce the fund balance by $1.3 million in 2014, new revenues from excise taxes and unspent budgeted expenditures resulted in a smaller $300,000 reduction of the fund balance. City management is expecting similar outcomes for fiscal 2015.

Adequate budgetary performance

Auburn's budgetary performance has been adequate overall, in our view, with an operating deficit of 2.2% for the general fund in fiscal 2013, and negative 2.1% for total governmental funds. About 60% of the city's revenues stem from property tax and collection has been strong, averaging 97% for the most recent five years. Intergovernmental aid accounts for 38% of the revenue source. Officials project to end fiscal 2014 with a $300,000 operating deficit due to strategic efforts to realign the fund balance with policy targets.

Very strong liquidity

Supporting the city's finances is what we consider to be very strong liquidity, with total government available cash at 14% of total governmental fund expenditures and 140.9% of debt service. As an annual issuer of debt, we believe Auburn has good access to external liquidity.

Strong management

We view Auburn's management conditions as strong with "good" financial practices. Key policies include an established fund balance policy to maintain at least 12.5% of expenditures, with a formal plan to replenish reserves if it drops below that level. In addition, monitoring practices are sound in our view -- department heads and the city council review variance reports and investment holdings monthly. Auburn also maintains a formal capital plan to manage future capital outlays. The city does not perform formal long-term financial planning or maintain a debt management plan.

Strong debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is strong, with total governmental funds debt service as a percent of total governmental funds expenditures at 10% and with net direct debt as a percent of total governmental funds revenue at 72.7%. Meanwhile, overall net debt, after taking into account state aid reimbursement on school-related debt, is what we consider low at 2.9% of market value. Amortization of debt is also rapid, with 94.6% of principal to be retired in 10 years. Auburn maintains a long-term capital plan through 2019 with total capital needs of $49.6 million.

Auburn participates in the Maine State Retirement System and offers employees the option to participate in a defined contribution plan offered by the International City/County Management Association. For fiscal 2013, the match on the defined contribution plan and the city's pension costs on the state plan totaled $309,000 or 0.4% of total governmental expenditures. In 2014 and 2015, the state shifted 50% of teacher's pension cost to municipalities, which equates to $1.5 million for Auburn. Together with the city's pension plan, total pension costs will amount to a manageable 3.2% of total governmental expenditures. Auburn sponsors a postretirement benefit plan providing retirees with health insurance. The retirees pay 100% of the monthly premium set by the Maine Municipal Employees Health Trust.

Strong Institutional Framework

We consider the Institutional Framework score for Maine municipalities as strong. See Institutional Framework score for Maine, published Sept. 12, 2013, on RatingsDirect.

Outlook

The stable outlook reflects what we view as Auburn's very strong liquidity and strong budgetary flexibility and management. We do not expect to change the rating in our two-year outlook horizon due to management's expectation of a level fund balance of 12.5% of expenditures, and the economy being adequate. Consideration of a positive rating action would likely depend on improvement in budgetary performance and flexibility, coupled with growth in the economy. Although unlikely, we could lower the rating if budgetary performance decline significantly, leading to decrease in general fund balance.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Maine Local Governments, Sept. 12, 2013

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