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Summary:

# Maine Government Facilities Authority
# Maine; Appropriations; General Obligation; Moral Obligation

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**Summary:**

# Maine Government Facilities Authority Maine; Appropriations; General Obligation; Moral Obligation

| Credit Profile | | |
|---|---|---|
| US$32.5 mil lse rental rev rfdg bnds (Maine) ser 2013 A due 10/01/2033 | | |
| *Long Term Rating* | AA-/Stable | New |
| Maine GO | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| **Maine Govt Facs Auth , Maine** | | |
| Maine | | |
| Maine Govt Facs Auth (Maine) lse rental rev rfdg bnds ser 2010A | | |
| *Long Term Rating* | AA-/Stable | Affirmed |
| **Maine Govt Facs Auth (Maine) lse rental** | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Affirmed |

## Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Maine Government Facilities Authority's $32.5 million series 2013A lease rental revenue bonds. In addition, we affirmed our 'AA-' rating on other parity debt issues of the authority backed by Maine's appropriation obligation. The rating assignment and affirmation reflects the appropriation risks associated with lease rental payments that secure the bonds. The bond ratings are notched off of Maine's 'AA' general obligation (GO) rating because the state did not pledge its full faith and credit obligation of its legally available resources to secure the series 2013A bonds.

Also, Standard & Poor's affirmed its 'AA' rating on the state's previously issued GO debt, 'AA-' rating on Maine Finance Authority's lease (appropriation) debt outstanding, and 'A' rating on debt backed by the state's moral obligation. The outlook for all issues is stable.

We believe Maine has made very limited progress in shoring up its economy and finances since the end of the Great Recession, for example, by recording very modest employment growth and substantially reducing its unfunded pension liability while backsliding on reducing the state's accumulated unreserved general fund deficit and recurring budgetary challenges. This is due in part to funding requirements of MaineCare -- the state's Medicaid program that covers 18% of the state's adult population, a level that, according to the Kaiser Family Foundation, places it at the third highest level of all states in the nation.

The 'AA' rating and stable outlook reflect our view of the state's slowly improving economy, strong fiscal policies and practices, moderate debt and other liabilities, and adequate liquidity for the rating.

The 'AA' GO rating specifically reflects our assessment of the state's credit strengths, including:

- An economy increasingly tied to the service sector, as the state's older and fairly well educated work force attracts employers seeking a stable and knowledgeable work force, with very modest employment growth and an unemployment rate that stood at 7.1% in March, below the nation's 7.9% rate for the same month;
- Rapid debt amortization, with a strong legal framework for debt repayment; and
- Access to a large (internal) cash pool, which provides some additional flexibility by eliminating the need for external cash flow borrowing and providing liquidity on an as-needed basis to support general fund operations.

However, we believe the preceding strengths are somewhat offset by:

- The recording of a general fund deficit in 2012 of $113.6 million, or negative 3.6% of the budget, after recording a modest general fund surplus in fiscal 2011 preceded by three years of recorded deficits;
- An accumulated unreserved general fund balance deficit that rose 36% to $349.9 million in 2012, representing 10.9% of expenditures, from the $236.4 million accumulated deficit recorded at the end of fiscal 2011 but down from a recent high of $411 million in 2010; and
- Somewhat high levels of unfunded pension liabilities of $2.9 billion at fiscal year-end 2012 although substantially improved from two year's prior, when the liability stood at $4.4 billion.

The state's full faith and credit pledge secures its GO debt, which we rate 'AA'. The lease bonds, which we rate 'AA-', including the series 2013A issue, are subject to appropriation. The issues we rate 'A' reflect the state's moral obligation to refill the reserve funds for those bonds if they should fall below required levels. As of June 30, 2012, Maine had $472.1 million ($442.3 million as of April 30, 2013) of GO tax-supported bonds, $269.7 million of appropriation-backed debt, $219.9 million of gas and transportation tax debt, and $4.5 billion of moral obligation debt outstanding for a total tax supported debt of $5.4 billion. We understand officials intend to use series 2013A lease revenue-appropriation bond proceeds to complete the construction of a new courthouse in Augusta and to renovate and construct an addition to a courthouse in Machias.

Debt service carrying charges have remained relatively stable in the past three fiscal years at 2.3% of general-purpose expenditures in fiscal 2012. The state's tax-supported debt service as a percentage of expenditures is low, in our view, at 3.6% after netting out federal government revenue. Debt amortization remains a credit strength, in our view; all GO debt and the vast majority of total tax-supported debt amortizes in 10 years. Debt service payable on net tax supported debt for fiscal 2012 was $160.0 million, or 5.2% of the estimated general fund and dedicated fund revenue for fiscal 2012 as estimated by the revenue forecasting committee in December 2008.

We believe Maine has ample liquidity to meet all of its debt and lease obligations over the next few years although we view the liquidity of the general fund alone as low, but bolstered by the state's ability to borrow from a cash pool. The pool had an average daily available balance of $529.05 million during fiscal 2012, and the balance at April 30, 2013 was $607.0 million. The state's borrowing from the pool at year-end 2012 totaled $102 million, up from $65 million at fiscal year-end 2011. As of April 30, 2013, borrowing stood at $133 million. The use of the internal pool borrowing means the state does not have to rely on external borrowing for liquidity, and it has not issued tax anticipation notes for that purpose since fiscal 2006. Officials project that this internal borrowing will also allow Maine to operate in fiscal 2013 without external liquidity borrowing although in the past it has had legislative authorization to borrow $150 million on an as-needed basis. In our opinion, the state's ability to pay its debt is strong despite facing out-year budget

gaps.

The state reported approximately $3.2 billion in general fund revenue in fiscal 2012, representing an increase of 1.8% from the $3.1 billion recorded in 2011 and a 1.8% increase compared with the revenue forecast for 2012 made in December 2008. The initial general fund revenue forecast for fiscal 2013 of $3.2 billion made in December 2008 was revised downward to $3.02 billion in December 2012 and slightly further to $3.01 billion through the beginning of the current legislative session. This decline in revenue was expected as significant tax reductions were enacted by the legislature during the past two legislative sessions to spur economic development. The state is projecting that it will return to a more moderate pace of revenue growth -- 3.3% -- in fiscal 2015 once the tax cuts are fully implemented. The revenue forecast for 2013 that was revised in December 2012 indicates that individual income tax will likely decline 1.4% to $1.4 billion compared with the amount realized in 2012. The state projects that sales tax revenue will increase 2.6% to $1.0 billion over the same period, and that corporate income tax will decline 19.9% to $186.0 million. Revenues for the nine-month period ending March 2013 totaled $1.9 billion but were only under budget by $5.1 million, or negative 0.3%.

The accumulated deficit position of the unreserved general fund, which includes the stabilization fund, decreased to negative $349.9 million (negative 10.9% of general fund expenditures) up from negative $236.4 million in fiscal 2011 (negative 7.7% of general fund expenditures). The largest portion of the deficit fund balance is due to Medicaid liabilities, composed of payments owed to hospitals ($484 million, $186 million of which is the state's share) and estimates of Medicaid expenses incurred but not paid that accrue at the end of each fiscal year (currently totaling $720.4 million, $263.7 million of which is the general fund portion). The state's Medicaid program accounts for 35% of the general fund appropriation for the 2012-2013 biennium (general fund expenditures for MaineCare constitute $1.45 billion or 70.1% of all health and human services spending). The state is currently debating in the legislative session that is underway whether MaineCare should be expanded to include an estimated 60,000 additional residents, consistent with the objectives of the Affordable Care Act.

Maine ended fiscal 2012 with an audited combined, assigned and unassigned, available general fund balance and budget stabilization fund of negative $355.9 million, or negative 11.1% of general fund expenditures, on a generally accepted accounting principle basis, up from negative 8.0% in fiscal 2011. The state attributes the increase in the negative fund balance to one-day borrowing from its other special revenue fund, which totaled $91 million in fiscal year 2012, to balance the budget.

Maine's economy and finances are slowly recovering from the difficult 2008 through 2010 period associated with the Great Recession, and according to IHS Global Insight, the Pine Tree State will not return to prerecession peak employment until the latter half of 2016. The recession also resulted in the state nearly depleting its "rainy day" or budget stabilization fund in fiscal 2009, leaving a balance of less than $200,000, which the state raised to to $44.8 million (1.4% of general fund expenditures) at fiscal year-end 2012 but which was still below the $128.9 million recorded at fiscal year-end 2008. State officials indicate that subsequent to fiscal year-end 2012, it drew down an additional $40 million from the budget stabilization fund to plug a gap in the supplemental budget for the current year ending June 30, 2013. State officials indicate that the fiscal year-end 2013 budget stabilization fund balance could be $4.6 million before a year-end "cascade" of any unappropriated surplus of the general fund that, according to state

officials, may enable the state to add back about $20 million to the budget stabilization fund at fiscal year end.

We view the stabilization fund as a source of budgetary flexibility that can counteract revenue declines. The state's operating capital fund also provides a source of budget flexibility to Maine; however, state officials indicated that fiscal year-end 2012's balance of $17.1 million owing to current year budgetary strain has been fully used to support the $150 million supplemental budget passed this spring for the current year. The need for the supplemental budget arose when last December the state's revenue forecasting committee issued a downward adjustment of $35.5 million of general fund revenues in fiscal 2013, $58.3 million in 2014, and $66.9 million in 2015 (with income taxes representing a majority of the adjustment). The December revenue forecast also projected general fund revenue of $3.1 billion in 2016 and $3.2 billion in 2017. In mid-January the governor released his supplemental budget for 2013 addressing the revenue shortfall and funded a projected Medicaid shortfall with offsets to the general fund revenue initially implemented by temporary curtailment of allotments. The supplemental budget (2013 Chapter 1) was enacted into law without the governor's signature on March 6, 2013 as the supplemental budget grew to approximately $150 million, $85 million of which was for the state's Medicaid program, funded largely by $35.4 million of savings initiatives included in the temporary curtailment, the $40 million draw from the budget stabilization fund, the $17.1 million draw on the operating capital fund, $11.2 million from the casino in Oxford, and other sources including targeted reductions in the Medicaid program.

In the article "U.S. State and Local Government Credit Conditions Forecast: Powering Through Sequestration," published April 4, 2013, on RatingsDirect, we note that the good news for the New England region is that our revised forecasts for 2013 and 2014 are better than we had initially anticipated. Based on our recent projections, we have revised real GDP growth in New England for 2013 to 1.44% and 2014 to 2.37%, up from 1.35% and 2.12%, respectively. Economic output will be spread unevenly because each state's capacity to generate growth varies. In percentage terms, we believe that Massachusetts (which has the region's largest economy), New Hampshire, and Rhode Island will lead the way as we project each state will grow more than 2.4% through our forecast period. Connecticut, the region's second largest economy, will be among the weaker performing states, along with Maine and Vermont. Major drivers of growth in the region will continue to be in the professional and business services and scientific and technical services sectors, but we also see some momentum building in the durables manufacturing sector through 2014.

New England is one of the regions with the weakest employment growth prospects nationally. Unemployment, however, remains a bright spot in our view, as the regional average remains below the national rate. Data suggest that, through our forecast period, growth in total nonfarm employment will remain tepid in 2013 but improve in 2014 to 1.24%, which is an increase over our initial estimate. Near-term gains will be concentrated in the health care, professional, and scientific and technical services. Government spending continues to be the largest drag on GDP in the region. Another weakness in the economy is educational spending, which we forecast will also contract through 2014.

Based on the analytical factors we evaluate for states, on a scale of '1' (strongest) to '4' (weakest), we have assigned Maine a composite score of '2'. A score of '2' equates to an indicative credit level of 'AA'.

## Outlook

The stable outlook reflects our opinion that the state's financial position is relatively sound although the state faces continuing budget challenges, particularly in the area of Medicaid, and has limited flexibility from a slow economic recovery and minimal reserve levels in the budget stabilization fund. Also, while we recognize the progress the state has made in improving its pension funding liability and related funding, the state hasn't made similar progress in reducing its accumulated general fund deficit, thus contributing further to limited budget flexibility. We deem the possibility of a higher rating during the two year outlook period as highly unlikely given the issues just enumerated. A lower rating is possible over the same time horizon if budget challenges are not dealt with in a timely and successful manner or if debt were to unexpectedly increase without a commensurate increase in financial resources. We also believe the continuing uncertainty of the federal budget process presents an additional element of risk that could challenge the state in the future.

## Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006
- U.S. State And Local Government Credit Conditions Forecast, April 4, 2013

| Ratings Detail (As Of May 21, 2013) | | |
|---|---|---|
| Maine Hlth & Hgr Ed Fac Auth rev bnds ser 1999B (MBIA) (National) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine GO | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| Maine GO | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| Maine GO (AGM) | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| Maine GO (MBIA) (National) | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| **Maine Court Fac Auth, Maine** | | |
| Maine | | |
| Maine Court Fac Auth Lse Rent Ser 93 | | |
| *Long Term Rating* | AA-/Stable | Affirmed |
| **Maine Ed Loan Authority, Maine** | | |
| Maine | | |
| Maine Ed Loan Authority (Maine) moral oblig (ASSURED GTY) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Ed Loan Authority (Maine) student loan rev (ASSURED GTY) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |

| Ratings Detail (As Of May 21, 2013) (cont.) | | |
|---|---|---|
| *Preliminary Rating* | NR(prelim) | |
| **Maine Fin Auth, Maine** | | |
| Maine | | |
| Maine Fin Auth (Maine) (Waste Mtr Oil Disp Site Remediation Prog) Moral Oblig | | |
| *Long Term Rating* | A/Stable | Affirmed |
| **Maine Govt Facs Auth , Maine** | | |
| Maine | | |
| Maine Govt Facs Auth | | |
| *Long Term Rating* | AA-/Stable | Affirmed |
| Maine Govt Facs Auth (Maine) lse rental rev rfdg bnds | | |
| *Long Term Rating* | AA-/Stable | Affirmed |
| Maine Govt Facs Auth (Maine) lse rent rev bnds ser 2009A | | |
| *Long Term Rating* | AA-/Stable | Affirmed |
| Maine Govt Facs Auth (Maine) lse rental 2007A (MBIA) (National) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Affirmed |
| Maine Govt Facs Auth (Maine) lse rental 2008A (ASSURED GTY) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Affirmed |
| **Maine Govt Facs Auth (Maine) lse rental** | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Affirmed |
| **Maine Hlth & Hgr Educl Facs Auth, Maine** | | |
| Maine | | |
| Maine Hlth & Hgr Ed Fac Auth moral oblig (MBIA) (National) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth rev bnds ser 1998B (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth rev bnds ser 1998C (MBIA) (National) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth rev bnds ser 2001A (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth rev bnds ser 2001B (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth rev bnds ser 2001D (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth (Maine) moral oblig (MBIA) (National) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth (Maine) moral oblig (MBIA) (National) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth (Maine) rev bnds ser 1997A (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth (Maine) rev bnds ser 1997B (MBIA) (National) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Maine Hlth & Hgr Ed Fac Auth (Maine) rev bnds ser 1998A (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |

| Ratings Detail (As Of May 21, 2013) (cont.) | | |
|---|---|---|
| Maine Hlth & Hgr Ed Fac Auth (Maine) rev bnds ser 2003B&C (AGM) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance. | | |

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