

### Summary:

## Maine; Appropriations; General Obligation; Moral Obligation

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### Credit Profile

US\$58. mil GO bnds ser 2010 A,B&C due 06/01/2020

*Long Term Rating*

AA/Negative

New

## Rationale

Standard & Poor's Ratings Services has assigned its 'AA' rating to Maine's 2010A, B, and C bonds and affirmed the 'AA' rating on the state's general obligation (GO) debt outstanding and the 'AA-' rating on the authority's lease debt outstanding. The outlook remains negative, reflecting our view of the state's weakened financial position and diminished liquidity.

In our opinion, the rating reflects the following strengths:

- Unemployment rates better than national levels, despite recent employment declines;
- Adequate-to-good income levels; and
- Favorable debt position with a low debt burden and rapid amortization of debt outstanding.

The state's full faith and credit pledge secures the GO debt. The lease bonds are subject to appropriation. Maine intends to issue the 2010B bonds as taxable Build America Bonds for which it expects to receive a 35% interest subsidy from the United States Treasury, although the state is obligated to make the debt service payments whether or not it receives the interest subsidy.

Maine's financial position declined significantly in fiscal 2009 to a weak position, in our view. The state's stabilization fund was essentially fully depleted during the year, leaving a balance of less than \$200,000, down from \$128.9 million at the end of fiscal 2008. The stabilization fund balance had represented a source of budgetary flexibility in the event of revenue declines, somewhat mitigating an accumulated total general fund deficit. The general fund balance at the end of fiscal 2009 declined by \$34.9 million to negative \$273.4 million, with an unreserved balance of negative \$390.4 million. The largest portion of deficit fund balance is due to Medicaid liabilities, composed of payments owed to hospitals and estimates of Medicaid expenses incurred but not reported. The state also expended the entire \$40.6 million balance of reserve for general fund operating capital during fiscal 2009. The largest revenue decline in fiscal 2009 was individual income tax, which ended \$41.6 million, or 3%, below budget. Maine's liquidity is, in our view, low: At the end of fiscal 2009, the general fund's cash level was \$55.8 million and total governmental fund cash was \$148.3 million, down from \$62.9 million and \$305.1 million, respectively, at the end of fiscal 2008. The state has fulfilled its cash flow needs with interfund borrowing so far in fiscal 2010, and officials are uncertain whether it will need to externally borrow for cash flow in fiscal 2011; the last cash flow borrowing was in fiscal 2006. However, despite a projected increase in the stabilization fund for fiscal 2010, officials project that general fund liquidity position could be lower at the end of 2010.

In March 2010, Maine enacted a supplemental budget for the 2010-2011 biennium, which closed a \$359 million

budget gap, equal to 6.6% of biennial revenue. The supplemental budget lowered the biennial expenditures to \$5.5 billion, or 9.3%, below the 2008-2009 budget, and the major budget components are education (51%) and health and human services, including Medicaid (27%). The supplemental budget includes \$47 million of reduced aid to public schools, \$23 million of reductions to the Department of Health and Human Services, and \$16 million from aid to cities and towns. The budget revision assumes the receipt of \$85 million from a projected six-month extension of federal stimulus federal medical assistance percentage funding from January 2011 to June 2011. The state's two largest revenue components are individual income taxes and sales and use taxes: the individual income taxes were revised upward by \$15.4 million and the sales and use taxes were revised downward by \$30.8 million. A revenue gap projected earlier in fiscal 2010 was narrowed by \$79 million in the March 1, 2010, update from the state's Revenue Forecasting Committee. This improvement was due to a \$66.4 million increase in the projected corporate income tax and the revenue revision would have been negative if not for this increase. Officials project that the stabilization fund will be refilled to \$30.9 million at the end of fiscal 2010, with another \$2.5 million added in fiscal 2011.

Maine's nonfarm employment increased in January and February, marking the first time the state has recorded consecutive monthly gains since 2007. Much of the growth can be attributed to a surge in the leisure and hospitality services (LHS) sector that has pushed its payrolls to record highs. In light of the sector's employment growth trajectory of the last five years, current levels are well above trend and therefore may not be sustainable. Nevertheless, we believe the dominant role of LHS in recent data should not be allowed to overshadow evidence of improvement elsewhere in Maine's labor market. Non-leisure payrolls averaged slight 0.1% gains over the first two months of the year, hinting at the beginning of a recovery phase. As of March 2010, LHS experienced a 5.4% year-over-year gain; in addition, there was a 0.4% gain in the government sector. All other sectors experienced year-over-year losses. The state's employment rate for March 2010 was 8.9% (not seasonally adjusted). IHS Global Insight anticipates that private sector payrolls will bottom out in the first quarter of 2010, giving way to sustained growth immediately thereafter. The turnaround will be driven by robust performance in healthcare and business services (PBS). Much of the early PBS hiring will be confined to administrative support positions. In addition, IHS forecasts that Maine will return to pre-recession peak employment during the second half of 2014, at which time the state jobless rate will still exceed 6%. IHS Global Insight projects real gross state product to grow 3% in 2010 and 2% in 2011. Income levels for state residents are, in our opinion, good on a per capita basis, at 93% and adequate on a household basis, at 89%.

Standard & Poor's considers Maine's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating the state's financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Maine's debt profile remains a credit strength due, in part, to the state's conservative debt practices. Maine's debt burden is low, in our opinion, and amortizes rapidly: Tax-supported debt is 1% of personal income and \$361 per capita, and all debt amortizes in 10 years. As of June 30, 2009, the state's pension system had a 67.7% funded level and an unfunded liability of \$3.99 billion. Pension payments in fiscal 2009 were equal to 4.6% of total governmental expenditures. The unfunded other postemployment benefits liability as of June 30, 2009, was \$2.24 billion.

## Outlook

The negative outlook reflects our view of Maine's weakened financial position and diminished liquidity, which we believe may continue to test the state's budget stability. State officials recently implemented a supplemental budget that closed a large \$359 million gap in the 2010-2011 biennial budget. Despite this swift action, the budget forecast includes projections for growth and increased federal revenues that we believe could be difficult to achieve, although the budget includes a contingency plan if these federal revenues are not received. An outlook revision to stable is possible if the state's financial and liquidity position stabilize through continued budget management measures and improved revenue performance.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

<b>Ratings Detail (As Of May 20, 2010)</b>		
Maine GO		
<i>Long Term Rating</i>	AA/Negative	Affirmed
Maine certs of part		
<i>Long Term Rating</i>	AA-/Negative	Affirmed
Maine GO		
<i>Long Term Rating</i>	AA/Negative	Affirmed
<b>Maine GO</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Negative	Affirmed
<b>Maine Court Fac Auth, Maine</b>		
Maine		
Maine Court Fac Auth Lse Rent Ser 93		
<i>Long Term Rating</i>	AA-/Negative	Affirmed
<b>Maine Fin Auth, Maine</b>		
Maine		
Maine Fin Auth (Maine) rev oblig bnds (Waste Mtr Oil Disp Site Remediation Prog) ser 2009A		
<i>Long Term Rating</i>	A/Negative	Affirmed
<b>Maine Govt Facs Auth , Maine</b>		
Maine		
Maine Govt Facs Auth (Maine) lse rental rev rfdg bnds ser 2010A		
<i>Long Term Rating</i>	AA-/Negative	Affirmed
Maine Govt Facs Auth (Maine) lse rent rev bnds ser 2009A		
<i>Long Term Rating</i>	AA-/Negative	Affirmed
Maine Govt Facs Auth (Maine) lse rental 2008A (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Negative	Affirmed
<b>Maine Govt Facs Auth (Maine) lse rental</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Negative	Affirmed

<b>Ratings Detail (As Of May 20, 2010) (cont.)</b>		
<b>Maine Hlth &amp; Hgr Ed Fac Auth, Maine</b>		
Maine		
Maine Hlth & Hgr Ed Fac Auth		
<i>Long Term Rating</i>	A/Negative	Affirmed
<b>Maine Hlth &amp; Hgr Ed Fac Auth rev bnds ser 1998B</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Affirmed
<b>Maine Hlth &amp; Hgr Ed Fac Auth rev bnds ser 1999A</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
<b>Maine Hlth &amp; Hgr Ed Fac Auth rev bnds ser 2001A</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
<b>Maine Hlth &amp; Hgr Ed Fac Auth rev bnds ser 2001B</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
<b>Maine Hlth &amp; Hgr Ed Fac Auth rev bnds ser 2001D</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
<b>Maine Hlth &amp; Hgr Ed Fac Auth rev bnds ser 2002A&amp;B</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
<b>Maine Hlth &amp; Hgr Ed Fac Auth (Maine) rev bnds ser 1997A</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Affirmed
<b>Maine Hlth &amp; Hgr Ed Fac Auth (Maine) rev bnds ser 2003A</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
<b>Maine Hlth &amp; Hgr Ed Fac Auth (Maine) rev bnds ser 2003B&amp;C</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
<b>Maine Hlth &amp; Hgr Ed Fac Auth (Maine) rev bnds ser 2003D</b>		
<i>Unenhanced Rating</i>		
	A(SPUR)/Negative	Upgraded
Many issues are enhanced by bond insurance.		

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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