S&P Global Ratings

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Summary:

Portland, Maine; General Obligation

Primary Credit Analyst:
Anthony Polanco, Boston 617-530-8234; anthony.polanco@spglobal.com

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

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Credit Profile		
US$15.714 mil GO bnds ser 2017 due 03/15/2037		
Long Term Rating	AA+/Stable	New
Portland GO		
Long Term Rating	AA+/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating on Portland, Maine's general obligation (GO) debt one notch to 'AA+' from 'AA'. The outlook is stable.

S&P Global Ratings also assigned its 'AA+' rating and stable outlook to the city's series 2017 general GO bonds.

The rating action reflects our opinion of the city's improved budgetary performance and increase in reserves, coupled with the city maintaining a strong economy.

The city's full-faith-and-credit pledge secures the bonds. Although the city is not restricted to a particular revenue source, Portland has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite limitations imposed by the state-levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the city's flexibility under the levy limit.

We understand officials will use series 2017 bond proceeds to fund various capital improvement projects.

The rating reflects our opinion of the following factors for the city, specifically its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.8% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges at 9.6% of expenditures and net direct debt that is 108.7% of total governmental fund revenue, as well as rapid amortization, with 67.4% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Strong economy

We consider Portland's economy strong. The city, with an estimated population of 66,881, is located in Cumberland County in the Portland-South Portland MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 103.7% of the national level and per capita market value of $117,215. Overall, the city's market value grew by 1.9% over the past year to $7.8 billion in 2017. The county unemployment rate was 3.4% in 2015.

Located in southern Maine along the Atlantic Coast, about 110 miles north of Boston, Portland is the state's deepest economy with health care, financial services, higher education, and retail components. Portland's harbor and deepwater port allow for an active commercial fishing industry and provide tourism activity as a cruise ship destination during the summer. Leading area employers include:

- Maine Medical Center (7,000 employees);
- UNUM/Provident Corp. (2,860), an insurance company; and
- Mercy Hospital (1,800).

The property tax base is very diverse with the 10 leading taxpayers accounting for just 8.3% of assessed value. There are a number of developments underway we believe will likely boost the city's tax base, including:

- Bayside, a public-private partnership to construct 400 market-rate residential apartments;
- Thompson's Point, a $105-million project that includes a convention center, a hotel, a sports medicine facility, a 700-space parking garage, a restaurant, and office facilities; and
- Portland Co., which is building condominiums and a hotel.

Among the leading taxpayers--including UNUM, Iberdrola USA, and Cow Plaza I LLC--we understand there are currently no significant tax appeals that could negatively affect finances.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Portland is conservative in its revenue and expenditure assumptions, and it makes regular efforts to determine whether revenue or expenditures will deviate from long-term trends. When creating the budget, management typically uses 10 years of historical data. Officials regularly monitor budgetary performance; it ensures adjustments are made in a timely manner and reports budget-to-actual results to the city council monthly. The city also maintains an internal long-term financial plan to assist in building the operating budget, and management expects to expand its level of detail by department. Furthermore, Portland maintains a formal capital improvement plan that it reviews and prioritizes yearly and that identifies funding sources. The city has its own formal investment policy, but holdings and returns are not reported frequently to the council.

The debt management policy limits annual debt service, net of enterprise-supported debt service and state-reimbursed school debt service, to 15% of general fund expenditures and 1.5% of per capita income, as determined by the U.S. Bureau of Economic Analysis for the Portland-South Portland-Biddeford region. The reserve policy calls for an unassigned general fund balance equal to 12.5% of expenditures, and it sets a minimum of 8.3% based on cash-flow needs.

Strong budgetary performance

Portland's budgetary performance is strong, in our opinion. The city had operating surpluses of 2.8% of expenditures in the general fund and 2.6% of expenditures across all governmental funds in fiscal 2016.

Fiscal 2016 audited results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds.

Officials attribute the general fund surplus in fiscal 2016 mainly to higher-than-budgeted revenue. This includes excise taxes, parking revenue, licenses and permits, and property taxes; combined, these totaled more than $4.7 million in greater-than-expected revenue compared to budgeted levels. The city also had cost-savings in public works and education expenditures, as well as other areas, that contributed to the surplus in fiscal 2016. Prior to this, the city achieved an operating surplus or nearly break-even results for the past five audited fiscal years despite facing revenue pressure from the state. Management attributes the favorable budgetary performance in the past mainly to conservative budgeting and a modest recovery in local fees and taxes amid an improving economy.

For fiscal 2017, the city adopted a $289.9 million budget with a fund balance appropriation of $750,000. Management indicates revenue is currently tracking ahead of the budget with expenditures on target. The city is projecting, at least, balanced operations by fiscal year-end. According to officials, they received an additional $1.3 million this year from the state due to a settled lawsuit it had not budgeted for previously. It also expects to see about $700,000 in cost savings this year due to new favorable terms the city was able to negotiate between a waste disposal company and its recycling facility. Therefore, we expect budgetary performance to remain strong.

Property taxes generate 60% of general fund revenue, followed by intergovernmental aid at 15.5%. Tax collections remain strong, averaging 99% over the past three years.

Very strong budgetary flexibility

Portland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 16% of operating expenditures, or $42.1 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 16% of expenditures in fiscal 2015 and 17% in fiscal 2014.

The city has maintained very strong budgetary flexibility over the past three fiscal years. Available reserves improved to $42 million in fiscal 2016 from $39 million in fiscal 2015 due to its positive financial performance. The fiscal 2017 budget includes a fund balance appropriation of $750,000; the city, however, does not expect any drawdowns in reserves by fiscal year-end. Management also adheres to its formal reserve policy of maintaining available reserves at a minimum of 8% of general fund expenditures.

Very strong liquidity

In our opinion, Portland's liquidity is very strong, with total government available cash at 32.8% of total governmental fund expenditures and 3.4x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

We adjusted the city's fiscal 2016 cash position for restricted cash and cash equivalents, largely bond proceeds. Portland has demonstrated strong access to external liquidity through its frequent GO debt or revenue-backed debt issuance. The city largely invests its cash in highly collateralized bank deposits and money-market funds. Due to the city's strong audited performance and projected balanced operations in fiscal 2017, we do not expect deterioration in liquidity during our outlook period.

We note Portland issued pension obligation bonds (POBs) in 2001 as variable-rate bonds, and it simultaneously entered into a floating- to fixed-rate swap agreement to fix the bonds synthetically. The Bank of New York Mellon is the swap's counterparty. We believe that despite the current negative marked-to-market value of the swap of about $41 million, the swap poses a low risk to credit quality, in our opinion, since there is a sufficient spread between the current rating of the city and the rating level at which the city would be obligated to post additional collateral.

A standby letter of credit (SLOC) provided by Sumitomo Mitsui Banking Corp., effective Oct. 28, 2015, substituting for a previous standby bond purchase agreement provided by JPMorgan Chase Bank N.A., enhances the city's 2001 bonds. The SLOC covers principal and 37 days' interest at a maximum 15% annual rate for the purchase price of bonds not successfully remarketed. The SLOC is scheduled to expire on Oct. 28, 2020, at which time we will remove the short-term component of the rating on the 2001 bonds unless the SLOC is either extended or terminated beforehand according to its terms. We note that the SLOC contains certain automatic termination and suspension events and that the SLOC agreement would automatically terminate should the rating on the city fall below investment grade. We have reviewed these events and we believe that they are consistent with our criteria and that there is a sufficient spread between the current rating level of the city and the SLOC's rating-termination trigger.

Adequate debt and contingent liability profile

In our view, Portland's debt and contingent liability profile is adequate. Total governmental fund debt service is 9.6% of total governmental fund expenditures, and net direct debt is 108.7% of total governmental fund revenue. Approximately 67.4% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Over the next two years, management plans to issue approximately $100 million in debt for various capital improvements, the majority of which is for the city's combined-sewer-overflow-abatement projects to satisfy Clean Water Act regulations. Furthermore, the city expects to issue about $29 million of debt in fall 2017 for the hall school project, of which most debt will be eligible for state subsidy. Finally, the city routinely issues about $15 million a year for general capital improvements. We do not expect the issuance of additional debt to have a negative effect on the city's overall debt profile due to its rapid amortization.

Portland's pension contributions totaled 2.1% of total governmental fund expenditures in fiscal 2016. The city made its full annual required pension contribution in fiscal 2016.

The city contributes to the Maine Public Employees' Retirement System for employees. Its pension contributions were 2.1% of expenditures, which equaled 100% of its contractually required contribution. Portland's proportionate share of the net pension liability totaled $38.6 million as of fiscal 2016. Portland does not offer other postemployment benefits. Therefore, we view the city's long-term fixed-pension liability as manageable.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the city's strong economy and budgetary performance and very strong management conditions and budgetary flexibility. We expect management to continue to make the necessary budgetary adjustments to maintain balanced operations and very strong reserves. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

If economic indicators were to improve, coupled with a stronger debt and contingent liability profile, while management maintains its very strong budgetary flexibility through positive financial performance, we could raise the rating.

Downside scenario

While unlikely, we could lower the rating if budgetary performance were to deteriorate, leading to weakened reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 24, 2017)		
Portland multi-modal GO pension bnds		
Long Term Rating	AA+/A-1/Stable	Upgraded
Portland GO bnds		
Long Term Rating	AA+/Stable	Upgraded
Portland GO bnds ser 2009 B dtd 11/01/2009 due 10/01/2010-2029		
Long Term Rating	AA+/Stable	Upgraded
Portland GO bnds (Federally Taxable) ser 2012B dtd 02/01/2012 due 02/01/2013-2027		
Long Term Rating	AA+/Stable	Upgraded
Portland GO		
Long Term Rating	AA+/Stable	Upgraded

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.