S&P Global Ratings

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Summary:

Portland, Maine; General Obligation

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Summary:

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Credit Profile		
US$24.14 mil GO bnds ser 2018 due 04/01/2038		
Long Term Rating	AA+/Stable	New
Portland GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Portland, Maine's series 2018 general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the city's existing GO debt.

The city's full-faith-and-credit pledge secures the bonds. Although the city is not restricted to a particular revenue source, it has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. We rate the limited-tax GO debt on par with our view of Portland's general creditworthiness, reflected in the rating on the unlimited-tax GO bonds. We note bonds issued for school projects are not subject to LD-1.

We understand officials will use series 2018 bond proceeds to fund various capital project citywide.

The rating reflects our opinion of the city's:

- 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 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 37.3% of total-governmental-fund expenditures and 3.8x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 9.8% of expenditures and net direct debt that is 95.3% of total-governmental-fund revenue, as well as rapid amortization, with 66.8% 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 67,137, is 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 102.1% of the national level and per capita market value of $115,602. Overall, market value has grown by 0.9% over the past year to $7.8 billion in fiscal 2018. The county unemployment rate was 2.9% in 2016.

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. Its 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;
- UNUM/Provident Corp., an insurance company; and
- Mercy Hospital.

The property tax base is very diverse with the 10 leading taxpayers accounting for just 8.6% 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, hotel, sports-medicine facility, 700-space parking garage, 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 weaken 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; they make timely adjustments and report 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 it reviews and prioritizes yearly that identifies funding sources. The city has its own formal investment policy, but management does not frequently report holdings and returns to the council.

The debt-management policy limits annual debt service, net of enterprise-supported 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.

Strong budgetary performance

Portland's budgetary performance is strong, in our opinion. The city had operating surpluses of 2.6% of expenditures in the general fund and 3.8% of expenditures across all governmental funds in fiscal 2017.

Fiscal 2017 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 2017 mainly to higher-than-budgeted revenue, including excise taxes, parking revenue, licenses and permits, and property taxes. The city also had cost savings in public-works and education expenditures, as well as other areas, that contributed to the surplus in fiscal 2017. Prior to this, it achieved an operating surplus or nearly break-even results for the past six audited fiscal years despite facing revenue pressure from the state. Management attributes its past favorable budgetary performance mainly to conservative budgeting and a modest recovery in local fees and taxes during an improving economy.

For fiscal 2018, the city estimates it will end with a general fund surplus of $500,000-$1 million. According to management, it saw savings in various areas of the budget, including health insurance and salary. In addition, the city had positive variances in revenue, including excise taxes and building permit revenue. Therefore, we expect budgetary performance will likely remain strong. The fiscal 2018 budget totals $294.3 million and includes a $750,000 use of fund balance for school costs, which the city has done historically.

Property taxes generate 60% of general fund revenue, followed by intergovernmental aid at 14%. Tax collections remain, in our view, 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 2017 of 20% of operating expenditures, or $51.5 million.

The city has maintained very strong budgetary flexibility over the past three fiscal years. Available reserves improved to $51.5 million in fiscal 2017 from $39 million in fiscal 2015 due to positive financial performance. The city expects available reserves to increase by, at least, $1 million in fiscal 2018. Therefore, we expect budgetary flexibility will likely remain very strong. Management also adheres to its formal reserve policy of maintaining available reserves at a minimum of 8.3% of general fund expenditures.

Very strong liquidity

In our opinion, Portland's liquidity is very strong, with total government available cash at 37.3% of total-governmental-fund expenditures and 3.8x governmental debt service in fiscal 2017. In our view, the city has strong access to external liquidity if necessary.

We adjusted the city's fiscal 2017 cash position for restricted cash and cash equivalents, largely bond proceeds. Portland has demonstrated strong access to external liquidity through its frequent GO debt issuance. The city largely invests its cash in highly collateralized bank deposits and money-market funds. Due to its 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 $31 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 'BBB-', which would obligate it 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 series 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 series 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 'BBB-'. 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 9.8% of total-governmental-fund expenditures, and net direct debt is 95.3% of total-governmental-fund revenue. Approximately 66.8% of 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 $25 million-$35 million in debt for various capital improvements, including combined sewer and 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 rapid amortization.

Portland's pension contributions totaled 2.6% of total-governmental-fund expenditures in fiscal 2017. The city made its full annual required pension contribution in fiscal 2017.

Portland contributes to the Maine Public Employees' Retirement System for employees. Its pension contributions were 2.6% of expenditures, which equaled 100% of its contractually required contribution. Portland's proportionate share of the net pension liability totaled $61.8 million in fiscal 2017. The city also has about $98 million of POBs outstanding, issued in 2001. Portland does not offer other postemployment benefits, but it does offer an implicit subsidy for retirees. 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 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
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 1, 2018)		
Portland multi-modal GO pension bnds		
Long Term Rating	AA+/A-1/Stable	Affirmed
Portland GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Portland GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Portland GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Portland GO bnds (Federally Taxable) ser 2012B dtd 02/01/2012 due 02/01/2013-2027		
Long Term Rating	AA+/Stable	Affirmed
Portland GO		
Long Term Rating	AA+/Stable	Affirmed

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.capitaliq.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.