S&P Global Ratings

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Summary:

Portland, Maine; General Obligation

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Table Of Contents

Rating Action

Stable Two-Year Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile		
US$48.6 mil GO bnds ser 2020 due 10/01/2040		
Long Term Rating	AA+/Stable	New
Portland GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the City of Portland, Maine's 2020 general obligation (GO) bonds totaling about $48.6 million. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's GO debt outstanding.

The city's full-faith-and-credit pledge secures the bonds and existing GO debt. Portland can 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 because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on resource fungibility, supporting our view of the city's overall ability and willingness to pay debt service.

Officials will use bond proceeds to fund various items of their capital plan and a new elementary school.

Credit overview

The long-term rating reflects our opinion of Portland's strong property tax base growth and desirable location in New England. In our opinion, economic growth within Portland has been favorable, which has allowed for continued positive strong budgetary performance that has led to improved reserves. Furthermore, the management environment has been strong with a good focus on climate change resiliency given the city's exposure along the coast. In our view, the city's debt profile, while a bit high, is manageable with no prudent future debt plans.

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.

The long-term rating reflects our opinion of the city's:

- Participation in a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Trend of operating surpluses in the general fund and across total governmental funds, which continues into fiscal

2019;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.0% of total governmental fund expenditures and 2.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 10.7% of expenditures and net direct debt that is 91.0% of total governmental fund revenue, as well as rapid amortization, with 65.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Stable Two-Year Outlook

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.

Credit Opinion

Strong economy

We consider Portland's economy strong. The city, with an estimated population of 67,804, is located in Cumberland County in the Portland-South Portland MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 106.1% of the national level and per capita market value of $117,046. Overall, the city's market value grew by 1.1% over the past year to $7.9 billion in 2020. The county unemployment rate was 2.7% in 2018.

Portland is in southern Maine along the Atlantic Coast, about 110 miles north of Boston. While the city is primarily residential, it also has a sizable commercial and industrial component. Although the mostly residential city maintains a stable year-round population, economic activity significantly increases in the summer. Its harbor and deep-water port allow for an active commercial fishing and shipping industry and provide tourism activity as a cruise-ship destination in the summer. Furthermore, Portland has the state's deepest economy with health care, financial services, higher education, and retail components.

In January of 2020, Northeastern University in Boston announced plans to launch a graduate school and research campus in Portland called The Roux Institute. Northeastern provided a $100 million grant to support the start-up, infrastructure, and operational costs for this project. The Roux Institute will offer graduate programs in machine learning and artificial intelligence. Portland officials believe that the city will benefit from the influx of students, researchers, and employees.

Due to consistently strong economic indicators and expected continued growth in the region's economy, we expect the city's economic profile will likely remain strong.

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.

Management has taken significant steps to mitigate exposure to cyber-related risks and has been active in addressing concerns related to rising sea levels that could directly affect taxable properties. In particular, Portland have collaborated with the city of South Portland on a climate action and adaptation plan called "One Climate Future" to reduce greenhouse gas emissions 80% by 2050 and transition to 100% clean energy for municipal operations by 2040. In addition, the city have conducted studies on sea-level rise and inundation from inclement weather to inform its decisions on how to prepare against flooding.

Portland's revenue and expenditure assumptions are conservative, and the city 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, and ensure adjustments are timely; management makes monthly reports on budget-to-actual results to the city council.

The city also maintains an internal long-term financial plan to assist in building the operating budget, and management expects to expand this detail by department. Furthermore, Portland maintains a formal capital improvement plan it reviews and prioritizes yearly that identifies funding sources. While the city has its own formal investment policy, it does not report holdings and returns frequently 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 8.3% of expenditures based on cash flow.

Strong budgetary performance

Portland's budgetary performance is strong in our opinion. We based our analysis on draft results for fiscal 2019. The audit is substantially complete and we do not anticipate any significant change in the final version. The city had slight surplus operating results in the general fund of 1.1% of expenditures, and surplus results across all governmental funds of 2.1% in fiscal 2019. Its general fund operating results have been stable over the past three years, with a result of 1.9% in 2018 and a 2.6% result in 2017.

Fiscal 2019 results include adjustments for recurring transfers and one-time capital expenditures paid with bond proceeds. Officials mainly attribute the fiscal 2019 general fund surplus to higher-than-budgeted revenue, including excise taxes, parking revenue, licenses and permits, and property taxes. The city benefits from its growing economy and desirable location on the water, which is within driving distance of Boston.

Portland also had cost savings in public works and education expenditures, as well as other areas, which contributed to the fiscal 2019 surplus. For the past eight audited fiscal years (before fiscal 2019), it achieved an operating surplus or almost break-even results despite facing state revenue pressure. Management mainly attributes past favorable budgetary performance to conservative budgeting and modest local fee and tax recovery in an improving economy.

For 2020, officials indicate that budget-to-actuals are on target. They are projecting $1 million in savings for health insurance in addition to savings in snow and ice removal costs. They are also projecting more than $1 million more in revenue-sharing dollars than budgeted. Therefore, we expect budgetary performance will likely remain strong.

Property taxes generate 61% of general fund revenue, followed by intergovernmental aid at 14%. Tax collections remain strong, averaging 99% in 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 2019 of 22% of operating expenditures, or $62.2 million.

The city has maintained very strong budgetary flexibility in the past three fiscal years. Available reserves improved to $62.2 million in fiscal 2018 from $39.0 million in fiscal 2015 due to consistent positive financial performance. Officials expect to achieve another surplus in fiscal 2020 Therefore, we expect budgetary flexibility will likely remain very strong. Management also adheres to its formal reserve policy of maintaining available reserves equal to 12.5% of expenditures with a minimum 8.3% of general fund expenditures.

Very strong liquidity

In our opinion, Portland's liquidity is very strong, with total government available cash at 25.0% of total governmental fund expenditures and 2.3x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

We adjusted Portland's fiscal 2019 cash for restricted cash and cash equivalents, largely bond proceeds. The city has demonstrated strong access to external liquidity through frequent GO debt issuance. Portland largely invests cash in highly collateralized bank deposits and money market funds. Due to strong performance and projected positive operations in fiscal 2020, we do not expect liquidity deterioration during the two-year 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 Corp. is the swap's counterparty. In our opinion, despite the swap's current negative marked-to-market value of about $28.1 million, which is down significantly from previous years, the swap poses a low credit quality risk because there is a sufficient spread between the current rating and 'BBB-'; if the rating were to decrease below 'BBB-', 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 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 expires 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 understand that the city is currently evaluating its options and will likely extend the existing terms of the SLOC or substitute the SLOC with another bank.

We note that the SLOC contains certain automatic termination and suspension events and that the SLOC agreement would automatically terminate should the rating on Portland fall below 'BBB-'. We have reviewed these events and we consider them consistent with our criteria; we also think there is a sufficient spread between the current rating 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 10.7% of total governmental fund expenditures, and net direct debt is 91.0% of total governmental fund revenue. Approximately 65.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Following this issuance of 2020 bonds, Portland will have $466.4 million of debt outstanding, including general airport revenue bonds, $109 million of which are self-supporting through enterprise funds. In the next two years, management plans to issue about $20 million of debt annually for various capital improvements, including combined sewer and general capital improvements, offset by similar-size maturing bonds. We do not expect additional debt issuance to have a negative effect on overall debt due to the city's current amortization schedule.

Pension and other postemployment benefits

In our opinion:

- Pension and other postemployment benefits (OPEB) liabilities are not an immediate source of credit pressure for the city, given the well-funded status of the pension plans and the limited long-term liabilities.
- Any increases in contributions will likely remain affordable, based on the strength of Portland's revenue base, strong reserves, and conservative budgeting.
- The city offers OPEB but recognizes no liability. The liability for the plan represents an implicit rate subsidy.

The city participates in the following plans:

- Maine Public Employees Retirement System Consolidated Plan for Local Participating Districts Plan (PLD Plan), which is 90.62% funded and has a $32.4 million net pension liability (NPL).
- Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan), which is 82.73% funded and has a $7.2 million NPL.

Portland's combined required pension and actual OPEB contributions totaled 2.8% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

In 2001, the city issue POBs to pay its unfunded portion of the state plan; these bonds' final maturity is in 2026. Portland has about $92.6 million outstanding for the POBs. The PLD and SET plans are cost-sharing, multiple-employer, defined-benefit pension plans. Both systems use a 6.75% discount rate. Positively, both plans met both our static funding metric in the most recent year as well as our minimum funding progress calculation, indicating that the systems are addressing current costs and making headway addressing their unfunded liabilities.

Portland's OPEB liability is due to the implicit subsidy of its retirees' eligibility to enroll in the city's health care plan at

100% of the premium cost to the retiree. At June 30, 2019, the last actuarial valuation study, the net OPEB liability was a minimal $4.6 million.

We believe that retirement costs do not have a material effect on finances or operations at present and that they will likely remain manageable in the next three-to-four years.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 9, 2020)		
Portland GO		
Long Term Rating	AA+/A-1/Stable	Affirmed
Portland GO		
Long Term Rating	AA+/Stable	Affirmed
Portland GO		
Long Term Rating	AA+/Stable	Affirmed
Portland GO		
Long Term Rating	AA+/Stable	Affirmed
Portland GO		
Long Term Rating	AA+/Stable	Affirmed
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