S&P Global Ratings

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Summary:

South Portland, Maine; General Obligation

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Credit Profile		
US$14.165 mil GO rfdg bnds ser 2017 due 06/15/2029		
Long Term Rating	AAA/Stable	New
South Portland GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to the City of South Portland, Maine's 2017 general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's GO debt outstanding. The outlook is stable.

The bonds are general obligations of the city, for which it has pledged its full faith and credit. The bonds are payable from ad valorem taxes that are subject to limitation under the state's property tax levy limit, except for bonds issued for school projects, which are from unlimited ad valorem taxes. We understand that bond proceeds will refund portions of 2010 and 2012 bonds for a projected $650,000 of present value savings.

We rate South Portland above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect).

The rating reflects our assessment of the following factors for the city:

- 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 20% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 40.7% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.7% of expenditures and net direct debt that is 58.6% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Strong economy

We consider South Portland's economy strong. The city, with an estimated population of 25,743, 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 107.3% of the national level and per capita market value of $145,232. Overall, the city's market value grew by 1.1% over the past year to $3.7 billion in 2017. The county unemployment rate was 2.9% in 2016.

Located just south of Portland and on the coast, South Portland is a suburban-urban city and the fourth-largest city in Maine. Once principally a residential community, the city now has a diverse commercial and industrial sector, which comprises 38% of the tax base. Leading local employers include Unum Provident Life Insurance Co. (2,800 employees) and WEX, a financial services company (795 employees).

WEX recently announced plans to move its headquarters to Portland. Although the central offices are moving, WEX plans on keeping a large portion of its employees in South Portland, according to South Portland officials, and therefore, there should not be a notable impact on employment.

We expect South Portland's economy to maintain its vibrancy, due to the city's diversified tax base and location on major shipping routes via rail, highways, and sea. According to city officials, there are a number of developments underway, including a 128-unit senior housing complex; a four-story, 110-room extended stay hotel; and a 118-unit residential development in Brickhill. The city's 10 largest taxpayers account for a diverse 19.3% of assessed value (AV), with General Growth Properties' Maine Mall and Texas Instruments comprising 6.43% and 4.77% of AV, respectively. The Maine Mall, which is one of the biggest commercial centers in the state, is operating at 98% occupancy.

Very strong management conditions

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.

South Portland does quarterly reporting of budget performance and investment positions, and maintains a formal five-year capital improvement plan. In addition, the city recently updated its economic development plan and is taking steps for the continued development and redevelopment of its tax base. South Portland also has a formal debt policy under the city's charter. On June 20, 2011, the city adopted a fund balance policy that requires it to maintain an unassigned fund balance at 9%-12% of general fund expenditures. Should reserves fall below this range, management is required to restore the fund balance to minimum levels within three years. Finally, the city has an investment policy that prioritizes safety, liquidity, and yield in investment decisions. Budget assumptions are conservative and are grounded in several years of historical trend analysis.

Strong budgetary performance

South Portland's budgetary performance is strong in our opinion. The city had operating surpluses of 1.5% of expenditures in the general fund and of 7.1% across all governmental funds in fiscal 2016. General fund operating results of the city have been stable over the last three years, with a result of 0.3% in 2015 and a result of 0.5% in 2014.

In our assessment of budgetary performance, we netted out one-time capital paid for with bond proceeds. Revenues exceeded expectations due to strong collections from excise taxes, building permits, and property taxes. In addition, expenditures were $596,000 under budget. In 2017, city officials reported another strong year for similar reasons, and are expecting audited statements to show a general fund surplus of $2.3 million.

The 2018 budget is balanced and is a 3.8% increase over the previous year with $85.9 million in appropriations. City officials report no major budgetary deviations from the previous year, but the education cost subsidy came in $1 million higher than expected, allowing the city to adopt a lower tax rate. The majority of South Portland's revenue comes from property taxes (81%), followed by intergovernmental (14%) and charges for services (2%).

The city is defending a lawsuit against Portland Pipe Line Corp. and American Waterways Operators based on the citizen-led enactment of the "Clear Skies Ordinance," which prohibits the bulk loading of crude oil onto marine tank vessels in South Portland and affects the ability of Portland Pipe Line Corp. to reverse the flow of the South Portland-to-Montreal pipeline to bring Canadian tar sands oil into Maine. The city has earmarked $1.5 million for legal fees to date, and could incur additional costs. In August, a federal judge denied the city's motion to dismiss the case, allowing the case to proceed.

While South Portland could use reserves to cover legal fees, we do not expect the suit to significantly affect our view of budgetary performance or flexibility as we believe the city will manage the costs so as to preserve its financial health. South Portland's charter allows the city council the flexibility to repeal the ordinance.

Very strong budget flexibility

South Portland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 20% of operating expenditures, or $16.6 million. In addition, the city has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

Reserves have grown in recent years to $16.5 million in 2016 from $13.2 million in 2013. However, over the next few years, city officials expect to draw on the fund balance for one-time capital items identified in its capital improvement plan, as well as remediation of mold found in one of the fire stations.

We expect our assessment of flexibility to remain at least strong, due to prudent management, strong oversight, and a track record of adhering to the city's policies. Providing further flexibility, in our opinion, is the approximately $6.4 million in banked levy capacity under the state's LD1 tax levy cap.

Very strong liquidity

In our opinion, South Portland's liquidity is very strong, with total government available cash at 40.7% of total governmental fund expenditures and 6.1x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

Liquidity will likely remain very strong, in our opinion. According to city officials, South Portland does not currently have any contingent liquidity risk from financial instruments with payment provisions that change on certain circumstances. The majority of the city's cash is held as collateralized bank deposits and certificates of deposit, which we do not consider aggressive.

Very strong debt and contingent liability profile

In our view, South Portland's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.7% of total governmental fund expenditures, and net direct debt is 58.6% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, which is in our view a positive credit factor.

The city has $58 million in debt outstanding, and $3.4 million in overlapping debt relating to the county. South Portland is also contingently responsible for its proportionate share of debt issued through the Portland Water District in the event that water rates cannot pay debt service. In 2016, South Portland's proportionate share of this contingent liability was $6.5 million or 7.4%. Over the next two years, city managers expect to take on a $1million capital lease for a streetlight replacement project and several smaller capital items. In addition, South Portland is expecting to issue debt for a middle school project. The project would be presented before voters in November 2018. City officials expect the state to absorb all of the debt unless a portion is deemed non-eligible for subsidy. The project, as proposed, does not include a non-eligible portion at this time.

South Portland's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.2% of total governmental fund expenditures in 2016.

The city contributes to the Maine Public Employees Retirement System, a cost-sharing, multiple-employer retirement system. The city pays 100% of the actuarial determined contribution. At present, 71% of the contributions related to the teachers' group are made by the Maine Department of Education on the city's behalf. South Portland also provides OPEB to certain retirees. As of June 30, 2016, its unfunded actuarial accrued liability was $4.2 million.

Strong institutional framework

We consider the institutional framework score for Maine cities strong.

Outlook

The stable outlook reflects our view of the city's consistently very strong liquidity and very strong budgetary flexibility. South Portland's participation in the broad and diverse Portland MSA and its limited capital needs enhance stability. We do not expect to change the rating over our two-year outlook horizon as we believe the city's very strong management will continue to maintain at least adequate budgetary performance and limit exposure to costs associated with the Clear Skies Ordinance. However, we could lower the rating should budgetary performance become imbalanced, leading to a draw on 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 September 8, 2017)

Ratings Detail (As Of September 8, 2017) (cont.)		
South Portland GO bnds		
Long Term Rating	AAA/Stable	Affirmed
South Portland GO bnds ser 2012 dtd 05/30/2012 due 07/15/2013-2032		
Long Term Rating	AAA/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.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.