

# RatingsDirect®

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## Summary:

# South Portland, Maine; General Obligation

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## Summary:

# South Portland, Maine; General Obligation

### Credit Profile

US\$67.464 mil GO bnds - series a due 10/01/2042		
<i>Long Term Rating</i>	AAA/Stable	New
US\$6.087 mil GO rfdg bnds - series c ser 2022C due 07/15/2032		
<i>Long Term Rating</i>	AAA/Stable	New
US\$4.5 mil GO bnds (federally taxable) - series b ser 2022B due 04/01/2033		
<i>Long Term Rating</i>	AAA/Stable	New
South Portland GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rating Action

S&P Global Ratings assigned its 'AAA' rating to South Portland, Maine's series 2022 general obligation (GO) bonds made up of \$67.4 million series A, \$4.5 million series B (taxable), and \$6.0 million series C (refunding). We also affirmed our 'AAA' rating on the city's existing GO debt. The outlook on the ratings is stable.

The city's full-faith-and-credit pledge secures the bonds and existing debt. South 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 South Portland's general creditworthiness since the ad valorem tax is payable from a measurably narrower tax base and there are no limitations on the fungibility of resources.

Officials intend to use series A bonds toward the construction of its new middle school. The bonds are eligible for state reimbursement, which we factor into our analysis. The series B bonds are taxable and will finance the city land bank, which is an account dedicated to the acquisition of property located in the city for open space and other uses. The series C bonds will refund outstanding 2012 GO school project bonds for net present value savings.

### Credit overview

The rating reflects our opinion of the city's very strong economy with access to the Portland metropolitan statistical area (MSA) and historically balanced operations, which have led to the maintenance of its very strong reserve position and budgetary flexibility. We also believe its robust financial management and practices help bolster its positive operations and stable budgetary environment. The stable outlook reflects our view that the city's economy should continue to experience growth and stability, its retirement costs and liabilities will remain manageable, and management will continue to make the necessary budgetary adjustments to maintain balanced operations as it has shown historically.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we rate South Portland higher than the nation because we think the city can maintain better credit characteristics than the nation in a stress scenario, based on its predominantly

locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2021, local property taxes generated 74% of revenue, which demonstrated a lack of dependence on central government revenue.

The long-term rating reflects our opinion of South Portland's:

- Strong economy with growing per capita taxable market values, higher-than-average residential incomes in the state, and participation in the broad and diverse Portland MSA economy;
- Strong budgeting framework and good financial policies and practices under our Financial Management Assessment (FMA) methodology, and strong Institutional Framework score;
- Robust budgetary performance exhibited over several years and increasing reserves and liquidity that should provide it flexibility to manage long-term liabilities; and
- Strong debt and contingent liability profile, with a net direct debt that is 43% of total governmental fund revenue when we factor in school construction state reimbursement. The city's debt burden is low and affordable when compared to its tax base. Pension and other postemployment benefit (OPEB) liabilities are also low and manageable.

### **Environmental, social, and governance**

Although rising sea levels pose a long-term risk for the city, we believe management continues to plan and implement resiliency efforts to help reduce the potential effects. The city completed a vulnerability assessment in 2019 to identify hazards that it may face from climate change and rising sea levels, and what the effect would be on its infrastructure, ecosystems, economy, and community. That assessment serves as a key factor in its capital improvement plan. South Portland upgraded its water and sewer systems over the last few years and will continue to do so to reduce the effects of flooding events and improve water quality. It has also developed, with the city of Portland, a Climate Action and Adaptation Plan that will prescribe actions to achieve its climate resiliency goals. The city maintains formal target dates and benchmarks it plans to achieve regarding greenhouse gas output and renewable energy. We analyzed the city's environmental factors and determined that they are in line with our view of the sector standard for coastal communities, but above sector standards compared with non-coastal communities. We believe its social and governance risks relative to its economy, management, financial measures, and debt and liability profile are all in line with our view of the sector standard. The city also maintains various cyber-security protections and plans in place.

## **Stable Outlook**

### **Downside scenario**

If financial performance deteriorates, leading to a continuous reduction of reserves and weakening of budgetary flexibility, or if the city's economic indicators significantly weaken, we could lower the rating. In addition, if rising fixed costs and liabilities were to pressure the budget and reserves, it could weaken the rating.

## Credit Opinion

### **Strong local economic base benefiting from the broader regional economy within the broader Portland MSA, which is the economic hub of the state**

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 represents 38% of the tax base. Leading local employers include Unum Group, a life insurance company (2,800 employees), and WEX, a financial services company (795).

The city has seen a steady increase in development activity and has not experienced a slowdown in that growth during the pandemic. Officials indicate site plan and subdivision applications continue to rise, as private investment keeps growing. Some of the largest recent projects include a new five-story mixed-used apartment building, an 18,000-square-foot expansion of an existing building from Abbot Laboratories, and a new self-storage facility.

The regional economy in Cumberland County is well-diversified and has been growing the past few years. The county unemployment rate was 5.3% in 2020, a level that was better than New England peers.

The city's commercial sector remains vibrant, with several businesses undergoing expansion or renovation projects. However, we understand the largest taxpayer, GGP-Maine Mall LLC, which accounts for 6% of total assessed value, received city approval for a reduction in its assessment. Nevertheless, the tax base is diverse, and we believe the city's economy should remain stable, and its recovery will continue to accelerate post pandemic.

Strengthening of the macroeconomic environment is likely to further support continued growth in the tax base and economy. (For more information on our view of the national economy, see the article, titled "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021.)

### **Strong budgetary assumptions, monitoring, and capital planning highlight management's strengths**

South Portland does quarterly reporting of budget performance and investment positions and maintains a formal five-year capital improvement plan. The city recently updated its economic development plan and is taking steps toward the continued development and redevelopment of its tax base. It also has a formal debt policy under its 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 will design a plan to restore the fund balance to minimum levels within three years. Finally, the city has a formal investment policy that prioritizes safety, liquidity, and yield in investment decisions. Budget assumptions are conservative and rooted in several years of historic trend analysis.

### **Conservative budgeting practices, very strong reserve balances, and stable revenues support strong budgetary performance over the next few years despite growing costs**

The city continues to manage well and has not had to make any significant cuts amid the pandemic. Through strong budgeting practices, it has seen reserves and liquidity increase over several years. Fiscal 2021 was the city's third consecutive operating surplus, reflecting careful expense monitoring and conservative revenue estimating. It maintains a history of structural balance and improving reserves over the past decade. Since 2013, available reserves (unassigned and assigned general fund balances) have increased from \$13.1 million, to a current \$19.5 million, which equates to

20% general fund expenditures at the end of fiscal 2021. Factoring in the committed fund balance that management sets aside for various reserves, total available reserves equal \$25.9 million, a very strong 27% of expenditures.

The fiscal 2022 general fund budget, including the schools, totals \$95.9 million, which represents a modest 1% increase over the previous year and a \$2.9 million fund balance appropriation in accordance with its policies. The city budgeted for an increase in state aid and kept local tax revenue level. Management indicates budget-to-actual results are currently on target and will continue to monitor some key revenue items throughout the year. South Portland is eligible to receive about \$10.5 million in American Rescue Plan Act funds. Therefore, given its historically positive performance and expected balanced operations for 2022, coupled with additional federal funding, we expect its budgetary performance to remain strong.

### **Very strong debt and contingent liability profile**

Following this bond issue, South Portland has about \$111 million of total direct debt outstanding. Most of the bonds are associated with the city's middle school project, which, we note, is receiving substantial state reimbursement. Of the total \$65.7 million outstanding for the middle school, the state is reimbursing approximately \$57 million of project costs through the life of the bonds, minimizing the effects of this issuance on the tax rate. Total governmental fund debt service will increase to nearly 8% of expenditures. Net direct debt currently stands at 43% of total governmental fund revenue, and future debt plans are manageable and will not meaningfully weaken its existing debt profile. Overall net debt remains low and affordable, at 1.7% of market value, which is, in our view, a positive credit factor.

Pensions and OPEBs:

- We do not view pension costs as a long-term credit concern because of the pension plan's high funding levels, manageable liabilities, and overall low costs for the city.
- We expect contribution increases will likely remain manageable given the city's revenue strength, conservative budgeting practices, and historically balanced operations.

As of June 30, 2021, South Portland participated in:

- Maine Public Employees' Retirement System's (MPERS) Consolidated Plan for Local Participating Districts (PLD), which is overfunded, assuming a 6.50% discount rate as of fiscal 2021; and
- MPERS' state employees' and teachers' plan, which is 90.9% funded with a proportionate share of the city's net pension liability of \$1.1 million, assuming a 6.50% discount rate as of fiscal 2021.

The city is a member of the Maine Municipal Employees Health Trust and Maine Education Association Benefits Trust, which provide health care benefits for certain retired employees. Eligible retirees pay 100% of the health insurance premiums to receive health benefit coverage. Therefore, contributions made by the city represent an implicit rate subsidy, and the audited financial statements reflect the percentage of premiums which subsidize the retiree health benefits. The city also provides OPEBs through the Group Life Insurance Plans part of the state's PLD and SET OPEB plans.

South Portland's combined required pension and actual OPEB contributions totaled 2.7% of total governmental fund expenditures in 2021. The city continues to fund 100% of its actuarially determined contribution.

## Strong institutional framework

The institutional framework score for Maine municipalities is strong.

	Most recent	Historical information		
		2021	2020	2019
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	109			
Market value per capita (\$)	139,760			
Population		25,920	25,909	
County unemployment rate(%)		5.3		
Market value (\$000)	3,622,586	3,686,332	3,685,265	
Ten largest taxpayers % of taxable value	19.4			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		5.0	2.6	0.8
Total governmental fund result % of expenditures		4.8	0.4	0.7
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		26.7	23.0	22.5
Total available reserves (\$000)		25,986	22,787	21,550
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		25	56	51
Total government cash % of governmental fund debt service		478	1,070	895
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		5.2	5.2	5.7
Net direct debt % of governmental fund revenue	43			
Overall net debt % of market value	1.7			
Direct debt 10-year amortization (%)	58			
Required pension contribution % of governmental fund expenditures		2.5		
OPEB actual contribution % of governmental fund expenditures		0.2		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

## Ratings Detail (As Of March 14, 2022)

**Ratings Detail (As Of March 14, 2022) (cont.)**

South Portland GO bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
South Portland GO bnds ser 2012 dtd 05/30/2012 due 07/15/2013-2032		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
South Portland GO bnds ser 2012 dtd 05/30/2012 due 07/15/2013-2032		
<i>Long Term Rating</i>	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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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