S&P Global Ratings

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Summary:

Lewiston, Maine; General Obligation

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Credit Profile		
US$15.192 mil GO pub imp & rfdg bnds ser 2016 due 04/15/2037		
Long Term Rating	AA-/Stable	New
Lewiston GO		
Long Term Rating	AA-/Stable	Affirmed
Lewiston GO imp bnds		
Long Term Rating	AA-/Stable	Affirmed
Lewiston GO pub imp rfdg bnds ser 2015 dtd 08/19/2015 due 02/15/2031		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to the City of Lewiston, Maine's general obligation (GO) public improvement and refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the city's GO debt outstanding. The outlook is stable.

The city's full-faith-and-credit pledge secures the bonds. Although the city is not restricted to a particular revenue source, Lewiston has the power to levy ad valorem property taxes for bond repayment, subject to the limitations of the state's LD-1 legislation.

We understand officials intend to use $11.9 million of the par amount for various capital projects, including road rehabilitation, improvements to the water and sewer systems, and a roof replacement and playground upgrades at the schools. The remaining $3.3 million will be used to advance refund the portion outstanding of the city's 2009 bonds. There are no extensions of maturities and the refunding will generate roughly $250,000 in present value savings.

The rating reflects the following factors for Lewiston:

- Weak economy, with market value per capita of $59,431 and projected per capita effective buying income at 76.9% of the national level;
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 15% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 16.3% of total governmental fund expenditures and 113.0% of governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 14.5% of expenditures and net direct debt that is 63.9% of total governmental fund revenue, as well as rapid amortization, with 81.6% of debt

scheduled to be retired in 10 years; and
- Strong institutional framework score.

Weak economy

We consider Lewiston's economy weak. The city, with an estimated population of 36,594, is located in Androscoggin County. The city has a projected per capita effective buying income of 76.9% of the national level and per capita market value of $59,431. Overall, the city's market value was stable over the past year at $2.2 billion in 2016. The county unemployment rate was 4.1% in 2015.

Lewiston is the state's second-largest city and is about 45 miles north of Portland. Although historically an industrial center, the city's economy has diversified over the past 20 years into a regional health care, education, and financial employment center. Principal employers include Central Maine Medical Center (2,752 employees), Sisters of Charity Health Care Systems (2,039), TD Bank (989), and Bates College (838).

Much of the development in recent years has focused on Lewiston's downtown area and the Bates Mills, a former textile complex covering one million square feet. The city acquired the mill in 1992 for non-payment of property taxes, and has since leased out 50% of the buildings to various small businesses, including a bank, medical practices, and a brewing company. Among the new tenants is Grand Rounds, a health tech start-up based in San Francisco, which is opening an east coast branch, bringing 200 well-paying jobs over the next five years. The next phase of development is Weave Shed No. 5, which will likely be home to a state-of-the-art rehabilitation center.

City officials also report initial investigation into development off the Interstate 95 interchange, as well as utility expansion by CMP Maine Power, which has added $124 million to the tax base in the past five years and generated an additional $2 million in revenue in fiscal 2017.

We recognize that Lewiston's market value per capita may be understated due to a high number of tax exempt properties dedicated to education, government, and health. According to city officials, the total value of tax exempt properties is $589.6 million, and would make the tax base 28% larger, or put per capita market values at $75,530 if included in our calculation.

We note that the number of economic development initiatives, combined with a growing local employment base with diverse, cross-sector employers, may lead to fundamental economic shifts over time. However, we believe improvement in the city's wealth and income indicators will take time and we do not expect our assessment of the economy to change during our two-year outlook period.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Lewiston develops its budget using a trend analysis, looking back at past performance to determine future costs. Revenue and expenditure assumptions are generally conservative and the city tends to outperform its budget on a yearly basis. Oversight is strong as management shares budget-to-actual reports with city leadership monthly, and investment holding and earnings semi-annually. The city also maintains a comprehensive five-year capital improvement plan, which it updates annually and identifies funding sources. Lewiston has a formal fund balance policy that targets unassigned fund balance to be at least 8% of general fund revenues and has historically been adhered to. The city has formally adopted the state policies regarding investments. Its debt policy limits debt authorization to no more than 80% of the average amount of annual tax-supported debt being retired over the three previous fiscal years. This limitation can be waived by five votes of the city council.

Strong budgetary performance

Lewiston's budgetary performance is strong in our opinion. The city had slight operating surpluses of 0.7% of expenditures in the general fund and of 1.0% across all governmental funds in fiscal 2015. General fund operating results of the city have been stable over the past three years, with a result of negative 0.6% in 2014 and a result of 1.4% in 2013.

In calculating total governmental fund performance, we made adjustments for capital outlay paid for with bond proceeds, and for recurring transfers out of the general fund to pay debt service. The surplus was a result of excise taxes coming in better than budget, and savings related to labor costs and utilities.

City officials are expecting similar positive performance in 2016. Expenditures came in $1.8 million under budget due to savings related to snow and ice, gas prices, and labor contracts. Revenues were $1.4 million over budget owing to strong excise tax collections and parking garage receipts. The city has dedicated $2 million of the surplus toward a backlog of one-time capital expenditures.

The 2017 budget is balanced at $112.6 million and does not appropriate any fund balance. Municipal operating expenses rose by 0.84% or $365,943. The city increased sewer rates by 18% to cover increasing sewer-related costs. Water and stormwater rates remained level.

School revenue increased $1.7 million, but was outpaced by expenses, which rose by $4.07 million. City officials say the mismatch between revenues and expenditures is due to costs related to enrollment growth, which was 290 students in the last year. The enrollment increase follows several years of gains (9% since 2011) related to the growth of the city's immigrant population. Officials expect the school budget to return to balance in future years due to an anticipated corresponding increase in state aid and additional cost-control measures.

The city receives 50% of its revenue from property taxes and 46% from state aid. Based on prudent management and strong oversight, we expect our analysis of budgetary performance to remain strong.

Very strong budgetary flexibility

Lewiston's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 15% 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.

In 2015, the city used $1.05 million in reserves to pay down high interest rate debt associated with the redevelopment of its Colisee ice rink, resulting in a present value savings of about $2 million. Lewiston officials had originally budgeted $3.7 million for the pay down, but made up the balance through outperformance of its 2015 budget.

Lewiston officials budgeted $2 million in use of reserves in 2016 to address a backlog of projects such as replacing street lights, street paving, and parking garage enhancements. Owing to strong revenue performance and a number of turnbacks on the expenditure side, they did not need to tap into reserves for the projects. In fact, the fund balance is likely to grow by at least $1 million in 2016.

We expect that reserves will remain strong-to-very-strong in the medium term, owing to a surplus in 2016, and conservative budgeting in 2017. Lewiston has about $13.1 million, or 12% of expenditures, in excess levy capacity under LD-1 limitations, which enhances the city's budgetary flexibility in our opinion.

Very strong liquidity

In our opinion, Lewiston's liquidity is very strong, with total government available cash at 16.3% of total governmental fund expenditures and 113.0% of governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Liquidity will likely remain very strong, in our opinion. The city has demonstrated strong access to external liquidity through frequent debt issuance. Furthermore, Lewiston does not currently have any contingent liquidity risk from financial instruments with payment provisions that change on certain circumstances.

Adequate debt and contingent liability profile

In our view, Lewiston's debt and contingent liability profile is adequate. Total governmental fund debt service is 9.4% of total governmental fund expenditures, and net direct debt is 63.9% of total governmental fund revenue. More than 80% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Lewiston has $139 million in direct debt outstanding, $40 million of which is tax-secured enterprise debt, and $18 million will be reimbursed by the state. City officials expect to issue $15 million in additional debt over the next two years for various capital projects.

The city's combined required pension and actual other postemployment benefits contributions totaled 2.4% of total governmental fund expenditures in 2015.

Lewiston participates in the Maine Public Employees Retirement System (MainePERS) and contributed its full actuarial determined contribution of $2.8 million in fiscal 2015. On joining the plan, the city's initial unfunded unpooled actuarial liability (IUUAL) was calculated and scheduled to be amortized over a 20-year period. In December 2001, the city issued GO pension bonds to pay off its outstanding IUUAL, which has a current balance of $7.2 million.

The city also administers its own defined-benefit plan for employees before its participation in MainePERS. The city funds this plan on a pay-as-you-go basis and contributed $240,295 in fiscal 2015.

Lewiston does not pay for postemployment health benefits. Non-school retirees pay their own health insurance as members of the city's plan. The city's only exposure comes from higher use of health services by retirees. The liability that is reported represents the implied subsidy. As of Jan. 1, 2015, Lewiston's unfunded actuarial accrued liability was $3.4 million.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Lewiston will maintain at least strong budgetary flexibility supported by good management. Furthermore, we expect that the city's financial profile will remain strong given Lewiston's conservative budgeting practices. In the near term, an upgrade is unlikely due to weak wealth and income levels. However, we believe the property tax base will remain stable or expand within the two-year outlook period resulting from renewed commercial investment.

Upside scenario

We could raise the rating if we see an improvement in the economic indicators for Lewiston, coupled with a decline in overall debt.

Downside scenario

If the city were to sustain multiple years of operating deficits and a significant reduction in fund balance, we could lower the rating.

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
- 2015 Update Of Institutional Framework For U.S. Local Governments

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.