S&P Global Ratings

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Summary:

Lewiston, Maine; General Obligation

Primary Credit Analyst:
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

Secondary Contact:
Anthony Polanco, Boston + 1 (617) 530 8234; anthony.polanco@spglobal.com

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Credit Profile		
US$14.355 mil GO pub imp bnds due 01/15/2039		
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		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the City of Lewiston, Maine's 2018 general obligation (GO) public improvement bonds. At the same time, we affirmed our 'AA-' long-term rating on the city's GO debt outstanding. The outlook is stable.

Lewiston's full faith and credit secures the bonds. The city 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 the city's general creditworthiness, which reflects Lewiston's revenue-raising flexibility and ability to pay debt service.

Bond proceeds will be used for a number of capital projects, including for projects in the water and sewer fund. The city anticipates the water and sewer debt will be self-funding through user charges.

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

- Weak economy, with market value per capita of $60,929 and projected per capita effective buying income (EBI) at 68.7%, that is benefiting from a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management (FMA) Assessment methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 18% of operating expenditures, and the flexibility to raise additional revenue despite statewide tax caps;
- Very strong liquidity, with total government available cash at 15.8% of total governmental fund expenditures and 1.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 9.7% of expenditures and net direct debt that is 60.9% of total governmental fund revenue, as well as rapid amortization, with 69.6% 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 36,719, is located in Androscoggin County. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita EBI of 68.7% of the national level and per capita market value of $60,929. Overall, the city's market value grew by 1.6% over the past year to $2.2 billion in 2018. The county unemployment rate was 3.6% in 2016.

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 (2,025 employees), Sisters of Charity Health Care Systems (1,900), TD Bank (989), and Bates College (839).

Management reports that development in Lewiston's downtown has continued, with significant investment at the Central Maine Medical Center emergency room, which was relocated and expanded, as well as multiple residential and commercial developments. Grand Rounds, a health tech start-up based in San Francisco, chose Lewiston for its East Coast headquarters and expects to grow to 150 employees from 60 over the next few years. The Bates Mill, a former textile complex covering 1 million square feet, continues to be redeveloped. The city acquired the property in 1992 and expects occupancy to continue to increase. Tenants are diverse and include Grand Rounds, TD Bank, a brewery, an insurance company, and several other commercial and residential properties.

Lewiston is expected to benefit from the proposed New England Clean Energy Connect line, a $950 million bid from Central Maine Power Co. to transmit electricity from Quebec to Massachusetts. The proposal calls for construction of a $250 million conversion station, which would be located in Lewiston.

We recognize that Lewiston's market value per capita may be understated given a high number of tax-exempt properties dedicated to education, government, and health. According to officials, the total value of tax exempt properties is $537.4 million, or about 22% of the city's total valuation, which would raise per capita market value to approximately $75,000 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, might lead to fundamental economic shifts over time. However, we do not believe improvement in the city's wealth and income indicators is imminent and do not expect to change our assessment of the economy 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 our view that 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 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 semiannually. The city also maintains a comprehensive five-year capital improvement plan, which it updates annually and which identifies funding sources. Lewiston has a formal fund balance policy that targets an unassigned fund balance of at least 8% of general fund revenue, which it has historically adhered to. The city has formally adopted 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. Lewiston does not have a long-term financial plan.

Adequate budgetary performance

Lewiston's budgetary performance is adequate, in our opinion. The city had slight deficit operating results in the general fund of 0.9% of expenditures and deficit results across all governmental funds of 2.4% in fiscal 2017.

For analytical consistency, we adjusted for recurring transfers into and out of the general fund, as well as for the expenditure of bond proceeds in the capital projects fund.

The approximately $1 million drawdown on a generally accepted accounting principles basis in the general fund was due to a planned $1.9 million drawdown from the school department restricted fund balance. In fiscal 2017, management cites higher-than-budgeted motor vehicle excise tax revenue as one of the main drivers of the better-than-budgeted results. Additionally, health care costs continue to be lower than budgeted, which management expects will continue through fiscal 2018. In fiscal 2017, local taxes produced approximately 50% of general fund revenue, and intergovernmental aid 47%. This revenue mixture has been stable over the past several years and we expect that to continue. Management reports that state aid, particularly for education, has actually increased given rising school enrollments. We expect no significant budgetary pressures from student enrollment changes, and no material change in state aid.

The 2018 budget, as adopted, totaled $119.5 million, but includes a $2.2 million reserve appropriation to fund one-time capital costs, which the city generally includes in the budget. Management reports that the city expects a $4.4 million supplemental appropriation for capital expenditures.

The fiscal 2019 proposed budget is an 8.8% increase, to $130 million. Increased school department costs, for both operations and debt service, account for 84% of the budgetary growth. We expect that the city will continue to monitor revenue and expenditures during the year and ultimately produce at least balanced operating results. Given the planned drawdown in fiscal 2018, we expect that budgetary performance will remain adequate.

Very strong budgetary flexibility

Lewiston's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 18% of operating expenditures, or $21.3 million. In addition, the city has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

While the city posted a modest deficit in the general fund in fiscal 2017, the city's available fund balance increased $1.4 million, as the reserves expended were from the school restricted fund.

The city has a history of budgeting for use of reserves for capital projects and making up the appropriation at year end through better-than-budgeted results. In fiscal 2018, management is anticipating a $4.4 million supplemental appropriation of fund balance in addition to the originally budgeted $2.2 million for capital expenditures, which would reduce unassigned reserves to approximately 10% of general fund revenue. When additional available reserves are considered, along with our expectation that management will not draw the full $4.4 million and will fund the $2.2 million through better-than-budgeted results, we expect the city's available fund balance to be approximately 15% of general fund expenditures.

Lewiston has about $16.2 million, or 14.3% of fiscal 2018 budgeted expenditures, in excess levy capacity under LD-1 limitations, and this enhances the city's budgetary flexibility, in our opinion. While available reserves may drop to less than 15% in audited fiscal 2018 results, we expect that the city will restore the expended reserves over the next few years. Given the excess levy capacity, we expect our assessment of the city's budgetary flexibility to remain very strong throughout the outlook period.

Very strong liquidity

In our opinion, Lewiston's liquidity is very strong, with total government available cash at 15.8% of total governmental fund expenditures and 1.6x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Liquidity will likely remain very strong, in our opinion. The city's investments are mostly in near-liquid assets such as certificates of deposit and money market funds, which we do not consider aggressive. The city has demonstrated strong access to external liquidity through frequent debt issuance. Furthermore, Lewiston has no contingent liquidity risk from financial instruments with payment provisions that change in certain circumstances. While the city's available cash balance may decline concurrent with the planned use of reserves in fiscal 2018, we do not anticipate a large decline in the city's available cash, and with strong access to external liquidity we do not anticipate liquidity to fall below very strong during the outlook period.

Adequate debt and contingent liability profile

In our view, Lewiston's debt and contingent liability profile is adequate. Total governmental fund debt service is 9.7% of total governmental fund expenditures, and net direct debt is 60.9% of total governmental fund revenue. Approximately 69.6% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Management expects to issue approximately $10 million in each of the next two years in new money debt. We do not expect this to materially alter our view of the city's debt profile.

Lewiston's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.4% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution.

Lewiston participates in the Maine Public Employees Retirement System (MainePERS), a cost-sharing, multi-employer defined benefit system established by the state. The city contributes its full actuarially determined contribution each year. In fiscal 2017, the city's contribution totaled $3.2 million. On joining the plan in July 1997, 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 IUUAL outstanding, which, as of June 30, 2017, had a $4.95 million balance. The city's MainePERS proportionate net pension liability totaled $22.8 million.

Lewiston provides postemployment health benefits for some employees through an implicit rate subsidy. Participants are required to pay the full health care premium. It funds this plan on a pay-as-you-go basis and contributed $127,441 in fiscal 2017. The city's unfunded liability stands at $3.8 million. We do not expect that the city's retirement liabilities will pressure the operating budget and expect the debt and contingent liability profile to remain adequate throughout the two-year outlook period.

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 at least balanced over the next several years, despite planned use of reserves, given Lewiston's conservative budgeting practices. In the near term, a positive rating action is unlikely given weak wealth and income levels. However, we believe the property tax base will remain stable or expand within the two-year outlook period as a result of continued commercial investment.

Upside scenario

We could raise the rating if Lewiston's economic indicators improve, coupled with a decline in overall debt, while maintaining at least balanced budgetary performance and sustained very strong budgetary flexibility and liquidity.

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
- 2017 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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.