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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

Table Of Contents

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Credit Profile		
US$19.785 mil GO pub imp and rfdg bnds due 03/15/2040		
Long Term Rating	AA-/Stable	New
Lewiston GO		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the City of Lewiston, Maine's 2019 general obligation (GO) public improvement and refunding bonds. At the same time, we affirmed our 'AA-' long-term rating on the city's GO debt outstanding. The outlook is stable.

Security and use of proceeds

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. Proceeds for the issue will be used for general capital projects, including at the schools and in the water, sewer, and stormwater enterprise funds. A portion of the proceeds will also refund outstanding GO debt for a net present value savings.

Credit overview

Lewiston is Maine's second-largest city and home to Bates College, a four-year private liberal arts college. The city is also has a significant health care and government presence. Its management team has consistently maintained a very high level of space under the state levy cap, and over the past several years has additionally maintained high reserves. Pension and other postemployment benefit (OPEB) costs and liabilities are low, but debt may grow through the next several years as the city makes investments in school and municipal buildings. The economic metrics remain below those of higher rated municipalities, although the city has seen incremental growth in both incomes and market values over the past several years, with additional material development in the pipeline.

The long-term rating further reflects our view of the following factors for the city:

- Adequate economy, with projected per capita effective buying income (EBI) at 70.9% and market value per capita of $63,387, though that benefits from a local stabilizing institutional influence;
- Strong management, with good 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 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 19% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;

- Very strong liquidity, with total government available cash at 27.9% of total governmental fund expenditures and 2.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 10.2% of expenditures and net direct debt that is 56.9% of total governmental fund revenue, as well as rapid amortization, with 73.9% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Adequate economy

We consider Lewiston's economy adequate. The city, with an estimated population of 36,654, is in Androscoggin County. It is the state's second-largest city and is about 45 miles north of Portland. It benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita EBI of 70.9% of the national level and per capita market value of $63,387. Overall, market value grew by 3.9% over the past year to $2.3 billion in 2020. The county unemployment rate was 3.3% in 2018.

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 (2,000), TD Bank (989), and Bates College (870).

Management reports that development in Lewiston continues, in both residential and non-residential sectors, leading to continued growth in the tax base. Approximately 24% of the Lewiston's property is tax-exempt, due to the high number of education, government, and health-care properties, which we recognize result in an understated market value per capita. According to officials, the total assessed value of tax-exempt properties is $554.7 million. If included at the same equalization rate of 83.4% used for taxable properties, the total market value grows to approximately $2.99 billion, resulting in a per capita market value of about $81,000. Given Lewiston's geographic location, we expect continued investment and stability in the health care sector, along with stability in the higher education and government sectors.

Should the project move forward, Lewiston is likely 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 in Lewiston. Other future development includes market rate apartments, redevelopment of restaurants and mills in and around downtown, and continued expansion of existing office and medical space.

We understand that the city is active in working to facilitate development, as well as seeking grant funding to improve streetscaping and address quality of life issues. Continued private investment may lead to fundamental economic shifts over time. We expect wealth and income metrics to remain approximately level over the 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 at past performance to project future costs, along with incorporating personnel costs from settled contracts. 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, to which it has historically adhered. It 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, although we note management periodically surveys the largest municipalities in Maine to do a peer comparison of expenditures. Additionally, the city works with its financial advisor to project debt costs on future budgets.

Strong budgetary performance

Lewiston's budgetary performance is strong, in our opinion. The city had operating surpluses of 2.5% of expenditures in the general fund and 2.7% across all governmental funds in fiscal 2018.

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

Fiscal 2018 continued a trend of the city receiving significantly more in auto excise tax revenue than budgeted. Additionally, revenue sharing, tipping fees, and interest revenue all exceeded budget, along with expenditure savings in personnel and health insurance, leading to a positive operating result. In the 2018 audit, the city's local property taxes accounted for 47% of general fund revenue, while intergovernmental aid was about 50% and interest income was 1.3%. This revenue mixture has been generally stable over the past several years and we expect that to continue. The city is currently in the middle of the auditing process, but management is currently projecting similar results for fiscal 2019. Of particular note, management expects to report a one-time $1.8 million prior-period adjustment at the schools, due to the way the state has elected to calculate reimbursements. Management is projecting better-than-budgeted revenues in auto excise and interest, along with better-than-budgeted expenditures in social services and utilities.

The fiscal 2020 budget is a 5.14% increase to $135.7 million. It includes an appropriated reserve of $1.8 million to offset tax rate increases. Given fiscal 2019 projections and the city's stable operating environment, we expect at least balanced results and strong budgetary performance over the next few years.

Very strong budgetary flexibility

Lewiston's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 19% of operating expenditures, or $24.1 million. In addition, the city has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

The city has a history of budgeting the use of reserves for capital projects and making up the appropriation at year-end through better-than-budgeted results. Management's current projections indicated unassigned reserves will be above the city's reserve policy maximum of 12%. Consequently, we believe Lewiston may reduce reserve levels on a percentage basis, but given recent performance and maintenance of combined unassigned and assigned reserves in excess of 15% of expenditures, we believe it will maintain very strong reserve levels.

Lewiston has about $14.1 million, or 10.3% of fiscal 2020 budgeted municipal and school expenditures, in excess levy capacity under LD-1 limitations. In our view, this enhances the city's budgetary flexibility. At present, we expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Lewiston's liquidity is very strong, with total government available cash at 27.9% of total governmental fund expenditures and 2.7x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We expect the city's liquidity profile to remain very strong. We have included its general fund investments, which 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.

Adequate debt and contingent liability profile

In our view, Lewiston's debt and contingent liability profile is adequate. Total governmental fund debt service is 10.2% of total governmental fund expenditures, and net direct debt is 56.9% of total governmental fund revenue. Approximately 73.9% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor. Negatively affecting our view of the city's debt profile are its significant medium-term debt plans.

We understand that the city is projecting nearly $60 million in new-money issuance through fiscal 2022. Depending on final issuance, this could change our view of the city's debt ratios, and consequently we currently view it as having significant medium-term debt plans. Our view of the city's debt is also net of self-supporting enterprise debt and state aid for school construction. Total direct debt is approximately $182 million, with overlapping debt of $10 million and net debt of about $93 million.

Lewiston's combined required pension and actual OPEB contributions totaled 2.8% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

Lewiston participates in the Maine Public Employees Retirement System (MainePERS) Consolidated Participating Local Districts plan, a cost-sharing, multiple-employer defined-benefit system established by the state. The city contributes its full actuarially determined contribution each year. 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, refunded in 2011, which, as of June 30, 2019, had a $2.56 million balance. The city's MainePERS proportionate net pension liability totaled $14.4 million. Lewiston also participates in the state education teacher's group (SET), a cost-sharing multiple-employer plan with a special funding situation, where the state contributes the employer's required contribution. The city reports a SET liability of $5.7 million.

Lewiston provides OPEB 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 $146,100 in fiscal 2018. The city's unfunded liability stands at $4.7 million. We do not expect that its 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's management team will continue to produce annual budgets that incorporate changes in revenues and expenditures including the incorporation of future debt costs. We also anticipate the city will produce generally balanced results, leading to maintenance of strong-to-very strong reserve levels. In the near term, an upgrade is unlikely due to weak wealth and income levels.

Upside scenario

We could raise the rating if we see an improvement in Lewiston's economic indicators, coupled with a decline in debt ratios, 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

Ratings Detail (As Of October 29, 2019)		
Lewiston GO		
Long Term Rating	AA-/Stable	Affirmed
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Long Term Rating	AA-/Stable	Affirmed