STANDARD & POOR'S RATINGS SERVICES
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Summary:

Lewiston, Maine; General Obligation

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Summary:

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Credit Profile		
US$9.114 mil GO pub imp rfdg bnds ser 2015 dtd 08/19/2015 due 02/15/2031		
Long Term Rating	AA-/Stable	New
Lewiston GO		
Long Term Rating	AA-/Stable	Affirmed
Lewiston GO imp bnds		
Long Term Rating	AA-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating to Lewiston, Maine's 2015 general obligation (GO) public improvement and refunding bonds. At the same time, Standard & Poor's affirmed its 'AA-' rating on the city's existing debt.

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 $4.9 million of the par amount for various capital projects, including road rehabilitation, downcity street lights, a fire engine replacement, and various school projects. The remaining $4.1 million will be used to advance refund the outstanding portion of the city's 2008A bonds. There are no extensions of maturities and the refunding will generate roughly $497,000 in present value savings.

The rating reflects the following factors for the city:

- Weak economy, with market value per capita of $59,390 and projected per capita effective buying income at 75.2% of the national level;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with slight operating deficits in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2014 level of 17% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash of 27.3% of total governmental fund expenditures and 2.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 12.1% of expenditures and net direct debt that is 66.1% of total governmental fund revenue and rapid amortization with 80.9% 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 36,619, is in Androscoggin County. The city has a projected per capita effective buying income of 75.2% of the national level and per capita market value of $59,390. Overall, the city's market value grew by 0.8% over the past year to $2.2 billion in 2015. The county unemployment rate was 5.5% in 2014.

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 with over 22,500 jobs. The principal employers include Central Maine Medical Center (2,424 employees), Sisters of Charity Health Care Systems (1,860), TD Bank (1,010), and Bates College (885).

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment 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 uses conservative budgeting practices, which include trend analysis and monthly budget-to-actual reports that are shared with elected officials, and incorporates one- to three-year projections for the largest cost drivers into its assumptions. The city also maintains a comprehensive five-year capital improvement plan (CIP), which is updated annually and identifies funding sources. The city 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. Lewiston has formally adopted the state policies regarding investments, and reports results semi-annually. The city limits debt authorization of no more than 80% of the average amount of annual debt being retired over the three previous fiscal years, but 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 deficits of negative 0.6% in the general fund and negative 0.8% across all governmental funds in fiscal 2014.

Fiscal 2014 performance has been adjusted for a one-time capital expenditure of roughly $1.4 million and a recurring transfer in from the revenue funds to offset indirect costs. The city also attributes the slight deficit to roughly $455,000 in workers' compensation settlements.

The city planned another drawdown of about $4.1 million in fiscal 2015. The largest piece of the drawdown was the payoff of $3.4 million in Colisee debt, which resulted in a present value savings of about $2 million. Preliminary results show the city recouping about 37% of the planned usage through surplus and other cost savings.

The adopted fiscal 2016 budget includes a tax increase of 4.26% and does not appropriate any fund balance.

Very strong budgetary flexibility

Lewiston's budgetary flexibility is very strong, in our view, with an available fund balance that we expect will decrease in the near term from its fiscal 2014 level of 17%, or $17.7 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 projected drawdown at the close of fiscal 2015 will likely bring available reserves below 15% but to levels that are consistent with the city's reserve policy of 8% to 12%. The fiscal 2016 budget does not include an appropriation of fund balance, and we expect that reserves will remain at least strong in the medium term. Lewiston has about $12 million, or 11% 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 of 27.3% of total governmental fund expenditures and 2.2x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Liquidity will likely remain very strong, in our opinion. The city 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 12.1% of total governmental fund expenditures, and net direct debt is 66.1% of total governmental fund revenue. About 80.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Officials currently have no plans that would materially affect the city's debt profile.

The city participates in the Maine Public Employees Retirement System (MainePERS) and contributed its full annual required contribution of $1.3 million in fiscal 2014. Upon 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 $8.2 million.

The city also administers its own defined-benefit plan for employees prior to its participation in MainePERS. The city funds this plan on a pay-as-you-go basis and contributed $117,614 in fiscal 2013. As of the 2014 fiscal year, the plan had only three retirees receiving benefits and no active employees participating.

Lewiston's combined pension and other postemployment benefits (OPEB) contributions totaled 2.3% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014.

The city does not pay for postemployment health benefits. Nonschool 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, 2013, Lewiston's unfunded actuarial accrued liability was $4.2 million.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's 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 the city'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. If the city were to sustain multiple years of operating deficits and a significant reduction in fund balance, we could lower the rating. However, we do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Maine Local Governments

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