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Summary:

Lewiston, Maine; General Obligation; Note

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Table Of Contents

Rationale

Outlook

Summary:

Lewiston, Maine; General Obligation; Note

Credit Profile

US\$13.27 mil GO pub imp bnds dtd 07/26/2017 due 06/01/2038

Long Term Rating AA-/Stable New

US\$12.0 mil GO BANs dtd 07/26/2017 due 11/03/2017

Short Term Rating SP-1+ New

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to the City of Lewiston, Maine's 2017 general obligation (GO) public improvement bonds. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the city's GO debt outstanding. The outlook is stable.

In addition, S&P Global Ratings assigned its 'SP-1+' short-term rating to Lewiston's short-term debt maturing November 2017. The short-term rating reflects our view that the city maintains a very strong capacity to pay principal and interest when the notes come due. Lewiston maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The city's full-faith-and-credit pledge secures the bonds and notes. Although Lewiston is not restricted to a particular revenue source, it 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 proceeds to fund a variety of capital projects. Specifically, the notes are funding school construction and the bonds are funding other listed purposes such as improvements to distribution mains and sewer main rehabilitation.

The rating reflects the following factors for Lewiston:

- Weak economy, with market value per capita of \$59,996 and projected per capita effective buying income at 67.1%, but that is benefitting 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 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 18% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 19.7% of total governmental fund expenditures and 1.8x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 10.8% of expenditures and net direct debt that is 70.3% of total governmental fund revenue, as well as rapid amortization, with 75.3% of debt

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

In November, residents of Lewiston, and the neighboring city of Auburn, will vote on whether to combine their cities into one. The merger has been discussed for a long time, but this is the first time in decades that residents will vote on consolidating government functions for cost-saving purposes. If approved, the merger is unlikely to have an immediate impact on credit quality, given the cities' similar economic and financial indicators.

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 effective buying income of 67.1% of the national level and per capita market value of \$59,996. Overall, the city's market value grew by 1.3% over the past year to \$2.2 billion in 2017. 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 (2,566 employees), Sisters of Charity Health Care Systems (2,000), TD Bank (994), and Bates College (839).

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 Bates Mill No. 5, which will likely be home to a YMCA and 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 \$536.6 million, and would make the tax base 25% larger, or put per capita market values at \$74,833 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 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. Lewiston does not have a long-term financial plan.

Strong budgetary performance

Lewiston's budgetary performance is strong in our opinion. The city had operating surpluses of 5.0% of expenditures in the general fund and of 3.1% across all governmental funds in fiscal 2016.

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, savings in utilities and special education, and additional revenue-sharing funds.

City officials are expecting another year of positive performance in 2017. Revenues are anticipated to come in \$1.7 million over budget, driven to strong excise tax collections, and other economically sensitive revenue. Expenditures are expected to be closer to actuals.

The 2018 budget is balanced at \$119.5 million, with a \$2.2 million reserve appropriation to fund one-time capital costs. School funding increased by 7.86% due to increasing enrollment, and city expenses rose by 3.4%. City officials say that rising school costs will be covered by state aid, and that enrollment is expected to stabilize in the next few years.

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 2016 of 18% of operating expenditures, or \$19.9 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 for use of reserves for one-time capital projects, and making up the appropriation through better-than-budgeted results. In 2016, 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 savings on the expenditure side, they did not need to tap into reserves for the projects. In fact, the fund balance has grown by \$3 million in the past year.

We expect that reserves will remain strong-to-very-strong in the medium term, owing to a surplus in 2017, and conservative budgeting in 2018. However, officials have budgeted for \$2.2 million of reserves for various capital

projects such as police and fire vehicles, park and sidewalk improvements, and building repairs. They also expect to pay down a \$940,000 pension liability. At this stage, they expect to only use \$1.7 million. Lewiston has about \$15 million, or 12.6% 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 19.7% of total governmental fund expenditures and 1.8x governmental debt service in 2016. 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 10.8% of total governmental fund expenditures, and net direct debt is 70.3% of total governmental fund revenue. About 75% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Lewiston has \$150 million in direct debt outstanding, \$40 million of which is tax-secured enterprise debt, and \$16.6 million that will be reimbursed by the state. City officials expect to issue \$24 million-\$27 million in additional debt over the next two years for various capital projects, including the reconstruction of fire substations and a dispatch garage.

The city's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.5% of total governmental fund expenditures in 2016.

Lewiston participates in the Maine Public Employees Retirement System and contributed its full actuarial determined contribution of \$3 million in fiscal 2016. On joining the plan, the city's initial unfunded unpooling 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 has a current balance of \$6 million.

The city also administers its own defined-benefit plan for employees, and contributed \$85,586 in 2016. Its total pension liability for the plan is \$380.906.

Lewiston provides postemployment health benefits for some employees, which are implicit in nature. It funds this plan on a pay-as-you-go basis and contributed \$249,124 in fiscal 2016. The city's unfunded liability stands at \$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 Lewiston's economic indicators, 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.

Ratings Detail (As Of June 28, 2017)		
Lewiston GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Lewiston GO imp bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Lewiston GO pub imp rfdg bnds ser 2015 dtd 08/19/2015 due 02/15/2031		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

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