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## Summary:

# Lewiston, Maine; General Obligation

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### Credit Profile

US\$46.23 mil GO pub imp and rfdg bnds due 03/15/2041

<i>Long Term Rating</i>	AA-/Stable	New
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Lewiston GO

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Lewiston, Maine's roughly \$46.23 million series 2021 general obligation (GO) public improvement and refunding bonds and affirmed its 'AA-' rating, with a stable outlook, on the city's existing GO debt.

Lewiston's full-faith-and-credit pledge secures the bonds. The city can levy ad valorem property taxes for bond repayment, subject to Maine's LD-1 legislation limitations.

We rate the limited-tax GO debt on par with our view of the city's general creditworthiness, reflecting Lewiston's revenue-raising flexibility and ability to pay debt service.

Officials intend to use series 2021 bond proceeds to finance general capital projects--including schools and water, sewer, and stormwater enterprise funds--and a portion to refund series 2012 and 2013 GO bonds.

### Credit overview

Lewiston is Maine's second-largest city and home to Bates College, a four-year private liberal-arts college. The city also has a significant health-care and government presence. While we view the city's economic metrics below higher-rated municipalities, its management team has consistently maintained very high space under the state's levy cap; during the past several fiscal years, it has additionally maintained high reserves. In addition, we view pension and other-postemployment-benefit (OPEB) costs and associated liabilities as low; we do not expect a major change in the city's debt profile due to additional debt issuance.

Although the scope of economic and financial challenges posed by COVID-19 currently remains unknown, possibly for an extended period, we think the city's outlook will likely remain stable during the next two years due to the property tax base's historical stability and recent growth, coupled with strong financial management and very strong reserves; this has allowed the city to be well positioned to navigate the possible effects of COVID-19 on finances without severe credit deterioration. Our outlook is generally for two years, but we see some risks due to COVID-19 during the next 12 months.

The rating also reflects our opinion of Lewiston's:

- Weak economy, with projected per capita effective buying income at 68.6% of the national level and market value

per capita of \$66,046, that benefits from a local stabilizing institutional influence;

- Strong financial management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental-fund level in fiscal 2020;
- Very strong budgetary flexibility, with available fund balance in fiscal 2020 at 24% of operating expenditures, and the flexibility to raise additional revenue despite statewide tax caps;
- Very strong liquidity, with total government available cash at 35.6% of total governmental-fund expenditures and 2.8x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 12.8% of expenditures and net direct debt that is 57.3% of total governmental-fund revenue, as well as rapid amortization, with 71.1% of debt scheduled to be retired within 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

The rating incorporates our view regarding indirect risks posed by health-and-safety responses required by COVID-19 that could lead to budgetary challenges in fiscal 2021, particularly regarding possible revisions to state aid and grant funding. Absent COVID-19 implications, we consider social risks in-line with the sector standard. We view governance risks as generally in-line with Lewiston's peers and environmental risks in-line with the sector standard.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating if management were to sustain multiple years of operating deficits and significantly reduced fund balance.

### **Upside scenario**

We could raise the rating if Lewiston's economic indicators were to improve, coupled with decreased debt, while management maintains, at least, balanced budgetary performance and sustains very strong budgetary flexibility and liquidity.

## **Credit Opinion**

### **Weak economy**

We consider Lewiston's economy weak. The city, with a population estimate of 36,692, is in Androscoggin County. The city benefits, in our view, from a stabilizing institutional influence. Projected per capita effective buying income at 68.6% of the national level and per capita market value of \$66,046. Overall, market value has grown by 4.3% during the past year to \$2.4 billion in fiscal 2021. County unemployment was 3% in 2019.

Lewiston is about 45 miles north of Portland. Although historically an industrial center, the city's economy has

diversified during the past 20 years into a regional health-care, education, and financial center. Leading 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 development continues in residential and nonresidential sectors, leading to persistent tax base growth. About 24% of property is tax exempt due to the high number of education, government, and health-care properties; we recognize this results in understated market value per capita.

Officials report the New England Clean Energy Connect line project is underway, which includes a \$950 million bid from Central Maine Power Co. to transmit electricity to Massachusetts from Quebec. This will include the construction of a \$250 million conversion station in the city, which officials indicate is permitted and should be operational in May 2023. Officials expect the station to provide about \$6 million-\$7 million in annual tax revenue for 2021.

Other projects include:

- A \$65-million investment from Bates College toward science, technology, engineering, and mathematics-related education;
- A new taxable cancer center from Central Maine Medical Center; and
- The expansion of several businesses, including Grand Rounds and Northeast Bank, as well as others.

Various residential developments are also underway, including a \$2.4-million, 12-unit, new-market apartment complex known as Scruton Block and new single-family homes. We also understand the city continues to facilitate development and seek grant funding to improve streetscaping and address quality-of-life issues. Finally, outside of disruptions to some small businesses such as restaurants and hotels, officials report the city has not experienced an economic downturn due to COVID-19 because of the economic recovery.

While we expect Lewiston's economy will likely remain stable, we think adverse effects of COVID-19 could potentially have a negative effect on the local economy, especially as S&P Global Economics forecasts a notable short-term decrease in regional and national GDP. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Staying Home For The Holidays," published Dec. 2, 2020, and "Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder," published Jan. 6, 2021, on RatingsDirect.)

Although officials indicate many leading employers have remained operational throughout COVID-19, we think countywide unemployment, at 4.7% in November 2020, could remain elevated if the current economic disruption were prolonged or if employment sectors were to contract further; this could result in weakening economic metrics and potentially change our view of the economy.

### **Strong management**

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

Lewiston develops its budget using trend analysis, looking at past performance to project future costs, coupled with incorporating personnel costs from settled contracts. Revenue and expenditure assumptions are generally conservative, and the city tends to outperform its budget annually. Oversight is strong because management shares budget-to-actual reports with city leadership monthly and investment-holdings-and-earnings reports semiannually. The city also maintains a comprehensive five-year capital-improvement plan it updates annually that identifies funding.

Lewiston's formal fund-balance policy targets an unassigned fund balance of, at least, 8% of general fund revenue, which it has adhered to historically. The city formally adopted state investment policies. Its debt policy limits authorization to no more than 80% of the average amount of annual tax-supported debt retired during the three previous fiscal years, which the city council can waive by five member votes. While Lewiston does not have a long-term financial plan, we note management periodically surveys the state's largest municipalities as a peer comparison of expenditures. In addition, management works with a financial advisor to project debt costs for budgets.

### **Adequate budgetary performance**

Lewiston's budgetary performance is adequate, in our opinion. The city had operating surpluses at 4.2% of expenditures in the general fund and 16.9% across all governmental funds in fiscal 2020. General fund operating results have been stable during the past three fiscal years at 3.2% of expenditures in fiscal 2019 and 2.5% in fiscal 2018.

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

Management indicates the fiscal 2020 general fund surplus was primarily due to expenditure savings. The city realized lower-than-budgeted costs, including education, public works, general government, and public safety. Management attributes part of these savings to implementing a spending freeze during the last quarter of fiscal 2020 due to COVID-19. Revenue came in slightly overbudget, particularly intergovernmental revenue and excise taxes.

The fiscal 2021 budget totals \$139.1 million, a 2.4% increase over fiscal 2020, including a \$5.5 million fund-balance appropriation between the city and school department, which management has budgeted for historically. Management reports revenue is generally on target with property taxes from fiscal 2020; excise taxes are about \$175,670 over fiscal 2020. Other local receipts, such as licenses and permits, are outpacing the budget with only parking fees slightly underbudget. Revenue sharing is about 94% collected and above estimates. Expenses are tracking favorably with general government, public safety, education, and public works either at or below fiscal 2020. Management indicates capital expenses are underbudget so far in fiscal 2021.

Local property taxes generated 44% of general fund revenue in fiscal 2020 while intergovernmental aid accounted for about 53% and interest income 1.2%. This revenue mixture has been generally stable during the past several years, and we expect that to continue.

While we expect management will likely continue to make the necessary budgetary adjustments to maintain balanced

operations, we imagine the unprecedented widespread effect of COVID-19 will have an effect on state revenue and many local economies, including Lewiston, which could potentially result in weaker budgetary performance for fiscal 2021 and beyond. If management were to maintain balanced financial results during the next two fiscal years, or until we think the threat of stagnating or decreasing revenue due to negative economic shocks has subsided, we could revise our view of budgetary performance to strong.

### **Very strong budgetary flexibility**

Lewiston's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2020 at 24% of operating expenditures, or \$32.5 million. In addition, the city can raise additional revenue 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 fiscal year-end through better-than-budgeted results. Officials appropriated fund balance into the fiscal 2021 budget due to unassigned fund balance being about 14.38% of expenses, which is more than its 12% policy ceiling limit. Its minimum reserve target is 8% of expenditures, which it has adhered to historically. However, total available reserves have historically remained more than 15% of expenditures, averaging 21% during the past three fiscal years. Management does not expect to draw down reserves by fiscal year-end 2021. Therefore, we expect budgetary flexibility will likely remain very strong.

Lewiston has about \$17.6 million, or 12.7% of fiscal 2021 budgeted municipal and school expenditures, of excess levy capacity under LD-1 limitations. In our view, this enhances budgetary flexibility.

### **Very strong liquidity**

In our opinion, Lewiston's liquidity is very strong, with total government available cash at 35.6% of total governmental-fund expenditures and 2.8x governmental debt service in fiscal 2020. In our view, the city has strong access to external liquidity if necessary.

We expect liquidity will likely remain very strong. We include 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. In our opinion, the city has demonstrated strong access to external liquidity through frequent debt issuance. Furthermore, Lewiston does not have any contingent-liquidity risks from financial instruments with payment provisions that change upon 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 12.8% of total governmental-fund expenditures, and net direct debt is 57.3% of total governmental-fund revenue. Officials plan to retire about 71.1% of direct debt during 10 years, which is, in our view, a positive credit factor.

Following this issuance, Lewiston will have about \$190.8 million of total direct debt, partially offset by about \$94 million in self-supporting enterprise debt and state aid for school construction. We understand officials currently plan to issue about \$34 million of new-money debt during the next two fiscal years for various capital improvements. While we imagine the new issuance will likely weaken debt metrics, we do not expect it will change the debt profile.

### **Pension and OPEB highlights**

- We do not view pension costs as a long-term credit concern due to high funding, manageable liabilities, and overall low costs.
- We expect contribution increases will likely remain affordable due to revenue strength, strong reserves, and conservative budgeting.

As of June 30, 2020, Lewiston participates in:

- Maine Public Employees' Retirement System (MPERS), a consolidated plan for local participating districts, which was 91% funded, with a proportionate share of the city's net pension liability at \$10.4 million, assuming a 6.75% discount as of fiscal 2020; and
- MPERS' state employees' and teachers' plan, which was 85% funded, with a proportionate share of Lewiston's net pension liability at \$3.8 million, assuming a 6.75% discount as of fiscal 2020.

Lewiston's combined required pension and actual OPEB contribution totaled 3.9% of total governmental-fund expenditures in fiscal 2020. The city made its full annual required pension contribution in fiscal 2020. In addition, fiscal 2020 contributions exceeded static- and minimum-funding progress. We generally expect pension plan contributions to meet or exceed our view of minimum-funding progress due partially to the plan's closed 10-year amortization that should result in timely funding progress. However, we think the participating local districts' static-mortality projections and level-percent amortization could lead to some contribution volatility. Nevertheless, we expect costs will likely remain manageable.

Lewiston is also a member of Maine Municipal Employees' Health Trust and Maine Education Association Benefits Trust, which sponsor OPEB plans that provide health insurance to retiring employees. Eligible retirees must pay 100% of health-insurance premiums to receive health benefits. Therefore, contributions made by the city represent an implicit rate subsidy; therefore, audited financial statements reflect the percent of premiums subsidizing retiree health benefits. Lewiston's total fiscal 2020 OPEB liability was \$19.4 million.

In our opinion, retirement costs do not currently have a material effect on finances or operations; they will likely remain manageable during our outlook period.

### **Strong institutional framework**

The institutional framework score for Maine municipalities is strong.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

**Ratings Detail (As Of January 28, 2021)**

Lewiston GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Lewiston GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

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