S&P Global
Ratings

RatingsDirect®

Summary:

Portland, Texas; General Obligation

Primary Credit Analyst:
Chase C Ashworth, Centennial + 1 (303) 721 4289; chase.ashworth@spglobal.com

Secondary Contact:
Jennifer K Garza (Mann), Farmers Branch (1) 214-871-1422; jennifer.garza@spglobal.com

Table Of Contents

Summary:

Portland, Texas; General Obligation

Credit Profile		
US$3.5 mil certs of oblig ser 2019 dtd 09/01/2019 due 08/01/2039		
Long Term Rating	AA/Stable	New
Portland GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating to the City of Portland, Texas' series 2019 general obligation (GO) bonds and series 2019 certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's GO debt outstanding. The outlook is stable.

The bonds and certificates are GOs of the city, both payable from an ad valorem tax levied on all taxable property in the city, within the limits prescribed by law. The certificates are further secured by surplus revenues of the city's waterworks and sewer system after payment of all maintenance and operation expenses and all debt service, and after satisfying reserve and other requirements. We believe the lien position of the additional revenue pledge is unclear; therefore, we rate to the strength of the limited-tax GO pledge. The ad valorem taxes are not levied on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service. Based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018), we view the limited-tax GO debt pledge to be on par with the issuer credit rating, which reflects the city's general creditworthiness. Texas statutes provide for a maximum ad valorem tax rate of $2.50 per $100 of taxable assessed valuation (AV) for all purposes, including a maximum of $1.50 of the $2.50 for all ad valorem tax obligation debt service. The city's levy is well below the maximum at 64.95 cents per $100 of AV, 21.7 cents of which is dedicated to debt service.

Certificate proceeds will finance various street and parking projects and improvements within the city. The bonds proceeds will refund a portion of the city's GO debt outstanding to achieve debt service savings.

Portland has maintained very strong reserve levels through conservative budgetary performance, driven by good management practices and policies. Furthermore, its economic fundamentals continue to improve, bolstered by continued growth in the oil and gas industry and ongoing residential development. The city's debt burden is elevated; however, it has not burdened the city's financial performance historically.

The rating reflects the following factors:

- Adequate economy, with market value per capita of $79,932 and projected per capita effective buying income at 111% of the national level;

- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 59% of operating expenditures;
- Very strong liquidity, with total government available cash at 112.4% of total governmental fund expenditures and 5.2x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 21.4% of expenditures and net direct debt that is 269.4% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Portland's economy adequate. The city, with an estimated population of 16,401, is located in San Patricio County. The city has a projected per capita effective buying income of 111% of the national level and per capita market value of $79,932. Overall, the city's market value grew by 6.0% over the past year to $1.3 billion in 2019. The county unemployment rate was 6.3% in 2018.

Portland is located along the gulf coast of Texas, approximately seven miles north of Corpus Christi. The city has a suburban atmosphere with an estimated 75% of its labor force employed outside of city limits, the majority in Corpus Christi.

The local economy is heavily rooted in the oil and gas industry, drawing industrial developments and associated jobs to the area. City officials expect continued industrial development over the medium term, driving continued overall economic growth. The city has several residential developments in the construction phase and expects to add approximately 1,000 lots to the city's tax roll in the coming years. Additionally, there are several hotels under construction within the city. The city's assessed value has grown 36% over the past five years, driven by recent residential and commercial development. Officials project annual AV growth of 3% and population growth of 2%-3%.

Despite Portland's location on the coast and within counties included in the disaster proclamation for Hurricane Harvey, the city's tax base was not affected by the storm. Also, it did not experience any financial effects or pressures, and costs related to debris cleanup will be reimbursed with insurance and funds from the Federal Emergency Management Agency. For more information on how we assess severe weather-related events and climate change in our credit analysis, see our report "How Our U.S. Local Government Criteria Weather Climate Risk," published March 20, 2018.

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.

Key practices include the use of conservative revenue and expenditure assumptions in the budgeting process; strong oversight of budget-to-actual results during the year; formal investment policy that is reviewed annually, with quarterly updates provided to the city council; and a capital improvement plan (CIP). The city's CIP is updated annually, includes five year-projections of costs by project, and identifies funding sources for each project. Portland has a formally adopted reserve policy that requires available fund balance sufficient to cover 90 days of operating expenses, which it has historically met and exceeded. The city lacks formalized policies in the areas of long-term financial planning and debt management.

Strong budgetary performance

Portland's budgetary performance is strong in our opinion. The city had operating surpluses of 3.7% of expenditures in the general fund and of 3.0% across all governmental funds in fiscal 2017.

In assessing the city's budgetary performance, we have adjusted for recurring operating transfers and nonrecurring capital expenditure. The city has had consecutive operating surpluses dating back to fiscal 2014, ranging from $300,000-$1.1 million, which equates to 2.7%-10.6% of general fund expenditures. We consider the city's revenue sources to be relatively diverse, with property taxes accounting for 45% of general fund revenues, sales taxes making up 33%, and other smaller taxes, licenses, fees, and so forth composing the remainder of revenues.

Based on unaudited fiscal 2018 financial results, the city ended the year with an operating surplus of approximately $1 million, or 8.8% of operations (including recurring transfers). The surplus is primarily attributable to tax revenue growth. The city notes the current budget is tracking well and anticipates another operating surplus for fiscal 2019. Therefore, we anticipate the city will continue to have strong budgetary performance over the next two years.

Very strong budgetary flexibility

Portland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 59% of operating expenditures, or $6.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has consistently maintained very strong reserves in each of the past three fiscal years, ranging from $5.1 million to $6.3 million, or about 51% to 61% of general fund expenditures. This reserve level exceeds management's formal policy targets of fund balance, equal to at least 3 months (or 25%) of operating expenses. Based on unaudited fiscal 2018 results, the city increased its unassigned operating reserve position by nearly $1.4 million, or 20% from fiscal 2017. Based on the city's expectations of another operating surplus in fiscal 2019, we believe the city will continue to have very strong budgetary flexibility.

Very strong liquidity

In our opinion, Portland's liquidity is very strong, with total government available cash at 112.4% of total governmental fund expenditures and 5.2x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

The city's strong access to external liquidity, in our view, is demonstrated through its issuance of GO, enterprise, and special tax debt in recent years. Portland has historically maintained what we consider very strong cash balances, which is unlikely to deteriorate based on the city's conservative assumptions and strong financial operations. The city's investments comply with Texas statutes and the city's internal investment policy. As of Sept. 30, 2017, the city's investments were primarily held in TexPool, a state-administered local government investment pool, which we do not consider aggressive.

The city does not have any contingent liabilities that could affect its liquidity position. Therefore, we expect liquidity to remain very strong over the outlook horizon.

Very weak debt and contingent liability profile

In our view, Portland's debt and contingent liability profile is very weak. Total governmental fund debt service is 21.4% of total governmental fund expenditures, and net direct debt is 269.4% of total governmental fund revenue. After the issuance of the 2019 certificates and bonds, the city will have approximately $59.7 million in total direct debt outstanding. City officials note there is potential to issue approximately $7 million in certificates to fund various street improvements. Therefore, we believe the city's debt position will remain elevated.

Portland's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.4% of total governmental fund expenditures in 2017. Of that amount, 5.8% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The city made its full annual required pension contribution in 2017.

The city participates in the Texas Municipal Retirement System (TMRS), which is an agent multiple-employer hybrid pension plan administered by the State of Texas and it the city's largest plan. The required pension contribution is the city's actuarially determined contribution (ADC), which is calculated at the state level. Using reporting standards in accordance with Governmental Accounting Standards Board (GASB), the city's net pension liability measured as of Dec. 31, 2016, was $6.5 million and its GASB funded ratio was 74.4%. TMRS calculates the ADC using a level percent of payroll amortization, assuming 3% annual growth, which adds risk given that contributions are deferred into the future with the idea that growth will enhance affordability. TMRS also amortizes using a layered 25-year offsetting approach. This means that each year there is a loss, a new base is created to be amortized over 25 years, which we consider long. However, each year there is a gain, the largest loss is essentially reduced, decreasing overall contribution volatility. TMRS lists an equivalent single amortization period for the city of 29 years for fiscal 2017.

The city provides OPEB to retirees in the form of health and dental insurance, and funds them on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our opinion that the city will maintain strong budgetary performance and very strong budgetary flexibility, supported by good management policies and practices. We do not expect to change the rating within the two-year outlook period.

Downside scenario

We could lower the rating if local economic indicators were to deteriorate, including lower wealth and income metrics and declines in property values. Furthermore, if the city's budgetary performance were to deteriorate, leading to material and sustained draws on reserves, we could take a negative rating action.

Upside scenario

While we view it unlikely over the outlook period, we could raise the rating if the city's economic indicators were to improve to levels commensurate with higher rated peers, coupled with moderation of the city's elevated debt burden.

Ratings Detail (As Of August 2, 2019)		
Portland GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Portland GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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.