S&P Global Ratings

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Summary:

Portland, Texas; General Obligation

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Credit Profile		
US$8.5 mil combination tax and rev certs of oblig ser 2022 dtd 09/15/2022 due 08/15/2042		
Long Term Rating	AA/Stable	New
Portland GO		
Long Term Rating	AA/Stable	Affirmed
Portland GO		
Long Term Rating	AA/Stable	Affirmed
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Long Term Rating	AA/Stable	Affirmed
Portland GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' underlying rating to the City of Portland, Texas' approximately $8.5 million series 2022 combination tax and limited pledge revenue certificates of obligation.
- At the same time, S&P Global Ratings affirmed its 'AA' underlying rating on the city's general obligation (GO) debt outstanding.
- The outlook is stable.

Security

The series 2022 certificates as well as GO bonds and certificates outstanding constitute direct obligations of the city, payable from the proceeds of a continuing, direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within its borders. 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. Given the limited revenue pledge, we rate the certificates based on Portland's ad valorem tax pledge. The maximum allowable ad valorem tax rate in Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. The city's total fiscal 2022 tax rate is well below the maximum, at 65.71 cents, 23.36 cents of which are dedicated to debt service. We view the limited-tax GO debt pledge to be on par with the issuer credit rating, which is based on the city's general creditworthiness. 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.

Inclusive of the series 2022 issuance, the city will have approximately $57 million of net direct debt. We understand that proceeds will fund various street and utility system improvements. About $2.8 million of the 2022 certificates will be supported by the utility system.

Credit overview

Portland maintained solid finances through conservative budgetary performance, driven by good management practices and policies. While the city posted a general fund deficit in fiscal 2021 due to one-time capital projects, reserves will likely remain very strong, in our opinion. Furthermore, Portland's economic fundamentals continue to improve, bolstered by significant industrial development within and surrounding the city as well as ongoing residential expansion. The city's debt burden is elevated, but it has not burdened the city's financial performance to date. The city's revenue base, in particular sales taxes, has strengthened with the ongoing development. While officials do not report any slow down due to high inflation and rising interest rates, we believe Portland, like other communities, could experience economic headwinds, although ongoing multi-billion industrial development in the immediate area and the enduring housing deficit could lessen the negative impact.

The rating also reflects the following credit factors:

- Stable economy, with below-average-but-improving metrics compared with peers, and exposure to hurricane risk;
- Robust financial management policies and practices and a strong institutional framework score;
- Solid operating performance, with very strong reserves that partially offset Portland's exposure to environmental risks; and
- Very weak debt profile, with additional debt plans, but no immediate pension or other postemployment benefits (OPEB) pressures.

Environmental, social, and governance

The rating incorporates our view of environmental, social, and governance risks relative to Portland's economy, management, financial measures, and debt and liability profile; we view social and governance risk as neutral in our credit analysis. We incorporate a moderately negative view of environmental risks into our analysis, as severe weather poses the greatest physical risk to the city, which is located on the Gulf Coast. The city's very strong reserves help mitigate potential short-term financial effects following an event before Federal Emergency Management Agency (FEMA) reimbursement.

Outlook

The stable outlook reflects our view of Portland's solid financial metrics, supported by strong management, which we believe partially mitigate its exposure to weather events.

Downside scenario

We could consider a negative rating action if the city experiences financial pressures that result in budgetary imbalance or a material decline in reserves on a sustained basis.

Upside scenario

We could raise the rating if the city's wealth and income metrics improve to a level comparable with that of higher-rated peers, assuming no changes to other credit factors.

Credit Opinion

Growing economy in the Corpus Christi metropolitan statistical area

Portland is a mostly residential community along the Texas Gulf Coast, approximately seven miles north of Corpus Christi. Nearly 75% of Portland's labor force is employed outside its city limits, with a majority finding work in Corpus Christi. Leading industries include: the military, petrochemical, trade, education, services, and government sectors, and the largest employers are Corpus Christi Independent School District, Corpus Christi Naval Air Station, H.E.B. Stores, and Corpus Christi Army Depot.

Tax base growth accelerated in fiscal 2023 due to both residential and industrial expansion projects, as well as the city's annexation efforts. Notably, Portland annexed a tank farm (crude oil storage facility) last year that contributed to the increase in taxable values. The city is also in the process of annexing additional properties. Other developments include more than 3,000 homesites in various stages of development that will help accommodate the growth in the city. Officials report there are typically about 125 single-family homes built each year, but they expect this number will increase to about 300 homes as Lennar, a major homebuilder, is poised to build an 850-home subdivision within the next five years. Despite inflationary pressures and rising interest costs, management is not seeing a slowdown in economic activity. In fact, a persistent housing deficit is reportedly sustaining the pace of growth that Portland experienced the past few years. In addition to residential, commercial and retail developments are also accelerating, with much of the growth buoyed by large industrial projects in the region; there is about $66 billion of industrial developments within one or two miles of the city that will likely sustain residential and commercial growth but also create multiple primary and secondary job opportunities.

Given the overall stability of Portland's economy, we don't anticipate material changes in its economic credit metrics over the outlook horizon.

Good financial management practices and policies

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 updates its CIP 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.

We note that Portland took steps to protect itself against cyber attacks. A ransomware attack a couple years ago led to minimal data loss and costs. Since then, the city bolstered its cyber protections.

The institutional framework score for Texas municipalities is strong.

Solid financial performance, with very strong reserves that provide cushion against weather risks

The city posted surplus operations in each of the past three fiscal years and it maintained very strong reserves and liquidity. Officials budget conservatively, with revenues typically exceeding projections and expenditures coming in below budget, but the city uses excess revenues to fund non-recurring capital projects.

The fiscal 2020 general fund budget was scaled down to accommodate any potential pandemic-related pressures, but the year ended with a surplus due to the conservative assumptions and continued sales tax growth. Property taxes are the largest general fund revenue source, accounting for more than 40% of total revenue, followed by sales taxes (more than 30%).

While the fiscal 2021 audit is not yet available, preliminary results show a general fund draw of about $1.4 million that reflects funding $1.5 million in planned, one-time capital projects.

Fiscal 2022, ending on Sept. 30, is expected to result in a small $180,000 surplus, partially reflecting a healthy 9% increase in sales tax revenues. The city incorporated inflationary pressures and 3% salary increases in the proposed fiscal 2023 budget, which is balanced. Portland received $4.2 million in American Rescue Plan Act (ARP) funds that will be spent on one-time items, although the plan to spend those funds has not yet been finalized.

Given conservative budgeting practices and historically strong budgetary results, we anticipate that the city will maintain strong performance and very strong reserves.

Additional debt plans will sustain high debt burden, although no budgetary pressures anticipated

Subsequent to this issuance, the city will issue additional tax-backed debt, but we don't anticipate a material change to its already very weak liability profile.

The city privately placed its series 2019 and 2020 tax notes. The total par amount outstanding for the privately placed debt is $1.7 million, or 3% of total direct debt. The loan documents do not include any nonstandard events of default or remedies. Therefore, we do not consider this debt a contingent liquidity risk.

Pension and OPEB liabilities

We do not view pension and OPEB liabilities as an immediate credit risk. While contributions are manageable, we anticipate that these costs will increase given amortization and payroll-growth assumptions. However, we believe Portland has sufficient budgetary flexibility and liquidity to address these costs.

The city participates in the following plans:

- Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the state. The city's share of the plan net pension liability was $4.6 million as of Dec. 31, 2019, with a funded ratio of 84.60%, assuming a 6.75% discount rate. Actual contributions for TMRS exceeded our static funding calculation, but they fell short of the minimum funding progress metric. In general, we expect progress toward full funding will be slower given the plan's amortization basis of level percent using a payroll growth assumption of 3%, although it is over a closed period of 25 years.
- The city provides OPEB to retirees in the form of health and dental insurance and funds them on a pay-as-you-go basis. The liability associated with the plan was $1.7 million as of Sept. 30, 2020.

For more information, see "Pension Spotlight: Texas," published Feb. 25, 2020, on RatingsDirect.

Portland City, Texas--Key Credit Metrics				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Adequate economy				
Projected per capita EBI % of U.S.	87.6			
Market value per capita ($)	122,252			
Population		16,227	16,185	
County unemployment rate(%)	8.8			
Market value ($000)	2,031,209			
Ten largest taxpayers % of taxable value	6.9			
Strong budgetary performance				
Operating fund result % of expenditures		7.5	4.8	8.8
Total governmental fund result % of expenditures		5.3	5.0	13.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		68.8	61.7	66.1
Total available reserves ($000)		9,136	8,272	7,900
Very strong liquidity				
Total government cash % of governmental fund expenditures		122.3	115.5	111.7
Total government cash % of governmental fund debt service		613.7	595.4	633.1
Strong management				
Financial Management Assessment	Good			
Very weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		19.9	19.4	17.6
Net direct debt % of governmental fund revenue	273.6			
Overall net debt % of market value	4.7			
Direct debt 10-year amortization (%)	61.2			
Required pension contribution % of governmental fund expenditures		5.1		
OPEB actual contribution % of governmental fund expenditures		0.6		
Strong institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2020 Update Of Institutional Framework For U.S. Local Governments