S&P Global
Ratings

RatingsDirect®

Summary:

Portland, Texas; General Obligation

Primary Credit Analyst:
Rob M Marker, Centennial + 1 (303) 721 4264; Rob.Marker@spglobal.com

Secondary Contact:
Joshua Travis, Farmers Branch 972-367-3340; joshua.travis@spglobal.com

Table Of Contents

Summary:
Portland, Texas; General Obligation

Credit Profile		
US$2.68 mil combination tax and rev certs of oblig ser 2020 dtd 09/01/2020 due 08/15/2040		
Long Term Rating	AA/Stable	New
Portland GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating to the City of Portland, Texas' series 2020 combination tax and revenue 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 certificates and outstanding GO debt 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 2019 tax rate is well below the maximum, at 65.95 cents, 22.95 cents of which is dedicated to debt service. Based on the application of our criteria "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect, we view the limited-tax GO debt pledge 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 2020 issuance, the city will have approximately $48.9 million of net direct debt. We understand that proceeds will fund various street improvement projects.

Credit overview

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 significant industrial development within and surrounding the city as well as ongoing residential expansion. The city's debt burden is elevated; however, it has not burdened the city's financial performance historically. The city's revenues have remained relatively stable despite COVID-19 and temporary mandated business closures, with sales taxes on track to exceed 2019 collections.

We expect the credit will remain stable over our outlook horizon, which is generally for up to two years. However, provided the uncertainty presented by the ongoing global pandemic, our outlook is focused on a shorter outlook period of six to 12 months. For our latest U.S. economic forecast, see "U.S. Real-Time Economic Data Continues To Paint A Mixed Picture" (published on RatingsDirect on Aug. 14, 2020).

The rating reflects the following credit factors:

- Adequate economy, with a market value per capita of $87,663 and projected per capita effective buying income at 89% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 at 62% of operating expenditures;
- Very strong liquidity, with total government available cash at 115.5% of total governmental fund expenditures and 6.0x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 19.4% of expenditures and net direct debt that is 239.9% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We have analyzed the city's environmental factors, including health-and-safety risks posed by COVID-19, coupled with social-and-governance risks relative to the economy; financial management; budgetary performance; and budgetary flexibility, as well as its debt-and-liability profile, and have determined all are in-line with our view of the sector standard. Severe weather resulting in flooding is the main environmental threat to Portland; however, significant reserves should help mitigate the disruption from such events.

Stable Outlook

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 the moderation of the city's elevated debt burden.

Credit Opinion

Adequate economy

We consider Portland's economy adequate. The city, with an estimated population of 16,185, is located in San Patricio County. The city has a projected per capita effective buying income at 89% of the national level and per capita market value of $87,663. Overall, the city's market value grew by 8.2% over the past year to $1.4 billion in 2020. County unemployment has generally trended with but remained above, both state and national levels. With the onset of COVID-19 and associated business shutdowns, unemployment spiked to 16.4% in April. However, it has since declined to 11.1% in June as the economy attempts to recover.

Portland is located along the gulf coast of Texas, approximately seven miles north of Corpus Christi. Near 75% of the city's labor force is employed outside its city limits, with a majority finding work in Corpus Cristi. Leading industries include the military, petrochemical, trade, education, services, and government sectors, and the top employers include Corpus Christi Independent School District (5,944 employees), Corpus Christi Naval Air Station (4,500), H.E.B. Stores (3,840) and Corpus Christi Army Depot (3,400). The local economy is primarily residential, with single-family properties representing 70% of the total tax base, followed by commercial (11%) and multi-family residential (8%).

Strong tax base growth, averaging roughly 7% since 2012, is expected to accelerate over the coming years due to both residential and industrial expansion projects. Several subdivisions containing roughly 1,400 homes are in progress that will help accommodate the growth in the city. There will be multiple primary and secondary job opportunities created in the coming years aided by roughly $35 billion of industrial development ongoing within 2 miles of the city's limits. There are also some ongoing strip center developments and new restaurants coming into the area.

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. The Coronavirus presents a new challenge for the city. However, despite temporary mandated business closures enacted to reduce the spread of the virus, we understand that most local businesses are back open and doing well as assessed by strong sales tax collections. We will continue to monitor the effects of the virus on the city's local economy and unemployment.

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 regularly.

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.

Adequate budgetary performance

Portland's budgetary performance is adequate, in our opinion. Our assessment considers our view that the pandemic and recession pose an event risk that could increase performance volatility for cities in the short and medium-term. After adjusting for recurring transfers and capital expenditures funded with bond proceeds, the city an operating surplus at 4.8% of expenditures in the general fund and 5.0% across all governmental funds in fiscal 2019.

The city has reported 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 sales taxes accounting for 43% of general fund revenues, property taxes making up 34%, and other smaller taxes and fees composing the remainder of revenues.

Fiscal 2019 results were in line with budgeted expectations and historical trends of generating surplus operating results. Prudent spending and conservative budgeting led to a positive variance compared to budgeted expenditures. Also, higher than predicted sales tax collections, as well as an increase in building permit fees and investment earnings drove strong revenue growth.

With only a month remaining in the fiscal year, officials anticipate reporting near break-even results but note that if sales tax collections remain up, they may end with a slight surplus. Temporary business closures related to COVID-19 led to a modest decrease in sales tax collections in the month of April; however, since May, collections have come in above 2019 levels.

Although the city has maintained strong sales tax collections despite the severity of the recession, management has started closely monitoring spending and making efforts to control costs as uncertainty surrounding the spread of COVID-19 remains. Given consistent historical operating surpluses, expectations for near break-even results for 2020, and plan to take an ultra-conservative approach to spending during the recession, we do not anticipate any material decline in Portland's budgetary performance over our outlook horizon.

Very strong budgetary flexibility

Portland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 at 62% of operating expenditures, or $8.3 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 $6.7 million to $8.3 million, or about 59% to 66% of general fund expenditures. This reserve level exceeds management's formal policy targets of fund balance, equal to at least three months (or 25%) of operating expenses. Based on expectations to end 2020 with balanced operations and no plans for significant draws to reserves, we believe the city will maintain its very strong budgetary flexibility over our outlook horizon.

Very strong liquidity

In our opinion, Portland's liquidity is very strong, with total government available cash at 115.5% of total governmental fund expenditures and 6.0x governmental debt service in 2019. 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, 2019, the city's investments were primarily held in TexPool, a state-administered local government investment pool, which we do not consider aggressive.

The city has three series of privately placed debt, its series 2012 utility revenue bonds and 2019 and 2020 tax notes, with a cumulative balance of roughly $2.9 million, or 5% of overall debt. All are fixed-rate obligations, and none contain what we view as permissible events of default, and acceleration is not a remedy.

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 19.4% of total governmental fund expenditures, and net direct debt is 240% of total governmental fund revenue. After the issuance of the 2020 issuance, the city will have approximately $48.9 million in net direct debt outstanding. City officials plan to issue approximately $7 million in certificates to fund various street improvements over the next two years. Therefore, we believe the city's debt position will remain elevated.

Portland's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.6% of total governmental fund expenditures in 2019. Of that amount, 5.0% represented the required contributions to pension obligations, and 0.6% 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 was 77.3% funded, with a net pension liability equal to $6.3 million, on Dec. 31, 2018, the latest measurement date. Under state law governing TMRS, an actuary determines the contribution rate annually. Actuarial assumptions include a 6.75% discount, which we view as aggressive, representing market risk and resulting in contribution volatility if TMRS fails to meet assumed investment targets. Required contributions of $1.0 million were made during 2019. Despite the potential for contribution volatility, we expect prudent budgeting practices and strong reserves would allow the city to absorb potential increases with minimal disruption to financial performance in the near term. The city provides OPEB to retirees in the form of health and dental insurance and funds them on a pay-as-you-go basis.

Ratings Detail (As Of September 1, 2020)		
Portland GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Portland GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed