

RatingsDirect®

Summary:

Portland Water District, Maine; Water/Sewer

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Summary:

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Credit Profile

US\$3.9 mil wtr sys rev bonds ser 2020 due 11/01/2030

Long Term Rating AA/Stable New

Portland Wtr Dist wtr (AGM)

Unenhanced Rating AA(SPUR)/Stable Affirmed

Portland Wtr Dist wtr

Long Term Rating AA/Stable Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Portland Water District (PWD), Maine's 2020 water system revenue bonds, which will be designated as green bonds. At the same time, we affirmed our 'AA' rating on the district's parity water system revenue bonds. The outlook is stable.

Water system revenues will pay debt service on the bonds. No debt service reserve will be pledged to the bonds. Based on our review, we view the legal provisions as credit-neutral. PWD's charter stipulates that rates be adjusted such that water system revenues cover expenses, debt service, and an annual deposit to the sinking fund equal to 1% of the water system's debt outstanding, excluding debt that matures serially or has mandatory sinking fund payments. There is no additional bonds test; we believe that this is permissive. However, we do not view this as a material credit weakness at this time in light of PWD's capital funding strategy and a policy to maintain projected net revenues of no less than 1.25x annual debt service. We will continue to monitor PWD's capital planning strategy, and could change our view if we believe there is a significant risk of dilution.

Proceeds from the 2020 bonds will be used to fund capital projects, primarily on the district's water main projects.

Credit overview

The rating reflects the system's very strong enterprise risk profile and very strong financial risk profile. Strong conservative management has instituted and adheres to policies and procedures that ensure strong financial metrics and the maintenance of affordable water rates.

While we still believe the utility's revenues may experience some declines for fiscal 2021, ultimately, our expectation is that management will continue to manage the system, whether in delaying self-funded capital projects or by developing operational efficiencies to maintain sound coverage levels. PWD's water utility system also has over 501 days' cash on hand, which we believe provides a cushion for short-term disruptions. Additionally, management has instituted its contingency plans to ensure minimal service disruptions. While we continue to monitor events related to the COVID-19 pandemic, we do not currently expect it to affect the utility's ability to maintain budgetary balance and pay debt service costs. For more information, see "COVID-19's Potential Effects In U.S. Public Finance Vary By

Sector" (published March 5, 2020, on RatingsDirect) and "All U.S. Public Finance Sector Outlooks Are Now Negative" (published April 1, 2020).

The very strong enterprise risk profile reflects our view of the system's:

- Service area participation in the broad and diverse Portland-South Portland metropolitan statistical area (MSA);
- Rates that we generally view as affordable when benchmarking against Cumberland County's median household effective buying income (MHHEBI) and poverty rates; and
- Strong operational management practices and policies.

The very strong financial risk profile reflects our view of the system's:

- Financial metrics that include debt service coverage (DSC) of 1.7x-2.2x in recent years;
- Over \$23 million in available reserves, or well over one year's operating expenses;
- Planned debt issuance that may pressure financial metrics in the future; and
- Strong financial management practices and policies.

The stable outlook reflects our expectation that management will continue to adjust rates to maintain strong financial metrics as they continue to fund the capital program with debt and reserves.

Environmental, social, and governance factors

Overall, we believe that management has mitigated most of the system's environmental, social, and governance (ESG)-related risk by adopting, adhering to, and adjusting its operating and financial policies and procedures. We view most of the authority's other ESG risk factors as on par with those of other similarly rated utilities.

PWD's social risk, while elevated due to increased pressures on the service area economy because of higher public health and safety risks related to COVID-19, will directly increase the system's overall social risks factors. As one of about 50 water systems in the U.S. that has a legal exemption from the filtration requirements of the Safe Water Drinking Act, PWD's not having to filter surface water increases the system's environmental risks given that if mandated, a surface water filtration plant would be a costly option. The district has mitigated this risk over time with its Sebago Lake Protection Program, which includes buying property as it becomes available.

PWD's affordable rates (0.56% of median household effective buying income) and its assistance programs for low-income customers gives the district additional strength when dealing with ESG related risks.

Stable Outlook

Downside scenario

Should the district's coverage levels and liquidity position fall to levels commensurate with a lower rating due to increasing debt service requirements, it is possible we would consider a lower rating.

Upside scenario

We could raise the rating if PWD is able to maintain liquidity and coverage consistent with recent experience as it completes its capital plan. However, given additional debt plans, management's projections that DSC will decline from 2.2x to 1.5x for the entirety of the capital improvement plan, and the need to continue raising rates to maintain financial outcomes similar to historical trends, we see the likelihood of the rating improving over the next two years as unlikely.

Credit Opinion

Enterprise risk

PWD provides water to three cities and eight towns in the Portland MSA, with a consolidated population of approximately 215,000 (more than 16% of the state's population). Sebago Lake supplies the system with virtually unlimited water--according to management, current consumption is approximately 5% of available supply. PWD's customer base totaled 53,000 in 2019. About 60% of water sales revenues are from residential customers, 25% from commercial and industrial customers, 10% from public and private fire protection, and 4% from public authorities. We consider the customer base very diverse. The 10 largest water customers represented less than 8.4% of total water revenues during 2019.

Median household income in Cumberland County is over \$57,000, or 113% of the national average. The average residential monthly bill of \$26.83 for 6,000 gallons of water service therefore represents 0.56% of MHHEBI, a level we consider very affordable. The district has been exempted from Maine Public Utility Commission (MPUC) oversight as to approval for future rate increases, which, in our view, should provide considerable flexibility in passing such increases; it also has a program to assist low-income customers.

Finally, the district has operational policies and practices we consider strong. It has treatment capacity equal to current demand as well as potential increases in the customer base; management reports that the water system complies with all state and federal regulations. PWD has implemented public outreach and feedback activities, has professional development plans and targets for new and experienced employees, and continues to improve asset management practices. Management is working with the U.S. government to assess cybersecurity risk.

Financial risk

The very strong financial risk score benefits from both the substantial liquidity position and all-in coverage of 1.49x to 2.2x in the last six years. At the fiscal year ended Dec. 31, 2019, available reserves totaled \$23.1 million, which equates to 501 days' cash. Based on our review of management projections, financial performance in the next few years will be similar to current levels, but may face pressure from rising debt service as the district implements its capital plan.

PWD's five-year (2019-2023) capital plan for its water system totals about \$58.4 million, and management will need approximately \$50 million in debt (including the proposed series 2020 water system revenue bonds) to fund it; at the end of fiscal 2019, PWD had approximately \$55 million in debt outstanding. This increase in leverage and the associated increase in debt service requirements may pressure coverage in time. The district intends to continue to raise rates during the capital plan period to fund the \$15 million required for pay-as-you-go.

Also supporting the financial risk profile is the strong financial management assessment, indicating that, in our view, financial practices are strong, well embedded, and likely sustainable. Examples include five-year long-term financial and capital projections that are updated annually, reasonable assumptions, formal debt and investment policies, and an informal liquidity policy.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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