

RatingsDirect®

Summary:

Biddeford, Maine; General Obligation

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Credit Profile

US\$12.5 mil GO bnds ser 2022 due 10/01/2042

<i>Long Term Rating</i>	AA/Stable	New
Biddeford GO bnds		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Biddeford GO bnds		
<i>Long Term Rating</i>	AA/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating to 'AA' from 'AA-' on the City of Biddeford, Maine's previously issued general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the city's \$12.5 million series 2022 GO bonds. The outlook is stable.

The upgrade reflects the city's growing market values and conservative budgeting practices which have enabled it to restore fund balances and resume adherence to the city's policy, while reducing debt.

The city's full-faith-and-credit pledge secures the bonds. Biddeford can levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. Despite state limitations on levy limits, we did not make a rating distinction for the limited-tax GO pledge due to the city's flexibility under the levy limit. We note that bonds issued for school improvements are exempt from the property tax limit. Bond proceeds will be used to for projects relating to sewer systems, roads, and city hall improvements.

Credit overview

After a period of annual reserve appropriations which kept the city below its 12.5% fund balance policy, Biddeford has restored structural balance as of fiscal 2019 following the appointment of a new city manager. At the same time, its debt profile has improved through amortization and limited future debt needs, offset favorably by increasing market values. Given management's strategic approach to managing the budget from now on and the large volume of economic development in close proximity to Portland, we expect the credit to remain stable.

The rating also reflects our opinion of the city's:

- Growing economic base near Portland;
- Adequate management, supported by a strong institutional framework;
- Recent surpluses that have led to an improved reserve position; and
- Improving debt profile and manageable fixed costs.

Environmental, social, and governance

We assessed Biddeford's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. While we consider its social and governance risks neutral within our credit analysis, we view environmental risks as elevated given its coastal location. To this end, the city established a taskforce in 2021 with the goal of creating a Climate Action Plan following a greenhouse gas (GHG) inventory, as well as a physical and social vulnerability assessment, as laid out in its roadmap for fiscal 2023. The plan will include adaptation and GHG reduction strategies. We will continue to monitor its progress. Separately, we also note that the city is taking steps to mitigate cybersecurity risks.

Stable Outlook

Upside scenario

Should the city's wealth and income indicators improve to levels commensurate with those of higher rated peers, we could raise the rating.

Downside scenario

Conversely, if budgetary performance were stressed, resulting in weaker reserves with no plans to restore, or if the city's debt profile were to materially deteriorate, we could lower the rating.

Credit Opinion

Flourishing former mill town with access to Portland metropolitan area

Biddeford's market values have increased by 35% over the last five years to \$3.1 billion. Officials have focused on downtown revitalization following the demolition of the Maine Energy Recovery Co. waste-to-energy plant; the former premises are currently being renovated as a multiuse space which includes a 640-space parking garage through a public-private partnership (P3). According to the city, the downtown area will be greatly enhanced by the increased availability of parking and is expected to foster further growth. Other notable developments include a re-use project which will include residential apartments, a boutique hotel, a restaurant (5,000 square feet), a fitness center (11,000), and commercial space (7,000), and another similar project with 70 new housing units and 13,300 square feet of commercial space. The city is also developing walkways and bike paths to improve interconnectivity along the riverfront. In terms of labor opportunities, Southern Maine Health Care remains the largest employer, followed by the University of New England and Market Basket, and 13% of residents commute to Portland. At the same time, officials note that most new local activity is derived from small-to-midsize enterprises, with the city garnering a "foodie" reputation. Given the affordability of the city and its proximity to Portland, we expect its economy to remain strong.

Restored adherence to reserve policy

As of fiscal 2021, the city has met its formal reserve policy to maintain unrestricted fund balance at a minimum 12.5% of operating expenditures, which we view favorably. It adheres to state guidelines for both debt and investments, and reports on holdings monthly. In producing the budget, management reviews up to five years of historical data for assumptions; it presents monthly budget monitoring reports to the city council and department heads. It consolidates annual departmental needs in a five-year capital improvement plan where funding sources are partially identified,

although it does not conduct long-term financial planning.

Streamlined finances generating surpluses

For analytical consistency, we adjusted for recurring transfers, and one-time capital spending through bond proceeds. We note that the city updated its auditing practices as of fiscal 2020. In fiscal 2021, locally generated taxes represented 65% of general fund revenue, while state aid (predominately K-12 funding) accounted for 30% of operating revenues.

The new city manager has made concerted efforts to tidy up Biddeford's finances, including correctly recognizing revenues and expenditures, tightening discretionary spending, and strategically adjusting the tax rate while remaining below the property tax levy limit. As a result, the city saw strong surpluses in both fiscal years 2020 and 2021. In both years, revenues exceeded the budget predominately due to better-than-anticipated state support and taxes associated with new vehicle registrations.

Similarly, management projects a \$750,000 surplus in fiscal 2022, with the intention to continue building the reserve position. The city plans to continue appropriating reserves to balance the subsequent year's budget, noting it has successfully replenished projected use each year. To offset potential inflationary pressures, accommodate increased spending in public safety, and higher debt service payments, it has received approval for a total tax commitment of 3.3% in fiscal 2023. At the same time, it is adjusting all values due to market growth, and the forecasted tax rate is estimated to decrease by \$1.25 even with the increase in the tax commitment. In addition, of the city's \$10 million American Rescue Plan Act allocation, \$1.7 million will be used to pay down an internal loan relating to the wastewater treatment plant. The use of the remaining allocation has not been determined.

The city has entered a P3 for a parking garage for which it is contractually obligated to make annual supporting payments over a 25-year lease period to manage it. The payments will be made from the Mill District tax-increment financing (TIF) fund revenues, which are derived from sheltered property tax payments from businesses within the Mill District. The city has not, nor does it intend to, issue debt to make these payments. If parking fees are insufficient and net operating revenues fall below 90% of projections, the city states it has projected enough available funds in the TIF account to make up for the shortfall. The maximum annual city payment projection does not exceed 1% of general fund revenues, so as a result we do not view it as a contingent liquidity risk. If revenues exceed 110% of projections, the city will collect the excess revenues in the special revenue fund which will be used for parking-related expenses. Management expects the associated obligations to be self-supporting over the longer term based on conservative projections. In line with our article "How Standard & Poor's Treats Public-Private Partnerships In U.S. State And Local Government Debt Analysis," published Sept. 17, 2015, on RatingsDirect, we incorporate the obligation in our total direct debt calculation.

In addition, the city has two privately placed loans relating to an ice arena; however, we do not view these as contingent liquidity risks as they make up 1% of total direct debt and do not have permissive events of default. Overall, we expect the city's financial profile to remain stable.

Manageable debt

Including this issuance, Biddeford will have about \$86 million in total direct debt outstanding, which includes its P3 obligation. The city has approximately \$5 million in authorized but unissued debt toward abating its combined sewer outfalls conditions, which if issued would be offset by annual amortization. Management is currently reviewing its

borrowing needs and indicates it may borrow for future projects within the next seven years. We do not expect a material change to the city's debt profile.

Limited pension pressures

- We do not view pension costs as a long-term credit concern, due to high funding and manageable liabilities, resulting in strong minimum and static funding progress.
- We expect contribution increases will likely remain affordable due conservative budgeting practices.

As of the 2021 audit, Biddeford participates in:

- Maine Public Employees' Retirement System's (MPERS) consolidated plan for local participating districts, which was 100.9% funded, with a proportionate share of the city's net pension liability (NPL) at \$10.2 million;
- MPERS' state employees' and teachers' plan, which was 91% funded, with a proportionate share of Biddeford's NPL at \$850,000; and
- Three other postemployment benefit (OPEB) plans which are funded on a pay-as-you-go basis, with a total liability of \$17.9 million.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Biddeford, ME -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	85			
Market value per capita (\$)	143,435			
Population		21,638	21,385	
County unemployment rate(%)		5.4		
Market value (\$000)	3,103,650	2,823,300	2,639,350	
Ten largest taxpayers % of taxable value	7.2			
Strong budgetary performance				
Operating fund result % of expenditures		6.5	3.1	1
Total governmental fund result % of expenditures		13.5	2.2	(1.6)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		18.6	12.1	11
Total available reserves (\$000)		14,103	9,130	8,054
Very strong liquidity				
Total government cash % of governmental fund expenditures		29	17	18
Total government cash % of governmental fund debt service		422	211	216
Adequate management				
Financial Management Assessment	Standard			

Biddeford, ME -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.8	7.9	8.2
Net direct debt % of governmental fund revenue	81			
Overall net debt % of market value	2.8			
Direct debt 10-year amortization (%)	65			
Required pension contribution % of governmental fund expenditures		2.7		
OPEB actual contribution % of governmental fund expenditures		0.3		

Strong institutional framework

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

Ratings Detail (As Of May 13, 2022)

Biddeford GO bnds ser 2013 dtd 02/14/2013 due 11/01/2013-2032		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Biddeford GO (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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