S&P Global
Ratings

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Summary:

Portage, Michigan; General Obligation; General Obligation Equivalent Security; Miscellaneous Tax

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Summary:

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Credit Profile		
US$4.89 mil cap imp bnds ser 2019 due 06/27/2039		
Long Term Rating	AA+/Stable	New
Portage GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the City of Portage, Mich.'s series 2019 capital improvement limited-tax general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's existing GO bonds, including bonds issued for the city through the Portage Building Authority and the Portage Local Development Finance Authority, and its 'AA+' rating on the city's Michigan Transportation Fund (MTF) bonds outstanding. The outlook on all the ratings is stable.

The 2019 bonds are secured by a pledge of the city's full faith, credit, and resources and an agreement to levy ad valorem property taxes within state limitations. We rate the limited-tax GO debt at the same level as our view of the city's general creditworthiness given that ad valorem taxes are collected from the Kalamazoo County's entire tax base and that there are no limitations on the fungibility of resources available for debt service.

The city will use series 2019 bond proceeds to finance various capital improvements.

Portage's MTF bonds outstanding are secured by a first-lien pledge of annual state-collected gas-and-weight taxes for highway and road purposes--pursuant to Act 175, Public Acts of Michigan, 1952, as amended, and Act 34, Public Acts of Michigan, 2001, as amended. To the extent that MTF revenues are insufficient, the city's full-faith-and-credit pledge and agreement to levy ad valorem property taxes, within statutory and constitutional tax limitations, provide additional security. We base the 'AA+' rating on our view of the city's pledge of its full faith and credit, which we consider commensurate to the first-lien-pledge of the MTF bonds.

The improvements in the economy with ongoing and future projects could translate into sustained or improved wealth incomes, boosting the city's plans to fund an array of capital projects through available funds as a result of recent positive operating results. Portage's very strong budgetary flexibility and liquidity, coupled with very strong management practices further highlight the proactive nature of the city in ensuring stability across its financial operations. In our opinion, the debt burden is likely to improve as future debt borrowings are reduced and the capital expenditures continue to be cash funded.

The 'AA+' rating reflects our opinion of the following factors for Portage:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 92.0% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 14.3% of expenditures and net direct debt that is 86.6% of total governmental fund revenue, as well as rapid amortization, with 88.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Portage's economy strong. The city, with an estimated population of 48,816, is located in Kalamazoo County in the Kalamazoo-Portage, Mich. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 108.3% of the national level and per capita market value of $95,710. Overall, the city's market value has grown by 4.3% over the past year to $4.7 billion in 2019. The county unemployment rate was 4.1% in 2017.

Portage is about halfway between Chicago and Detroit at the crossroads of Interstate 94 and U.S. Route 131, where it encompasses approximately 35 square miles. The city has a projected per capita effective buying income of 107% of the national level, which is a decline of 4.1% from the previous year. The county unemployment rate was 4.1% in 2017 and has historically remained below both the state and national average.

Leading city employers include:

- Stryker Instruments (2,300 employees), medical equipment;
- Pfizer Inc. (2,100), pharmaceuticals; and
- Portage Public Schools (950).

Stryker is currently building a $130 million corporate campus in the city, which is expected to add about 100 jobs on completion in the fall of 2019 and is adding an $89 million addition to a manufacturing facility that will be completed in early 2020. This project is anticipated to provide 150 new jobs in two years and an additional 260 jobs by 2025.

Furthermore, Pfizer is also undergoing an expansion project, investing in a $450 million development to its manufacturing facility, with groundbreaking in the summer of 2019; this project should result in 150 new jobs within two years, and another 310 new jobs by completion in 2025. Additional residential and commercial development is also underway and is likely to translate into tax base growth.

The city's tax base is primarily residential, which accounts for over 70% of taxes, while industrial and commercial account for 27%. The tax base has been experienced steady growth from 2016 to 2018, with taxable value increasing by 3% during that period totaling $2 billion. Market value totaled $4.7 billion in 2018, an increase of 4% over the past three years, resulting in an increase of per capita market value of $95,710 from $87,706. It is likely that, with the ongoing expansion, economic growth, and the "uncapping" of residential values as homes transfer, the tax base could improve.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Additional highlights include management's:

- Use of historical data and external information to formulate budgeted revenue and expenditures;
- Review of budget-to-actual reports, at least monthly, with the ability to amend the budget, if needed;
- Maintenance of a five-year financial plan and a 10-year capital plan, both of which are updated annually;
- Formal investment management, with monthly reports on investments and holdings to the city council; and
- Formal reserve policy of maintaining 24% of expenditures, tied to the timing of cash flow.

We believe that the strength of the city's fiscal policies and practices will continue to provide credit strength.

Strong budgetary performance

Portage's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 4.5% of expenditures, and balanced results across all governmental funds of 0.4% in fiscal 2018.

The city has demonstrated a track record of achieving balanced operations, primarily due to the strength of its budgeting practices. The general fund has consistently achieved operating surpluses, allowing ongoing transfers to the capital projects funds. Portage is committed to reducing its debt obligation and increasing capital improvement spending from its available cash. Despite its ongoing capital expenditures, the combined operating results across all the governmental funds have been positive. Therefore, we view budgetary performance as strong. In fiscal 2018, the city had balanced operating results in the general fund of 4.5% of expenditures and a surplus result across all governmental funds of 0.4%.

The general fund operating results take into account adjustments for recurring transfers that the city makes to the capital project fund. Although Portage had transferred more than $12 million in 2018, we believe $2.2 million was a one-time occurrence. This one-time transfer was to move excess surplus from the general fund that exceeded the city's 24% of expenditures fund balance limit based on Portage's adopted policy. The city expects to continue transferring excess surpluses that exceed its policy.

Portage has adopted a conservative deficit budget, based on its historical practices, for fiscal 2019, and it anticipates better-than-expected results, as seen in recent years. Currently, management has provided fiscal year-end June 30, 2019, estimates showing a $200,000 general fund surplus before transfers into the capital improvements fund.

While Portage has yet to adopt a budget for fiscal 2020, based on historical performance and adjustment considerations, we believe budgetary performance will remain strong.

Very strong budgetary flexibility

Portage's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 31% of operating expenditures, or $7.7 million.

The city's budgetary flexibility remains very strong despite a commitment in fiscal 2015 to draw down Portage's available fund balance from 40% of expenditures to a policy target of 24% of expenditures. Since the policy was implemented, the city has maintained its 24% reserves target and will transfer out any surplus funds from the general fund to ensure compliance with the target. The city does not have any plans to spend down the fund balance and we believe that its budgetary flexibility will remain very strong if the city continues to maintain available funds to levels commensurate with those in fiscal 2018.

Very strong liquidity

In our opinion, Portage's liquidity is very strong, with total government available cash at 92.0% of total governmental fund expenditures and 6.5x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We believe the city has strong access to external liquidity because it has been issuing GO- and revenue-backed debt, which demonstrates its access to capital markets. It has shown a consistent trend of maintaining very strong cash balances across its governmental funds and there are no plans that could cause deterioration despite pay-as-you-go capital spending. Therefore, we believe the city will likely maintain very strong liquidity.

Adequate debt and contingent liability profile

In our view, Portage's debt and contingent liability profile is adequate. Total governmental fund debt service is 14.3% of total governmental fund expenditures, and net direct debt is 86.6% of total governmental fund revenue. Approximately 88.5% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We understand the city's capital plan calls for $13.5 million in capital spending as part of its routine capital improvement program. This will call for additional debt borrowings; however, management will likely issue less because it plans to use general fund surpluses to aid with capital improvements. We believe that the debt and contingent liability could improve over time as the city continues to reduce its debt borrowings and cash-fund its projects.

On Dec. 13, 2018, the district entered into a $1.740 million direct-placement refunding GO note (series 2018) with PNC Bank, of which all of the original par amount remains on the note, which will fully mature on Jan. 1, 2025. There are no provisions in either loan agreement that would lead to immediate note acceleration. Therefore, we recognize that these agreements contain no events of default or covenant violations that we deem nonstandard pursuant to our contingent liquidity criteria.

Although the city's debt and contingent liability is adequate, we believe that the absence of pension and other postemployment benefit (OPEB) pressures provides credit strength. Portage's combined required pension and actual OPEB contributions totaled 0.5% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

Portage administers a single-employer, defined-benefit pension plan, as well as multiple defined-contribution pension plans. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, its plan fiduciary net position as a percent of the total pension liability was 89.0%, which we view as relatively well funded, though it has come down from 96.4% since 2015. In addition, the city's reported a net OPEB asset of $2.5 million in fiscal 2018.

Strong institutional framework

The institutional framework score for Michigan municipalities with a population between 4,000 and 600,000 is strong.

Outlook

The stable outlook reflects our view of Portage's strong management practices and demonstrated ability to maintain balanced operations. We also believe that, given the city's track record, it is likely to continue to achieve stable operations and support its very strong budgetary flexibility and liquidity, as well as adequate budgetary performance. Although the city expects to cash-fund its project, we do not expect that Portage's cash will deteriorate. At the same time, we believe that while the city's debt and contingent liability is weak, it is likely to improve given Portage's commitment to reduce debt and that the city's pension and OPEB costs are minimal. Therefore, we do not expect to change the rating within the two-year outlook horizon.

Downside scenario

We could lower the rating if budgetary performance were to decline to a level we view as weak or very weak, coupled with significant deterioration in budgetary flexibility and liquidity.

Upside scenario

We could raise the rating if the city's wealth and income indicators improve significantly to levels that are more in line with that of higher rated peers, coupled with all other factors remaining the same or improving.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 16, 2019)		
Portage cap imp bnds (new imps & rfdg proj) ser 2016 dtd 05/01/2016 due 07/01/2036		
Long Term Rating	AA+/Stable	Affirmed
Portage downtown dev ltd tax rfdg bnds dtd 03/01/2012 due 10/01/2026		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of May 16, 2019) (cont.)		
Portage Mich Transp Fund		
Long Term Rating	AA+/Stable	Affirmed
Portage GO		
Long Term Rating	AA+/Stable	Affirmed
Portage GO		
Long Term Rating	AA+/Stable	Affirmed
Portage GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Portage Bldg Auth, Michigan		
Portage, Michigan		
Portage Bldg Auth (Portage) GO		
Long Term Rating	AA+/Stable	Affirmed
Portage Bldg Auth bldg auth bnds ser 2001 dtd 04/01/2001 due 09/01/2002-2021		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Portage Local Dev Fin Auth, Michigan		
Portage, Michigan		
Portage Local Dev Fin Auth (Portage) GO		
Long Term Rating	AA+/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.