

RatingsDirect®

Summary:

Portsmouth, New Hampshire; General Obligation; Note

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Credit Profile

US\$25.28 mil GO cap imp loan bnds ser 2022 due 06/15/2042		
<i>Long Term Rating</i>	AAA/Stable	New
US\$10.424 mil GO bnd antic nts ser 2022 dtd 06/23/2022 due 06/23/2022		
<i>Short Term Rating</i>	SP-1+	New
Portsmouth GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Portsmouth GO bnd antic nts ser 2022 dtd 06/23/2022 due 06/23/2022		
<i>Short Term Rating</i>	SP-1+	Affirmed
Portsmouth GO rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Portsmouth, N.H.'s approximately \$25.3 million series 2022 general obligation (GO) bonds and its 'SP-1+' short-term rating to approximately \$10.4 million bond anticipation notes (BANs) maturing June 23, 2023. We also affirmed our 'AAA' long-term rating on the city's existing GO bonds. The outlook, where applicable, is stable.

The city's full faith and credit pledge secures the bonds and BANs, including the levy and collection of property taxes on all taxable property within the city without limitation as to rate or amount. The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Portsmouth maintains a very strong capacity to pay principal and interest when the notes come due. The city has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

Bond proceeds will be used for various capital improvement projects, including water and sewer infrastructure projects. The note proceeds will be used to temporarily finance upgrades to the parking facility and purchase of Community Campus.

Portsmouth is eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", published Feb. 13, 2019, the city has a predominately locally derived revenue source that supports our view that debt repayments is at limited risk of negative sovereign intervention.

Credit overview

Portsmouth's credit profile is underpinned by the city's strong management team and longstanding financial policies and practices, which continues to support its positive operating performance and very strong reserve levels as it recovers from the pandemic. The city posted an operating surplus in fiscal 2021 as the economy began its recovery and looking ahead fiscal 2022 is projected to end with a surplus and maintenance of fund balance levels. The stable outlook reflects our expectation that the city's economic diversity and balanced results will continue despite ongoing economic uncertainties. However, the state's low-funded pension plan could lead to contribution escalation and potentially pressure operations in future years.

The 'AAA' long-term rating reflects our opinion of the city's:

- Strong coastal economy, with leisure and hospitality sectors that have recovered from the pandemic;
- Proficient management with well-embedded formalized policies and practices, and a very strong institutional framework score;
- Adequate budgetary performance reflecting the city's breakeven operating results, bolstered by robust reserve levels; and
- Adequate debt and contingent liability profile, but a low funded pension plan and funding requirements that could increase during the outlook period.

Environmental, social, and governance

Given Portsmouth location along the eastern seaboard, the city's economic base is exposed to environmental risks consistent with similarly situated coastal communities. Portsmouth's Historical Resources Climate Change Vulnerability Assessment and Adaptation Plan was completed following the city's coastal resiliency initiative that mapped areas the most vulnerable to sea level rise and severe coastal storms. Long-term infrastructure projects related to the city's sea wall and code modifications to raise facilities are ongoing. We believe the city's sophisticated management team will execute on efforts to protect its population and economy from these environmental risks. Finally, we analyzed the city's economy, budgetary outcomes and flexibility, management, and debt and long-term liability profile relative to its social and governance risks and view them as being neutral in our credit analysis.

Stable Outlook

Downside scenario

Although unlikely, we could consider a negative rating action if a material change in the city's financial position results in persistent operating deficits that reduce reserves to a level inconsistent with that of 'AAA' rated peers, or if pension costs become unsustainable without a corresponding modification to operations.

Credit Opinion

Vibrant coastal economy with a large tourism draw and continued economic expansion

Portsmouth is a scenic tourist destination and major economic hub located along New Hampshire's seacoast, about 50 miles south of Portland, Maine and 50 miles north of Boston. The city, with an estimated population of 22,500, is in

Rockingham County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The presence of the Pease International Tradeport and Portsmouth Naval Shipyard anchor the city's local economy. The commercial sector remains strong, with the Navy continuing to invest in its operations at the shipyard and companies such as Novocure and Lonza Biologics expanding their operations.

The leisure and hospitality sectors continue its recovery from negative impacts at the onset of the pandemic. The county's unemployment rate has declined to 2.4% in December 2021 from a peak of 17.6% in April 2020, further supporting our view that the city's economic profile and well-diversified commercial and residential tax base will remain stable among fluctuations in the tourism sector given the increase in economic uncertainty. For more information on S&P Global Economics' view, see, "Inflation, War, And COVID Drag On", published May 17, 2022.

Strong management team with well-embedded financial practices

Management is conservative when arriving at revenue and expenditure assumptions and it incorporates historical trends when formulating the budget. Portsmouth regularly monitors budget-to-actual results and provides monthly reports to the city council. The city prepares a formal five-year financial plan and annually updates its rolling, six-year capital improvement plan (CIP) and presents the plan to the city council. The CIP identifies cost estimates and funding sources as well as how projects will affect the operating budget. Furthermore, Portsmouth has its own formally adopted investment and debt management policies. The city codified its reserve policy in a 2013 ordinance requiring maintenance of unassigned fund balance at 10%-17% of general fund appropriations. The city's information technology manager oversees cybersecurity mitigation efforts, and we view its robust mitigation efforts as consistent with the city's other initiatives that mitigate risks to its operations.

Adequate budgetary performance bolstered by robust reserve levels

For analytical consistency, we adjust Portsmouth's budgetary performance for recurring transfers from the general fund to the non-major governmental fund, and for one-time capital expenditures in the non-major governmental fund. Property tax is the largest revenue source in the general fund at 77% in fiscal 2021.

Based on audited results, the city ended fiscal 2021 with an \$820,000 surplus in the general fund after accounting for interfund transfers. The positive operating result can be attributed to favorable revenue variances, primarily in motor vehicle registrations and building permits, which offset some revenue shortfalls due to halted recreational programs and lower enrollment. The city also saw expenditure savings from vacancies and certain departments not expending their full appropriations.

The adopted fiscal 2022 budget totals \$126.4 million, which is a 6.14% increase over the fiscal 2021 budget. Management reports that year-to-date results include better-than-budgeted revenues, including motor vehicle registrations, parking revenues and increased state aid. There is also a projected surplus in expenditures due to a returned appropriation of unassigned fund balance. Overall, management anticipates ending the year with a surplus and small addition to fund balance.

The proposed fiscal 2023 budget totals \$133 million; a public hearing on the budget was held in May 2022, and management continues to evaluate macroeconomic trends and potential legislative changes that could impact the budget. We believe that despite the inclusion of the \$1.8 million appropriation from the committed fund balance, which is the city's typical practice to help cover debt service costs, budgetary performance will remain stable over the

outlook period.

Portsmouth's budgetary flexibility is very strong, with an available fund balance in fiscal 2021 of 42% of operating expenditures, or \$48 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.

Available funds are inclusive of the committed fund balance we consider available for operations following council approval. The committed balances are typically available to support debt service expenditures and termination payouts due to eligible employees upon retirement. In fiscal 2021, amounts were drawn from the committed reserves, but the unassigned balance increased to \$16.4 million and remains compliant with the formal reserve policy. Given management's projections for fiscal 2022, we expect budgetary flexibility will likely remain very strong.

We adjusted Portsmouth's liquidity to remove restricted cash across governmental funds (primarily bond proceeds). We understand the city does not have any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Adequate debt and contingent liability profile

Following this issuance, Portsmouth will have about \$219.7 million in total direct debt outstanding, of which \$82 million is self-supported from water and sewer funds. Officials anticipate issuing \$36 million of authorized debt within the two-year outlook period, including design of a new police station. Despite ongoing issuance plans, we believe the city's debt profile will remain manageable given the regular rate adjustments in the water and sewer funds.

Pension and other postemployment benefits (OPEB) liabilities

- Pension contributions will likely remain a long-term cost pressure due to the state plan's low funded ratio and our expectation for increasing contributions. However, the city is managing liability costs and we expect higher contributions will likely remain affordable due to the strength of the city's revenue base, very strong reserves, and conservative budgeting.
- Our view is further informed by the retirement system's actuarially determined pension contribution that reflects weak assumptions and methodologies.
- Portsmouth offers OPEB through an implicit rate subsidy. It does not generally pay for health care and life insurance benefits for retirees or their dependents or survivors. However, retirees could purchase such benefits at the city's group plan rates.

Portsmouth participated in the following plans as of June 30, 2021:

- New Hampshire Retirement System (NHRS), which is 72% funded, with a proportionate share of the net pension liability at \$86.4 million
- Defined-benefit OPEB health care plan, with a liability of about \$13.5 million

Although NHRS pension contributions in fiscal 2021 did not meet minimum funding progress, it exceeded static funding by more than 100%. An actuarial plan exists to reach full funding within a closed 20 years. However, NHRS' amortization methods defer costs, which will likely result in slow funding progress and could lead to unfunded-liability growth. The discount rate has decreased to 6.75%, which we still consider elevated and susceptible to market-volatility

risk.

Very strong institutional framework

The institutional framework score for New Hampshire municipalities is very strong.

Portsmouth, New Hampshire Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	176			
Market value per capita (\$)		319,094		
Population		22,548	21,070	20,941
County unemployment rate(%)			7.1	
Market value (\$000)		7,194,931	6,784,387	6,139,020
Ten largest taxpayers % of taxable value	8.2			
Strong budgetary performance				
Operating fund result % of expenditures		0.7	(1.3)	(0.9)
Total governmental fund result % of expenditures		3.3	0.2	1.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		41.8	40.8	43.6
Total available reserves (\$000)		48,186	47,351	48,808
Very strong liquidity				
Total government cash % of governmental fund expenditures		132	84	94
Total government cash % of governmental fund debt service		1119	673	816
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.6	12.4	11.6
Net direct debt % of governmental fund revenue	104			
Overall net debt % of market value	1.9			
Direct debt 10-year amortization (%)	34			
Required pension contribution % of governmental fund expenditures		7.1		
OPEB actual contribution % of governmental fund expenditures		0.7		
Very strong institutional framework				

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

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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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.

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