



THE CITY OF AUGUSTA

WILLIAM R. BRIDGEO, CITY MANAGER

TO: Mayor and City Council
FROM: Bill Bridgeo
RE: Administrative Report
DATE: June 4, 2018

Meetings:

There will be an Age Friendly Community Advisory Committee Meeting on Tuesday, June 5, 2018 beginning at 5:30 p.m. in the Learning Gallery.

On Wednesday, June 6th at 6:00 p.m. in the Learning Gallery there will be a meeting hosted by the Augusta Downtown Alliance on Two Way Traffic on Water Street.

The City Council will meet for a Business Meeting on Thursday, June 7th at 7:00 p.m. in Council Chambers. An agenda is included in Council Packets. A pre-meeting will take place in Conference Room A beginning at 6:30 p.m.

There will be a Senior Staff Meeting on Friday, June 8th at the City Center in Conference Room A beginning at 9:15 a.m.

Other Items:

With this packet I am including a report that was researched and written by three Muskie School of Public Service masters' degree candidates as part of their Public Finance course requirements. The students – Gary Fish, Kristen Muszynski and Craig Slavin – all hail from this area and had expressed an interest in exploring the topic of homelessness in Augusta after reading media reports of the City's grappling with the issue. It is a thoughtful analysis that I thought you would appreciate reading.

Fire Chief Roger Audette has requested permission to live outside of the corporate boundaries of the City. He has advised me that he will be married this fall and hopes to build a new home for him and his new wife and his teenage children on land that he owns in Readfield. When Roger was first hired as a firefighter/paramedic in 1993 he resided in Winthrop (his hometown). When he was appointed as chief ten years ago he purchased a home on Chapel Street where he resided thereafter. Given Roger's current life circumstances, I think that it is both reasonable and fair to allow him to proceed with his plans to build his new home (himself, I would add) and treat the fire chief's position in our code of ordinances in the same manner that we treat the police chief's position (i.e. residency required unless waived by City Council action following a recommendation by the city manager). To initiate that process, I have placed a first reading of an ordinance change on this week's agenda to that effect.

Following the conclusion of our budget process, I asked Community Services Director Leif Dahlin to take the lead in researching what needs to be done to begin to address the widespread

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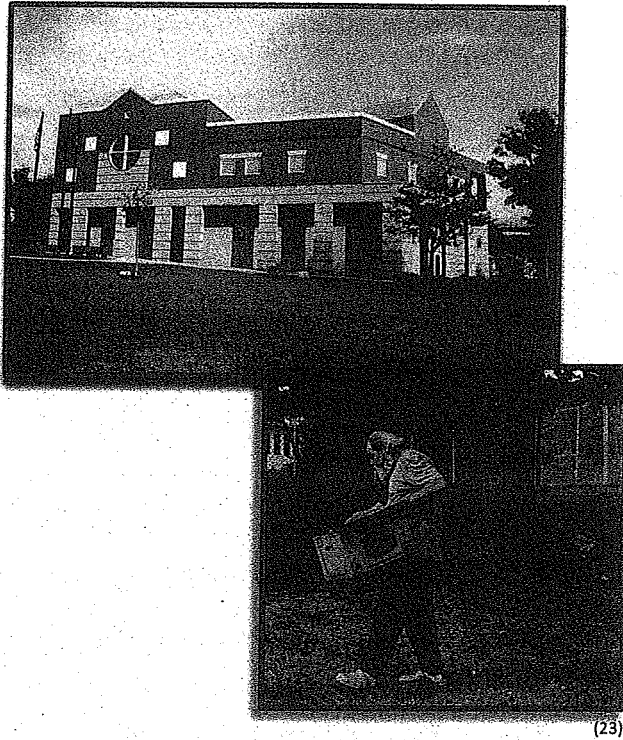
damage to the City's lawns and other grassy areas (including ballfields and parks and cemeteries) caused by grub infestation. The "war zone" characterization used by councilors and the Mayor was not too far off the mark. As we begin to understand the scope of the problem, we are also beginning to appreciate, unfortunately, that solving it will be neither inexpensive nor immediate. We will have a presentation ready for Council on July 12th (the June 14th informational meeting has already got a pretty full agenda). That said, if we identify non-controversial actions that can be initiated sooner, they will be.

Also included in the Council Packet is the S&P Bond Rating analysis reconfirming the City's AA/Stable rating.

C: Department and Bureau Directors
 Legislative Delegation

HOMELESSNESS IN AUGUSTA

The city's role



(23)

This report reviews the fiscal aspects of the City of Augusta hosting its own municipal homeless shelter, as proposed in the city council's 2018 goals.

By: Gary Fish, Kristen Muszynski, Craig Slavin

April 23, 2018

PPM640: Public Finance

Prof. Jim Bennett

In the fall of 2018, Augusta City Councilor Linda Conti suggested that the city should include among its long-term goals a plan to fund a homeless shelter, in response to a perceived need for this service in the city. Homelessness is a visible issue in the City of Augusta, with people begging for money on nearly every rotary and intersection, camping out in the woods, and causing residents to complain to police about undesirable behaviors and unsightly encampments on public property.⁽⁵⁾

To aid the council in their consideration of this question, we sought to determine the fiscal impacts of this proposal. In our role as students at the University of Southern Maine's Muskie School for Public Policy, we have gathered data about the expenses of running a homeless shelter and estimated the tax impact that would result from expanding homeless services in Augusta. We also provide a review of how other cities fund these expenses and approach the issue of homelessness overall, and discuss potential sources for funding.

Homelessness in Augusta

Homelessness is a chronic problem statewide. The last three Point in Time Surveys have shown that 1,100-1,200 people are homeless in Maine during the January night of counting. The most recent survey reported (January 24, 2017) found 1,188 people homeless, with 474 in Portland and 534 in the balance of the state.⁽¹⁹⁾ Of the 534 found outside of Portland, 127 were unsheltered. In 2017, Maine Housing Authority also reported that 6,337 homeless people visited an emergency shelter in 2017 and that Kennebec County has 7.1% of those homeless people.⁽¹⁹⁾

The U.S. Census Bureau's 2012-2016 report shows that 22% of Augusta residents live in a household that had income below the poverty level and that 577 of these 3,917 people are children under the age of 18.⁽²⁰⁾ These are people who may already be homeless or are only one small medical or financial disaster away from being homeless.

In recent years, Augusta has made economic and community development a major priority. Since 2007, the Council has placed an emphasis on downtown revitalization and returning the businesses and communities to the waterfront that established the Capital City nearly 400 years ago.⁽³⁾ Largely responsible for the implementation of this change is the city's Department of Development Services.

The Department of Development Services encompasses Code Enforcement, the Engineering Bureau, Facilities Bureau, Planning Bureau, and the Economic and Community Development Office. The website for the Economic and Community Development Office states, "Augusta is more than just a place to do business. It's a place to call home. Charming neighborhoods. A revitalized downtown. Community schools. Comprehensive municipal services."⁽⁴⁾

Homelessness is an issue that could undo or hinder efforts to strengthen these points, as one of the primary causes of homelessness is poverty.⁽²¹⁾ Impoverished areas are rarely associated with revitalization and charming neighborhoods, so taking steps to address homelessness would logically be part of the overall vision for such an effort. However, this has not been the case.

Community development is a top priority in the Department of Development Services, which oversees housing, and neighborhood and downtown revitalization programs based on a vision established by the council more than 10 years ago.⁽⁹⁾ Overseeing housing has been at the forefront of this effort, with cooperation between the city and developers resulting in increases in affordable options for low and moderate-income people. Recent renovations repurposed the Old Cony High School to a 44-unit senior housing facility, and in 2016 an \$8.5 million Augusta Housing Authority (a quasi-municipal organization) project converted the former Hodgkins Middle School building into 47 units of affordable and senior housing.⁽⁷⁾ Each of these redevelopment projects have been given TIF deals, which forgo all or most of the property taxes. Also, the city gave the Cony High School project manager a 50-year lease for \$1.00 per year. In 2017, City Manager Bill Bridgeo expressed support for another Housing Authority project to build townhouse-style rental units saying, "We think it's a good fit, a good idea, and maybe a good opportunity for the city to partner with the housing authority."⁽²²⁾

Despite these improvements for lower-income populations, there has been no discussion on tackling homelessness using city resources. The Development Services Department is not opposed to examining this issue, but has not been approached, by Bridgeo or anyone else, to look into homelessness and its possible impact on the city's community and/or economic development plans. As a result, they do not have any information on the subject, other than outside conversations with community members in a nonprofessional setting.

Development Services Director Keith Luke works regularly with Augusta Housing Authority Director Amanda Bartlett, but homelessness is not an issue that they have discussed at any length.⁽⁹⁾ Their communications are limited to discussions regarding joint ventures with the city, such as the aforementioned Middle School housing units, which offers a “preference” for homeless veterans for 20% of the units.⁽¹¹⁾ Five recently awarded federal Housing and Urban Development (HUD)-Veterans Affairs Supportive Housing vouchers will also be used to help homeless veterans find rental housing while maintaining case management services through the Togus Veterans Affairs Medical Center, but this is the extent of the organization’s involvement in homelessness. Their focus is on administering the Section 8 voucher program, and dealing with its lengthy waitlist, and they do not have any additional data regarding Augusta’s homeless population. The preference toward homeless veterans in at least two of their projects does indicate homelessness is an issue of which they are aware, but the city’s financial commitment is focused on development goals such as investment in certain properties.

The City of Augusta General Assistance department assists income-eligible and compliant applicants with needs such as housing, food, toiletries/personal items/cleaning supplies, medications, laundry, heat, electricity, burials, and occasionally medically necessary procedures such as a tooth extraction. The General Assistance department consists of two full-time caseworkers and one part-time caseworker. In FY 17, costs were approximately \$388,760, of which \$229,396 was spent directly on client aid. In FY 16, total department cost was \$331,457, of which \$183,203 was spent directly on client aid.⁽¹⁰⁾

The department is unable to provide an estimate of specific costs to the city related to homelessness, since the actual dollar amount spent would be nearly impossible to calculate when all agencies are taken into consideration.⁽¹⁰⁾ There are many people who receive help from organizations such as the United Way, (which also runs a warming center during winter months) and the local office for the Salvation Army. Additionally, there is a lot of work done by Maine General, Kennebec Behavioral Health, the Capital Area New Mainers project, Crisis & Counseling, the Bread of Life Ministries (BOLM) shelter and many other agencies.

Defining homelessness adds another level of complexity to identifying its costs. Homeless individuals are not just those sleeping in shelters or on the street, but also anyone without a home

or fixed/permanent address. The GA department only has a “few clients” who come from the shelter, with even fewer reporting actually sleeping outside. The majority of the department’s clients are coming from the homes of friends and/or family where they have been “couch hopping” and are unable to continue doing so.⁽¹⁰⁾ There are also some applicants who are not homeless, but have recently lost their income and are applying for assistance before having to face homelessness.

Existing Shelter Services in Augusta

Bread of Life Ministries (BOLM), a non-profit, operates the only homeless shelter services in Augusta. BOLM reports serving more than 150 different people at their family shelter and more than 80 veterans at their veterans’ shelter in 2017.⁽¹⁴⁾ They also report that approximately 80% of their clients have a mental health challenge and around 30% of the women they serve are fleeing from domestic violence. BOLM also reports receiving more than 600 calls per year from people seeking shelter, and that they turn away 5 to 15 different people or families each month.⁽¹⁴⁾

BOLM has 17 full-time and 7 part-time employees and the salary, benefit and compensation expenses total \$719,813 for 2016.⁽¹⁴⁾ The other expenses to run the shelter and additional programs to assist the homeless totaled \$944,837. Total expenses were \$1,664,650.⁽¹⁴⁾ BOLM also reports more than \$5 million in land, buildings and equipment assets. If the assets were purchased with a current rate 30-year mortgage, there would be an additional \$300,000 in interest expenses, bringing the total to \$1,964,650 annually to cover current service levels.

On the revenue side, BOLM brought in \$2,049,222, which covers their total expenses.⁽¹⁴⁾ A city shelter, however, might not be able to bring in the same level of private donations. The city does not provide any revenue directly to the shelter, though it does provide General Assistance funds to some of the shelter clients. The current revenue sources as provided by BOLM are shown at right.

Bread of Life Ministries Homeless Shelter Annual Revenue			
Veterans Affairs Contract			\$532,000
United Way			\$308,000
Rental Income			\$168,000
Other Grants and Funding			\$112,000
MaineCare Billing			\$98,000
HUD Grants			\$70,000
Family shelter funds			\$56,000
Donations			\$42,000
Annual Appeal			\$14,000

BOLM also reports the following costs to provide services to their clients ⁽¹⁴⁾:

\$2.00/meal

\$24.00/night per person at the family shelter

\$37.00/night per person at the veteran's shelter

\$21.00/hour for case management services

Using these figures, we can estimate the additional costs for service to cover the 5-15 people who are currently being turned away from the BOLM shelters. If we look at the higher level of service, the additional 15 clients per month would cost approximately \$10,000 per year.

However, the added number of clients may also precipitate a need for an additional case manager. That could add as much as \$70,000 in salary and fringe benefits.

BOLM is also considering an expansion of their family and veterans shelters. ⁽⁶⁾ The estimated cost for the expansion is \$509,700. The cost breakout is shown below:

Bread of Life Ministries Homeless Shelter Proposed Expansion Costs		
Family shelter general construction costs	\$	218,000
Veteran shelter general construction costs	\$	183,000
Construction contingency (15%)	\$	59,700
Furnishings (appliances, beds, etc)	\$	29,000
Engineering/architectural work	\$	20,000
TOTAL estimated costs:	\$	509,700

Therefore, the total cost of expansion could be as much as \$589,700. Details of the expansion are shown in the table below.

Bread of Life Ministries Homeless Shelter Proposed Expansion	
Family Shelter: (1,190 sq.ft.)	First floor: 1 CM office, six new single beds (two new bedrooms), bathroom and laundry Second floor: 8 new beds (2 new bedrooms), full bathroom and laundry Basement: Full new basement for storage and new furnace
Veterans' Shelter: (832 sq.ft.)	First floor: New ADA bathroom, ADA bedroom (two beds) and double the size of kitchen and dining space and add commercial appliances Second floor: Two new large bedrooms (four beds) and linen closet Basement: Full new basement and entrance for storage

What Other Maine Cities Do

The Augusta City Council's proposed goal to open a municipal shelter mentions that other similarly sized cities do provide support to a community homeless shelter, while Augusta does not, and the city should consider "whether this is a desirable and viable idea for the future."⁽³⁾ To address this claim, we gathered data on some of the other service center communities in Maine, so the council will see how they approach homelessness services. Most other communities in Maine provide only general assistance funding that helps people with basic needs such as rent, electricity, food and medication. Few municipalities directly fund homeless shelters, though some provide additional social services.

The City of Portland is the only city in Maine that hosts a municipal shelter and can therefore provide an overview of the costs of this approach, albeit in an area with a larger population. The following figures and information are as provided by Portland Health and Human Services Director Dawn Stiles.⁽¹⁶⁾

The Oxford Street Shelter is its adult, co-ed facility, with 158 beds. No other services or meals are provided. The building is leased, which costs \$152,000/year, and the city also pays \$116,000/year for overflow space at Preble St. in their dayroom, which provides an additional 75 beds.

The cost to operate the Oxford St. Shelter was \$2.8 million per year, with \$2 million of that going toward payroll for a staff of 50 (attendants and housing counselors). This past summer, the city decided to expand the shelter from nighttime-only to 24/7, in response to community concerns, problems with neighbors and the appearance to tourists. This expansion has added \$500,000 to the staffing costs, bringing the shelter budget to \$3.3 million, going forward.

Funding sources for the shelter come from three sources: Federal, State and city. Portland anticipates \$1.5 million in funding via the Maine State Housing Authority (MSHA), which administers the federal HUD grants. MSHA pays operational costs and incentive money for each person who is housed and can leave the shelter. The city's Health and Human Services department enlists the help of nonprofits to follow up with these people monthly and they have a 95% success rate for placement over the past three years. In FY 18, Portland budgeted \$193,000

for State general assistance allowance for the shelter. GA eligibility requires a lot of paperwork, so the shelter can only bill for about 20% of those they house. GA pays 70% of the cost, or \$26.25 per bed/night. The rest of the shelter budget is from the city's general fund. In FY18, the city owed \$957,000. There are no special fees that contribute to this expense; it is mainly property tax.

There is no outside municipal money that is sent to the Oxford Street Shelter, even though other communities do not have their own shelters and only 1/3 of the people who stay at the shelter are from Portland. The state does not enforce payment from other municipalities that send people to the shelter, despite having the authority to do so. To get GA money from another community, the city would have to prove they came to the shelter from another community, using school or billing records, and then the sending community is only responsible for paying shelter services for one month.

In addition to the shelter-specific costs, other associated costs are involved such as increased policing and ambulance calls for the shelter population.

Portland is in the early stages of working toward construction of a new shelter in a city-owned building that would accommodate more people and concentrate services on a single level, making administration easier. Estimates for Portland's new shelter are \$6-10 million, but no architect has been hired yet and the cost will ultimately depend on the site design and the amenities that are included.

In York County, York County Shelter Programs (YCSP) receives most of the funding for its homeless shelters via MSHA. Municipalities throughout York County only fund about \$22,000 of the shelter expenses and municipal contributions to the shelter have decreased in recent years due to the cuts in revenue sharing from the State.⁽¹⁷⁾ Biddeford and Sanford do not fund the shelter as part of their annual budgets, even though their residents are the greatest users, while Kennebunk and Kennebunkport do provide funding even though less of their population is served.

The City of Biddeford offers some funding for additional services beyond GA, via its Social Service budget, which allows area agencies to apply for funding. The applications received range

from local food pantries and meal programs to afterschool programs for children. The Social Service Budget Review Committee meets to review the applications and they determine the amounts to be appropriated. Allocations are determined using specific criteria that are included in the application. Thus, the YCSP receives funding from Biddeford in some years, but not every year.⁽¹³⁾

The City of Bangor had a municipal shelter at one time but has not for more than a decade. The city now has two non-profit shelters, Hope House and the Bangor Area Homeless Shelter. The city provides general assistance, so if people live in the shelter, they are considered Bangor residents and can get this assistance if they apply and qualify. The shelter is then paid as if they are a landlord. So, if a person qualifies for GA and they are at a shelter, the shelter receives \$13.81 per night.⁽¹²⁾ In addition to regular GA funds, Bangor applies for "Shelter and Care" grants from HUD and typically receives five of those. These grants are on a housing-first model, allowing the city to fund one staff position that focuses on getting people off the streets and out of shelters and into apartments. They then receive rent vouchers and support service such as living skills and case management. To apply for HUD grants, the city must be a member of the State's Continuum of Care (COC) and must submit a subproposal to MSHA, which is then compiled and sent as one lump sum COC request to HUD. Then the COC board determines the worthiest subproposals for the money that is received.⁽¹²⁾

Similarly, **the City of Auburn** does not directly fund a homeless shelter but does receive federal funding through the Community Development Block Grant (CDBG) and HOME Funds, which are used to address homelessness issues. The CDBG funds are used to fund public service agencies that meet the goal of preventing homelessness. For example, in FY18, Auburn funded Safe Voices with \$11,000 (a homeless shelter for battered and abused spouses and children) and Tedford Housing with \$7,000 (they offer 6 units of long-term transitional housing for homeless individuals).⁽⁸⁾ The two homeless shelters in the area, both in Lewiston, have religious affiliations. These shelters do not apply for city funding, as they do not want to manage the reporting requirements for the federal funds and they do not participate in the State's Continuum of Care.

The city uses the HOME Grant to provide funding for a Security Deposit Program by which the city can offer loans to residents who are homeless or in danger of becoming homeless by paying the security deposits to secure affordable housing. The city also offers the Staying Home Rental Assistance Program for homeless families with children attending elementary school in Auburn. Municipal assistance is given in the form of paying a security deposit and one year of rental subsidy, so the child does not have to move away from their current school. The first is funded with \$20,000 and the second with \$75,000 annually. The four programs will receive funding in the next budget year as well.

Options for Augusta

Given the cost impacts and the success of the existing shelter services in the city, we recommend that the city not pursue a municipal homeless shelter at this time, as the ongoing expense would require an increase in property taxes that would be too great a burden on property owners.

The Bread of Life Ministries shelter is functioning well as a non-profit, though it is seeking to expand due to the increased demand for beds. If the city agrees that improving homeless services is an important goal and proper use of city funding, municipal money may be best spent by contributing a one-time lump sum toward the BOLM expansion costs.

According to BOLM, about one-half of the proposed expansion costs have already been raised. The City of Augusta could choose to provide the additional \$250,000 - \$300,000 to help get the overflow homeless population off the streets, which would add 0.18 to the mill rate, raising the average homeowner's taxes by \$22.⁽¹⁸⁾ This could be an affordable way to help get Augusta's homeless population on the way to self-sufficiency.

BOLM reports that 90% of their clients do not return to homelessness and that the plan of care provided to clients requires them to perform many tasks that keep them busy and off the streets during the day. Additional savings to the city, county and local hospitals may also be realized, as the clients who are turned away each month may end up needing police or rescue services, emergency room services or land in jail.

Alternatively, an ongoing tax break on the newly expanded shelter property, or an annual social service appropriation to the shelter would be more feasible options to consider than operating a

municipal shelter. If municipal revenue sharing is restored at the State level, some of these options may be more realistic, as the resultant burden would not rest solely on property taxpayers. The city may also want to consider options for helping the homeless outside of the shelter program, by pursuing federal grants and expanding the GA offerings, such as the City of Bangor does.

Should the City of Augusta choose to move forward on a path to open its own shelter, the total costs for a 15-bed shelter project are estimated to be about \$3 million.⁽⁹⁾ Funding could come in part from a CDBG, as is the case in the City of Auburn, but it is likely this would only cover a “six-figure sum” likely in the neighborhood of \$250,000 to \$300,000. This is a competitive grant, and the existence of an existing shelter could make an application for a municipal shelter less competitive.⁽⁹⁾ While the use of an existing building may seem to be the most supportable option, purchasing another facility would have limited additional financial implications beyond the initial purchase. Loss of property tax revenue would likely amount to a few thousand dollars per year – hardly enough money to be the deciding factor on any proposal.

Some city-owned properties could be candidates for a possible homeless shelter, but Augusta does not have many that are not being utilized.⁽⁹⁾ A potential location would be the Augusta Fire Department Substation located at 40 Hospital Street. Located next door to the State Police Traffic Division and the Office of the Chief Medical Examiner, it is near existing service facilities and is on the same side of the Kennebec River as the existing Bread of Life Ministries shelter. One potential problem would be its proximity to residential housing. Public views on homelessness show many people view homelessness as the result of drug or alcohol abuse.⁽¹⁾ It is likely residents of the area would oppose any proposal based on perceptions of increased crime and public drug/alcohol usage, and the impact such activities may have on the values of their homes.⁽⁵⁾ Homeless shelters do typically encounter public opposition, as has been the case in Alfred at York County Shelter Programs and in Portland.^(16,17) This location could also put increased strain on transportation services provided by organizations like the Kennebec Valley Community Action program, whose community-based transportation system helps those without the means to transport themselves.

The city's revitalization effort has focused heavily on attracting businesses to Augusta. The Job Retention Program provides funding to help existing companies move to other locations within Augusta, and the Development Fund provides up to \$200K in gap financing for up to 40% of a business' development activities. With this said, it is unlikely businesses in the community would support any tax, fee or surcharge levied against them for the purposes of providing funding for a municipal homeless shelter. According to one local politician, new businesses locating to areas like Water Street view their businesses as not only a personal investment, but as an investment in the community. Additional costs could discourage investment and give the impression that the city is not recognizing the positive impact their business has had on improving the downtown and surrounding areas.

If the city pursues a municipal shelter at this time, a property tax increase appears to be the only viable revenue stream and would undoubtedly be unpopular with many residents who are unable to afford the increase. Thus, opening a municipal shelter is inadvisable for the City of Augusta, but does not preclude the city council from considering other ways for the city to play a larger role in combatting homelessness.

Citations

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8. Interview with City of Auburn, Community Development Manager Yvette Bouttenot, March 20, 2018
9. Interview with City of Augusta Deputy Director of Development Services Keith Luke, April 17, 2018
10. Interview with City of Augusta Senior GA Administrator Sarah Russell, March 27, 2018
11. Interview with City of Augusta Housing Authority Director Amanda Bartlett, April 17, 2018
12. Interview with City of Bangor Health and Human Services Director Orinda Fogler, March 30, 2018
13. Interview with City of Biddeford GA Administrator Kristen Barth, March 14, 2018
14. Interview with John Richardson, Executive Director, Bread of Life Ministries, April 12, 2018
15. Interview with local politician (who preferred not to be identified) April 16-17, 2018
16. Interview with City of Portland Health and Human Services Director Dawn Stiles, April 6, 2018
17. Interview with York County Shelter Programs Director Diane Gerry, March 16, 2018
18. Mortgage calculator, <https://www.saving.org/loan/loan.php?loan=5,000,000>
19. Point in Time Survey, Maine Housing Authority http://www.mainehousing.org/docs/default-source/housing-reports/2016-point-in-time-survey---statewide.pdf?sfvrsn=8131a315_4
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RatingsDirect®

Summary:

Augusta, Maine; General Obligation

Primary Credit Analyst:

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Rationale

Outlook

Related Research

Summary:

Augusta, Maine; General Obligation

Credit Profile

US\$4.01 mil GO bnds ser 2018 due 06/01/2036

<i>Long Term Rating</i>	AA/Stable	New
Augusta GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Augusta GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AA' rating to Augusta, Maine's 2018 general obligation (GO) bonds and affirmed its 'AA' rating on the city's GO debt outstanding. The outlook is stable.

The city's full faith and credit pledge, subject to the state's LD1 tax levy limit, secures the bonds. Despite the limitations imposed by the state's levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. We understand bond proceeds will be used for construction and equipping of the Hartford Fire Station, as well as other capital improvements and vehicle acquisitions.

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

- Adequate economy, with a local stabilizing institutional influence;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2017, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 40.5% of total governmental fund expenditures and 5.0x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 8.1% of expenditures and net direct debt that is 83.7% of total governmental fund revenue, as well as rapid amortization, with 78.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Augusta's economy adequate. The city, with an estimated population of 18,282, is in Kennebec County. It

benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income (EBI) of 84.8% of the national level and per capita market value of \$93,333. Overall, market value grew by 0.7% over the past year to \$1.7 billion in 2018. The county unemployment rate was 3.6% in 2016.

As the seat of the state government, Augusta's economy is rooted in governmental services. The city serves as home to both the offices of the state government, which employs 5,575, while the city government (655) and the University of Maine-Augusta (413) are sizable public employers. We believe that the university, with a total enrollment of approximately 5,000, also provides a stabilizing presence to the local economy. The largest private employer is Maine General Health (3,108 employees).

Augusta is removed from tourism and seaport enterprises and is not tied to any broad and diverse metropolitan area. However, management actively works to attract and retain private enterprise. It has primarily use tax-increment financing to do so. Additionally, it notes that the city's downtown is seeing revitalization, with 77 units of one-and two-bedroom apartments under development, among other smaller projects. The city also remains the regional retail center; management reports low vacancy rates in commercial areas, no major appeals, and an increase in retail and commercial sales, which are up approximately 11% from the recession.

The city continues to confront a loss of assessed value (AV) due to an increase in the Homestead Exemption, a property tax relief program for individuals who own and occupy a property in Maine for at least 12 months. The city lost approximately \$40 million with the exemption, resulting in a loss of approximately \$400,000 in revenues. However, with new growth, its AV increased in 2018, by 0.7%. Additionally, we believe market value per capita may be slightly understated because of a large amount of state- and hospital-owned property, which is tax-exempt and not included in the AV. Based on our credit conditions forecast, we expect slower economic growth in Maine compared with that of the nation and region, although we expect revenue growth to remain relatively predictable. For more information, see "U.S. State And Local Governments Are Experiencing An Upswing, But New Risks Could Threaten The Momentum" (published April 26, 2018, on RatingsDirect). We note that the city's projected per capita income increased several percentage points from our last analysis. Should the city continue to experience EBI growth, our view of its economy could be revised to strong; at this time, we expect the economy to remain adequate.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In developing the budget, the city uses conservative assumptions grounded in a historical trend analysis and careful tracking of past expenditures. Budgetary performance is reviewed regularly, with budget-to-actuals submitted to the city council quarterly. Although Augusta maintains a five-year capital improvement plan that maps out capital projects for the next five years, it does not do any formal long-term financial planning of revenues and expenditures. The city has an investment policy that aims to minimize credit risk by limiting the types of investments purchased, and pre-qualifying financial institutions. However, it does not regularly report on investment holdings and earnings. Augusta's city charter calls for a minimum of 5% of expenditures to be retained in the fund balance, but reserves have typically tracked higher than that. Management aims to keep reserves above 8.33%. Augusta does not have a debt

management policy, although management notes that the city council first looks to find a dedicated funding source before issuing debt. Any issuance over \$750,000 requires a public referendum.

Adequate budgetary performance

Augusta's budgetary performance is adequate, in our opinion. The city had operating deficits of negative 3.2% of expenditures in the general fund and negative 1.8% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could improve from 2017 results in the near term.

For analytical consistency, we adjusted budgetary performance to account for recurring transfers and for the expenditure of bond proceeds. The city's operating deficit in fiscal 2017 was due to a planned drawdown of school restricted reserves. The state limits the school's unrestricted fund balance to 6% of the budgeted expenditures. The 2017 budget appropriated \$3.5 million from education reserves, but due to better-than-budgeted results, only about \$1.7 million was expended.

The city similarly appropriated reserves in the fiscal 2018 budget, but again due to better-than-budgeted results, expects to only drawdown a portion of budgeted reserve appropriations. However, the city also budgeted for the use of reserves outside of education reserves. Management anticipates that the total drawdown will be \$1.8 million, approximately the same as the fiscal 2017 result, with half being from city reserves. In fiscal 2018, management had to adjust to a change in the state's expansion of a business tax reimbursement, which led to a \$12 million valuation loss of personal property. The fiscal 2019 budget has yet to be finalized, but management expects no major changes in the final adopted budget. Given management's projections for fiscal 2018, we expect that budgetary performance will remain adequate over the short term.

Very strong budgetary flexibility

Augusta's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 19% of operating expenditures, or \$11.2 million.

Available fund balance has remained level, between 19%-21% of expenditures, over the past three fiscal years, despite drawdowns in 2015 and 2017. As noted, the fiscal 2017 draw was outside of reserves we generally consider to be available. While fiscal 2018 may result in a slight draw of available reserves, we do not expect it will materially affect our view of the city's reserves. Therefore, we expect our assessment of budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Augusta's liquidity is very strong, with total government available cash at 40.5% of total governmental fund expenditures and 5.0x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Augusta's liquidity profile is expected to remain very strong as there is no likelihood of any significant deterioration of cash balances. We believe that the city demonstrates strong access to external liquidity by frequently issuing GO debt. In addition, we note that Augusta does not have any variable-rate or direct purchase debt, reducing the city's exposure to any contingent liquidity risks. Finally, Augusta does not have any investments that we would consider permissive.

Adequate debt and contingent liability profile

In our view, Augusta's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.1% of total governmental fund expenditures, and net direct debt is 83.7% of total governmental fund revenue. Approximately 78.9% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Our view of the city's debt and liabilities profile changed to adequate from strong, as the total governmental funds debt service as a percentage of expenditures increased slightly. We expect that this metric could oscillate over the threshold over the next several years, depending on budget growth, new-money debt and amortization. We expect our view of the city's debt profile to remain adequate to strong.

The city uses a high number of tax-increment financing (TIF) districts, which have been able to generate sufficient revenue to support its capital budget. Within the capital budget, the city expects to issue approximately \$4.6 million in GO debt over the next two years, of which it expects about \$2.6 million to be backed by TIFs; we do not expect this will materially affect our view of its debt profile. Additionally, our debt calculation accounts for self-supporting enterprise debt.

Augusta's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.4% of total governmental fund expenditures in 2017. Of that amount, 2.8% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The city made its full annual required pension contribution in 2017.

The city participates in the Maine Public Employees Retirement System, which has two component units. The consolidated local plan is 86% funded, while the teachers' plan is 81% funded. Augusta contributed 100% of its actuarial determined pension contribution in each of the past three fiscal years and expects to continue doing so. The city reported a PERS proportionate net pension liability of \$16.1 million, as of June 30, 2017. PERS uses a 6.875% discount rate.

The city provides OPEBs in the form of retiree health care to eligible employees. It funds its OPEB liability on a pay-as-you-go basis, and contributed \$1.02 million in fiscal 2017, or about 56% of its annual required contribution. The city's unfunded actuarial accrued OPEB liability was \$31.7 million, as of June 30, 2017. We believe Augusta's exposure to pension and OPEB liabilities is manageable.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects our view that Augusta's strong management will maintain very strong reserves even as it plans for a reduction in restricted reserves. The city has conservative budgeting practices and strictly adheres to its financial management policies. It has historically maintained strong operating performance and we expect that level of performance will return in the medium term. We believe that the low fixed costs from debt and retirement liabilities provides some level of flexibility. Additionally, Augusta's role as the state capital lends stability to the economy and resilience in periods of economic recession. We do not expect to change the rating during the two-year outlook period.

Upside scenario

We could raise the rating if economic indicators improve and are sustained at levels commensurate with higher rated peers, and if the city returns to and maintains strong financial performance.

Downside scenario

Should continued deficit budgetary results lead to a reduction in available reserves, we could lower the rating.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 26, 2018
- 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

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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