

RatingsDirect®

Summary:

Scarborough, Maine; General Obligation

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Credit Profile

US\$6.505 mil GO bonds ser 2014 due 11/01/2034

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating and stable outlook to the Town of Scarborough, Maine's series 2014 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AA' rating on the town's GO bonds outstanding.

The town's full faith and credit pledge secures the bonds. We understand that officials will use bond proceeds to finance various capital projects and equipment purchases.

The rating reflects our assessment of the following factors for Scarborough, specifically what we consider its:

- Very strong economy, which benefits from participation in the broad and diverse economy of Portland, Maine;
- Adequate budgetary flexibility, with available reserves above 5% of general fund expenditures for the three most recent audited years;
- Strong budgetary performance, with slight general fund deficits and operating surpluses in total governmental funds;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions, with formalized practices and a consistent ability to maintain balanced budgets; and
- Adequate debt and contingent liabilities profile, driven mostly by the town's low net direct debt as a percent of market value.

Very strong economy

We consider Scarborough's economy to be very strong, with access to the broad and diverse economy of Portland in Cumberland County. Traditionally, county unemployment has tracked lower than that of the state and the nation; the county unemployment rate averaged 5.3% in 2013. Scarborough has what we consider to be good per capita income reflective of the residents' employment opportunities in the neighboring areas. It has projected per capita effective buying income of 142% of the U.S. The town's assessed value (AV), which was not significantly affected by the recession, has experienced modest growth in the past five years and totals \$3.66 billion in fiscal 2014. As a result, Scarborough's corresponding per capita market value was what we consider very strong at \$191,559 for fiscal 2014. Management expects the town to continue to experience modest AV growth in the medium term, and our recent forecasts indicate that the region's median home prices will remain positive into 2015, which will support continued recovery in local AV.

Adequate budgetary flexibility

In our opinion, the town's budgetary flexibility remains adequate, with available reserves above 5% of expenditures for the past three fiscal years, and Scarborough has no plans to significantly spend down the reserves. Management has

been in compliance with the town's reserve policy of maintaining at least 5% in unrestricted reserves, which officials measure by unassigned, assigned, and committed balances. Management expects to add about \$150,000 to available reserves at the close of fiscal 2014. For audited fiscal 2013, available reserves were \$3.8 million, or 5.3% of expenditures. We understand the fiscal 2014 audit will contain a restatement of fiscal 2013 reserves due to a recording error. As a result, Scarborough's available reserves in the 2013 financial statements are overstated for restricted and understated for unassigned. The fiscal 2014 audit is expected to show \$2.85 million in unassigned and \$3.77 million in restricted fund balance. Including the restatement for fiscal 2013, we believe audited available reserves, unassigned and assigned, will be \$4.87 million, or about 6.8% of expenditures. Scarborough also maintains the Haigis Parkway Assessment Fund, a developing tax increment financing (TIF) district in the town. At the end of fiscal 2013, the fund held a deficit balance of \$601,113. Scarborough holds a restricted balance of \$2.8 million to cover current shortfalls in receivables from the district. At the same time, officials indicate the first development was just completed in the district, and they expect the deficit balance to decline.

Strong budgetary performance

Scarborough's budgetary performance has been strong overall, in our view, with an operating surplus of 1% in the total governmental funds, after taking into account one-time capital spending for school-related projects in fiscal 2013 revenues reimbursed to the general fund from the Haigis Parkway TIF District. The town's general fund closed with a slight deficit of \$535,000, or 0.7% of budget. The general fund result was largely driven by one-time expenditures related to public works inventory purchases and employee retirement payouts. The town's primary revenue sources are property taxes, which account for about 70% of revenues, state aid (12%), and excise taxes (6%). In our opinion, current tax collections have been strong, averaging more than 99% in the past five fiscal years. Officials project ending fiscal 2014 with a slight general fund surplus of about \$150,000. The town is still preparing its fiscal 2015 budget, but early expectations are for it to remain flat relative to the 2014 budget.

Looking ahead, we believe Scarborough's budgetary performance will remain at-least adequate. We understand management expects to continue to control expenses while also improving its revenue performance. Given the town's reliance on property taxes as its chief revenue source and our regional outlook for AV in New England, we believe the town's budgetary performance will remain stable in the medium term.

Very strong liquidity

Supporting the town's finances is what we consider to be very strong liquidity, with total government available cash as a percent of total governmental fund expenditures and as a percent of debt service at 13% and 202%, respectively. We believe Scarborough has strong access to external liquidity. It has issued GO bonds frequently in the past 15 years.

Strong management conditions

We view the town's management conditions as strong, with formalized financial practices, combined with a consistent ability to maintain balanced budgets. Highlights include a strong focus on financial and capital planning, evidenced by Scarborough's five-year capital improvement plan, which sets the parameters and outlines the debt and nondebt financing of all the capital projects. The town adheres to its formal investment policy and also monitors the budget regularly. Finance officials present monthly reports to the town manager and quarterly reports to the town council. Budget assumptions are done conservatively and reserves are managed in accordance with Scarborough's stated policy. The fund balance policy seeks a minimum undesignated fund balance of 5% of expenditures, about one month's

budgeted expenditures.

Adequate debt and contingent liabilities profile

In our opinion, the town's debt and contingent liabilities profile is adequate, with total governmental funds debt service as a percent of total governmental funds expenditures at 6.5% and with net direct debt as a percent of total governmental funds revenue at 127%. Overall net debt is low in our opinion, at 2.7% of 2014 market value. Amortization of debt is average, with 58% of principal to be retired in 10 years. Scarborough maintains a long-term capital plan through 2033, and management expects to issue about \$6 million in GO debt to finance the acquisition of open space and other capital projects. We expect the town's debt profile will remain adequate despite this projected issuance.

The town contributes to the Maine Employees Retirement System Consolidated Plan, a cost-sharing, multiple-employer retirement system and the International City Manager's Association (ICMA) Retirement Corp., a defined contribution plan. Scarborough matches up to 6% of the contributions employees make in the ICMA plan. Total pension contributions for fiscal 2013 were \$741,547, equivalent to less than 1% of total governmental expenditures. The town's other postemployment benefits (OPEB) liability is due to the implicit subsidy of retirees being eligible to enroll in the city's health care plan at 100% of the premium cost to the retiree. As of the January 2011 actuarial valuation study, the unfunded OPEB obligation was \$3 million.

Strong Institutional Framework

We consider the Institutional Framework score for Maine municipalities as strong. See "Institutional Framework Overview: Maine Local Governments," Sept. 12, 2013.

Outlook

The stable outlook reflects our view of Scarborough's very strong economy and strong management conditions, as well as our expectation that management will continue to make the necessary budget adjustments to maintain structural balance, and its adequate budgetary flexibility. Over time, we could consider a positive rating action if there is a demonstrated trend of strong budgetary performance leading to maintenance of strong budgetary flexibility. Credit factors that could lead to a negative rating action include a prolonged structural budget imbalance due to lower state revenues, weaker tax collections, or an increased debt burden that leads to deterioration of the town's budgetary flexibility to a level we consider weak.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, April 7, 2014

- Institutional Framework Overview: Maine Local Governments, Sept. 12, 2013

Ratings Detail (As Of April 25, 2014)		
Scarborough Twn GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Scarborough GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Scarborough Twn GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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