

**New Issue: Moody's assigns Aa3 to Scarborough, ME's \$6.1M GO Bonds**

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Global Credit Research - 17 Apr 2015

**Affirms Aa3 on \$92.4M of outstanding debt**

SCARBOROUGH (TOWN OF) ME  
Cities (including Towns, Villages and Townships)  
ME

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
2015 General Obligation Bonds	Aa3
<b>Sale Amount</b> \$6,085,000	
<b>Expected Sale Date</b> 04/22/15	
<b>Rating Description</b> General Obligation	

**Moody's Outlook** NOO

NEW YORK, April 17, 2015 --Moody's Investors Service has assigned a Aa3 rating to the Town of Scarborough's (ME) \$6.1 million 2015 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa3 rating on \$92.4 million of outstanding general obligation debt.

**SUMMARY RATING RATIONALE**

The Aa3 rating reflects the town's stable tax base with favorable wealth levels, satisfactory financial position, and above-average debt burden.

**OUTLOOK**

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

**WHAT COULD MAKE THE RATING GO UP**

- Material improvement in liquidity and reserves
- Elimination of the interfund loan receivable related to the Haigis Parkway TIF District
- Material decline in the debt burden

**WHAT COULD MAKE THE RATING GO DOWN**

- Trend of operating deficits resulting in reserve declines
- Material increase in the General Fund receivable due from the Haigis Parkway TIF fund
- Significant declines in the tax base or deterioration of the demographic profile
- Further material growth in debt burden

**STRENGTHS**

- Stable tax base with favorable wealth levels
- Improved financial position with adequate reserves

- Manageable pension and OPEB liabilities

## CHALLENGES

- Moderate revenue raising ability due to State Statutes
- Outstanding General Fund subsidy due to tax increment financing (TIF) district debt
- Continued reliance on fund balance appropriations to balance school budgets

## RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

## DETAILED RATING RATIONALE

### ECONOMY AND TAX BASE: SIZEABLE TAX BASE WITH ABOVE-AVERAGE WEALTH LEVELS

Scarborough's diverse \$3.7 billion tax base (73% residential and 21% commercial/industrial) is expected to continue to grow at a modest pace. Located in Cumberland County (Aa1), the town is bisected by both U.S. Route 1 and Interstate 95, which provides convenient commuter and commercial access to this employment and economic center. Compound annual growth in full value was relatively flat from fiscal 2010 to 2015, as modest declines in 2011-2013 were offset by growth the past two years (2.8% and 2.5%). Management reports new retail projects are underway, and the town is well positioned for continued growth along the Haigis Parkway.

Wealth and income levels continue to be above the state and national medians, with a median family income of \$93,854 (161% and 149%, respectively). Full value per capita of \$189,593 remains very strong, and town unemployment has historically been lower than the state and nation.

### FINANCIAL OPERATIONS AND RESERVES: STABLE FINANCIAL POSITION WITH SATISFACTORY RESERVES

The town's financial position will remain stable given conservative budgeting, a reduced reliance on reserves to balance budgets, and a formal fund balance policy. Following consecutive years of reserve declines due to budgetary pressures during the recession and an increasing receivable from the Haigis Parkway TIF fund, operations have been stable for the past three years (fiscal 2012-2014). Fiscal 2014 audited results reflect a slight \$79,000 operating surplus, though total fund balance increased \$550,000 when incorporating bond proceeds. As of fiscal 2014 year end, the available fund balance (unassigned, assigned, and committed) was \$6.2 million (8.3% of revenues) and unassigned fund balance was \$3.4 million (4.5%). At these levels, the town is in compliance with its formalized fund balance policy, requiring an unrestricted fund balance between 5% and 8.3% of the annual operating budget (budgetary basis).

The aforementioned Haigis Parkway TIF fund had accumulated a large receivable in prior years due to General Fund subsidies to cover TIF related debt service. The receivable declined slightly over the past two years, and was \$1.6 million in fiscal 2014, down from \$2.4 million in 2012. Due to a 2012 debt restructure which provides additional time for the district to develop and become self-supporting, the receivable is expected to remain largely unchanged over the near term, and will continue to be accounted for as restricted General Fund balance. Moody's will continue to monitor the receivable and the operating health of the district.

The fiscal 2015 budget increased 7% for town and education expenses, including additional dispatch service for a neighboring town which was offset by additional revenue. The budget was balanced with a 3.4% tax levy increase and an \$800,000 reserve appropriation for education expenses only, as management has prudently eliminated reliance on fund balance appropriations for town expenses. Nine months into the fiscal year, management reports that operations are trending positively, allowing for the majority of the school's fund balance appropriation to be replenished. The fiscal 2016 budget process is underway and will result in a tax rate increase and a fund balance appropriation of \$200,000 for school operations.

### Liquidity

The town's net cash position increased to \$11.3 million (15% of revenues) in fiscal 2014 from \$10.7 million (14.8%) in 2013.

### DEBT AND PENSIONS: DEBT BURDEN WILL REMAIN ELEVATED; LOW PENSION LIABILITY

Scarborough's debt burden (2.7% of full valuation) will remain elevated but affordable, given below-average principal amortization and moderate future borrowing plans. The overall debt burden increases to 3% of full value when incorporating overlapping debt for Cumberland County (Aa1) and the regional wastewater utility. Future debt plans include annual borrowings of approximately \$6 million to support the Capital Improvement Plan.

#### Debt Structure

All debt is fixed rate and amortization of principal is below-average, with 58% repaid within ten years. Debt service accounted for a manageable 6% of expenditures in fiscal 2014.

#### Debt-Related Derivatives

Scarborough has no derivatives.

#### Pensions and OPEB

The town participates in the Maine Public Employees Retirement System's Consolidated Plan for Participating Local Governments, a multi-employer, defined benefit retirement plan. The town's annual required contribution (ARC) for the plans was \$531,000 in fiscal 2014 (less than 1% of expenditures). The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$11.9 million, or a very low 0.17 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plan in proportion to its contributions to the plan.

The town's OPEB liability is limited to the value of its implicit rate subsidy to retirees that buy into the health insurance benefit plan offered to active employees. As of the June 2014 valuation, the total liability is a modest \$3 million.

#### MANAGEMENT AND GOVERNANCE

Maine cities and towns have an institutional framework score of "Aa", or strong. Revenues are generally predictable as cities and towns rely mostly on property tax revenue to fund operations. Property taxes are subject to the state property tax cap known as LD 1, but cities and towns have the ability to exceed the cap by a majority vote of the legislative body or voter approval. Expenditures are stable and predictable and can be cut as needed.

Town management employs conservative budgeting and financial management as evidenced in a recent trend of stable reserve levels, formal fund balance policy, and long-term planning for capital expenditures.

#### KEY STATISTICS

Fiscal 2015 Full Valuation: \$3.7 billion

Fiscal 2015 Full Valuation per Capita: \$189,593

Median Family Income as % of U.S.: 149%

Fiscal 2014 Available General Fund Balance as % of Revenues: 8.3%

5-Year Dollar Change in Available General Fund Balance as % of Revenues: -2.6%

Fiscal 2014 Cash Balance as % of Revenues: 15%

5-Year Dollar Change in Cash Balance as % of Revenues: 2.4%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 0.99x

Net Direct Debt as % of Full Value: 2.7%

Net Direct Debt / Operating Revenues: 1.3x

ANPL as % of Full Value: 0.3%

ANPL / Operating Revenues: 0.2x

## OBLIGOR PROFILE

Scarborough has a population of 19,000 and is located in southern Maine, approximately 7 miles southeast of Portland.

## LEGAL SECURITY

Debt service on the bonds is secured by the city's general obligation limited tax pledge as debt service is subject to the state's property tax limitation known as LD-1.

## USE OF PROCEEDS

Bond proceeds will finance various projects in the town's Capital Improvement Plan. A portion of bond proceeds will refund the \$2 million bond anticipation notes payable May 15, 2015.

## RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

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