

RatingsDirect®

Summary:

Scarborough, Maine; General Obligation

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Summary:

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Credit Profile

US\$6.085 mil GO bnds ser 2015 due 11/01/2034

Long Term Rating

AA/Stable

New

Scarborough Twn GO

Long Term Rating

AA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating and stable outlook to the town of Scarborough, Maine's series 2015 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AA' rating on the town's outstanding GO bonds.

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 its:

- Very strong economy, which benefits from participation in the broad and diverse economy of Portland;
- Strong budgetary performance, with slight general fund deficits and operating surpluses in total governmental funds;
- Adequate budgetary flexibility, with available reserves above 5% of general fund expenditures for the three most recent audited years;
- 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;
- Weak debt and contingent liabilities profile driven mainly by the town's high net direct debt as a percentage of revenues; and
- Strong institutional framework.

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 141% 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 six years and totals \$3.7 billion in fiscal 2015. As a result, Scarborough's corresponding per capita market value is what we consider very strong at \$193,700 for fiscal 2015. 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 2016, which will support continued AV growth. Further, there are a number of state legislative proposals concerning the possibility of expanding the gaming industry in Scarborough. The town is home to Scarborough Downs racetrack and management is monitoring

developments that may affect the town's tax base. We consider the town's taxpayers to be diverse, with the top 10 comprising just 7.5% of total AV.

Strong budgetary performance

Scarborough's budgetary performance has been strong overall, in our view, with an operating surplus of 1.3% for the general fund and 2.2% in the total governmental funds, after taking into account one-time capital spending paid from bond proceeds and adjusting for recurring transfers into and out of the general fund. The town's primary revenue sources are property taxes, which account for about 79% of revenues followed by intergovernmental revenue at 12.7%. In our opinion, current tax collections have been strong, averaging more than 99% in the past five fiscal years. With about three months remaining in the current fiscal year, officials project ending fiscal 2015 with a slight general fund operating deficit of around \$200,000 as a result of higher-than-anticipated school expenditures. However, these overages may be offset by better-than-expected excise tax collections. The town is still preparing its fiscal 2016 budget, but early expectations are for the inclusion of a tax levy increase and no appropriation of reserves.

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.

Adequate budgetary flexibility

In our opinion, the town's budgetary flexibility remains adequate, with available reserves above 5.3% of expenditures for the past three fiscal years. Scarborough has no plans to significantly spend down the reserves. Management has been in compliance with the reserve policy of maintaining at least 5% in unrestricted reserves, which officials measure by unassigned, assigned, and committed balances. For audited fiscal 2014, available reserves were \$5.8 million, or an adequate 7.8% 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 2014, the fund held a deficit balance of \$1.03 million. 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. For fiscal 2015, the budget includes an \$800,000 appropriation of reserves and management expects to replenish all but about \$200,000 and therefore expect that reserves will remain at least adequate. Historically, the town's tax levy has remained within the state's LD1 limit. We understand that the 2016 budget will likely include a tax levy increase although the exact amount is unknown at this time and that there will likely be no appropriation of reserves in the budget.

Very strong liquidity

Supporting the town's finances is what we consider to be very strong liquidity, with total government available cash at 29.6% of total governmental fund expenditures and 5.2x debt service. 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.

Weak debt and contingent liabilities profile

In our opinion, the town's debt and contingent liabilities profile is weak, with total governmental funds debt service at 5.7% of total governmental funds expenditures and net direct debt at 130.5% of total governmental funds revenue. Overall net debt is 3.1% of 2015 market value, an increase from 2.7% the previous year. Amortization of debt is average, with 60% of principal to be retired in 10 years. Scarborough maintains a long-term capital plan through 2034, and management expects to issue about \$12 million in GO debt to finance the acquisition of open space and other capital projects over the next two years. We expect the town's debt profile will remain weak despite this projected issuance. Should overall net debt as a percentage of market value improve to 3% or below, the overall debt profile could improve to adequate.

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 to the ICMA plan. Total pension contributions for fiscal 2014 were \$582,000, 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 their own expense. As of the June 2014 actuarial valuation study, the unfunded OPEB obligation was \$3.02 million. The total pension and OPEB liability of the town is just 0.7% of expenditures.

Strong institutional framework

We consider the institutional framework score for Maine municipalities strong.

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 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 at least 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 results in weak budgetary flexibility.

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

Ratings Detail (As Of April 17, 2015)		
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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