

RatingsDirect®

Summary:

Scarborough Town, Maine; General Obligation

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Summary:

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Credit Profile

US\$7.57 mil GO bnds ser 2016 due 11/01/2035

<i>Long Term Rating</i>	AA+/Stable	New
Scarborough Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Scarborough Town, Maine's general obligation (GO) debt one notch to 'AA+' from 'AA'. The outlook is stable. Standard & Poor's also assigned its 'AA+' rating and stable outlook to the town's series 2016 GO bonds.

The upgrade reflects our opinion of the town's improved budgetary flexibility, with stable financial performance over the past few fiscal years, and improved debt and contingent liability profile.

The town's full-faith-and-credit pledge secures the bonds. Although the town is not restricted to a particular revenue source, it has the power to levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation, except for bonds issued for school projects. Despite these limitations, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit.

Officials plan to use series 2016 bond proceeds to refund the town's series 2006, 2007, 2008, and 2009 GO bonds and fund various capital improvement projects.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 10% of operating expenditures;
- Very strong liquidity, with total government available cash at 16.8% of total governmental fund expenditures and 3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.7% of expenditures and net direct debt that is 112.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Scarborough's economy very strong. The town, with an estimated population of 19,524, is located in Cumberland County in the Portland-South Portland MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 140% of the national level and per capita market value of \$191,843. Overall, the town's market value grew by 1.2% over the past year to \$3.7 billion in 2016. The county unemployment rate was 3.4% in 2015.

Scarborough, a primarily residential community, is located approximately seven miles south of Portland in southeastern Cumberland County. The town enjoys direct access to Maine's major arteries (Interstates 95 and 295), connecting it to larger employment centers throughout Cumberland County. In addition to access to major markets in the region, Scarborough has a sizable employment base that consists of small commercial and industrial businesses. Some of the largest employers include the town, Hannaford Bros., U.S. Postal Service Distribution Center, and Maine Medical Center. Officials indicate the town's real estate market continues to see growth as some of the largest taxpayers are expanding operations within the town and several new restaurants are opening. Assessed values have increased by 2.3% since 2014. In addition, the town continues to see an increase in building permits, which totaled 722 in 2015 compared with 555 in the previous year. There is no taxpayer concentration as the 10 leading payers account for 7.3% of AV.

Strong management

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

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 with annual reporting of investments to the council. Finance officials present monthly reports to the town manager and quarterly reports to the town council. Budget assumptions are done conservatively, along with at least a four-year historical trend analysis. Reserves are managed in accordance with Scarborough's stated policy. Management also maintains a formal debt management policy. The formal reserve policy targets an unrestricted fund balance of 8.3 to 10% of budget, with a minimum of 5%.

Strong budgetary performance

Scarborough's budgetary performance is strong in our opinion. The town had operating surpluses of 2.3% of expenditures in the general fund and 4.4% across all governmental funds in fiscal 2015.

We adjusted fiscal 2015 performance for recurring transfers and nonrecurring revenues and expenditures. According to town officials, the town was able to achieve a general fund surplus mainly due to expenditures coming in under budget as well as higher-than expected revenues. While the town's public works department saw greater-than-budgeted costs because of significant snow and ice removal costs, the town was able to pay for these expenditures during the year and make up the difference in other areas of the budget. This includes the town's school department, which saw cost savings of more than \$600,000.

The town's fiscal 2016 budget totals about \$78 million and includes about \$425,000 in fund balance appropriation.

Management indicates budget-to-actuals are trending well. Building permit revenues are above budget and the school department is currently on track to see savings of more than \$400,000 by fiscal year-end. The town has also seen significant savings in energy costs. As a result, the town does not expect to utilize the appropriated amount and anticipates ending the year with at least balanced operations. Therefore, we expect the town's budgetary performance to remain strong. For fiscal 2017, the town is proposing a \$81.7 million budget with a \$541,000 fund balance appropriation for capital expenditures. Property taxes account for 82% for general fund revenues, followed by intergovernmental at 7.6%.

Strong budgetary flexibility

Scarborough's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 10% of operating expenditures, or \$7.7 million.

The town appropriated about \$425,000 in fund balance in its fiscal 2016 budget. Management, however, indicates it will not be utilizing this by fiscal year-end. The town also has a formal reserve policy of maintaining an unrestricted fund balance of 8.3% to 10% of its annual operating budget, but no less than 5%. The town currently adheres to this policy but will be appropriating about \$541,000 into the fiscal 2017 budget in order to stay within its reserve target. The town also has an interfund loan receivable of about \$2.7 million in the general fund due from the Haigis Parkway Assessment. The town holds a restricted fund balance of \$2.9 million to cover current shortfalls in receivables from the school district. Officials indicate the general fund has not experienced any shortfalls in payments and expects the receivable to be reduced to \$1.23 million by the end of fiscal 2016. They expect the remaining balance to be fully repaid within the next two to three years. As such, we expect the town's budgetary flexibility to remain, at least, strong.

Very strong liquidity

In our opinion, Scarborough's liquidity is very strong, with total government available cash at 16.8% of total governmental fund expenditures and 3x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Scarborough has issued GO bonds within the past 15 years, supporting its strong access to external liquidity. The town does not currently have investments we consider permissive or aggressive because its investments in governmental funds mainly include money-market funds with maturities of less than one year. In addition, it does not have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Therefore, we expect the town's liquidity profile to remain very strong.

Strong debt and contingent liability profile

In our view, Scarborough's debt and contingent liability profile is strong. Total governmental fund debt service is 5.7% of total governmental fund expenditures, and net direct debt is 112.5% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, which is in our view a positive credit factor.

With this issuance, the town will have about \$96 million in total direct debt. Officials plan to issue about \$8 million of debt over the next two years for various capital improvement projects. Even with this additional debt, we expect the town's debt profile to remain strong. However, should overall net debt increase above 3% of market value and cause debt ratios to weaken, the debt profile could be revised to adequate.

Scarborough's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 0.8% of total governmental fund expenditures in 2015. The town made its full annual required pension contribution in 2015.

The town contributes to the Maine Employees Retirement System Consolidated Plan, a cost-sharing, multiple-employer retirement system and the International City Manager's Assn. (ICMA) Retirement Corp., a defined-contribution plan. The town's share of the net pension liability for the retirement system is \$2.3 million, with a 94% funded ratio. Scarborough matches up to 6% of the contributions employees make to the ICMA plan. Scarborough also provides OPEB as an implicit rate subsidy to retirees.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Scarborough's very strong economy and liquidity. The town's strong budgetary performance and flexibility, strong management conditions and debt profile further support the rating. Given the town's historical fiscal performance and our view that management will likely maintain its strong budgetary flexibility and, at least, an adequate debt profile, we do not expect to change the rating within the two-year outlook period.

Upside scenario

Over time, if the town were to increase reserves consistently through strong budgetary performance while sustaining a strong debt and contingent liability profile, coupled with a very strong economy, we could raise the rating.

Downside Scenario

If financial performance were to deteriorate, leading to a continuous reduction of reserves, or if the debt profile were to weaken, we could lower the rating.

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
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- 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,
- Institutional Framework Overview: Maine Local Governments

Ratings Detail (As Of April 21, 2016)		
Scarborough GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Scarborough Twn GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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