MOODY'S INVESTORS SERVICE

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New Issue

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Scarborough (Town of) ME

New Issue - Moody's Assigns Aa3 to Scarborough, ME's GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to the Town of Scarborough, ME's $2.9 million 2017 General Obligation Bonds. Moody's maintains the Aa3 rating on $88.9 million of outstanding general obligation debt.

The Aa3 rating reflects the town's moderately sized tax base with above average wealth levels, improving financial position with satisfactory reserves, and manageable debt and pension liabilities.

Credit Strengths

» Modestly growing tax base with above average wealth levels

» Manageable pension and OPEB liabilities

Credit Challenges

» Moderate revenue raising ability due to state statutes

» Outstanding General Fund subsidy due to TIF district debt

» Large capital plan will require additional debt

Rating Outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Multi-year trend of surplus operations leading to a large increase in liquidity and reserves

» Elimination of the interfund loan receivable related to the Haigis Parkway TIF District

Factors that Could Lead to a Downgrade

» Trend of operating deficits resulting in reserve declines

» Material increase in the General Fund receivable due from the Haigis Parkway TIF fund

» Trend of tax base declines or deterioration of the demographic profile

» Material growth in debt burden

Key Indicators

Exhibit 1

Scarborough (Town of) ME	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 3,556,750	$ 3,482,500	$ 3,579,450	$ 3,667,300	$ 3,791,950
Full Value Per Capita	$ 187,780	$ 182,617	$ 186,342	$ 189,544	$ 192,573
Median Family Income (% of US Median)	143.8%	144.1%	145.4%	146.0%	146.0%
Finances					
Operating Revenue ($000)	$ 68,483	$ 71,596	$ 74,891	$ 78,853	$ 80,726
Fund Balance as a % of Revenues	6.7%	7.3%	8.3%	10.4%	11.4%
Cash Balance as a % of Revenues	14.6%	14.9%	15.0%	17.7%	21.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 82,937	$ 96,802	$ 98,492	$ 98,896	$ 96,120
Net Direct Debt / Operating Revenues (x)	1.2x	1.4x	1.3x	1.3x	1.2x
Net Direct Debt / Full Value (%)	2.3%	2.8%	2.8%	2.7%	2.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.2x	0.2x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.4%	0.5%	0.5%

As of June 30 fiscal year-end
Source: Moody's Investors Service; town's audited financial statements

Detailed Rating Considerations

Economy and Tax Base: Moderately Growing Tax Base With Above-Average Income

The diverse $3.9 billion tax base (73% residential and 21% commercial/industrial) will continue to grow at a moderate pace given its availability of developable land and favorable location in Cumberland County (Aa1). The town is a wealthy suburb of Portland (Aa1 stable) and is bisected by both U.S. Route 1 and Interstate 95, which provides convenient commuter and commercial access to this employment and economic center. Equalized state (full) value declined only modestly during the recession and values have increased for the past four years (fiscal 2014-2017), averaging 2.9% annually, mostly driven by residential construction. Future growth will be driven by residential and commercial development, including a 288 apartment complex which was recently permitted on the Haigis Parkway, and the town is well positioned for continued growth along this corridor. Furthermore, along US route 1, an 18,000 square foot healthcare facility recently opened. In addition, the largest taxpayer – a coastal retirement community that accounts for 1.7% of 2017 assessed value - continues to expand. Other new development (in various stages of approval) includes another luxury apartment complex (estimated at $30-40 million) and several big box retail stores.

Income levels are above state and national medians, with a median family income of $96,394 (154.8% and 146%, respectively), according to the 2015 ACS. Housing values are strong as evidenced by a robust full value per capita of $198,027 (223% of the US median). Cumberland County's unemployment rate (2.5% March 2017) remains below that of the state and nation.

Financial Operations and Reserves: Improving Financial Position with Satisfactory Reserves

Scarborough's overall financial position is stable and reserves have improved modestly over the past few years due to management's conservative budgeting and eliminated reliance on reserves to balance municipal budgets. Fiscal 2016 audited results reflect a $1.8 million operating surplus due to strong excise taxes and savings in public works and education. Total General Fund balance increased $2.5 million when incorporating bond proceeds and premium. Available fund balance (excludes nonspendable and restricted) increased to $9.2 million (11.4% of revenues). Positively, the majority of this amount ($6.1 million or 7.5%) is unassigned. The town remains in compliance with its formal policy, which was recently updated. The new policy requires unassigned fund balance to be maintained at 10% of the prior year's budgeted expenditures (budgetary basis) and above 8.3% of current year expenditures. The policy also states that unassigned fund balance in excess of 12% can be allocated for capital projects or to mitigate tax increases.

Approximately $2.7 million of total General Fund balance is restricted to account for an illiquid receivable from the Haigis Parkway TIF fund. For several years, the town has been subsidizing debt payments for general obligation bonds that were intended to be self-supporting through TIF revenues and special assessments. The amount of the receivable did not change materially from 2015 to 2016, as expected, but management reports that the receivable will increase to $2.9 million in fiscal 2017. The receivable will continue to be accounted for as restricted General Fund balance. Due to a 2012 restructuring, debt service costs will increase to $1 million in fiscal 2018 from around $400,000 in prior years. Management reports that the additional debt service costs have been accounted for in the fiscal 2018 budget, and despite the increase, total General Fund supported debt service is level in fiscal 2018 due to principal retirement of outstanding debt. Future reviews will continue to focus on the operating health of the district, and a material growth in the receivable could burden the General Fund and pressure the rating.

In fiscal 2017, management reports that strong excise taxes and stable expenditures could generate a small surplus for both town and school operations. The proposed fiscal 2018 budget reflects a 4.7% increase in expenditures and will be balanced with a tax levy increase of 4.8%. The town has prudently included a $1.4 million loss of state aid, as proposed in the Governor's budget. Management does not appropriate fund balance towards the municipal budget, but usually appropriates some reserves to balance the school department's budget given that state law limits the amount of school unassigned fund balance to a maximum of 3% of budgeted expenditures.

Primary revenues are property taxes (78.3% of fiscal 2016 revenues) and state aid (12.1%). Current year property tax collections remain strong at over 98.5%.

LIQUIDITY

Year-end General Fund cash has been increasing modestly since fiscal 2011, and improved to $17.4 million (21.5% of revenues) in fiscal 2016.

Debt and Pensions: Debt Burden Will Remain Elevated; Manageable Pension and OPEB Liabilities

Scarborough's direct debt burden (2.4% of equalized valuation) will remain elevated given future borrowing plans. The town will continue to finance its Capital Improvement Plan with annual borrowings of approximately $4 million, but is also committed to increasing pay-as-you-go financing.

The town is currently developing a long range facilities plan to identify town and school capital needs for the next 30 years. Some of the larger projects include a new public safety building and community center, renovations at the three elementary schools, and expansion of the library. The larger projects in the plan will be financed with debt (pending voter approval), and future reviews will focus on the town's ability to manage the increasing debt service costs while maintaining healthy reserves.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is below-average, with 62% repaid within ten years. Debt service accounted for 12.6% of General Fund expenditures in fiscal 2016.

DEBT-RELATED DERIVATIVES

Scarborough is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Scarborough contributes to the Maine Public Employees Retirement System's State Employee and Teacher Plan and the Consolidated Plan for Participating Local Districts, two cost-sharing multi-employer defined benefit pension plans. The town fully funds its required contributions for both plans, which was a combined $1.3 million in fiscal 2016 or a low 1.7% of expenditures. The fiscal 2016 three year average combined Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $20.6 million, or a below average 0.25 times General Fund revenues.

The 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 January 2014 valuation, the total liability is a manageable $2.7 million.

Total fixed costs for fiscal 2016, including debt service and required pension contributions, represented $11.3 million, or 14.3% of expenditures.

Management and Governance

The experienced management team employs conservative budgeting and financial management as evidenced in a recent trend of improving reserve levels, compliance with a recently-updated formal fund balance policy, and long-term planning for capital expenditures.

Maine cities and towns have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities' and towns' major revenue source, property taxes, are subject to a cap, which can be overriden at the local level. The cap is based on statewide personal income growth and local property growth. The cap allows for moderate revenue-raising ability. Taxes raised for school purposes, including school debt service, are not subject to the cap. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maine has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The majority of the bonds ($1.8 million) are secured by the town's general obligation limited tax pledge, as debt service is subject to the state's property tax limitation known as LD-1. The remaining bonds are secured by a general obligation unlimited tax pledge since bonds issued for school projects are exempt from LD-1.

Use of Proceeds

Approximately $1.8 million of bond proceeds will finance capital projects and equipment purchases for the town. The remaining $1.1 million will finance capital projects and equipment purchases for the schools.

Obligor Profile

Scarborough has a population of 19,300 and is located on the southern coast of Maine, approximately 7 miles south of Portland.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Scarborough (Town of) ME

Issue	Rating
2017 General Obligation Bonds,	Aa3
Rating Type	Underlying LT
Sale Amount	$2,945,000
Expected Sale Date	05/24/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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