

## CREDIT OPINION

17 May 2017

### New Issue

Rate this Research >>

#### Contacts

Heather Guss 617-535-7693  
 Analyst  
 heather.guss@moody's.com

Nicholas Lehman 617-535-7694  
 AVP-Analyst  
 nicholas.lehman@moody's.com

## 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
<b>Economy/Tax Base</b>					
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%
<b>Finances</b>					
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%
<b>Debt/Pensions</b>					
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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

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 overridden 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.moody.com](http://www.moody.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

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1072747