

# RatingsDirect®

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## Summary:

# Scarborough Town, Maine; General Obligation

### Primary Credit Analyst:

Anthony Polanco, Boston 617-530-8234; [anthony.polanco@spglobal.com](mailto:anthony.polanco@spglobal.com)

### Secondary Contact:

Christian Richards, Boston (1) 617-530-8325; [christian.richards@spglobal.com](mailto:christian.richards@spglobal.com)

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### Credit Profile

US\$18.925 mil GO bnds ser 2018 due 11/01/2047

*Long Term Rating* AA+/Stable New

Scarborough Twn GO

*Long Term Rating* AA+/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Scarborough, Maine's series 2018 general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds. We rate the limited-tax GO debt on par with our view of Scarborough's general creditworthiness, reflected in the rating on the unlimited-tax GO bonds.

Officials intend to use series 2018 bond proceeds for various capital improvement projects.

The rating reflects our opinion of Scarborough'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 (FMA) methodology;
- Adequate budgetary performance, with balanced operating results in the general fund but an operating deficit at the total-governmental-fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 12.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.8% of total-governmental-fund expenditures and 3.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 5.3% of expenditures and net direct debt that is 115.8% 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 19,885, is in Cumberland County in the Portland-South Portland MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 136% of the national level and per capita market value of \$190,369. Overall, market value was stable over the past year at \$3.8 billion in fiscal 2018. The county unemployment rate was 2.9% in 2016.

The town enjoys direct access to Maine's major arteries (interstates 95 and 295 and U.S. Route 1), 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 includes small commercial and industrial businesses. There is no

taxpayer concentration with the 10 leading taxpayers accounting for 7% of assessed value.

Some leading employers include Scarborough, Hannaford Bros.' corporate headquarters, a U.S. Postal Service distribution center, and Maine Medical Center. Officials indicate the town's real estate market continues to grow with some of the leading taxpayers expanding their local operations. A new 288-unit multifamily residential development along Haigis Parkway is currently under construction, and management expects project completion within the next two years. Piper Shores, a senior retirement center, continues to expand, completing new additions to its campus while evaluating additional growth and expansion plans.

In addition, Nonesuch River Brewing has completed construction of a 10,000-square-foot building that houses a local brewery and restaurant. Management indicates that a local private investment group has purchased a racehorse track and that the group plans to develop the site. Therefore, we expect the local area economy to remain very strong for the near future.

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our FMA 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 management's strong focus on financial and capital planning, evidenced by Scarborough's five-year capital improvement plan, which sets parameters and outlines debt and nondebt financing for all capital projects. The town adheres to its formal investment policy with annual reporting of investments to the town council. Finance officials present monthly variance reports to the town manager and quarterly reports to the town council. Management budgets conservatively, coupled with at least a four-year historical trend analysis.

Scarborough manages reserves in accordance with its stated policy. Management also maintains, and follows, a formal debt-management policy. The formal reserve policy targets an unassigned fund balance at 10% of the budget but not less than 8.3%, which the town is adhering to as of fiscal 2017.

### **Adequate budgetary performance**

Scarborough's budgetary performance is adequate, in our opinion. The town had balanced operating results in the general fund of 0.1% of expenditures but a deficit result across all governmental funds of 1.8% of expenditures in fiscal 2017.

We adjusted fiscal 2017 performance for recurring transfers and nonrecurring revenue and expenditures. The town posted a slight general fund deficit of \$2.2 million prior to transfers and other financing sources. Management mainly attributes this deficit to lower-than-expected state aid, particularly school aid. However, management indicates it does not currently expect to receive lower state aid since it is at the minimum cap under state law. Therefore, management expects state aid to remain flat or increase. With the inclusion of transfers and adjusting for one-time capital expenditure paid for with bond proceeds, the town had balanced operations for fiscal 2017.

The fiscal 2018 budget totals \$83.7 million and includes a fund balance appropriation of \$2.1 million, which the town has historically done primarily for school-related expenditures. Management reports budget-to-actual results are tracking favorably with revenue exceeding the budget and expenditures on target. Officials currently expect to end

fiscal 2018 with positive operations. Therefore, we expect budgetary performance to remain at least, adequate. Property taxes account for 80% of general fund revenue, followed by intergovernmental revenue at 11%. Tax collections remain strong, averaging 99% over the past three years.

### **Strong budgetary flexibility**

Scarborough's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 12.6% of operating expenditures, or \$10.7 million.

The town has consistently maintained, what we consider, strong budgetary flexibility over the past three fiscal years. Management attributes the increase in available reserves for fiscal 2017 primarily to its shifting some restricted reserves into assigned fund balance. Officials currently expect to end fiscal 2018 with an increase in available reserves. The town has a formal reserve policy that targets maintaining unassigned fund balance at 10% of the budget but no less than 8.3%, which it began to adhere to in fiscal 2017.

Scarborough also has an interfund loan receivable of about \$2.6 million in the general fund due from the Haigis Parkway assessment fund. The town holds a restricted fund balance of \$2.7 million to cover current shortfalls in receivables from the school district. Officials indicate the general fund has not experienced any shortfalls in payments. They expect to repay the remaining balance within the next two fiscal years to three fiscal years. Therefore, we expect 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 19.8% of total-governmental-fund expenditures and 3.7x governmental debt service in fiscal 2017. In our view, the town has strong access to external liquidity if necessary.

Scarborough has issued GO bonds every year for 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 are mainly in governmental funds, including 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 liquidity 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 5.3% of total-governmental-fund expenditures, and net direct debt is 115.8% of total-governmental-fund revenue. Overall net debt is low at 2.8% of market value, which is, in our view, a positive credit factor.

With this issuance, Scarborough will have about \$103.4 million of total direct debt outstanding. Officials currently plan to issue about \$8 million of additional debt over the next two years for various capital improvement projects as existing debt expires. 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, we believe the town's debt profile could weaken.

Scarborough's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 1.9% of total-governmental-fund expenditures in fiscal 2017. The town made its full annual required pension contribution in

fiscal 2017.

Scarborough contributes to the Maine Public Employees' Retirement System, a defined-benefit plan, for pensions and the International City Manager's Assn. (ICMA) money-purchase plan, a defined-contribution plan. The town's share of the defined-benefit plan's net pension liability for town and school department employees was a combined \$8.5 million with an 82% funded ratio. Scarborough has made its full contractually required contribution to the plan during the past three fiscal years. Scarborough matches up to 6% of employee contributions to the ICMA plan. In addition, it 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 S&P Global Ratings' opinion of Scarborough's very strong economy and liquidity. We believe the town's strong budgetary flexibility, management conditions, and debt profile further support the rating. We expect officials will continue to manage the budget accordingly and maintain the town's strong budgetary flexibility and, at least, an adequate debt profile. Therefore, we do not expect to change the rating during our two-year outlook period.

### **Upside scenario**

Over time, if the town were to increase reserves comparable with those of higher-rated peers, 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 and weakening of budgetary flexibility, or if the debt profile were to weaken, we could lower the rating.

## **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, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

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