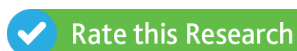


CREDIT OPINION

12 August 2021



Contacts

Christopher Yared +1.617.535.7693
 Analyst
 christopher.yared@moody's.com

Nicholas Lehman +1.617.535.7694
 VP-Senior Analyst
 nicholas.lehman@moody's.com

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 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Scarborough (Town of) ME

Update to credit analysis

Summary

Scarborough, ME (Aa3 issuer rating and GOLT) benefits from a moderately sized, growing tax base with above average wealth levels, adequate financial reserves, manageable debt burden, and low pension liabilities.

Credit strengths

- » Growing tax base with above average resident wealth and incomes
- » Low pension and OPEB liabilities resulting in low fixed costs

Credit challenges

- » Outstanding General Fund subsidy due to TIF district debt
- » Elevated debt burden with additional debt expected
- » Reserve position is below average for the rating category

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

- » Large increase in liquidity and reserves
- » Continued growth in the tax base
- » 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

This report was republished on 12 August 2021 with a correction to recognize the 2021 debt outstanding number listed in Exhibit 1 is unaudited.

» Material growth in debt burden

Key indicators

Exhibit 1

Scarborough (Town of) ME	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$3,791,950	\$3,899,350	\$4,068,100	\$4,313,600	\$4,778,350
Population	19,582	19,620	19,844	20,146	20,146
Full Value Per Capita	\$193,645	\$198,744	\$205,004	\$214,117	\$237,186
Median Family Income (% of US Median)	149.8%	154.4%	156.3%	153.9%	153.9%
Finances					
Operating Revenue (\$000)	\$80,726	\$83,892	\$84,837	\$91,225	\$94,414
Fund Balance (\$000)	\$9,177	\$11,072	\$10,256	\$11,128	\$11,473
Cash Balance (\$000)	\$17,386	\$18,019	\$17,910	\$20,611	\$18,314
Fund Balance as a % of Revenues	11.4%	13.2%	12.1%	12.2%	12.2%
Cash Balance as a % of Revenues	21.5%	21.5%	21.1%	22.6%	19.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$96,120	\$91,630	\$102,748	\$102,770	\$102,130
3-Year Average of Moody's ANPL (\$000)	\$20,557	\$23,752	\$27,569	\$28,314	\$28,686
Net Direct Debt / Full Value (%)	2.5%	2.3%	2.5%	2.4%	2.1%
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.2x	1.1x	1.1x
Moody's - ANPL (3-yr average) to Full Value (%)	0.5%	0.6%	0.7%	0.7%	0.6%
Moody's - ANPL (3-yr average) to Revenues (x)	0.3x	0.3x	0.3x	0.3x	0.3x

Note: As of 6/30/2021, the town's unaudited debt outstanding totaled \$92.7 million.

Source: Moody's Investors Service and issuer's audited financial statements

Profile

Scarborough has a population of 20,146 and is located on the southern coast of Maine, approximately seven miles south of Portland, ME (Aa1 stable).

Detailed credit considerations

Economy and Tax Base: Growing tax base with above-average resident wealth and incomes

The town's diverse \$4.8 billion tax base, which is about 75% residential and 25% commercial and industrial, will continue to grow at a moderate pace given its availability of developable land and favorable location in Cumberland County. The town is a wealthy suburb of Portland 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 values have grown rapidly at a compound average annual rate of 4.9% over the past five years, driven by residential construction and a townwide revaluation project.

Future growth will be driven by both residential and commercial development, including a 288 apartment complex which has almost finished completion on the Haigis Parkway. The town remains well positioned for continued growth along this corridor. Furthermore, Maine Medical Center completed construction of a \$59 million facility in June 2021. While the property is largely exempt from property taxes, the facility will add a substantial amount of jobs and new investment into the area. Finally, new growth is expected as a result of developments at Scarborough Downs. As part of the development, the town plans to offer tax incentives, but importantly, those incentives are contingent on performance of the developer.

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 for the most updated credit rating action information and rating history.

Resident wealth and incomes are above average. Median family income represents 154% of US medians, while median home values are stronger at 169% of the nation, reflecting in part the area's high value coastal property. Because of those properties, full value per capita is very strong at \$238,638, about 75% greater than the state average.

Financial Operations and Reserves: Financial position remains adequate

Scarborough's overall financial position remains stable though four consecutive deficits have marginally weakened the town's reserve position. Fiscal 2020 audited results reflect a \$975,000 deficit, which resulted in an available fund balance of \$11.5 million, or 12.2% of revenues. The town remains in compliance with its formal policy, which 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. In fiscal 2020, property taxes provided 79% of total revenues, while state aid made up 14% of revenues. The largest expenditures for the town were education at 58% and public safety at 13%. Negatively, the town makes transfer payments out of the General Fund to support the Haigis Parkway Fund until such time that the TIF revenues have grown enough to become self-supporting. In fiscal 2020, the Haigis Parkway Fund's fund balance stood at negative \$2.3 million, an increase of \$0.3 million from the prior year.

Fiscal 2021 year to date results suggest breakeven operations at this time with no major one time revenues or expenditures during the year. The town has been allocated \$2.2 million in federal stimulus funding but has yet to receive any funds to date. Positively, the state of Maine is contributing more money to local governments through both increased revenue sharing and an increase in General Purpose Aid to Education. Finally, because the town's April 2021 bond issuance plans were delayed until after the fiscal year closed, we expect to see cash and fund balance levels lower by about \$1.7 million when the 2021 audit is published; however, that decline should be reversed in the following fiscal year.

LIQUIDITY

Cash and investments at the end of fiscal 2020 represented \$18.3 million or 19% of revenues.

Debt and Pensions: Debt burden elevated but amortizing well over next several years; low pension and OPEB liabilities keep fixed costs low

Scarborough's net direct debt burden of 2% of equalized valuation will decline over the next several years as four series of debt mature by the end of fiscal 2024. Additionally, near term plans are limited with the town considering issuing about \$3 million for a turf field project and a new fire truck.

DEBT STRUCTURE

The entire debt portfolio is fixed rate with 65% of principal retired in ten years. Fiscal 2020 debt service represented \$6.3 million or 9% of revenues.

LEGAL SECURITY

The bonds are payable from the town's general obligation limited tax pledge, as debt service is subject to the state's property tax limitation known as LD-1.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or derivative agreements.

PENSIONS AND OPEB

While the town's unfunded pension and OPEB liabilities are smaller than its debt, they represent a potential future credit challenge. The town participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis. The table below summarizes the town's 2020 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

Scarborough's fiscal 2020 debt, pension and OPEB contributions and unfunded liabilities

2020	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	94,414	n/a	n/a
Reported Unfunded Pension Liability	5,468	6%	6.75%
Moody's Adjusted Net Pension Liability	30,634	32%	3.51%
Reported Net OPEB Liability	8,373	9%	3.23%
Moody's Adjusted Net OPEB Liability	8,165	9%	3.42%
Net Direct Debt	102,130	108%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	140,929	149%	n/a
Pension Contribution	2,204	2.33%	n/a
OPEB Contribution	260	0.28%	n/a
Debt Service	6,229	6.60%	n/a
Total Fixed Costs	8,693	9.21%	n/a
Tread Water Gap	(1,316)	-1.39%	n/a
Moody's Adjusted Fixed Costs	7,377	7.81%	n/a

Source: Moody's Investors Service and issuer's audited financial statements

Favorably, the town's 2020 pension contributions exceeded tread water, the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the town participates experience returns on assets that fall short of their assumptions, the town's required pension contribution will increase.

ESG considerations**Environmental**

There are no major environmental concerns.

Social

Outside of the COVID-19 information presented above, there are no major social considerations.

Governance

Over the next several years, management believes the negative fund balance associated with the Haigis Parkway fund will be eliminated. A significant reduction in, or full elimination of, the required transfers from the general fund to support the parkway fund could result in positive rating pressure.

Maine towns and cities have an Institutional Framework score of "Aa", which is strong. The sector's major revenue source of 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 less than 25% of expenditures. Fixed costs are driven mainly by debt service. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Scarborough Town, ME

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$4,807,600	Aa
Full Value Per Capita	\$238,638	Aaa
Median Family Income (% of US Median)	153.9%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	12.2%	A
5-Year Dollar Change in Fund Balance as % of Revenues	3.4%	A
Cash Balance as a % of Revenues	19.4%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	4.6%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	1.0x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.6%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.3x	Aaa
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Source: US Census Bureau, Moody's Investors Service; issuer's audited financial statements

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