S&P Global
Ratings

RatingsDirect®

Summary:

Scarborough, Maine; General Obligation

Primary Credit Analyst:
Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

Secondary Contact:
Jennifer K Garza (Mann), Farmers Branch + 1 (214) 871 1422; jennifer.garza@spglobal.com

Table Of Contents

Summary:

Scarborough, Maine; General Obligation

Credit Profile		
US$4.305 mil GO bnds ser 2021 due 11/01/2031		
Long Term Rating	AA+/Stable	New
Scarborough Twn GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating to Scarborough, Maine's series 2021 general obligation (GO) bonds. At the same time, we affirmed our 'AA+' rating on the town's GO debt outstanding. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. Scarborough can levy ad valorem property taxes for bond repayment, subject to limitations of the state's LD-1 legislation. A portion of this issuance is excluded from the LD-1 limitations. However, we rate the limited-tax GO debt on par with our view of Scarborough's general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the town's overall ability and willingness to pay debt service.

Officials intend to use series 2021 bond proceeds to fund various capital projects, including school construction and maintenance, and to reimburse itself for cash-funded capital projects.

Credit overview

The town consistently produces at least balanced financial results, leading to maintenance of a strong reserve position. Environmental impacts from changing weather patterns could result in budgetary or tax base pressure over the longer term, but we believe management is proactively addressing risks given the town's budget and capital planning. Over the shorter term, potentially large debt issuances could result in weaker debt ratios, but the size and timetable for issuance remain uncertain. The town's reserve position, conservative budgeting practices, low retirement costs, and strong management conditions are likely to result in balanced financial results over the two-year outlook period, and we do not expect to change the rating during that time.

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;
- Strong budgetary performance, with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 11.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.9% of total governmental fund expenditures and

2.9x governmental debt service, and access to external liquidity we consider strong;

- Strong debt and contingent liability profile, with debt service carrying charges at 6.1% of expenditures and net direct debt that is 95.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

Although rising sea levels pose a long-term risk for the town, we believe management continues to plan and implement resiliency efforts to help reduce the potential effects. We analyzed the town's environmental factors and determined that they are in line with our view of the sector standard for coastal communities but above sector standards compared with noncoastal ones. In addition, we believe its governance and social risks relative to its economy, management, financial measures, and debt and liability profile are all in line with our view of the sector standard.

Stable Outlook

Upside scenario

If the town increases and maintains reserves comparable to those of higher-rated peers, while maintaining a strong debt and contingent liability profile and all else being equal, we could raise the rating.

Downside scenario

If financial performance deteriorates, leading to a reduction of reserves and weakening of budgetary flexibility or if the debt profile weakens, we could lower the rating.

Credit Opinion

Very strong economy

We consider Scarborough's economy very strong. The town, with a population of 20,792, is in Cumberland County in the Portland-South Portland MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 149% of the national level and per capita market value of $227,358. Overall, market value grew by 0.7% over the past year to $4.7 billion in 2021. The county unemployment rate was 5.3% in 2020.

Scarborough has direct access to Maine's major arteries (Interstate 95 and I-295 and U.S. Route 1), connecting it to larger employment centers throughout Cumberland County. The town itself has a sizable employment base that includes small commercial and industrial businesses. The taxpayer concentration is not material, in our view, with the 10 leading taxpayers accounting for 7.6% of total assessed value (AV), demonstrating the largely residential makeup of the tax base. The town recently completed a full revaluation, which increased its total AV by about 17% for fiscal 2020, to $4.7 billion. It settled the major appeals related to the revaluation, although management believes additional appeals could be forthcoming from its hospitality-sector businesses. We expect incremental growth in the tax base annually, likely averaging around 1% annually, primarily reflecting growth in residential valuations.

Leading employers in Scarborough include Hannaford Bros.' corporate headquarters, Abbott Labs, a U.S. Postal Service distribution center, and Maine Health. We understand there are various developments underway across the town, including a new mixed-used development that will include an office building at a former horse racetrack property, a new facility being built by Maine Medical Center, ongoing expansion at Maine Life Care (a retirement community), and other commercial projects. Officials also indicate a 288-unit apartment complex along Haigis Parkway is nearly complete with the last phase of the project expected to generate about $15 million in additional value when done.

We expect the town's economic profile, including wealth and income metrics and AV, will remain table, supported by continued development and access to employment centers in the Portland MSA and our view of continued improvement in the macroeconomic climate. (For more information, see "Credit Conditions North America: Looking Ahead, It’s Looking Up," published June 29, 2021, and "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021, both on RatingsDirect.) We do not expect to revise our view of Scarborough's economy within the outlook period.

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 (CIP), 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 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 10.0% of the budget but not less than 8.3%, which the town has adhered to over the past several years and with which we expect continued compliance. It has cyber-security protections in place and maintains various back-ups of its networks and systems. The town also maintains cyber-security insurance.

Strong budgetary performance

Scarborough's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 0.8% of expenditures, and balanced results across all governmental funds 0.3% in fiscal 2020.

The town's 2020 financial results are the product of both careful budgeting entering the year, as well as steps management took due to the uncertainty from the pandemic and recession. These included reducing employees' schedules and furloughing certain part-time staff. We understand that the town expects to show an approximately $200,000 decrease in general fund reserves in fiscal 2021, owing to the timing of issuing bonds to reimburse itself for capital costs. We believe its underlying revenues and expenditures remain balanced and had it issued the bonds during the year, the town's reserve position would have increased by about $700,000.

Entering fiscal 2022, the budget includes a $1 million appropriation from the school's reserve position, which is included in general fund reserves, to reduce its reserve levels. The overall operating budget increased $6 million (6.2%), to $102 million. Growth in the education, public works, and public safety budgets is largely causing the budgetary growth. We expect the town to maintain balanced results, in part due to its stable revenue profile. In fiscal 2020, property taxes accounted for about 79% of audited general fund revenues, which is consistent with prior years and expected to remain relatively constant. State aid was about 14%, which could rise as the state increases its education funding, with the remainder coming from various miscellaneous revenue sources. The town consistently collects more than 98% of the tax levy, which we understand continued through the recession, leading to a stable and predictable revenue base.

We understand the town is eligible for approximately $2.2 million in funding from the American Rescue Plan Act. Management intends to apply for the first tranche later this year, but is not yet clear on how it would expend the funds. The school department has received an additional $5 million to-date through the ESSER programs. Over the longer term, management identified population growth and the corresponding growth in service demand as the largest potential budgetary pressure. At this time, we expect management to incorporate rising costs into the budget while maintain strong budgetary performance.

Strong budgetary flexibility

Scarborough's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 11.7% of operating expenditures, or $11.0 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 11.7% of expenditures in 2019 and 11.4% in 2018.

We expect the town to maintain strong budgetary flexibility, as it has over the past several years. Scarborough also has an interfund loan receivable of about $2.9 million in the general fund due from the Haigis Parkway Assessment Fund. The town holds a restricted fund balance of $2.9 million to cover current shortfalls in receivables from the assessment fund. Officials indicate it expects to repay the remaining balance over time and we do not expect the receivable to pressure the general fund or its reserve position.

Very strong liquidity

In our opinion, Scarborough's liquidity is very strong, with total government available cash at 17.9% of total governmental fund expenditures and 2.9x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

Scarborough has issued GO bonds annually over the past 20 years, demonstrating its strong access to external liquidity. The town does not currently have investments that we consider permissive or aggressive because its investments are mainly in governmental funds, including money market funds with maturities of less than one year. We included in our view of the town's available cash investments held in the general fund. Scarborough does not have any contingent-liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The town does not expect to issue cash-flow notes over the next few months. We expect its liquidity profile to remain stable.

Strong debt and contingent liability profile

In our view, Scarborough's debt and contingent liability profile is strong. Total governmental fund debt service is 6.1% of total governmental fund expenditures, and net direct debt is 95.1% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is, in our view, a positive credit factor.

With this issuance, Scarborough will have about $97 million of total direct debt outstanding. The town is studying a library construction project that management estimates will cost about $12 million. It could issue debt for the library over the next few years, although we do not expect it to alter our view of the debt profile. Outside of the outlook period, it may issue debt for a school construction project estimated to cost $60 million-$80 million.

Pension and other postemployment benefits (OPEBs):

- We do not view pension costs as a long-term credit concern due to high funding, manageable liabilities, and overall low costs.
- We expect any pension contribution increases to likely remain affordable due to revenue strength, strong reserves, and conservative budgeting.
- The town's school department has a total OPEB liability of about $5.4 million from its implicit rate subsidy for eligible retirees. The town itself has a total OPEB liability of about $3 million. We do not expect OPEB costs to pressure the financial profile.

Scarborough participates in the following pension plans:

- Maine Public Employees' Retirement System's (MPERS) consolidated plan for local participating districts (PLD Plan): 88% funded, $6.4 million proportionate share of the net pension liability (NPL); and
- MPERS' state employees' and teachers' plan (Teacher Plan) 81% funded, $1 million proportionate share of the NPL.

Scarborough's pension contributions totaled 2.2% of total governmental fund expenditures in 2020. The town made its full required pension contribution in 2020. Both pension plans exceeded our static and minimum funding progress, indicating progress toward addressing the unfunded liability. In general, we expect plan contributions to meet or exceed our view of minimum funding progress, in part due to the plan's closed, eight-year (Teacher Plan) and 10-year (PLD Plan) amortization periods that should result in timely funding progress. However, we believe PLD's static mortality projections and level percent amortization could lead to some contribution volatility. Nonetheless, we expect costs to remain manageable for the town.

Strong institutional framework

The institutional framework score for Maine municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of August 12, 2021)		
Scarborough Twn 2020 GO rfdg bnds ser A due 11/01/2030		
Long Term Rating	AA+/Stable	Affirmed
Scarborough Twn 2020 GO rfdg bnds ser B due 11/01/2041		
Long Term Rating	AA+/Stable	Affirmed