Moody's Investors Service
Global Credit Research

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New Issue
April 24, 2014

Moody's assigns Aa3 to Scarborough ME's $6.5M GO Bonds. Affirms Aa3 on $91.4M outstanding bonds

SCARBOROUGH (TOWN OF) ME
Cities (including Towns, Villages and Townships) Maine

Moody's Rating

Issue	Rating
2014 General Obligation Bonds	Aa3
Sale Amount $6,505,000	
Expected Sale Date 04/29/14	
Rating Description General Obligation	

Moody's Outlook - NOO

NEW YORK, April 24, 2014 -- Moody's Investors Service has assigned a Aa3 rating to the Town of Scarborough's (ME) $6.5 million 2014 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa3 rating on $91.4 million of outstanding debt. Non-school bonds are secured by the town's general obligation property tax pledge as limited by the property tax limit known as LD-1. However, the town's general obligation unlimited tax pledge secures $3.3 million of the current financing related to school projects as they are exempt from the levy limitations. Bond proceeds in the amount of $3.3 million will fund ongoing construction costs associated with the Wentworth School project and other school capital projects and the balance will go towards the town's annual municipal capital project costs.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the town's satisfactory financial position, stable tax base with favorable wealth levels and an above average debt burden with slow amortization.

STRENGTHS

- Stable tax base with above average wealth levels
- Manageable pension burden

CHALLENGES

- Maintenance of sufficient reserve levels
- Outstanding General Fund subsidy due to tax increment financing (TIF) district debt
- Rising expenditures including education with limited revenue raising ability

DETAILED CREDIT DISCUSSION

TOWN MAINTAINS SATISFACTORY FINANCIAL POSITION

Scarborough's financial position is expected to remain stable over the near term with plans to gradually improve reserve levels after a material decline during the recession. The fiscal 2013 audited financials reflect a slight operating deficit of $171,000 (net of other financing sources from bond and capital lease related financings) attributed to some one-time expenditures of $154,000 for retiree payouts and a $130,000 buyout of a public works maintenance contract with a private entity. Budgeted revenues and expenditures ended the year on budget. Despite the moderate operating deficit, the addition of bond proceeds and other financing sources contributed to a replenishment of approximately $1 million to the total General Fund balance of $9 million (12.5% of revenues). The town's available fund balance of $5.2 million and unassigned fund balance of $2.8 million remain limited at 7.3% and 3.9% of revenues, respectively. At these levels, the town is in compliance with its formalized fund balance policy, requiring an unrestricted fund balance between 5% and 8.3% of the annual operating budget.

In addition, the contributing factor to the decline in available fund balance is the outstanding $1.8 million receivable from the Haigis Parkway TIF fund, which was accumulated in prior years due to General Fund subsidies to cover TIF related debt service. The receivable is expected to remain unchanged over the near term due to a 2012 debt restructure which provides additional time for the district to develop and become self-supporting and begin to repay the receivable under restricted fund balance. Going forward, we will continue to monitor the receivable and the operating health of the district.

The town's primary revenue source is property taxes (75% of 2013 revenues) and intergovernmental (15%); education costs (54% of 2013 expenditures) represent the largest expenditure. The fiscal 2014 budget increased by 5.5% ($4 million) attributed to $2 million increase in education and $1.9 million in capital expenditures. The budget was balanced with a 7.7% tax levy increase to cover rising expenditures and reduced state aid. Year-to-date revenues and expenditures are trending on budget and a slight operating surplus of approximately $150,000 is projected. The fiscal 2015 budget is still in development, although town expenditures are expected to increase by approximately 4% which includes additional dispatch service for a neighboring town that will provide additional revenue to offset the cost.

STABLE TAX BASE WITH ABOVE AVERAGE WEALTH LEVELS

Scarborough is represented by a diverse tax base (73% residential and 21% commercial/industrial) with a population of 18,919, located seven miles south of the City of Portland (rated Aa1 stable). The town is bisected by both U.S. Route 1 and Interstate 95, which provides convenient commuter and commercial access to this employment and economic center. The town's $3.6 billion tax base has remained stable through the recession and is expected to continue to see slight property value growth in the near term. Reflecting an improved housing market, assessed value increase in 2014 by 0.8%, bringing the five year average annual increase to 1%. In addition, the town's wealth levels are above the state and national averages with median family income of $62,893 (127.7% and 138.2%, respectively). Full value per capita of $188,979 remains strong and the town is well positioned for future growth, including along the Haigis Parkway, which benefited from the opening of its first major tenant in 2013. The town's unemployment rate of 5% (January 2014) continues to trend below the state (6.9%) and U.S. (7%).

MODERATE DEBT BURDEN WITH BELOW AVERAGE PAYOUT OFFSET BY LOW PENSION LIABILITY

The town's debt position is expected to remain manageable despite the above-average direct debt of 2.8% of equalized value. The rise in the debt burden since 2011 is the sizeable debt issuance for the Wentworth School project with a total project cost of $37.7 million. In addition, the town's amortization rate was substantially reduced to 56% by the 2012 debt restructuring although it also allowed the town to level out annual debt service to $8 million over the near term, reflecting 6.8% of 2013 expenditures. Scarborough's outstanding debt consists of all fixedrate bonds with no exposure to derivative products. Future debt plans consist of annual issuance to support annual capital improvement needs.

The town participates in the Maine Public Employees Retirement System's Consolidated Plan for Participating Local Governments, a multi-employer, defined benefit retirement plan. The town's annual required contribution (ARC) for the plans was $436,099 in fiscal 2013, or a low 0.6% of General Fund expenditures. The town's 2012 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $12.2 million, or a very low 0.18 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plan in proportion to its contributions to the plan.

WHAT COULD MAKE THE RATING GO UP:

- Restoration of structurally balanced operations and augmentation of reserve levels
- Elimination or reduction in the interfund loan receivable related to the Haigis Parkway TIF District
- Ongoing increase in tax base

WHAT COULD MAKE THE RATING GO DOWN

- Further reductions of reserve levels
- Inability to regain structurally balanced operations
- Continued increase in the illiquid General Fund receivable due from the Haigis Parkway TIF District
- Increased debt burden

KEY STATISTICS

2014 Full Valuation: $3.6 billion
2014 Full Value Per Capita: $188,979
Median Family Income as % of US Median: 138.2%
Fiscal 2013 operating fund balance as a % of revenues: 7.3%
5-Year Dollar Change in Fund Balance as % of Revenues (2009-2013): -4.3%
Fiscal 2013 Cash Balance as % of Revenues: 14.8%
5-Year Dollar Change in Cash Balance as % of Revenues (2009-2013): -1.38%
Institutional Framework: "Aa"
5-Year Average Operating Revenues / Operating Expenditures (2009-2013): 0.99x
Net Direct Debt as % of Full Value: 2.8%
Net Direct Debt / Operating Revenues: 1.36x
3-Year Average of Moody's ANPL as % of Full Value: 0.16%
3-Year Average of Moody's ANPL / Operating Revenues: 0.08x
The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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