



**Regional School Unit 5**  
Durham · Freeport · Pownal

*“To inspire and support every learner by challenging minds, building character, sparking creativity, and nurturing passions.”*

Jean Skorapa, Superintendent of Schools  
Peggy Brown, Interim Director of Finance & Human Resources

Cynthia Alexander, Assistant Superintendent of Schools  
June Sellers, Ed.D., Director of Instructional Support

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**Finance Committee Minutes**  
**December 14, 2022**  
**Freeport High School Library**

In Attendance:

Beth Munsen, Chair  
Michelle Ritcheson  
Maura Pillsbury  
Jean Skorapa  
Peggy Brown

Chair Munsen called the meeting to order at 5:06 p.m.

**FY23 Financial Update:**

Peggy reviewed the November financial document with the committee. She reported that we are in sound financial condition with 42% of the fiscal year completed.

**Property & Casualty Update:**

Peggy provided an update to previous requests for clarification regarding the amount of increase to our bill. Peggy did research and although conversations last spring revolved around a 20% increase to be budgeted for, truly only an 18% increase was in the budget. Therefore, the FY23 bill increase initially seemed higher than expected. The P&C bill was truly a 19% increase over last year’s bill. There is no indication yet of what increase we should anticipate for FY24.

The Finance Committee discussed reasons for the increase which included the need for cyber liability coverage which is new this year and due to School Board insurance claims. The Finance Committee inquired about those claims and what type of notifications they would receive. Jean provided answers and that if a matter was to result in a significant dollar amount, she would notify the School Board via Executive Session.

**S&P Rating Update:**

Jean and Peggy were contacted by Joe Cuetara of Moors & Cabot as our district’s rating was being reviewed by Standard & Poors. Jean and Peggy provided requested information and Joe also requested information from our towns for this review. The review report is attached. Our district was downgraded to an A+/Stable rating.

**Audit Update:**

Peggy informed the committee that our auditing firm (Berry Talbot Royer) recommended we obtain a three-month audit extension from the DOE. The reasons were due to the change of RSU5’s accounting system, changes in RSU5 Business Office staff, and staffing issues

at Berry Talbot Royer. An Audit Extension request was submitted. The Department of Education granted a two-month extension until the end of February, noting that subsidy could be affected if the audit was later.

The Finance Committee discussed this issue and Michelle Ritcheson suggested we may want to seek bids from several auditing firms for future audits who could deliver by the December deadline.

**FY24 Budget Planning Update:**

Department budget meetings have been underway since November 28<sup>th</sup> with the remaining department meetings upcoming in the next few weeks. Peggy and Jean worked together to create similar budget spreadsheets for each department to utilize, streamlining the process. This updated process will also provide utilization of shared reference of budget details by departments throughout the upcoming fiscal year.

**Adjournment:**

Chair Munsen requested a motion to adjourn at 6:10 p.m. The motion was provided by Michelle Ritcheson and was seconded by Maura Pillsbury. Vote was unanimous (Munsen, Ritcheson, Pillsbury).

Respectfully submitted,

Peggy Brown  
Interim Director of Finance & HR

# RatingsDirect®

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## Summary:

# Maine Regional School Unit No. 5; General Obligation

### Primary Credit Analyst:

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## Summary:

# Maine Regional School Unit No. 5; General Obligation

### Credit Profile

Maine Regl Sch Unit No. 5 GO bnds

*Long Term Rating*

A+/Stable

Downgraded

## Rating Action

- S&P Global Ratings lowered its rating to 'A+' from 'AA-' on Maine Regional Unit No. 5's general obligation (GO) debt.
- The rating action reflects our long-term view of the district's financial profile, which we project will decrease to materially lower levels no longer comparable with that of 'AA-' rated peers.
- The outlook is stable.

## Security

The district's full faith and credit pledge, including the district's unlimited taxing authority, secures the bonds.

## Credit overview

The downgrade reflects our view of Maine Regional Unit No. 5's intention to reduce reserve levels to fall to adequate from strong over the long term as the district is managing unassigned fund balance levels to the state maximum of 3%, with limited flexibility to cut expenditures. The district's net performance was negative, with expenses outpacing revenues from fiscal years 2017-2019 in part due to subsidy transfers to the school nutrition fund and an overassessment of the member towns. While fiscal years 2020 through unaudited 2022 results indicate positive net performance due to growth in state and local sources, we understand the district intends to lower reserves and ultimately the cost to taxpayers in the next several fiscal years. Our assessment of the district's strong, diverse underlying tax base and strong economic fundamentals, which provide stability to member town assessments (the district's primary revenue source), are also supporting the rating.

The 'A+' rating is supported by the district's:

- Favorable income levels and market value wealth, coupled with participation in the Portland-South Portland metropolitan statistical area (MSA);
- Reserve position, which has fluctuated from strong to adequate in recent years and is projected to remain at a maximum of 3% reserve level for the unassigned fund balance;
- Standard Financial Management Assessment (FMA), with some formalized practices and policies; and
- Low debt burden, adequate pension funded level, and manageable fixed costs.

## **Environmental, social, and governance**

Although rising sea levels pose a long-term risk for a portion of the district's property tax base, we recognize that the underlying communities and Cumberland County continue to plan and implement resiliency efforts to help reduce the potential effect on the district. We analyzed the district's environmental factors and determined they are credit neutral for coastal communities, but above moderately elevated when compared with noncoastal communities. We have assessed the district's governance and social risks and believe they are credit neutral.

## **Outlook**

The stable outlook reflects the district's plans to use fund balance in the near-to-medium term. We expect the district's economic, management, and debt profile characteristics will remain relatively unchanged during the next two years.

### **Downside scenario**

We could lower the rating if reserves decline below an adequate level, which would indicate reduced flexibility in the event of a contingency. In addition, we could lower the rating within the two-year outlook horizon should any new challenges arise associated with the member town assessments or a lack of stability in the budget due to turnover in the management team.

### **Upside scenario**

We could raise the rating subsequent a multiyear trend of available reserves held at good to strong levels.

## **Credit Opinion**

### **Stable economic profile, with access to the Portland-South Portland MSA**

The district is located just 20 miles northeast of the city of Portland. L.L. Bean Inc. has announced an expansion and there is a notable retail center redevelopment and expansion in the downtown area that could contribute to additional tax and employment base growth in the near term. Our macroeconomic view has softened compared with the previous year, with the S&P Global Economics' recent forecast "Economic Outlook U.S. Q4 2022: Teeter Totter" (published Sept. 26, 2022, on RatingsDirect) projecting slower economic growth in 2022 and a shallow recession in 2023. The district's tax base has grown an annual average rate of 6% per year in the past three years and realized 4% actual growth in 2022.

Student enrollment has trended at about 2,000 students for the past five fiscal years and could experience increases within the next two due to job growth. Following a state reorganization mandate of Maine's public school systems, Maine Regional School District No. 5 became operational on July 1, 2009, and serves the communities of Freeport and Pownal in Cumberland County, and the town of Durham in Androscoggin County. The school district operates four elementary schools, one middle school, and one high school.

### **Fluctuating reserve trends, with near-term intention to reduce reserves**

During the COVID-19 pandemic, Maine increased the maximum reserve threshold to 9% but has stipulated that any excess reserves must be used to reduce the state and local share during fiscal years 2022-2025. Maine Regional Unit No. 5 intends to manage reserves to the maximum 3% available reserve position, which was the pre-pandemic

maximum reserve level allowed by the state. The district's leading revenue sources are member town assessments and state aid, which account for 75% and 21% of general fund revenues, respectively. The district's relationship with the member towns has remained strong and there are no concerns about their capacity to continue supporting their assessments to the school. In addition, the state aid funding environment has improved in the last two years, and we expect it will remain at least stable in the near term.

We are expecting a controlled use of reserves during the next two years to manage the reserve level and reduce local assessments for residents. Before fiscal 2020, the district drew down available reserves (the assigned and unassigned fund balance) to 3.6% of expenditures in fiscal 2019 from 12.1% in fiscal 2016. District officials attributed the drawdown to overassessment of the member towns during that time frame (remedied in the subsequent fiscal year), subsidy transfers to the school nutrition fund, and management of reserves to the state maximum level of the unassigned fund balance.

In addition, the district was awarded \$1.1 million in American Rescue Plan stimulus funds and has \$450,000 remaining unspent, which could provide additional budget flexibility. We will continue to monitor the district's flexibility to balance the budget and maintain sufficient reserves to maintain the current rating.

#### **Formalized practices and policies in some but not all areas**

Highlights include a conservative budgeting approach rooted in three-to-five years of historical trends for variable costs and communication with the member towns regarding assessments. The district also provides monthly budget-to-actual results to the school board. In addition, management maintains a formal five-year capital improvement plan that is updated annually and derived from a 20-year comprehensive plan (last updated in 2013) that identifies specific capital projects and associated costs. However, specific funding sources are not identified for all projects. The district has formally adopted the state's investment policy, with holdings and earnings reported annually. However, the district does not maintain a long-term financial plan, formal debt management, or fund balance policies as it manages its debt outstanding and reserve position in accordance with state limits.

The district's finance director position experienced turnover during the previous seven-year period. However, the current interim finance director started in December of 2021 and has prior experience, having worked with Regional School Unit No. 5 since 2015. The district has implemented a process that creates more oversight of the member assessment calculation so as not to create errors and overassessments. The finance office proposes the assessment whereas a finance committee, the school board, and an attorney review the calculation for correctness.

#### **Low overall net debt, with no additional debt plans**

The district's total direct debt outstanding amounts to \$17.7 million. Currently, the district does not have any additional bonding plans for the next two years. In our view, amortization is rapid and debt service carrying charges are low.

#### **Pension and other postemployment benefit liabilities**

We do not view pension costs as a long-term credit concern because of the district's high funding, manageable liabilities, and overall low costs. We expect contribution increases will likely remain affordable, as a result of revenue strength, strong reserves, and conservative budgeting.

At June 30, 2021, the district participates in the following plans:

- Maine Public Employees' Retirement System, the state employees' and teachers' plan (SET), which is 91% funded, with a proportionate share of the net pension liability at \$79,000, assuming a 6.5% discount rate.
- Maine Public Employees' Retirement System Local District Consolidation Plan, which is 101% funded, with a proportionate share of the net pension asset of \$4,000, assuming a 6.5% discount rate.

Maine Regional School Unit No. 5 is a member of Maine Education Association Benefits Trust, which provides health care benefits for some retired employees. Eligible retirees are required to pay 100% of health insurance premiums to receive health benefit coverage. Therefore, district contributions represent an implicit rate subsidy; audited district financial statements reflect the percent of premiums subsidizing retiree health care benefits.

The district also provides other postemployment benefits (OPEB) through the group life insurance plans that are part of Maine's SET OPEB plan. The state makes contributions toward the SET OPEB plan.

Maine Regional School Unit No. 5 paid its full required contribution in fiscal 2021 and ultimately exceeded our static- and minimum-funding progress metrics. In general, we expect plan contributions to meet or exceed our view of minimum-funding progress, partially because of the plan's closed nine-year amortization, which should result in timely funding progress. However, we expect the plans' static-mortality projections and level-percent amortization could lead to some contribution volatility. Nevertheless, we expect costs to remain manageable.

### Maine Regional School Unit No. 5--Key Credit Metrics

	Characterization	Most recent	Historical information		
			2021	2020	2019
<b>Economic indicators</b>					
Population (no.)			13,677	13,605	13,635
Median household EBI % of U.S.	Strong		126	130	133
Per capita EBI % of U.S.	Strong		128	127	129
Market value (\$000)		2,867,050	2,756,100	2,578,150	2,412,650
Market value per capita (\$)	Extremely strong	209,626	201,513	189,500	176,945
Top 10 taxpayers % of taxable value	Very diverse		9.5	11.5	12.3
<b>Financial indicators</b>					
Total available reserves (\$000)			3,624	2,053	1,245
Available reserves % of operating expenditures	Strong		10.4	5.9	3.7
Total government cash % of governmental fund expenditures			16.6	15.6	13.6
Operating fund result % of expenditures			4.5	2.3	-2.2
Financial Management Assessment	Standard				
Enrollment (no.)			2,039	1,949	2,012
<b>Debt and long-term liabilities</b>					
Overall net debt % of market value	Low	0.6	0.7	1.3	1.5
Overall net debt per capita (\$)	Low	1,299	1,442	2,527	2,687
Debt service % of governmental fund noncapital expenditures	Low		3.5	4.2	4.2
Direct debt 10-year amortization (%)	Rapid	85	83	78	76

**Maine Regional School Unit No. 5--Key Credit Metrics (cont.)**

	Characterization	Most recent	Historical information		
			2021	2020	2019
Required pension contribution % of governmental fund expenditures			0	1.9	1.8
OPEB actual contribution % of governmental fund expenditures			0	0.5	0
Minimum funding progress, largest pension plan (%)			136.8	110.6	106.8

EBI--Effective buying income. OPEB--Other postemployment benefits.

**Related Research**

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.



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