



Scarborough

Financial Impact Review Memo

Final



TOWN OF
SCARBOROUGH, MAINE

Submitted by:

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Table of Contents

Section	Page
Table of Contents.....	i
1.0 Introduction	1
1.1 Project Background.....	1
1.2 Acronyms and Terms.....	2
2.0 Approach and Work Performed.....	3
2.1 Work Performed.....	3
3.0 Preliminary Review of Technical Elements, Functionality, and Assumptions Utilized	4
3.1 General Layout, Organization, and Technical Functionality.....	4
3.2 Baseline Assumptions Utilized	4
4.0 Final Review of Technical Elements, Functionality, and Assumptions Utilized	7
4.2 Baseline Assumptions Utilized	7
5.0 Additional Recommendations and Considerations	9
5.1 Core Assumption Sensitivity	9
5.2 Next Steps	10

1.0 Introduction

This section of the memo provides a high-level background of the project, as well as key terms and their definitions.

1.1 Project Background

The Town of Scarborough (Town) retained Berry Dunn McNeil & Parker, LLC (BerryDunn) to conduct a financial model (Model) review. The focus of the project is to review the Model, including the data and assumptions related, but not limited to municipal valuation, revenue and expenditure projections, debt service, projected impacts related to future capital improvement and school projects, and other assumptions, data points, and calculations identified for review by the Town. The Town's goal is to determine if the Model is, or is not, functioning as intended and assess whether it is producing reliable and accurate financial projections related to the Town's future fiscal environment. Additionally, the project also included a focused review of a future library expansion project, future community center design and construction project, and the future design and construction of a new school facility and their expected impact to the Town's fiscal environment. The findings of the review will assist the Town with making informed fiscal management and policy decisions related to revenue and expense estimates in future fiscal years.

This memo provides the Town with an overview of technical findings and recommendations related to the Model's formula development and use, financial assumptions identified and utilized, and subsequent projections and estimations. Additionally, this memo provides the Town with suggested focus areas which may warrant further refinement and consideration based on their estimated impact to financial projections created by the Model.

Finally, this memo describes BerryDunn's approach to analyzing and understanding the Model's organizational structure, technical inputs, findings, and recommendations.

1.2 Acronyms and Terms

Table 1.2: Project Acronyms/Terms and Definitions

Acronym/Term	Definition
BerryDunn	Berry Dunn McNeil & Parker, LLC
BETE	Business Equipment Tax Exemption
FY	Fiscal Year
HR	Homestead Reimbursement
SME	Subject Matter Expert
State	State of Maine
TIF	Tax Increment Financing District
Town	Town of Scarborough

2.0 Approach and Work Performed

This section of the memo outlines how BerryDunn approached the project, summarizes the major tasks performed within each phase, provides an overview of how the financial model review was performed, and provides a high-level synopsis of the project deliverables.

2.1 Work Performed

BerryDunn's approach to performing this review involved three phases: Phase 0 – Project Initial Planning and Management; Phase 1 – Preliminary Review of Technical Elements and Functionality and Assumptions; and Phase 2 – Final Review of Technical Elements and Functionality and Assumptions and Projected Impacts and Recommendations.

After an initial project-planning call with the Town to clarify goals and objectives, identify known project constraints, and refine dates and/or tasks as appropriate, BerryDunn requested and reviewed documentation and data to gain a better understanding of the Town's Model and its intended purpose.

BerryDunn conducted a project kickoff meeting and scheduled a series of follow-up meetings with Town subject matter experts (SMEs) involved in the Model's development. BerryDunn also followed up with Town staff and stakeholders on multiple occasions throughout the course of the project to confirm BerryDunn's understanding of the data and information provided. The aim of these meetings and conversations was to discuss the types of financial assumptions utilized, their source, and the level of confidence in the specific realization of values utilized.

BerryDunn reviewed the Model for soundness of organization of information, formatting, layout, technical functionality, and likeliness to generate intended results. BerryDunn also examined core assumptions and associated values and assess their "reasonableness" and "weighted" impact on intended projections. The goal was to review key direct revenue and expense drivers and provide feedback as to the cautiousness or boldness of the assumption values utilized.

BerryDunn then provided a brief written summary of findings, interpretations, and suggestions to the Town for review and consideration. BerryDunn highlighted specific assumptions and associated values where we felt further review was warranted to confirm whether or not the assumptions utilized are appropriate as intended.

BerryDunn identified and prioritized critical assumptions related valuation levels, calculation methodologies and Model structure and cost allocations, developed initial recommendations, and outlined any additional, applicable areas where improvements or further review should be considered.

We reviewed our findings and recommendations with the Town. We prepared this brief memo outlining our approach to the review, our findings, and recommendations and to offer an opinion that the Town is, or is not, working from a solid base related to the Model and that the Model is, or is not, functioning as intended and that projections are reliable and accurate based on known assumptions.

3.0 Preliminary Review of Technical Elements, Functionality, and Assumptions Utilized

This section of the memo provides a general overview of the Model’s organizational structure, the major technical findings BerryDunn identified, and BerryDunn’s recommendations based on those findings.

3.1 General Layout, Organization, and Technical Functionality

BerryDunn reviewed the Model’s organization related to what it was designed to calculate and estimate and is of the opinion that it is laid out in an intuitive, logical manner allowing reviewers and/or users to make sense of calculations and back-track the design logic to understand formula design and construction.

Based on the preliminary reviews performed there is no general concern with technical layout or functionality. Formatting and visual aspects of the model could be “cleaned-up” but generally reflect personal preference and do not materially affect any functionality, calculations, or projections.

Generally, based on the preliminary review, BerryDunn believes the model identifies, calculates, and distributes revenue and expense inputs accurately based on assumptions utilized. The model seems to satisfy the original intent of utilizing core assumptions to inform the desired impact on specific revenue and expense categories and types in future years. The core debt service impacts related to future debt issuance to fund the design and construction of a new school, a new community center, and library expansion in the coming years appear to be calculating the impact on residential property taxes accurately, based on assumptions utilized, and known information and data, as was intended.

One suggested area of review related to technical functionality was identified and is outlined in the table below.

Table 3.1: Technical Functionality Suggested Area of Review

Function	Review Description
Discount Factor	Recommend further review of how the discount factor affects/informs other calculations in the model.

3.2 Baseline Assumptions Utilized

BerryDunn reviewed the Model’s baseline assumptions, the core information and data inputs selected to inform Model calculations and projections, both for technical functionality and “reasonableness” of values and levels utilized based on known information during the Model’s development. Furthermore, BerryDunn also reviewed the selection of core assumption types

and is of the opinion that the baseline assumptions identified and reviewed appear to encompass the core assumptions needed to be considered to assess the future fiscal impacts, as intended.

The table below outlines the suggested areas of further review related to baseline assumptions utilized and calculated.

Table 3.1: Baseline Assumptions Suggested Areas of Review

Assumption	Review Description
Overall Municipal Valuation	<p>Overall municipal valuation increase assumptions are in-line with current home value trends at the national level, though they reflect a best-case scenario for a prolonged 40-year period.</p> <p>Recommend further review in that the projected availability of revenue available to be derived from ad-valorem taxes increases significantly over the entire period the model covers.</p> <p>Recommend further review related to the way overall valuation increases versus the assumptions and calculations utilized to project the increase in a \$400,000 property over the same period of time. Furthermore, considering the valuation increase assumptions, versus when it is likely and plausible to perform a town-wide reappraisal, may help to further refine projected valuation scenarios for the period the model covers.</p> <p>Recommend further review related to the projected increase in the overall municipal valuation from its current level in relation to the projected valuation increase of a \$400,000 residential property. The overall municipal appreciation rate appears to appreciate at a different pace than does residential real estate.</p>
Operating Budget (Town and School)	<p>Recommend further review of operating budget assumptions to avoid significantly overstating increases over time. The Town may want to consider utilizing a historical geometric average versus historical standard median.</p>
Debt Service	<p>Recommended further review of the future debt service scenarios provided by the Town’s financial advisor, mainly the ability to lock in 4.0% debt service rate in the future. Best practice to confirm that this is in fact a rate the Town feels confident it can secure. Locking in a 4.0% rate for debt service may be challenging given current market conditions and unknown market conditions in the future.</p>
Business Equipment Tax Exemption (BETE) & Homestead Reimbursement (HR)	<p>Recommend further review of the underlying assumptions driving BETE and HR expense projections. These expense types have grown three-fold in the past seven years but are assumed to grow less than 50.0% over the next 37 years.</p>

Assumption	Review Description
Tax Increment Financing (TIF) District(s)	TIF District Capture Rate and Growth to be confirmed and researched further.

Overall, the core assumptions identified and utilized appear to be the core assumptions needed to develop the financial projections as intended. Additional review and confirmation of the assumptions utilized and their associated values is recommended as outlined above, but no additional assumptions are recommended to be added to the Model's calculations.

4.0 Final Review of Technical Elements, Functionality, and Assumptions Utilized

This section of the memo provides additional insight into recommended areas of further review related to the Model’s organizational structure, technical functionality, and assumptions identified utilized.

4.1 General Layout, Organization, and Technical Functionality

BerryDunn performed a final review of the Model’s organization and layout and found no additional areas of suggested review above and beyond what was identified in the preliminary review. Furthermore, BerryDunn performed a technical functionality review which involved the testing of formula function and accuracy of outputs of the Model’s core formulaic functions and found no additional areas of suggested review above and beyond what was identified in the preliminary review.

The suggested area of review as identified in the preliminary review was addressed discussed.

4.2 Baseline Assumptions Utilized

BerryDunn performed a final review of the core assumptions utilized to inform Model calculations and recommended further review of three additional assumptions utilized.

The table below outlines the suggested areas of review related to baseline assumptions utilized.

Table 4.1: Baseline Assumptions Suggested Areas of Review

Assumption	Review Description
Tax Increment Financing (TIF) District(s)	Recommend further review related to the TIF district revenue capture rate and the confidence the Town has in the likelihood of being able to utilize TIF revenues for specific purposes related to the design and construction of a new school. Furthermore, recommend further review into the real growth assumption within current TIF districts and related impact to valuation increase assumptions.
State Education Reimbursement	Recommend further review of the State education reimbursement per pupil calculation and external factors that may influence the per pupil reimbursement amount in the future.
Programmed and Non-Programmed Capital Improvement Expenditures	Recommended further review of programmed and non-programmed capital improvement needs and associated costs.

Based the final reviews are performed, recommended areas for further review, and subsequent discussions had with the Town related to those recommended areas of review, BerryDunn does

not consider any additional reviews or refine is needed at this point. Furthermore, the suggested areas of review as identified in the preliminary review were addressed and discussed.

5.0 Additional Recommendations and Considerations

This section of the memo outlines various recommendations and considerations BerryDunn has provided based on the technical analysis and meetings with the Town to discuss Model functionality and intent, and town-wide priorities.

5.1 Core Assumption Sensitivity

As mentioned previously, based on preliminary and final review findings, and subsequent discussions with Town staff and stakeholders, it is in the opinion of BerryDunn that the Model is functioning as intended and no further additional review areas are recommended.

To that end, BerryDunn does recommend significant consideration be given to understand the impact(s) which may result should core assumption values differ in the future from those values that are used for current calculations and estimates. While there is no way for certain to know what will happen in the future, slight differentiations in certain assumption values may have larger than intended impacts on revenue and expense estimations in the future. The table below outlines core assumptions that may be sensitive to even the slightest fluctuation.

Table 5.1: Baseline Assumptions Sensitivity Scenarios

Assumption	Sensitivity Scenario Description
Overall Municipal Valuation	Should overall municipal valuation year-over-year increases not be realized to the level utilized in Model calculations, the impact may reverberate through other model assumptions and calculations. For example, if new development projections vary or the re-evaluation expected increase scheduled for FY 2025 varies, impacts to revenue and expense projections, and ultimately projected millage rate levels, may significantly be impacted. This assumption is in many ways the most significant, and therefore sensitive, to even the slightest fluctuation.
Debt Service Rate	Should the ability to secure a 4.0% debt service rate vary slightly, the impact may reverberate through other model assumptions and calculations. For example, the extreme scenario of securing debt service at twice the rate may impact property tax projections significantly. To that end, should the extreme scenario of securing debt service at half the projected rate will most likely have the same significant impact, though it may be characterized as a more positive outcome.
State Revenue Sharing Calculation(s)	Should the State, based on significant legislative changes or other factors, revise the revenue sharing calculation this would most likely impact other assumptions and related values utilized throughout the Model.

Assumption	Sensitivity Scenario Description
State Education Reimbursement	Should the State, based on unforeseen legislative changes or other factors, revise the education reimbursement per pupil calculation, this would most likely impact other assumptions and related values utilized throughout the Model.
Tax Increment Financing (TIF) District(s)	Should estimated TIF growth rates vary, or the percent of revenue capture available for specific expenditure types vary, this would most likely impact other assumptions and related values utilized throughout the Model.
Non-Programmed Capital Improvement Expenditures	Should non-programmed capital expenses be realized due to an unforeseen or unknown circumstance that arises, this would most likely impact other assumptions and related values utilized throughout the Model.

The scenarios outlined above attempt to reflect the significant, albeit estimated, impact(s) core assumption variations may have on Model calculations and projections. Furthermore, the scenarios outlined above are in no way completely under the control of the Town to predict, influence, or prevent. Future scenarios related to residential and commercial property valuation, economic development levels, the debt market, and/or legislative changes and unfunded mandates cannot be known for certain. However, understanding their estimated impacts may help the Town better absorb and manage those impacts and be better prepared to exercise control over the elements of its fiscal environment that it can materially affect with day-to-day decision-making.

5.2 Next Steps

When considering impacts to the Town’s fiscal environment in the future it is never prudent to rely solely on one model, tool, data source, set of assumptions, criteria, or individual’s input. Rather multiple tools and sources of information should be considered and their relative sensitivity to risk and accuracy be weighed.

To that end, while in the estimation of BerryDunn, the Model is functioning appropriately and as intended, the estimations and/or scenarios it is producing should not be the only criteria considered. Other factors, some of which are well within the control of the Town and some of which are not, should be examined as thoroughly and as thoughtfully as possible.

The Model, while one of many tools that could be referenced and utilized, could also be updated accordingly as more information becomes available. This will allow for continued refinement of assumptions, values, and calculations utilized and ultimately continued refinement of the estimates and projections it produces.