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Summary:

Scarborough Town, Maine; General Obligation

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Scarborough Town, Maine; General Obligation

Credit Profile

US\$9.634 mil GO bnds ser 2023 due 11/01/2038

<i>Long Term Rating</i>	AA+/Stable	New
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Scarborough Twn GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Scarborough Town, Maine's roughly \$9.634 million series 2023 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the town's existing GO debt.
- The outlook is stable.

Security

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

Officials intend to use series 2023 bond proceeds to fund road improvements and vehicle-and-equipment acquisitions.

Credit overview

Scarborough has direct access to Maine's major highways (Interstate 95 and I-295 and U.S. Route 1), connecting it to larger employment centers throughout Cumberland County. The town's sizable employment base includes Hannaford Bros.' corporate headquarters, Abbott Labs, a U.S. Postal Service distribution center, and Maine Health. A mixed-use development, known as The Downs, has been the leading source of tax base growth, including 500 residential units and industrial space. Maine Life Care, one of the leading taxpayers, has invested in new independent-living units. While these developments effect service demand, tax revenue and impact fees offset demand. These developments, among others, have led to assessed valuation (AV) growth of more than 3% during the past two years. While development interest continues, the town does not expect AV growth to continue at this rate.

Scarborough has posted positive finances annually since fiscal 2019, and this should continue in fiscal 2023 based on preliminary fiscal year-end results. Management reports an estimated \$600,000 general fund surplus for fiscal 2023 due partially to vacant positions in the second half of fiscal 2023. The town has also benefited from increases in state general-assistance funding, which could continue due to a stabilized state financial environment and recent state financial results.

Scarborough's consistently positive budgetary results have supported available fund balance growth during the past several fiscal years to more than \$12.7 million, a new high. The town expects to maintain reserves at about 12% of expenditures. While the school budget typically includes fund-balance appropriation, Scarborough has not used this funding recently.

The adopted fiscal 2024, \$82.4 million budget is a 7.4% increase over fiscal 2023; it includes provisions for additional public-safety and maintenance positions, as well as a new social-services coordinator. Some positions are deferred hires, accounting for the long recruitment process; this allows the town to better integrate costs into the budget. We expect the town will likely continue to produce, at least, breakeven results; since there are no material plans to draw down reserves, it will likely maintain very strong reserves.

After this series 2023 issuance, Scarborough will have \$89.3 million in total direct debt outstanding. The town is preparing to seek electorate authorization for up to \$160 million of additional debt for a new elementary school to consolidate existing aging facilities; if approved, borrowing for this project may come in three tranches starting in 2024. The electorate denied borrowing for an estimated \$16 million library project, and the town is reassessing that project.

Scarborough has been shifting capital expenditures to the annual budget rather than long-term borrowing. Planned borrowing for the school project will increase debt outstanding, which might not materially affect debt-service charges due to current costs.

The rating reflects our assessment of Scarborough's:

- Growing tax base with recent residential and commercial investments, including residential units, solar facilities, and a new hotel that has led to a tax base that is less reliant on residential properties, coupled with a local economy that benefits from participation in the Portland-South Portland metropolitan statistical area, which we consider broad and diverse;
- Consistent budgetary performance with a predictable revenue profile, primarily property taxes at 78% and intergovernmental aid at 15%, supporting growing available reserves;
- Strong management with good financial-management policies, practices under our Financial Management Assessment (FMA) methodology--including its regular budget-status monitoring, five-year capital-improvement plan it updates annually, adherence to adopted debt and reserve policies, and continued adherence to adopted policies through some recent management turnover--and strong Institutional Framework score; and
- Moderate debt profile, supported by currently rapid amortization, which could deteriorate with additional borrowing and affordable retirement liabilities due to high funding and manageable debt.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to Scarborough's economy, management, financial measures, and debt-and-liability profile. We have determined environmental factors are in-line with our view of the sector standard for coastal communities but above sector standards compared with non-coastal communities. Rising sea levels pose a long-term risk, but we think Scarborough continues to plan to implement resiliency efforts to help reduce potential effects; it is currently conducting a vulnerability assessment to guide resiliency efforts.

Scarborough also works with neighboring communities to support key transportation infrastructure. Hurricane Lee has recently affected the Maine coast, and we understand its effect on the town was minimal with no significant property or infrastructure damage and no disruption to operations. Governance and social risks are in-line with our view of the sector standard.

Outlook

The stable outlook reflects S&P Global Ratings' view that Scarborough will likely produce, at least, balanced operations, allowing the town to maintain very strong reserves while its tax base and local economy continue to grow.

Downside scenario

We could lower the rating if budgetary performance were to deteriorate, leading to weaker budgetary flexibility.

Upside scenario

We could raise the rating if reserves were to improve further to levels we consider consistent with higher-rated peers and if the town were to implement additional long-term financial planning and other credit factors, coupled with the strong debt-and-liability profile remaining constant.

Scarborough Town, Maine key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	151.8			
Market value per capita (\$)	227,293			
Population		21,946	21,180	20,792
County unemployment rate(%)		2.4		
Market value (\$000)	4,988,177	4,845,683		
10 largest taxpayers as a % of taxable value	7.4			
Strong budgetary performance				
Operating fund result as a % of expenditures		0	0.7	(1.0)
Total governmental fund result as a % of expenditures		(0.5)	0.6	(0.3)
Strong budgetary flexibility				
Available reserves as a % of operating expenditures		12.3	10.4	11.4
Total available reserves (\$000)		12,709	10,201	11,018
Very strong liquidity				
Total government cash % of governmental fund expenditures		20.6	18.0	17.9
Total government cash % of governmental fund debt service		389.9	304.8	294.0
Strong management				
Financial Management Assessment	Good			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		5.3	5.9	6.1
Net direct debt as a % of governmental fund revenue	74.5			

Scarborough Town, Maine key credit metrics (cont.)

	Most recent	--Historical information--		
		2022	2021	2020
Overall net debt as a % of market value	1.8			
Direct debt 10-year amortization (%)	69.5			
Required pension contribution as a % of governmental fund expenditures		2.0		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0.1		

Strong Institutional Framework

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 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
- 2022 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 19, 2023)

Scarborough Twn 2020 GO rfdg bnds ser A due 11/01/2030		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Scarborough Twn 2020 GO rfdg bnds ser B due 11/01/2041		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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