



## **AGENDA**

### **TOWN FINANCE COMMITTEE**

**Thursday – April 18, 2024**

**Hybrid**

**5:00 P.M.**

**LINK TO PARTICIPATE REMOTELY:**

<https://scarboroughmaine.zoom.us/j/82789397261>

**TO VIEW MEETING ONLY:**

<https://www.youtube.com/channel/UCD5Y8CFy5HpXMftV3xX73aw>

**Item 1.** Call to Order.

**Item 2.** Those Present.

**Item 3.** Approval of Minutes: Not available.

**Item 4.** Discussion on FY2025 Municipal/School Budgets.

- A. Review Potential Adjustments
- B. Review TIF Items
- C. Proposed Use of Unassigned Fund Balance

**Item 5.** Public Comments.

**Item 6.** Adjourn.

## FY25 Budget

**GOAL: Reduce Net Budget by at least \$1,200,000**

### Recommended Adjustments

#### School

Updated Medical Insurance Premiums	(335,000)
Updated Retirement/Projected Savings	(22,620)
Delta Dental Rates	669
Flexible Spending Plan Administrative Fee Increase	<u>1,600</u>
Sub Total	(\$355,351)
 Adult Education	 (229)
School Nutrition	<u>(12,536)</u>
School Total	(\$368,116)

#### Town

Legal Review Fees (Planning)	(5,000)
Propane (Fire)	(11,000)
NEW - Increase in GA State Reimbursement- Revenue	37,500
NEW - Investment Income - Revenue	100,000
NEW - Excise Tax - Revenue	200,000
NEW - Alger Hall Operating Costs	(7,000)
NEW - Tri Gen Decommissioned	<u>(30,000)</u>
Town Total	(390,500)
<b>TOTAL</b>	<b>(758,616)</b>

### Alternative Funding Sources

Sawyer Street- Grant Local Match - TIF	(75,000)
AED Replacement (Fire) - TIF	(65,000)
Radio Study (Police) - TIF	(50,000)
Bleacher Replacement (CS) - School Capital Reserve	(24,000)
Pickup Truck (CS) - Beach Reserves	(57,000)
Long Range Planning (School) - Capital Reserves	(585,000)
NEW ADD- UPS for PSB - TIF	70,000

## **Potential CIP Changes**

Running Hill Road Master Plan - Defer	(100,000)
Facilities Assessment - Defer	(100,000)
Stormwater Utility Feasibility Study	50,000

## **Items in Motion**

Fuel Reductions  
Shared Librarian- Library/Wentworth  
Mower - CS/School  
Additional School Fund Balance  
Adjustments due to Tax Rate estimate (BETE, Homestead, TIF/CEA)  
Expanded Eligibility of Senior Property Tax Relief  
Athletics Equipment (Track) - Voter Approval?  
Worker's Compensation (School)  
MSMA Group Life & Disability (School)  
Adjustments to Paid Family Medical Leave (Town/School)

## **Unfunded Finance Committee Proposals - (to revisit)**

Financial Budgeting Software	37,000
Information Technology Position (Town/School)	
Engineering and Technical Position (Town)	
Speech Pathologist (School)	94,000

## Tax Increment Financing Revenue

(Page 2 of 2)

## FY25 PROPOSED BUDGET

## DOWNTOWN TIF

Sources	Projected FY24 Ending Balance	\$184,338	}	\$3,104,338
	Estimated FY25 TIF Revenues	\$2,920,000		
Proposed Uses	<b>OPERATING COSTS:</b>			
	Public Safety Building Debt Service (100%)	(\$1,207,225)		
	SEDCO Costs (100%)	(\$316,078)		
	<u>Personnel Costs:</u>			
	Environmental Infrastructure	(\$150,500)		
	TIF Administration	(\$122,910)		
	Economic Development	(\$82,200)		
	<u>Operating Expenses:</u>			
	Street Sweeping	(\$62,000)		
	Permitting/Licensing Software	(\$40,000)		
	Legal Services	(\$25,000)		
	Transit Dues	(\$25,000)		
	Catch Basin Cleaning	(\$35,000)		
	Traffic Calming	(\$25,000)		
	<b>Operating Subtotal →</b>	(\$2,090,913)		
	<b>CAPITAL INVESTMENTS:</b>			
	Subsurface Drainage	(\$300,000)		
	Rte. 1 Greening Initiative	(\$275,000)		
	Sidewalk Paving	(\$180,000)		
	Transportation Study Project Design	(\$150,000)		
	Climate Action Plan	(\$50,000)		
	Complete Streets Manual	(\$40,000)		
	Trail Development - Larrabee Farm	(\$10,000)		
	<b>Capital Subtotal →</b>	(\$1,005,000)		
				<u>TOTAL USES</u>
				(\$3,095,913)
Est FY25 Ending Balance →				\$8,425

## HAIGIS TIF

Sources	Projected FY24 Ending Balance	(\$1,619,681)	}	(\$209,681)
	Estimated FY25 TIF Revenues	\$1,410,000		
Proposed Uses	Deficit Reduction (Haigis Pkwy Debt: \$1,410,000)	see above		
Est FY25 Ending Balance →				(\$209,681)

## Tax Increment Financing Revenue

(Page 1 of 2)

### FY24 RECAP

#### DOWNTOWN TIF

Sources	FY23 End of Year Balance	\$58,653	}	\$1,937,829
	FY24 TIF Revenues	\$1,879,176		
Uses	Public Safety Building Debt Service (75%)	(\$928,491)	}	(\$1,753,491)
	CAD Replacement	(\$825,000)		

**FY24 Projected Ending Balance → \$184,338**

#### HAIGIS TIF

Sources	FY23 End of Year Balance	(\$2,785,219)	}	(\$1,335,169)
	FY24 TIF Revenues	\$1,450,050		
Uses	Deficit Reduction (Haigis Pkwy Debt: \$1,165,538)	see above	}	(\$284,512)
	SEDCO Costs	(\$284,512)		

**FY24 Projected Ending Balance → (\$1,619,681)**



JANET T. MILLS  
GOVERNOR

STATE OF MAINE  
DEPARTMENT OF ECONOMIC  
AND COMMUNITY DEVELOPMENT



HEATHER JOHNSON  
COMMISSIONER

April 12, 2022

Thomas Hall  
Town Manager  
TOWN OF SCARBOROUGH  
259 U.S. Route 1  
Scarborough, Maine 04070

RE: Scarborough Downtown Omnibus Municipal *Tax Increment Financing* (TIF) District and Development Program *Second Amendment* (AMD-2)

**A P P R O V E D**

Dear Mr. Hall,

The Maine Department of Economic and Community Development (DECD) reviewed and EFFECTIVE TODAY APPROVED the application to amend the above-referenced Downtown Municipal TIF District and Development Program (Program). Based on the application, DECD notes/approves:

- a. Beginning July 1, 2022, real property Increased Assessed Value (IAV) capture\* of 100%, with portage of revenues from other Scarborough Municipal TIF districts per § 5225(1)(B)(3)(b), only while this District capture is/remains 100% and such portage is an approved project cost for other District program;

Per November 28, 2018 original designation and previous amendment approvals, DECD restates:

- b. District term of 30 years, ending June 30, 2049;
- c. District taxable Original Assessed Value of \$95,622,900, consisting of \$95,622,900, as of March 31, 2018 (April 1, 2017) and \$0, as of March 31, 2021 (April 1, 2020) — acreage 948.13;
- d. Until June 30, 2022, real property IAV capture\*\* of 3% on entire District plus,
  - i) For Scarborough Downs portion of District (Map R52 Lot 4) only, 40% for TIF years 1-10, 25% or 40% for TIF years 11-20, contingent on Performance Standard Incentives, and for TIF years 21-30, 10% for Bonus Option; \*\*
  - ii) For rest of District, up to 100% of a developer /owner's property, within District term.

Portage of revenue from other Scarborough Municipal TIF districts, is not allowable until capture is amended to 100% per § 5225(1)(B)(3)(b) and such portage is an approved project cost for the other district;
- e. District revenues deposited/held in dedicated account[s] and applied ONLY toward approved activities/projects due completion BEFORE/BY JUNE 30, 2049,
  - i) Project Cost accounts to reimburse Company/ Developer for costs authorized by 30-A M.R.S.A. § 5225(1)(A) and DECD rules as amended from time to time AND/OR fund public activities/ projects,
  - ii) Sinking Fund Account to retire associated public debt, if any;
- f. Crossroads Holdings, LLC reimbursement limited to incremental taxes from NEW actual value of 40% annually for TIF years 1-10, for TIF years 11-20, either 25%, capped at \$55,000,000 for initial non-bonus reimbursement, or 40%, contingent on Performance Standard Incentives, and for TIF years 21-30, as a Bonus Option, 10%, capped at \$2,000,000 annually, for achieving "desired development" by end of year 20, defined in Program, page 10; \*



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HEATHER JOHNSON  
COMMISSIONER

- g. Company/Developer payments within sole Town Council discretion, limited to incremental taxes from NEW actual value and may include up to 100% reimbursement of Company/Developer's individual property during District term, following minimum one public hearing;
- h. AFTER EXECUTION, TOWN MUST FORWARD A COPY of any associated credit enhancement agreement and its amendment(s) or assignment(s) to DECD—enclosing completed matching **Application Cover**

**Sheet** with detailed private project description and (if Company and not Developer) **Employment Goals Form**;

- i. Any non-captured incremental property values resulting in General Fund revenue/deposits MUST be included/reported with Town equalized assessed value;
- j. Any future amendment MUST comply with 30-A M.R.S.A. §§ 5221-5235 and DECD rules;
- k. When District expires, or is terminated, SCARBOROUGH MUST NOTIFY DECD IN WRITING.

As further described in the Program, Town revenue allocation projected at \$204,717,869 may facilitate funding for an estimated \$69,401,000 in public costs and associated debt—if any. This funding MUST comply with already established Scarborough appropriation process—with activities/projects due completion BEFORE/BY JUNE 30, 2049. Please note, pursuant to 30-A M.R.S.A. § 5227(D), the Town shall annually return to the General Fund any tax increment revenues remaining in development program fund, in excess of those estimated to be required to satisfy payment of approved project costs, outlined in the Program, plus any related debt service.\*\*\* DECD restates/approves public activities/projects costs listed below, with AMD-2 changes/additions underlined:

#### WITHIN DISTRICT/MUNICIPALITY

- l. General Economic Development: prorated salaries and overhead costs associated with economic development (ED) staff/Scarborough ED Corporation costs/Support & management of Downtown District business partnerships and associations solely as it relates to economic development/economic development, planning, transit-related studies and plans/ consultants & legal costs related to TIF & ED/ Pro-rated technology purchases related to tracing development and improving efficiency of local permitting, only as it relates to economic development ~~\$1,190,000~~ \$6,250,000;

#### OUTSIDE DISTRICT/WITHIN MUNICIPALITY

- m. Costs of funding environmental infrastructure improvement projects to address direct and indirect impacts of development within District for commercial use or related to such activities \$1,500,000;
- n. Public safety facilities and equipment, including debt service on public safety building located in the District. For this TIF expenditure associated “within the municipality,” the need must be related to general economic development within the municipality and not to exceed 15% of the captured assessed value of the development district \$15,000,000;

#### WITHIN MUNICIPALITY

- o. New or expanded transit service capital costs, part of (i) above cost projection;
- p. Costs associated with new or existing recreational trails determined to have significant potential to promote economic development \$1,000,000; Ø
- q. Costs associated with quality child care facilities and adult care facilities as defined by MRS 30-A 5225 (1-B), including finance costs and construction, staffing, training, certification, and accreditation costs related to child care and adult care \$2,500,000;
- r. Wireless internet infrastructure and other associated costs to provide wireless internet access in Downtown District and system improvements to promote economic development \$175,000;

#### WITHIN/OUTSIDE DISTRICT/WITHIN MUNICIPALITY

- s. Costs associated with the operation and financial support of Affordable Housing, as defined by MRS Title 30-A, §5246 (1), in the municipality to serve ongoing economic development efforts, including the further development of the downtown tax increment financing district \$2,700,000;



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GOVERNOR



HEATHER JOHNSON  
COMMISSIONER

**WITHIN/OUTSIDE DISTRICT Ø**

t. Traffic-Related Improvements \$7,000,000; Ψ ×

**WITHIN DOWNTOWN DISTRICT**

u. Costs of constructing or improving facilities or buildings leased by Town of Scarborough that are located in approved downtown tax increment financing district \$33,276,000.

DECD notes while the Program may list multiple statutory citations with the public project costs in the application, not all citations apply to all activities/projects described within each cost description. Scarborough is obligated to verify proper authorization for each project cost to be undertaken. DECD advises Town to plan for debt retirement to coincide with District term end of June 30, 2049.

DECD encourages Scarborough to review/consider Maine Department of Agriculture, Conservation and Forestry (MDOACF) and Maine Department of Transportation (MDOT) advisories **ahead of public projects/activities implementation** for this District and prior to any future update of existing downtown redevelopment plan ("A Downtown for Scarborough: Connecting Scarborough Downs and Oak Hill/Adopted November 28, 2018).

Please contact Development Program Officer Tina Mullins with questions about this certification. The Department extends best wishes for the District's success.

Sincerely,

Heather Johnson  
Commissioner

cc: via email only  
Senator Anne Carney (SD-29)—130<sup>th</sup> Legislature  
Senator Stacy Brenner (SD-30)—130<sup>th</sup> Legislature  
Representative James A. Boyle (HD-27)—130<sup>th</sup> Legislature  
Representative Christopher James Caiazzo (HD-28)—130<sup>th</sup> Legislature  
Representative Sophia B. Warren (HD-29)—130<sup>th</sup> Legislature  
Peter Lacy, MRS Director Property Tax Division  
Nicholas T. Cloutier, Scarborough Assessor  
Shana Cook Mueller, Bernstein, Shur, Sawyer & Nelson, P.A.

encl: MDACF/MDOT advisories

\* Over 4/1/2018 assessed value of \$124,303,200 due to a 2018 commercial revaluation (Original Program, page 8)

\*\*See Development Plan, Section IV. (C), page 9, for Performance Standard Incentive requirements and page 10, for Bonus CEA Option for this Developer Achieving "desired development." The Town Council is authorized, following a public hearing, to vote to amend the terms of the CEA with the Scarborough Downs Developer (Original Program, page 10).

\*\*\*Please refer to 30-A M.R.S.A. § 5227(D) for further procedures related to managing excess tax increment revenues. Additional options include, by vote of Town council, to decrease the annual captured assessed value, or formally amend Program to add allowable projects costs.

Ø To the extent a project is outside the District, Scarborough must prorate/allocate costs not directly related to or made necessary by establishment/operation of this District to other funding sources.

EXCLUDING FOLLOWING COSTS/FUNDING:

Ø Public park(s) as it relates to MRS 30-A, § 5225(2)

Ψ Private residential distribution line(s)

× § 5225(1)(A)(1)(a)(i), (8) and (C)(7)(b) Transit-Oriented Development projects





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STATE OF MAINE  
DEPARTMENT OF ECONOMIC  
AND COMMUNITY DEVELOPMENT



HEATHER JOHNSON  
COMMISSIONER

April 8, 2022

Thomas Hall  
Town Manager  
TOWN OF SCARBOROUGH  
295 US Route One  
Scarborough, Maine 04070

RE: The Gateway at Scarborough- Haigis Parkway Municipal *Tax Increment Financing* (TIF) District and Development Program *Second Amendment* (AMD-2)

**A P P R O V E D**

Dear Mr. Hall,

The Maine Department of Economic and Community Development (DECD) reviewed and EFFECTIVE TODAY APPROVED the application to amend the above-referenced Municipal TIF District and Development Program (Program). Based on the application, DECD notes/approves:

- a. District term of 30 years, ending June 30, 2033;
- b. Real property Increased Assessed Value (IAV) capture of 100%, effective July 1, 2022;

Per March 19, 2003 original designation and previous amendment approvals, DECD restates:

- a. District taxable Original Assessed Value of \$8,563,500, as of March 31, 2003 (April 1, 2002)—acreage 375.80;
- b. District revenues deposited/held in dedicated accounts and applied ONLY toward approved activities/projects due completion BEFORE/BY JUNE 30, 2033,
  - i) Project Cost accounts to reimburse The New England Expedition-Scarborough, LLC, for costs authorized by 30-A M.R.S.A. § 5225(1)(A) and DECD rules as amended from time to time AND/OR fund public activities/projects,
  - ii) Sinking Fund Account to retire associated public debt, if any;
- c. New England Expedition-Scarborough, LLC, reimbursement limited to incremental taxes from NEW actual value of up to \$825,000 annually, for a term that reaches the global cap of \$8,250,000, within the District term;
- d. AFTER EXECUTION, TOWN MUST FORWARD A COPY of any associated credit enhancement agreement and its amendment(s) or assignment(s) to DECD;
- e. TOWN may NOT negotiate/execute reimbursement agreements with any other company/developer, other than The New England Expedition-Scarborough, LLC, without due public process and future amendment;
- f. Any non-captured incremental property values resulting in General Fund revenue/deposits MUST be included/reported with Town equalized assessed value;
- g. Any future amendment MUST comply with 30-A M.R.S.A. §§ 5221-5235 and DECD rules;
- h. When District expires, or is terminated, SCARBOROUGH MUST NOTIFY DECD IN WRITING.

As further described in the Program, Town revenue allocation may facilitate funding for public costs and associated debt—if any. This funding MUST comply with already established Scarborough appropriation process—with activities/projects due completion BEFORE/BY JUNE 30, 2033. Please note, pursuant to 30-A M.R.S.A. § 5227(D), the Town shall annually return to the General Fund any tax increment revenues remaining in development program fund, in excess of those estimated to be required to



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COMMISSIONER

satisfy payment of approved project costs, outlined in the Program, plus any related debt service. \*  
DECD restates/approves public activities/projects costs listed below:

**WITHIN DISTRICT Ψ**

- i. Sewer installation on Payne Road and along Haigis Parkway/ Wastewater pumping stations; Route 1-Oak Hill area interceptor sewer of a 15-inch interceptor sewer installation on northerly side of Route 1, including a new sewerage force main from Willowdale Road pumping station along Route 1 to a new interceptor sewer near Commerce Drive \$7,021,000;
- j. Water main installation along Haigis Parkway from existing water main on Payne Road to existing main near Scottow Hill Road \$500,000;
- k. Power & communications of conduits for underground power, telephone, and cable installation along Haigis Parkway from Payne Road to Scottow Hill Road \$1,375,000;
- l. Natural gas line installation along Haigis Parkway, from Payne Road to existing main in the Industrial Park \$475,000;

**WITHIN MUNICIPALITY**

- m. SEDCO personnel and operational costs as it relates to the development, oversight, marketing, and business attraction efforts for this District's projects.

DECD notes Scarborough is obligated to verify proper statutory authorization for each project cost to be undertaken. DECD advises Town to plan for debt retirement to coincide with District term end of June 30, 2033.

Please contact Development Program Officer Tina Mullins with questions about this certification. The Department extends best wishes for the District's success.

Sincerely,

Heather Johnson  
Commissioner

cc: via e-mail only

Senator Anne Carney (SD-29)—130<sup>th</sup> Legislature  
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 Nicholas Cloutier, Scarborough Assessor  
 Shana Cook Mueller, Bernstein, Shur, Sawyer & Nelson, P.A.

\* Please refer to 30-A M.R.S.A. § 5227(D) for further procedures related to managing excess tax increment revenues. Additional options include, by vote of Town council, to decrease the annual captured assessed value, or formally amend Program to add allowable projects costs.

EXCLUDING FOLLOWING COSTS/FUNDING:

Ψ Private residential distribution line(s)

Town of Scarborough  
Five Year Fund Balance History and Projection

	FY19	FY20	FY21	FY22	FY23
Revenues	90,776,202	94,004,857	98,215,569	101,527,517	108,522,407
Total Unrestricted Fund Balance Per ACFR	11,127,667	11,472,538	11,908,600	13,276,040	14,276,916
Unrestricted Fund Balance Percentage of Revenues	12.26%	12.20%	12.12%	13.08%	13.16%
Minimum	8.00%	8.00%	8.00%	8.00%	8.00%
Target	12.00%	12.00%	12.00%	12.00%	12.00%
Unassigned Fund Balance Per ACFR	8,211,760	7,701,960	7,453,447	9,933,328	10,549,179
Budgeted Operating Expenses (prior year)	83,673,671	88,086,163	94,056,204	98,931,048	102,765,326
Fund Balance as % of Prior Year Budgeted Operating Expenditures	9.81%	8.74%	7.92%	10.04%	10.27%
Minimum	8.33%	8.33%	8.33%	8.33%	8.33%
Target	10.00%	10.00%	10.00%	10.00%	10.00%

	GF	IMPACT ON FUND BALANCE	
		Restricted	Unassigned
Haigis Parkway TIF	Advance	Fund Balance	Fund Balance
General Fund Receivable From Haigis Parkway TIF 6/30/2023	2,785,219	4,974,393	10,549,179
FY24 TIF Revenues to Repay Receivable	(1,165,538)	(1,165,538)	1,165,538
FY24 Estimated Balance	1,619,681	3,808,855	11,714,717
FY25 TIF Revenues to Repay Receivable	(1,410,000)	(1,410,000)	1,410,000
General Fund Receivable From Haigis Parkway TIF - FY25	209,681	2,398,855	13,124,717

FY24 Estimated After Collection of Haigis Advance:	11,714,717
FY24 Estimated Unassigned Fund Balance	11.40%
Fund Balance as % of Prior Year Budgeted Operating Expenditures	
FY25 Estimated After Collection of Haigis Advance:	13,124,717
Fund Balance as % of Prior Year Budgeted Operating Expenditures	12.77%

PROJECTED USE OF UNASSIGNED FUND BALANCE:

	Budgeted	Actual	Remainder to
Overlay History:	Overlay	Expended	Fund Balance
FY22	492,729	(49,602)	443,127
FY23	333,952	(32,815)	301,137
FY24	256,425	(15,184)	241,241
			985,505

FY24 Estimated After Use of Fund Balance Generated from Overlay:	11,714,717
Fund Balance as % of Prior Year Budgeted Operating Expenditures	11.40%
FY24 Estimated Unassigned Fund Balance	
FY25 Estimated After Use of Fund Balance Generated from Overlay:	12,139,212
Fund Balance as % of Prior Year Budgeted Operating Expenditures	11.81%
Fund Balance as % of Prior Year Budgeted Operating Expenditures	



To: Tom Hall, Town Manager  
Fr: Joe Cuetara  
Date: April 9, 2024  
Re: Town of Scarborough and Use of Fund Balance

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**Tom**, you have asked me my view of the rating implications of use of Fund Balance. Pursuant to your Financial and Fiscal Policy adopted in 2018, as amended in 2019, *"The Town's goal is to maintain a level of unassigned fund balance in an amount equal to 10% of the Town's Operating Budget for the prior fiscal year and not to fall below 8.3% (or 1/12<sup>th</sup>) of its operating budget. Once the Town achieves an unassigned fund balance equal to 10% of the Town's Operating Budget, any excess above 12.0% may be re-assigned"*

Notwithstanding the following general discussion, Fund Balances that exceed a stated policy may typically be re-assigned if (i) it is for a reasonable purpose and (ii) it is for a one-time or seldom-used event. Any time that this occurs, however, this should be notated in any financial presentation that explains why this is an anomaly, not an institutional change, and that *re-affirms* policy, and adherence thereto. For example, should fund balance continually exceed a 10% threshold and exceeds a 12% max goal then this would be considered a re-aligning to adhere to the policy. This is similar to re-balancing a portfolio that was originally 50% stocks and 50% bonds that, due to market changes is now 70%/30%, re-balanced to 50%/50%.

#### **View of Fund Balance**

The rating review process *specifically emphasizes* a municipal government's ability to bridge the timing differences between its receipts and its disbursements ... as a measure of its liquidity vis-à-vis ability to meet its obligations in a timely manner. As in any business, and the Town is a business, you should (must?) have sufficient funds to meet all expenditures at the first of the month should revenues not be available until the end of the month. The fund balance position is a measure of an issuer's financial flexibility to meet essential services during periods of limited liquidity. *The rating agencies consider an adequate fund balance to be a credit strength.*

Rating agencies believe that careful, *institutionalized policies and adherence thereto*, contribute to an issuer's ability to withstand unforeseen downturns without compromising recurring structural balance (annual revenues equal to or greater than annual expenditures). Formal policies are viewed more favorably because they minimize political considerations of adequate reserve levels and keep the municipalities more focused on providing structural balance in their operations. For example, recessions have demonstrated how municipal budgets can be hurt by declines in economically sensitive revenues (e.g., sales taxes, income taxes, interest income, property taxes), and unanticipated cuts in state revenue sharing funds.

And, maintaining adequate reserves has several internal and external benefits. *Internally*, reserves can provide for cash flow needs until major revenues are received, reducing or eliminating the need for cash flow borrowing; provide funds to leverage state or federal grants; and provide for the unexpected. *Externally*, reserves tend to be viewed favorably by investors, rating agencies, and local banks with which the Town does business, thus benefiting ratings and the potential need for lines of credit. Each positions the Town as a *going concern*.

Rating agencies views credits which adhere to a fund balance strategy as being more pro-active and reflecting positively on management. *A formalized Fund Balance Policy is an indication of "good" Management. It also exists as a positive discipline ... that may be politically hard to implement when most needed!*

A caution however, use of Fund Balance, especially if it dips below policy guidelines, solely for *tax-payer relief* is discouraged and viewed as a credit-negative in that it demonstrates that the entity is living beyond its capabilities.

This all being said, I believe that re-aligning Fund Balance in this case would have minimal impact and would not put pressure on the Town's ratings.

Mr. Anderson asked if I could “provide recent examples where other Town's [City's] tapped into their unassigned fund balance to limit the tax rate”. I have experienced communities whereby Fund Balance was actually used specifically for tax-payer relief. Fortunately, this only elicited comment and even Negative Outlooks but rarely resulted in a downgrade. However, I was retained by the City of Auburn, in 2004, to assist in institutional changes in policy and financial direction. While use of Fund Balance, per se, did not result in negative rating action(s) ... by instituting and implementing procedures the following shows the process for upgrades:

- **Policy was > 8.3%**

**Fund Balance as % Revenues**

Fiscal Year ended June 30,:	Audited				Unaudited 2008	Budgeted 2009
	2004	2005	2006	2007		
Unreserved General Fund Balance	\$2,703,072	\$4,653,474	\$6,938,376	\$9,600,796	\$11,427,367	\$11,777,000
Total Revenues (Current Year)	63,962,033	64,317,061	71,778,213	71,865,087	73,075,600	72,000,000
Fund Bal as % Prior Years' Revenues	4.23%	7.24%	9.67%	13.36%	15.64%	16.36%
Undesignated General Fund Balance	2,215,528	3,587,200	5,088,428	7,898,295	9,236,866	9,586,000
Total Revenues (Current Year)	63,962,033	64,317,061	71,778,213	71,865,087	73,075,600	72,000,000
Fund Bal as % Prior Years' Revenues	3.46%	5.58%	7.09%	10.99%	12.64%	13.31%

Moody's comment: The negative outlook reflects reduced financial flexibility as a result of three consecutive years of fund balance declines due to using General Fund balance as a budgetary source for recurring operating expenditures.

- **Since adoption on June 7, 2021 no less than 10%**

**General Fund Balance as % Expenditures (per City's Policy)**

Fiscal Year ended June 30,	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Unrestricted General Fund					
Balance	\$10,099,340	\$11,515,913	\$15,143,586	\$15,601,896	\$20,315,182
Total GF Expenditures	85,338,641	88,377,858	89,653,702	96,700,591	100,497,590
Fund Balance as % Expenditures	11.83%	13.03%	16.89%	16.13%	20.21%
Unassigned General Fund Bal	\$8,065,076	\$9,862,432	\$13,192,192	\$13,064,546	\$17,777,832
Total GF Expenditures	85,338,641	88,377,858	89,653,702	96,700,591	100,497,590
Fund Balance as % Expenditures	9.45%	11.16%	14.71%	13.51%	17.69%

S&P Comment: The city has reported three consecutive audited general fund surpluses, largely the result of conservative budgeting practices and strong revenue increases associated with recent growth in the city. Officials attribute the healthy surpluses in recent years to an intentional effort to improve the general fund reserve position

**Rating History**

**Rating History**

Auburn	08/17/04	A3/A	Auburn	02/24/16	Aa3/AA-
Auburn	09/08/04	A3/A	Auburn	11/01/16	Aa3/AA-
Auburn	10/18/05	A3/A	Auburn	10/24/17	Aa3/AA-
Auburn	10/17/06	A3/A	Auburn	10/24/18	Aa3/AA-
Auburn	12/04/07	A2/A+	Auburn	10/02/19	Aa3/AA-
Auburn	09/23/08	A2/A+	Auburn	10/02/19	Aa3/AA-
Auburn	10/14/09	A2/A+	Auburn	10/27/20	Aa3/AA-
Auburn	10/19/10	Aa3/AA-	Auburn	04/14/21	Aa3/AA-
Auburn	10/25/11	Aa3/AA-	Auburn	09/15/21	Aa3/AA-
Auburn	09/13/12	Aa3/AA-	Auburn	04/12/22	Aa3/AA-
Auburn	11/06/13	Aa3/AA-	Auburn	09/20/22	Aa3/AA-
Auburn	10/15/14	Aa3/AA-	Auburn	10/04/23	Aa3/AA-
Auburn	10/21/15	Aa3/AA-			

### **SECTION III. FUND BALANCE**

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget.

The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the Town to be in a strong fiscal position that will allow for better position to weather negative economic trends.

The Fund Balance consists of five categories: Non-spendable, Restricted, Committed, Assigned, and Unassigned.

- **Non-spendable** Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and pre-pays) or funds that legally or contractually must be maintained intact.
- **Restricted** Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.
- **Committed** Fund Balance consists of funds that are set aside for a specific purpose by the Council. Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.
- **Assigned** Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the Council. Assigned funds cannot cause a deficit in unassigned fund balance.
- **Unassigned** Fund Balance consists of excess funds that have not be classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.
- **Unrestricted** Fund Balance is the combination of the Committed, Assigned and Unassigned fund balance.

### **OPERATING BUDGET**

The total General Fund Budget, are all budgets, including amendments, as adopted by the Town council. The General Fund Budget shall include all budgets included in funds 1100 and 7100:

Municipal Gross Budget  
Education Gross Budget  
Adult Learning  
Community Services- All Divisions  
Capital Equipment  
Debt Service  
County Assessment

*Non-spendable and Restricted Funds.* Non-spendable funds are those funds that cannot be spent because they are either:

- Not in spendable form (e.g. inventories and prepaids)
- Legally or contractually required to be maintained intact



It is the responsibility of the Town Manager or their designee, to report all Non-spendable Funds appropriately in the Town's Financial Statements.

Restricted funds are those funds that have constraints placed on their use either:

- Externally by creditors, grantors, contributors, or laws or regulations or other governments
- By law through constitutional provisions or enabling legislation.

It is the responsibility of the Town Manager, or their designee, to report all Restricted Funds appropriately in the Town's Financial Statements.

### **CLASSIFYING FUND BALANCE AMOUNTS**

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it. When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last; unless the Town Council has provided otherwise in its commitment or assignment actions.

### **AUTHORITY TO COMMIT FUNDS**

The Town Council has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution by a simple majority vote. The passage of such action must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

### **AUTHORITY TO ASSIGN FUNDS**

Upon passage of the Fund Balance Policy, authority is given to the Town Manager to assign funds for specific purposes. Any funds set aside as Assigned Fund Balance must be reported to the Town Council. The Town Council has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

### **UNASSIGNED FUND BALANCE**

Unassigned Fund Balance is the residual amount of Fund Balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.

In the event of projected revenue shortfalls, it is the responsibility of the Town Manager to report the projections to the Town Council's Finance Committee on a quarterly basis and will include an outline of recommended Management actions to address any shortfall.

The Town has set a goal, through this Fund Balance Policy, to maintain the level of Unassigned Fund Balance equal to 10.0% of the Town's Operating Budget for the prior fiscal year and to not fall below 8.33% (or 1/12) of the Town's Operating Budget.

Once the Town achieves an unassigned fund balance equal to 10.0% of Scarborough's Operating Budget, any excess above 12% must be assigned by any combination to one of the following:

- Retained in non-spendable and restricted accounts that offset unfunded liabilities, and/or

- Retained in assigned accounts that may be used in future budget cycles as a property tax rate stabilization; available for use during a catastrophic event, and/or
- Funding future capital expenditures and/or projects, and/or
- Retirement of debt, and/or
- Taxpayer refund.

In the event that the balance drops below the established minimum level, the Town Council will develop a plan to replenish the fund balance to the established minimum level within two years.

Policy statement: Unrestricted Fund Balance as a Percentage of Revenues: The level of unrestricted fund balance will not be allowed to drop below 8% of annual revenues with a goal of building unrestricted fund balance to 12% of annual revenues.

## **REPORTING**

Annually the Town Manager shall report to the Town Council's Finance Committee the Statement of Activity of all fund balances that will include the beginning year's balances, gross adjustments in and out of each account during the reporting period and final report period ending balances. Such report shall occur following receipt of the audited financial statements.

## **REPEAL OF PRIOR TOWN COUNCIL FUND BALANCE POLICY.**

This section repeals the Town Council Fund Balance Policy adopted by the Town Council on September 17, 1997, as amended on January 20, 2010 and replaces it this document adopted by the Town Council on November 2, 2016.

## **SECTION IV. CAPITAL PLANNING**

### **PURPOSE**

As a way of structuring the review and funding of capital improvement projects competing for economic resources, the Town of Scarborough looks at long-term capital planning and budgeting. This policy sets forth comprehensive guidelines for the determination and prioritization of capital asset purchases and improvements. It is the objective of this policy to:

- Determine the physical assets to be renovated or replaced;
- Document the decision-making process;
- Demonstrate a commitment to long-term financial planning objectives;
- Annually prioritize those physical assets to be included in the Capital Improvement Plan;
- Utilize debt financing only when desirable;
- Identify capital planning objectives for staff to implement;
- Understand how the operating budget will be impacted by the completion of the capital project;
- Ensure that the useful life of the asset or project equals or exceeds the payout schedule of any debt the Town assumes for the project. This allows for a closer match between those who benefit from the asset and those who pay for it.

Capital projects may involve the following:

- Purchasing Land