



AGENDA TOWN FINANCE COMMITTEE

Thursday – June 13, 2024

Hybrid

5:00 P.M.

LINK TO PARTICIPATE REMOTELY:

https://scarboroughmaine.zoom.us/webinar/register/WN_A_KHrbU-S7WDnrIk7lv6hw

TO VIEW MEETING ONLY:

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

Item 1. Call to Order.

Item 2. Those Present.

Item 3. Approval of Minutes: May 9, 2024

Item 4. Discussion On:

a. Budget Process Retrospective

OR

Steps to 2nd Referendum

b. Align on money for Land Bond

c. Review Fund Balance Policy

Item 5. Public Comments.

Item 6. Adjourn.

Start: What should we do differently next cycle?

- At the beginning of the process to the extent possible, consider defining a policy/goal approach on how to handle outside circumstances that may impact taxes outside of the control of Town
 - Eg. Revals happen every 5 years, Legislation in Augusta forthcoming, etc.
 - In January to set budget development goals, may need a conversation with the School and Town to set a reasonable goal that considers those externalities that may drive costs and what that means for other areas
- At initial presentation, Town and School to demonstrate together relative prioritization of investments and what is requested above the goal for funding consideration.
 - Essentially a shared view on investment priorities at submission for alignment to be further aligned and vetted by the committees.
 - How do we adjust the approach to make the conversation more about “What do we want to invest in as a community” vs. “What do we need to cut to get to a financial target”
- Leverage the mid-year budget forecast as the baseline for investment requests in the next year.
 - Investments that were requested and approved, but aren’t happening for various reasons by mid-year should be re-requested and viewed as new investments if they are behind
- Better visibility and clarity around FTE. Given this is the largest portion of our budget, understanding and breaking it down a bit more will be helpful (e.g. increases to non-union wages, staff vacancies)
- Encourage all Town Council members to attend the School Department workshops by staff leadership to understand the details of the budget request
- At workshops make sure they are designed for the School/Board and Town/Council are given equal time to speak. Council dominated the workshops.
- At the Town, would be nice to have some narrative to explain the changes in the operating budget in the back. The 100+ questions could be much fewer if there was a one page narrative for each department that explained the changes. We got more of that in the presentations than in the budget book itself.
- For TIF Revenues, would like to see those get first fully used for qualified operating costs, then for capital projects unless there is a good reason to use for capital first.

Stop: What should we stop doing that is not adding value in the process?

-

Continue: What do we want to continue to do that is working well?

- Holding a workshop at the beginning of the process after the budget is presented to align on process, objectives and expectations
- Upfront Staff reviews to Council to allow for more deliberation earlier over a two day period
- Clear financial breakdown by department against different cost categories

- This year was a good first step, but there are likely ways to improve the graphs to tell a better story on “required” vs. optional investments
 - Department compensation may need to be broken down separately to better view YoY changes for easier communications and understanding by Council and public to break down compensation changes since it is THE biggest part of the budget.
- 3 General Rountables didn’t get as much attendance as the targeted roundtable at Hillcrest. If we do Roundtables, consider having one general open one and then 2-3 targeted ones that may draw bigger audiences and bring more diverse perspectives. I’d like to see more participation from the Full Council and School Board in these next year. Perhaps people team up and plan on together for more local roundtable events - like how Jean Marie planned and hosted the Reval in North Scarborough.
- I liked the sheet used to track adjustments along the way. I think that is good and will be good for Town and School to align on so we have one document. We should think about how to separate adjustments from sharpening the pen, from additions, from true reductions.
- For the School Leadership Workshop, suggest spending more time on numbers to communicate the investments to maintain level services, what’s mandatory, and what’s discretionary

PARKS AND CONSERVATION LAND BOARD

Town of Scarborough, Maine



June 10, 2024

Nick McGee, Town Council Chair
Honorable Town Councilors and Town Manager
Town of Scarborough, Maine

Dear Chairman McGee and Friends,

Board Members

Suzanne Foley-Ferguson
Rachel Hendrickson
Richard Murphy
Noah Perlut
Jessica Sargent
Maggie Vishneau
Douglas Williams

Staff Liaison
Todd Souza

Council Liaison
Karin Shupe

In January, the Parks and Conservation Land Board (PCLB) recommended that you consider placing a referendum question on the November 2024 ballot for residents to vote on authorizing the Town of Scarborough to issue new bonding authority for parks and land conservation in the range of \$5 to \$10 million, pending additional research. At our May 9th meeting we formalized our final recommendation.

The PCLB recommends that a \$6 million land bond be added to the November 5, 2024, ballot for the following purposes:

- Preserving drinking water sources
- Protecting marshes and wetlands that protect Scarborough from flooding and sea level rise
- Protecting water quality in rivers, streams, and Scarborough Marsh
- Conserving water quality
- Protecting natural areas next to Scarborough Marsh
- Preserving fish and wildlife habitat
- Preserving access to natural areas
- Conserving natural resources
- Protecting natural areas from development.

The 2019 land bond is essentially fully allocated. If funding for Silver Brook Preserve II is again approved by Town Council at second reading, only \$13,901 of bonding authority will remain. Replenishing the land bond is important to maintaining Scarborough's historic rate of parks and land conservation, and to fulfill the Town Council's 30X30 goal to protect and conserve at least 30 percent of land and water by 2030.

Sincerely,

Jessica Sargent
Chair, Scarborough Parks and Conservation Land Board

What land is currently conserved as open space?

TOTAL	TOWN AREA	30,528 acres
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TODAY	CONSERVED LAND	4,700 acres (15 %)
	CONSERVED MARSH	2,750 acres (9 %)
	TOTAL CONSERVED	7,500 acres (24 %)

2030	AREA NEEDED TO MEET 30x30 GOAL	1,700 acres (6 %)
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MOORS & CABOT
INVESTMENTS

Banking & Advisory Group

In Consideration of Appropriate Fund Balance ...



**TOWN OF
SCARBOROUGH, MAINE**

MOORS & CABOT, INC.

Established 1890

Banking & Advisory Group

One Federal Street

Boston, Massachusetts 02110

jcuetara@moorscabot.com

Member FINRA, NYSE and SIPC

June 13, 2024

Fund Balance Policy Guidelines for Local Maine AAA Rated Municipalities

			\geq	<u>Max</u>
Bar Harbor	Aa2	AAA	10.00%	
Cape Elizabeth	Aa1	AAA	12.50%	
Falmouth	Aaa	AAA	16.67%	
Freeport	Aa2	AAA	12.50%	15.00%
Harpswell	Aa1	AAA	16.67%	25.00%
Kennebunk	Aa1	AAA	16.70%	
Kennebunkport	Aa1	AAA	18.00%	
Portland	Aa1	AAA	12.50%	
South Portland	Aaa	AAA	9.00%	12.00%
York	NR	AAA	8.00%	12.00%

Fund Balance is a fickle mistress. Reallocating unused Overlay from prior years indicates monies that will never be spent and are now orphaned. Reallocating such re-aligns your fiscal balances in for those monies. The perception should be that this is not for tax-payer relief but to use otherwise idle, unspent funds.

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. *A common use of this is to re-align excess Fund Balance to return to levels established by policy.* 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.

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.

Town of Scarborough Fund Balance History

	<u>Committed, Assigned & Unassigned GF Bal</u>	<u>Total Rev (Current Yr)</u>	<u>Fund Bal as % Rev</u>	<u>Undesignated GF Bal</u>	<u>Total Rev (Current Yr)</u>	<u>Fund Bal as % Rev</u>
2001	\$3,668,750	42,284,942	8.70%	\$2,425,517	42,284,942	5.70%
2002	\$5,752,698	45,131,670	12.70%	\$4,064,287	45,131,670	9.00%
2003	\$6,211,542	48,313,362	12.90%	\$4,669,251	48,313,362	9.70%
2004	\$5,918,858	50,509,302	11.70%	\$4,693,564	50,509,302	9.30%
2005	\$7,760,008	51,583,396	15.04%	\$4,366,474	51,583,396	8.46%
2006	\$8,226,275	54,291,753	15.15%	\$5,519,830	54,291,753	10.17%
2007	\$8,317,308	57,194,572	14.54%	\$5,646,355	57,194,572	9.87%
2008	\$8,974,492	61,362,787	14.63%	\$6,222,425	61,362,787	10.14%
2009	\$8,173,847	65,367,223	12.50%	\$6,355,529	65,367,223	9.72%
2010	\$4,755,708	64,114,724	7.42%	\$3,286,399	64,114,724	5.13%
2011	\$3,807,948	65,932,351	5.78%	\$954,650	65,932,351	1.45%
2012	\$4,587,125	66,904,627	6.86%	\$2,093,626	66,904,627	3.13%
2010	\$4,755,708	64,114,724	7.42%	\$3,286,399	64,114,724	5.13%
2011	\$3,807,948	65,932,351	5.78%	\$954,650	65,932,351	1.45%
2012	\$4,587,125	66,904,627	6.86%	\$2,093,626	66,904,627	3.13%
2013	\$5,246,376	70,898,619	7.40%	\$3,811,453	70,898,619	5.38%
2014	\$6,213,282	74,396,159	8.35%	\$5,761,131	74,396,159	7.74%
2015	\$8,221,705	78,578,544	10.46%	\$7,702,662	78,578,544	9.80%
2016	\$9,177,030	80,145,388	11.45%	\$8,674,267	80,145,388	10.82%
2017	\$11,072,395	82,075,963	13.49%	\$10,672,154	82,075,963	13.00%
2018	\$10,256,307	84,250,061	12.17%	\$9,862,795	84,250,061	11.71%
2019	\$11,127,667	90,776,202	12.26%	\$10,686,568	90,776,202	11.77%
2020	\$11,472,538	91,249,323	12.57%	\$11,017,626	91,249,323	12.07%
2021	\$11,908,600	98,215,569	12.12%	\$10,330,000	98,215,569	10.52%
2022	\$13,276,040	101,219,514	13.12%	\$11,678,836	101,219,514	11.54%
2023	\$13,974,861	107,663,589	12.98%	\$13,603,603	107,663,589	12.64%

City of Auburn, Maine

Requires the City to maintain unrestricted fund Bal at no less than 10% and no more than 14% of GF expenditures

Fiscal Year ended June 30,	2016	2017	2018	2019	2020	2021	2022	2023
Unrestricted GF Bal	\$7,982,964	\$8,863,571	\$9,644,275	\$10,099,340	\$11,515,913	\$15,143,586	\$15,601,896	\$20,315,182
Total GF Rev	78,616,976	80,876,767	83,878,071	87,399,892	92,045,087	95,878,178	101,882,653	105,210,876
Fund Bal as % Rev	10.15%	10.96%	11.50%	11.56%	12.51%	15.79%	15.31%	19.31%
Unassigned GF Bal	\$5,897,971	\$7,113,261	\$7,780,670	\$8,065,076	\$9,862,432	\$13,192,192	\$13,064,546	17,777,832
Total GF Rev	78,616,976	80,876,767	83,878,071	87,399,892	92,045,087	95,878,178	11,882,653	105,210,876
Fund Bal as % Rev	7.50%	8.80%	9.28%	9.23%	10.71%	13.76%	12.82%	16.90%
	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-

October 2016

MOODY's - The negative outlook reflects reduced financial flexibility as a result of three consecutive years of fund balance declines (fiscal 2013-2015) due to using General Fund balance as a budgetary source for recurring operating expenditures. Recently, management has taken steps to reduce and eventually eliminate the reserve appropriations through fiscal 2018, and the ability to return to structurally balanced operations and increase reserves could lead to the removal of the negative outlook.

S&P - The 2015 drawdown reduced reserves below the 12.5% floor in the city's minimum reserve policy, thus prompting management to develop a plan to bring reserves within compliance of its policy within three years.

October 2019

MOODY's - Auburn's financial position will likely remain satisfactory over the near term as the city maintains stable operations while slowly rebuilding reserves. The fiscal 2018 audited financial reflect a \$1.1 million operating surplus in the general fund because of conservative budgeting resulting in positive variance in both revenue and expenses. The surplus increased the available general fund balance to \$9.6 million or 11.4% of revenue ... Fiscal 2019 year-end unaudited results are expected to reflect another year of surplus which will bring the unassigned fund balance into compliance with the formal fund balance policy.

S&P - S&P Global Ratings assigned its 'AA-' long-term rating and stable outlook to the City of Auburn,

OCTOBER 2023

MOODY's - Auburn, ME's financial operations are expected to remain stable and its financial position to remain healthy given preliminary estimates of a modest operating surplus in 2023. The

S&P - 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, and the city plans to allocate future surplus revenue to a pay-as-you-go capital reserve fund.

City of Biddeford, Maine

Fund Bal of less than 10% of operating expenditures shall be avoided, except during a most dire emergency; an appropriation from Unassigned Fund Bal for City expenditures when said Bal is greater than 15% of operating expenditures shall be proposed to the Budget Committee by the Manager prior to the completion of the Budget Committee's deliberations to be used for a capital project, capital equipment purchase, infrastructure improvements, or may be used to offset an increase in property taxes;

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total expenditures							
Gross total exp	\$61,288,146	\$60,939,996	\$67,504,741	\$70,330,718	\$72,425,070	\$74,499,510	\$80,825,368
Less: Debt Service	(4,153,818)	(4,098,192)	(6,341,517)	(5,791,811)	(6,486,855)	(6,564,863)	(6,297,923)
Sub-total adjusted	(2,130,345)	(2,144,939)					
Total other uses	55,003,983	54,696,865	61,163,224	64,538,907	65,938,215	67,934,647	74,527,445
Adjusted total exp	<u>600,000</u>	<u>650,000</u>	<u>1,406,025</u>	<u>1,611,543</u>	<u>4,339,042</u>	<u>1,462,998</u>	<u>7,158,834</u>
Total Unrestricted Fund Bal	55,603,983	55,346,865	62,569,249	66,150,450	70,277,257	69,397,645	81,686,279
Education	2,351,559	2,858,214	2,285,096	2,408,164	2,394,089	3,451,767	3,946,564
Total Committed	0	0	0	0	0	0	0
Total Assigned	580,487	1,129,196	1,316,840	2,387,140	3,477,238	2,139,154	2,466,066
Total Unassigned	<u>1,723,143</u>	<u>2,310,409</u>	<u>2,983,231</u>	<u>2,222,152</u>	<u>4,577,271</u>	<u>6,991,373</u>	<u>11,636,817</u>
Total Unrestricted Fund Bal	<u>\$4,655,189</u>	<u>\$6,297,819</u>	<u>\$6,585,167</u>	<u>\$7,017,456</u>	<u>\$10,448,598</u>	<u>\$12,582,294</u>	<u>\$18,049,447</u>
	8.37%	11.38%	10.52%	10.61%	14.87%	18.13%	22.10%
	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA-	Aa3/AA

May 2022

MOODY'S - Biddeford, ME's (Aa3) credit profile benefits from an improved financial position following several years of consecutive operating surpluses. Additionally, in January 2022, the city eliminated the inter-fund loan payable between the general fund and wastewater fund, which had been a drag on the city's finances.

After multiple years of posting operating deficits, the city has found structural balance in its operations once again posting four consecutive operating surpluses, with more expected in the near term. The current level of fund balance is a stark change from fiscal 2016 when the city had just \$3 million of available fund balance (5% of revenues).

S&P - As of fiscal 2021, the city has met its formal reserve policy to maintain unrestricted fund balance at a minimum 12.5% of operating expenditures, which we view favorably. The new city manager has made concerted efforts to tidy up Biddeford's finances, including correctly recognizing revenues and expenditures, tightening discretionary spending, and strategically adjusting the tax rate while remaining below the property tax levy limit. As a result, the city saw strong surpluses in both fiscal years 2020 and 2021.

Town of Cumberland, Maine

The Fund Bal Policy seeks a target Bal of unreserved, Unassigned fund Bals of at least 12.0% of operating Rev from the current budget.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Unassigned GF Bal	\$2,060,936	\$2,023,066	\$2,028,570	\$2,084,824	\$2,479,646	\$3,073,252	\$3,658,773	\$3,976,831	\$4,435,504
Total Budgeted Rev ⁽¹⁾	24,267,819	26,427,228	26,867,596	28,150,989	30,090,881	31,550,144	33,473,794	35,762,674	38,140,827
Fund Bal as % of Rev	8.49%	7.66%	7.55%	7.41%	8.24%	9.74%	10.93%	11.12%	11.63%
	Aa3/AA+	Aa3/AA+	Aa3/AA+	Aa3/AA+	Aa2/AA+	Aa2/AA+	Aa2/AA+	Aa2/AA+	Aa2/AA+

January 2015

MOODY'S - In 2011, accounting for the \$1.8 million receivable (which was recorded as non-spendable fund balance) reduced the spendable reserve position to \$398,000 (a weak 1.9% of revenues). The General Fund reserve position, though still narrow, has gradually improved over the past few years as management has been prudently reducing an inter-fund receivable owed to the General Fund from the underperforming Golf Course, currently an Enterprise Fund but relied on support from the General Fund.

S&P - Cumberland's budgetary performance overall is adequate following a 2014 deficit in both the general fund and total governmental funds of 2.6% and 1.7% of expenditures, respectively, after adjusting for recurring transfers out of the general fund to the Val Halla Golf and Recreation Center enterprise fund and the other governmental funds.

We understand the town will continue to reduce this receivable on its balance sheet and that the receivable should be fully paid down in the current fiscal year. Management indicates it is working to restore available reserves in line with its policy of maintaining an unassigned fund balance at 16.7% of expenditures.

January 2019

MOODY'S - The General Fund reserve position has improved over the past five years as management has incrementally eliminated an inter-fund receivable owed to the General Fund from the underperforming golf course, formerly accounted for in an enterprise fund. The receivable was eliminated in fiscal 2015 and the golf course is now run out of the General Fund. Available General Fund balance, which was a narrow 1.9% of revenues in fiscal 2011, has increased annually and was 8.7% in fiscal 2016.

The town is not compliant with its adopted General Fund policy to maintain available reserves of at least 16.6% (two months) of budgeted revenues. The town's other credit factors, however, remain strong.

S&P - In 2011 as amended in 2018, it adopted a fund balance policy to maintain an unassigned fund balance of 16.67% of revenues although it currently does not adhere to this policy.

January 2020

MOODY'S - Fund balance will likely modestly improve as management balances accumulating additional reserves with providing taxpayer relief and funding capital projects. I

S&P - Given the strength and stability of the underlying tax base and revenue sources, along careful budgeting of both revenues and expenditures, we expect budgetary performance will remain strong over the outlook period. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 8.8% of expenditures in 2018 and 8.5% in 2017. A new policy, adopted in June 2018, has a five-year phase and replenishment period for maintaining unassigned reserves at 12% of expenditures. Management indicates it expects to meet the phase-in requirement and subsequently maintain reserves above 12%. And would continue to result in maintenance of reserve levels we consider strong.

Scarborough – Fund Balance Discussion

S&P Global

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			
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.

Scarborough – Fund Balance Discussion



Credit strengths

- » Above average resident wealth and incomes
- » Low fixed costs

Credit challenges

- » Elevated debt burden with additional debt expected
- » Reserve position is below average for the rating category

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Large increase in liquidity and reserves
- » Continued growth in the tax base and/or improvements in resident wealth and incomes

Factors that could lead to a downgrade

- » Trend of operating deficits resulting in reserve declines
- » Trend of tax base declines or deterioration of the demographic profile
- » Material growth in debt burden

Exhibit B
Scarborough (Town of) ME

	Measure	Weight	Score
Economy			
Resident income ratio	150.9%	10.0%	Aaa
Full value per capita	255,861	10.0%	Aaa
Economic growth metric	1.3%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	13.3%	20.0%	Baa
Liquidity ratio	30.0%	10.0%	A
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	129.4%	20.0%	Aa
Fixed-costs ratio	7.0%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			Aa3

The complete list of outstanding ratings assigned to the Scarborough (Town of) ME is available on their [ISSUE PAGE](#). Details on the current ESG scores assigned to the Scarborough (Town of) ME are available on their [ESGVIEW PAGE](#).

Sources: US Census Bureau, Scarborough (Town of) ME's financial statements and Moody's Investors Service

Appendix B: US Cities and Counties Scorecard

Factor or Sub-factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Factor: Economy (30%)								
Resident Income (MHI Adjusted for RPP / US MHI)* ¹	10%	≥ 120% 150.9%	100 - 120%	80 - 100%	65 - 80%	50 - 65%	35 - 50%	< 20%
Full Value per Capita (Full Valuation of the Tax Base / Population)* ²	10%	≥ \$180,000 255,801	\$100,000 - \$180,000	\$60,000 - \$100,000	\$40,000 - \$60,000	\$25,000 - \$40,000	\$15,000 - \$25,000	< \$9,000
Economic Growth (Difference Between Five-Year Compound Annual Growth in Real GDP and Five-Year CAGR in Real US GDP)* ³	10%	≥ 0 1.3%	(1)% - 0%	(2.5) - (1)%	(4.5) - (2.5)%	(7) - (4.5)%	(10) - (7)%	< (15)%
Factor: Financial Performance (30%)								
Available Fund Balance Ratio (Available Fund Balance + Net Current Assets/ Revenue)* ⁴	20%	≥ 35%	25 - 35%	15 - 25%	5 - 15% 13.3%	0 - 5%	(5) - 0%	< (10)%
Liquidity Ratio (Unrestricted Cash / Revenue)* ⁵	10%	≥ 40%	30 - 40%	20 - 30% 30.07%	12.5 - 20%	5 - 12.5%	0 - 5%	< (5)%
Factor: Leverage (30%)								
Long-term Liabilities Ratio ((Debt + ANPL + Adjusted Net OPEB + Other Long-Term Liabilities) / Revenue)* ⁶	20%	≤ 100%	100 - 200% 129.4%	200 - 350%	350 - 500%	500 - 700%	700 - 900%	> 1,100%
Fixed-Costs Ratio (Adjusted Fixed Costs / Revenue)* ⁷	10%	≤ 10% 7.0%	10 - 15%	15 - 20%	20 - 25%	25 - 35%	35 - 45%	> 55%
Notching Factors								Notching Range
Additional Strength in Local Resources								0 to +2
Limited Scale of Operations								-1 to 0
Financial Disclosures								-2 to 0
Potential Cost Shift to or from the State								-1 to +1
Potential for Significant Change in Leverage								-2 to +1.5

NOTE: Red circled items indicate Scarborough's place in the respective row.

Factor: Financial Performance (30% Weight)**Why It Matters**

Operational and financial strength is a significant driver of credit quality. The financial performance of a city or county, inclusive of its governmental funds and business-type activities, greatly influences its ability to meet existing financial obligations and its flexibility to adjust to new obligations or unexpected contingencies, such as unanticipated revenue shortfalls or cost increases.

This factor comprises two quantitative sub-factors:

Available Fund Balance Ratio: (Available Fund Balance + Net Current Assets) / Revenue

The ratio of available fund balance and net current assets⁹ to revenue provides a useful indication of whether a city's or county's resources would be sufficient to bridge temporary budget imbalances.

The sum of a city's or county's available fund balance and net current assets represents the resources available to fund services and unforeseen contingencies, including, for example, a budget shortfall. The available fund balance includes cash as well as receivables, payables and other current assets and liabilities across total governmental funds that are likely to become cash inflows or outflows in the short term. Net current assets includes cash as well as receivables, payables and other unrestricted current assets and liabilities across business-type activities that are likely to become cash inflows or outflows in the short term. Comparing the sum of available fund balance and net current assets to revenue provides insights into the strength of a city's or county's near-term resources relative to the scale of the city's or county's primary governmental activities.¹⁰

Liquidity Ratio: Unrestricted Cash / Revenue

The ratio of unrestricted cash to revenue provides another important perspective into financial flexibility. Unrestricted cash is a city's or county's most readily available liquid resource. Accruals can cause available fund balance to diverge from unrestricted cash, because the available fund balance reflects receivables, payables, and other current assets and liabilities that are not incorporated into unrestricted cash. For example, a large receivable for taxes or state aid could lead to a high available fund balance position, but a city or county could have a weak unrestricted cash position; in such cases, the city's or county's unrestricted cash position may provide a better indicator of its immediate financial flexibility. Alternatively, a city or county could have a high unrestricted cash position because it has deferred certain expenditures into the next fiscal year. In this case, its lower available fund balance would reflect the payable that will eventually reduce the unrestricted cash position.

Financial Performance (30%)

Sub-factor	Sub-factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Available Fund Balance Ratio (Available Fund Balance + Net Current Assets / Revenue) ^{*4}	20%	≥ 35%	25 - 35%	15 - 25%	5 - 15%	0 - 5%	(5) - 0%	(10) - (5)%	< (10)%
Liquidity Ratio (Unrestricted Cash / Revenue) ^{*5}	10%	≥ 40%	30 - 40%	20 - 30%	12.5 - 20%	5 - 12.5%	0 - 5%	(5) - 0%	< (5)%

*4 For the linear scoring scale, the Aaa endpoint value is 50%. A value of 50% or better equates to a numeric score of 0.5. The Ca endpoint value is (15)%. A value of (15)% or worse equates to a numeric score of 20.5.

*5 For the linear scoring scale, the Aaa endpoint value is 60%. A value of 60% or better equates to a numeric score of 0.5. The Ca endpoint value is (10)%. A value of (10)% or worse equates to a numeric score of 20.5.

Source: Moody's Investors Service

TOWN OF SCARBOROUGH, MAINE

EXHIBIT A-3

GENERAL FUND COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2023

	Town General Fund	School General Fund	Total General Fund
Revenues:			
Taxes	\$ 31,182,307	\$ 51,949,958	\$ 83,132,265
Licenses and permits	1,435,227	--	1,435,227
Intergovernmental	7,265,459	9,849,796	17,115,255
Interest earned	410,359	--	410,359
Other	6,015,654	413,647	6,429,301
Total Revenues:	<u>46,309,006</u>	<u>62,213,401</u>	<u>108,522,407</u>
Expenditures:			
Current:			
General government	8,044,187	--	8,044,187
Public services	6,374,322	--	6,374,322
Public safety	14,422,450	--	14,422,450
Public works	7,586,752	--	7,586,752
Education	--	61,367,236	61,367,236
County tax	3,119,411	--	3,119,411
Debt service	6,388,650	--	6,388,650
Capital improvements	1,823,768	--	1,823,768
Total Expenditures	<u>47,759,540</u>	<u>61,367,236</u>	<u>109,126,776</u>

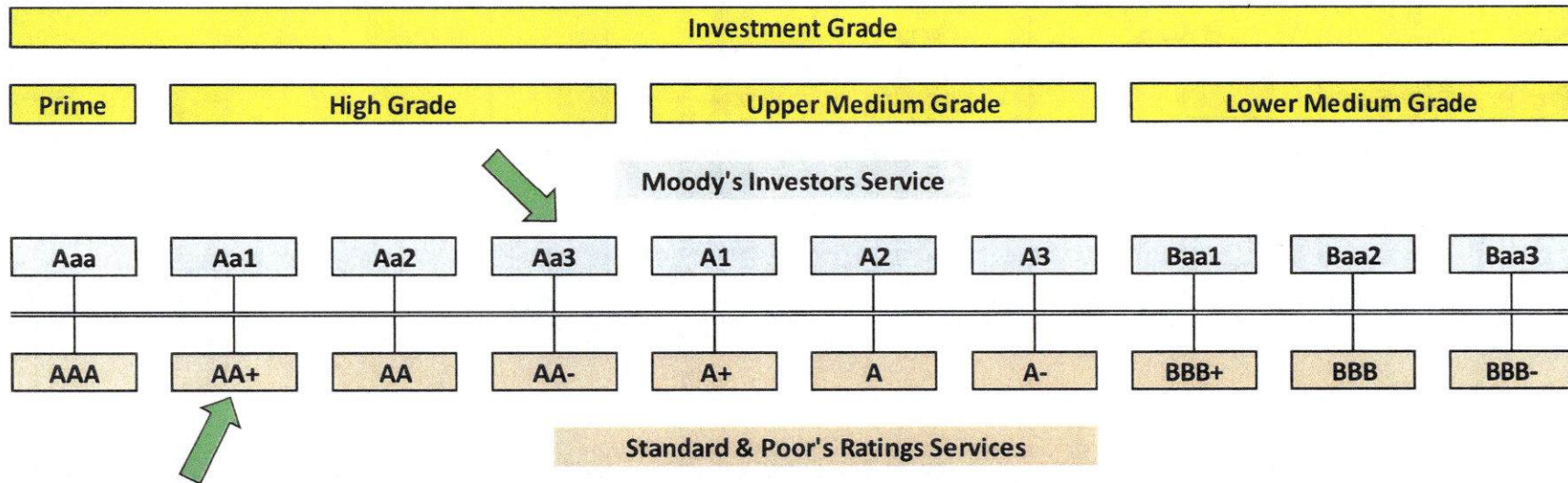
Once the Town achieves an unassigned fund balance equal to 10.0% of Scarborough's Operating Budget, any excess above 12% must be assigned by any combination to one of the following:

- ☐ 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.

UnA FB	13,603,603
Bud Exp	109,126,776
	12.47%
	x 12.00
Actual (above)	13,095,213
Avail Transfer	508,390

Bond Rating Ranges



Interest Spread by Basis Points ("bp"); 1 bp = 0.01%; e.g.; 2.00% vs 2.01% = 1 bps

Prime	High Grade	Upper Medium Grade	Lower Medium Grade
Base	Base +10 to 15 bps; 3 to 5 bps within tranche	Base +25 to 40 bps; 5 to 10 bps within tranche	Base +50 to 90 bps; 10 to 25 bps within tranche
e.g., 2.00%	2.10% to 2.15%	2.25% to 2.40%	2.50% to 2.90%

RULE: 10 bps for \$10,000,000 for 20 years \approx \$100,000

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 as 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