

RatingsDirect®

Summary:

Scarborough, Maine; General Obligation

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Summary:

Scarborough, Maine; General Obligation

Credit Profile		
US\$3.883 mil GO bonds ser 2025 due 11/01/2044		
Long Term Rating	AA+/Stable	New
Scarborough Twn GO		
Long Term Rating	AA+/Stable	Affirmed
Scarborough Twn 2020 GO rfdg bonds ser A due 11/01/2030		
Long Term Rating	AA+/Stable	Affirmed
Scarborough Twn 2020 GO rfdg bonds ser B due 11/01/2041		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the Town of Scarborough, Maine's approximately \$3.9 million series 2025 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.
- The rating is based on the application of our criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024.

Security

The town's full-faith-and-credit pledge secures the bonds and its debt outstanding and it can levy ad valorem property taxes without limitation for bond repayment. The town's GO debt is no longer subject to Maine's LD-1 limitations, as the state legislature's repeal of the municipal property tax levy limit became effective Aug. 9, 2024.

Officials intend to use the series 2025 bond proceeds to fund town and school facility and equipment improvements and replacement.

Credit overview

The rating reflects the town's consistent positive financial performance supported by a strong tax base and conservative budget management. The town has a track record of sustaining sufficient reserves that compares well with that of peers. We expect the town will likely continue to produce at least breakeven results, and with no plans to draw down reserves, we expect reserves will remain above 15% of general fund revenues. The town might issue additional debt within the outlook period, which would increase the overall debt burden and could increase debt service costs. We do not view pension costs as a long-term credit risk due to high funding ratios, manageable liabilities, and overall low costs.

The town's other postemployment benefits (OPEB) liability for both it and the school department is inflexible and

amounts to a moderately weaker liability per capita position as a result. We do not expect OPEB costs will pressure the financial profile. We expect overall fixed costs will remain manageable for the town.

The 'AA+' rating further reflects our view of the following factors:

- Scarborough's local economy is stable, with income levels that are above that of county and national averages. The town has an expanding local economy that benefits from proximity to Portland. The town has ongoing development that includes multifamily residential and hotels. In addition, the town went through a revaluation effective for fiscal 2024 that resulted in a \$2.67 billion increase in the total taxable assessed value.
- Scarborough has posted positive net operating results annually since fiscal 2019, supported by a predictable revenue profile, primarily based on property taxes, which account for 75% general fund revenues. 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. Management expects to produce another surplus in fiscal 2025, with excess revenues supported by higher-than-budgeted interest income. Recent results have supported growth in reserves to more than 17% of general fund revenues, and management has no plans to draw on reserves. Management is closely monitoring cost increases that will impact future budgets, however most town collective bargaining contracts are settled through 2027, which will provide some predictability to budgeting in the short term while most education units have contracts that expire this year.
- Financial management policies and practices, highlighted by a consideration of historical trends in revenues and expenditures and regular budget-status monitoring. The town maintains a five-year capital improvement plan that it updates annually. It adheres to an adopted debt management policy and investment policy that complies with state requirements. Management recently revised the fund balance policy to call for a target of unassigned fund balance of 16.67% and sets requirements should the town exceed this level. We think the town's approach to budgeting, close monitoring, and adherence to recently revised policies will support fiscal stability.
- Scarborough has a manageable debt burden and will likely issue between \$3 million and \$5 million each year for various capital needs. In addition, the town is pursuing a referendum for an elementary school project that could result in borrowing between \$70 million and \$130 million. Planned borrowing for the school project will increase total debt outstanding, although the impact on total debt service costs might be partially offset by maturing debt over the next several years, limiting the budgetary impact. We do not view pension costs as a long-term credit issue because of the pension plan's high funding level of 86.8% for the teachers plan and 92% for the town plan, manageable liabilities, and overall low costs for the town.
- For more information on our institutional framework assessment for Maine municipalities, see "Institutional Framework Assessment: Maine Local Governments," published Sept. 10, 2024, on RatingsDirect.

Environmental, social, and governance

We analyzed environmental, social, and governance factors relative to Scarborough's economy, management, financial measures, and debt and liability profile. We view physical risks to be neutral for coastal communities but elevated compared with those of non-coastal communities. Rising sea levels pose a long-term risk, but Scarborough continues to implement resiliency efforts to help reduce potential effects; the town is conducting a vulnerability assessment to guide resiliency efforts.

Scarborough also works with neighboring communities to support key road infrastructure projects. Governance and social factors are neutral in our analysis.

Outlook

The stable outlook reflects our 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 deteriorates, leading to weaker budgetary flexibility or if the town issues significantly more debt than expected.

Upside scenario

We could raise the rating if the town sustains reserves and performance remains stable as additional debt is adopted over the next several years, and if the town implements additional long-term financial planning.

Table 1

Scarborough, Maine--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.70
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	2.00
Debt and liabilities	2.50

Table 2

Scarborough, Maine--Key credit metrics				
	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	--	--	--	128
County PCPI % of U.S.	--	--	--	120
Market value (\$000s)	--	5,256,323	4,988,177	4,845,683
Market value per capita (\$)	--	231,037	219,251	220,800
Top 10 taxpayers % of taxable value	--	7.0	6.5	6.6
County unemployment rate (%)	--	2.5	2.4	2.3
Local median household EBI % of U.S.	--	--	144	142
Local per capita EBI % of U.S.	--	--	153	154
Local population	--	--	22,751	21,946
Financial performance				
Operating fund revenues (\$000s)	--	116,327	108,522	103,588
Operating fund expenditures (\$000s)	--	113,513	109,127	103,539
Net transfers and other adjustments (\$000s)	--	2,171	1,132	1,785
Operating result (\$000s)	--	4,985	527	1,834
Operating result % of revenues	--	4.3	0.5	1.8
Operating result three-year average %	--	2.2	1.0	1.1

Table 2

Scarborough, Maine--Key credit metrics (cont.)				
	Most recent	2024	2023	2022
Reserves and liquidity				
Available reserves % of operating revenues	--	17.1	12.6	12.3
Available reserves (\$000s)	--	19,922	13,683	12,709
Debt and liabilities				
Debt service cost % of revenues	--	3.4	5.0	5.3
Net direct debt per capita (\$)	3,813	3,633	3,503	4,012
Net direct debt (\$000s)	86,752	82,644	79,690	88,055
Direct debt 10-year amortization (%)	72	72	--	--
Pension and OPEB cost % of revenues	--	2.0	2.0	2.0
NPLs per capita (\$)	--	261	261	249
Combined NPLs (\$000s)	--	5,959	5,959	5,371

Financial data might reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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