



**TO:** Tom Hall  
**FROM:** Karen Martin, SEDCO Executive Director  
**DATE:** March 3, 2025  
**SUBJECT:** Federal Funds & the Local Economy

Last week, you asked about any federal funding that could affect department budgets here in Scarborough. While there are no federal funds directly involved in SEDCO's budget, I wanted to take a moment to look at any potential impacts on the Scarborough economy. What's out there that could affect our businesses? The biggest take-a-way from both the MEREDA Conference and the recent session at Economic Development Council of Maine is that nothing is predictable. I think we already knew that – but experts are confirming that any predictions made should be looked at as a possible scenario, not a probably one.

### **Scarborough Residents Employed by Federal Government.**

According to the American Community Survey, 1,779 residents work in local, State or Federal government. The federal piece of that pie is 221 Scarborough residents. Another 2,115 residents work in the nonprofit sector which will no doubt be impacted by any shedding of federal grants. Government and nonprofits make up 25% of the jobs held by Scarborough residents. I would expect that there is a potential short term effect on the federal employees. State employees may take a hit if further federal funding is cut for NOAA, NSF, NIH and Department of Education programs. All of these cuts trickle down to the nonprofits – who often rely on grants at all levels of government.

The Maine Association of Nonprofits estimates that there are about 2,500 nonprofits in Maine, employing 100,000, contributing \$14 billion annually to Maine's economy.

### **Jobs located in Scarborough**

According to the Department of Labor, the government employs 1,765 people within Scarborough. This level of employment represents all three levels – local, State and Federal. The Maine Health Institute for Research here in Scarborough is primarily funded by National Institutes of Health – \$20 million in 2022 and \$12.9 million in 2023. The institute employed 261 staff members, using \$25.6 million in total grants in 2023.

### **Small Business Administration**

SBA is slated to lose 20% of its employees nationwide. I spoke to the SBA director on Friday, and she said it's too early to understand what that means to SBA programs. At this point, there are staffing cuts, but no program cuts. The SBA loan guarantees are an important piece of the commercial loan industry in Scarborough, the region and the State.

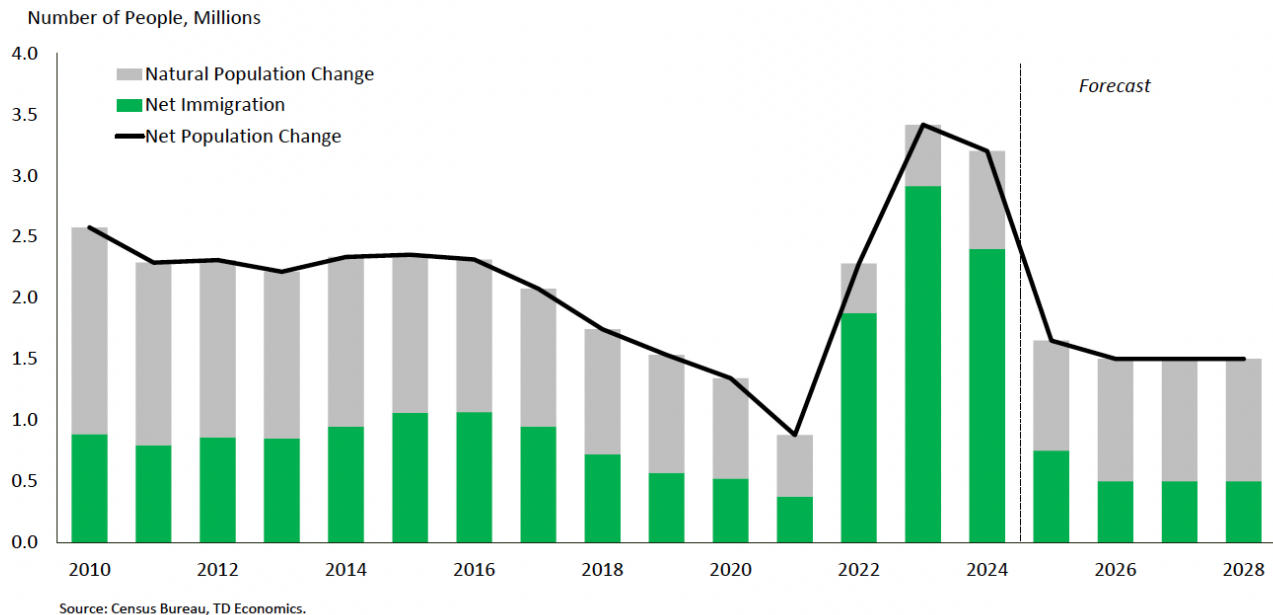
### **Economic Outlook**

James Marple, the Senior Economist at TD Bank, confirmed the challenges of predicting the future. Here are his findings as presented last week.

- 1) We are starting off with a strong economy as of the end of 2024
- 2) Near-term policies pose a downside risk to 2025 outlook – tariffs, tighter immigration and an unknown batch of deregulation.

- 3) The bank lowered its baseline forecast of Real GDP from 2.5% to 2.2% based on risks – using “mild” tariff assumptions, not the current 25%.
- 4) Assuming a 25% tariff on Canada and Mexico and a 60% tariff on China, The 2.2% forecast drops to 0.4% in 2025, creating pressure on inflation for 2025.
- 5) Federal budget deficit contributes to rising bond yields, which may affect the municipal bond market.
- 6) Tighter immigration reduces population growth – perhaps cutting the population change in half by 2026.

## Tighter Immigration Also a Potential Headwind



## Remarks from the Congressional Delegation Staffers

At the EDCM annual legislative conference (Friday, Feb 28), members of each of the 4 offices offered the following comments:

- 1) FY 2025 Congressional Directed Spending (Senate version) received one set of approvals, but they have not been voted on by the full Senate – that is on hold.
- 2) FY 2026 is problematic since the FY 2025 is still waiting approval
- 3) The consensus of the four offices was that they have not seen anything like this before. One of the offices explained that they normally field 100 to 120 calls a day, now they are taking 3,000 calls per day along with 21,000 emails and 15,000 pieces of regular mail.
- 4) There was surprise among the delegation at the closing of the HUD office hear in Maine the day before.
- 5) There was a request from the delegations for people to tell their stories of how federal cuts have affected companies and people. The emphasis was on both the numbers and the stories. Congress person Pingree’s office has a portal set up for this purpose.
- 6) Representatives of the research institutes flew to D.C. to try sort out the cuts.
- 7) One bright spot – there is Disaster Supplemental Funding to serve businesses – \$1.5 Billion
- 8) According to one staffer – “Every day is a new adventure”.
- 9) March 14 is the next critical point with a possible shut down looming.

## Current Status of Real Estate from the MEREDA Conference

**Industrial:** The vacancy rate remains ridiculously low – 1.96% in Greater Portland/under 1% in Scarborough. For some perspective, the vacancy rate was nearly 8% on 2011, steadily plunging downward between 2011 and 2017. From 2017 to 2024, the rate remained under 4%, with 2021 – 2024 remaining under 2%. The average sale per square foot continues to climb, nearing \$110/SF in 2024. The average lease rate was over \$9/SF in 2024. Interestingly, some companies are building new, even though the price to build the facility exceeds what the current market sale and lease prices would yield. It doesn't "pencil out", yet companies are building.

**Office:** Greater Portland is doing better than other urban areas with respect to office vacancy rates. Within the suburban office market, 2024 vacancy rates for class A space is approximately 13%, for class B space the rate is under 7%. Medical office vacancies are much lower, under 1% for both class A and B space. According to the MEREDA speakers, office space is influenced by 3 workplace design insights for 2025 – 1) Wellbeing and DEI remain top considerations; 2) Hybrid is here to stay, but more time will be spent at the office; and companies want individual, bespoke strategies for their office.

**Retail:** There was no vacancy rate presented at the retail session at the 2025 MEREDA conference. At the 2024 conference, Scarborough's rate was under 1%. Given Scarborough's population growth, I think that retail will continue to be attracted to the town. Openings in the last year include Stacks, the Little Gym, Evergreen Credit Union and Atlantic Credit Union under construction.

## Strategy for Economic Development

With so much uncertainty, what's the job of local economic development? In our discussions at EDCM, we need to focus on the basics. There is a definite call to shore up our business retention and expansion efforts. Identify who may be affected by the cuts and approach it like we did with the pandemic, although without federal resources.

In general, we want to keep track of the following and be ready to pivot:



## Revenue Sharing

I asked MMA's Kate Dufour specifically about her views on revenue sharing. She believes the current reimbursement rate will hold. She did note that there were two bills to increase the percentage, and both were voted "Ought Not to Pass". She held firm to the no decrease in revenue sharing but then added that anything can happen.