

# FISCAL CAPACITY AND CAPITAL INVESTMENT

DRAFT June 3, 2016

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## FISCAL CAPACITY AND CAPITAL INVESTMENT

The fiscal capacity and capital investment chapter provides an overview of the current fiscal health and financial commitments the Town has made. This chapter will review the Town's valuation, tax rate, revenue and expenditures, debt obligations, and planned capital improvements. Where possible, comparisons are made between Kittery and nearby communities with similar characteristics.

**Summary of Key Points**

- Kittery's local valuation increased by 4 percent between 2010 and 2015.
- The tax rate in Kittery increased by 10.2 percent between 2010 and 2015.
- If population continues to decline in Kittery and service demand remains at or above the current level, property taxes will likely have to increase.
- Kittery's annual revenue generation has been steadily growing year over year.
- Federal and state aid to Kittery has been shrinking since 2010 which increases the reliance on local taxes.
- Kittery has an excellent bond rating.
- The Tax Increment Financing district established for the Kittery business park carries with it debt obligations from sewer extensions. These debt obligations come due in 2017, and revenues from the TIF do not begin until 2022.

## VALUATION

In the State of Maine, property valuations for municipalities are calculated by the state and the municipality. The state valuation is used to determine the levy of county taxes, state funds for education and revenue sharing, and in establishing bond debt limits. The State's valuation is informed by field work and meetings with local assessors to determine appropriate ratios of full value for which local assessments are made. Adjustments are made to local assessments using those ratios to equalize valuations at 100 percent of full and fair cash market value.

The second form of valuation occurs at the municipal level and is used to determine local taxes. The Town's valuation is based on assessed values for real estate and personal property as determined by the Town Assessor. The assessed value of property is based on recent sales of comparable properties around Kittery. In 2015, the Town's local valuation was set at \$1,409,812,100, which equals a 4 percent increase since 2010.

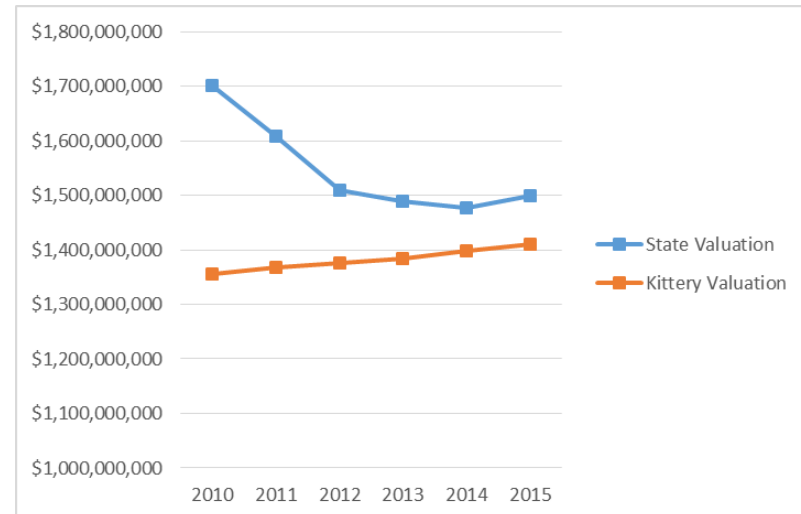
Figure 9.1 shows the local and state valuations for Kittery from 2010 through 2015. The State's valuation for Kittery shows a downward trajectory from 2010 to 2014. This is likely do to the State's valuation process lagging two to three years behind the current fiscal year, meaning the 2014 state valuation is really representative of conditions in 2011/2012. The decline in state valuation during this time period is likely the result of the property value adjustments coming out of the Great Recession. Valuation levels out in 2014 and rises in 2015.

## TAX RATE

After the Town Assessor determines the total local valuation of eligible property within the town, the tax rate (or Mill Rate) is calculated. The tax rate is the assessment to each property owner for their share of the tax levy. The tax rate is calculated by dividing the total amount of taxes needed to support the Town's budget divided by the local valuation. The tax rate is assigned on a one-thousandth of the assessed value of a piece of property. In Fiscal Year 2015, the approved tax rate in Kittery was \$15.52 per thousand dollars of valuation. As an example, if a property was worth \$100,000 the owner would be responsible for paying \$1,552 in taxes in FY 2015.

Figure 9.2 shows the growth in Kittery's local valuation and tax rate from 2010 to 2015. Between 2012 and 2013, the tax rate jumped from \$14.45 to \$15.14. This was due in part to a \$1.7 million dollar increase in municipal and school expenditures while non-tax revenues only increased by \$567,000. The increase in expenditures during that Fiscal Year was due to increases in health insurance and costs associated with the new Community

Figure 9.1: Kittery's Local vs. State Valuation



Center coming on line. For all other years between 2010 and 2015, the fluctuation in revenues and expenditures was fairly consistent.

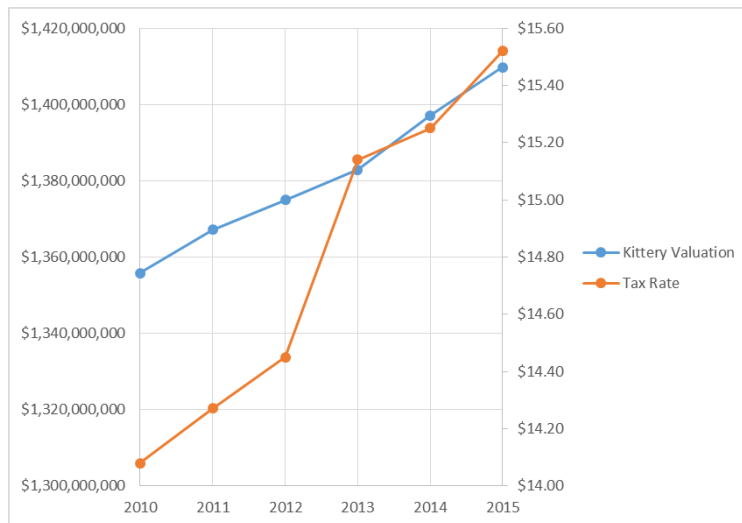
With the increase in tax rate over the five-year period, individual property tax bills have increased by an average of \$495. The increase in taxes has been necessary to offset decreases in

federal and state revenue sources, as well as increases in town expenses such as employee benefits and health insurance.

According to the approved FY 2016 budget document on the Town's website, Kittery's average single family tax bill for FY 2015 was higher than that of Wells, South Berwick, and Eliot, and nearly identical to that of York and Kennebunk (all comparable neighboring towns). The average single family tax bill in Kittery for FY 2015 was \$4,929. The valuation of property in Kittery, compared to neighboring towns, is lower. Even though Kittery's population is almost identical to that of Wells, Kittery's property valuation is about half as high. The higher property valuation in

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**Figure 9.2: Town of Kittery Tax Rate and Valuation**



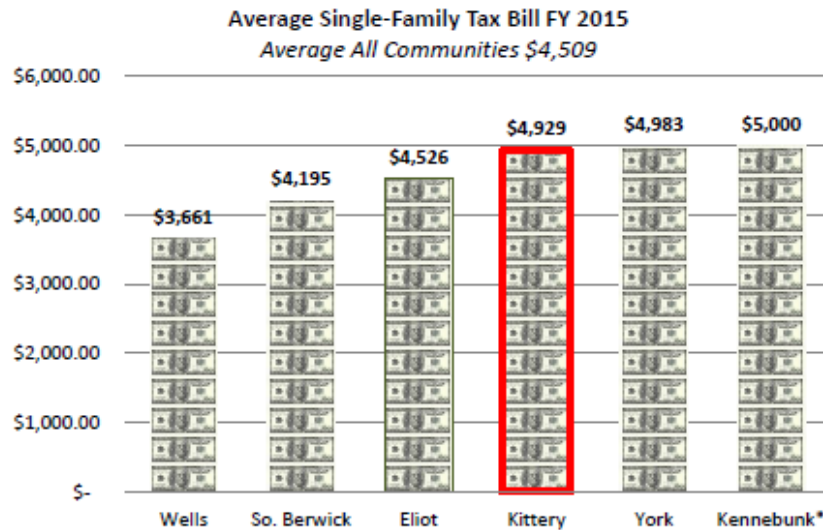
ns such as Wells may reflect properties and buildings which are in better condition or in more desirable locations (e.g., waterfront areas) compared to Kittery, thereby driving up assessed values. A comparison of Kittery's average single family tax bill to other nearby towns is shown in Figure 9.3.

The Town's Economic Development Committee has promoted the development of commercial property in town as a way to diversify the tax base. Non-residential development can result in a positive revenue to cost ratio related to the public service costs the Town will incur. Kittery does have a favorable percentage of non-residential properties on the tax role compared to neighboring communities. Approximately 78 percent of Kittery's valuation is derived from residential properties, with 22 percent coming from commercial, industrial, and personal property. Of

the neighboring communities listed above, Kittery ranks second highest in the percent of residential versus commercial valuation.

**Figure 9.3: Average Single Family Tax Bill Comparison**

## KITTERY COMPREHENSIVE PLAN EXISTING CONDITIONS INVENTORY



According to the Town's Finance Director, the Town issued 149 individual tax liens against properties in 2015. Since 2010, the Town has issued 881 individual tax liens with an average of 147 per year. If property taxes are not paid in Town, a tax lien can be placed on a piece of property and could eventually lead to a tax foreclosure. The Town did not indicate that any tax lien foreclosures have occurred during this time period, however.

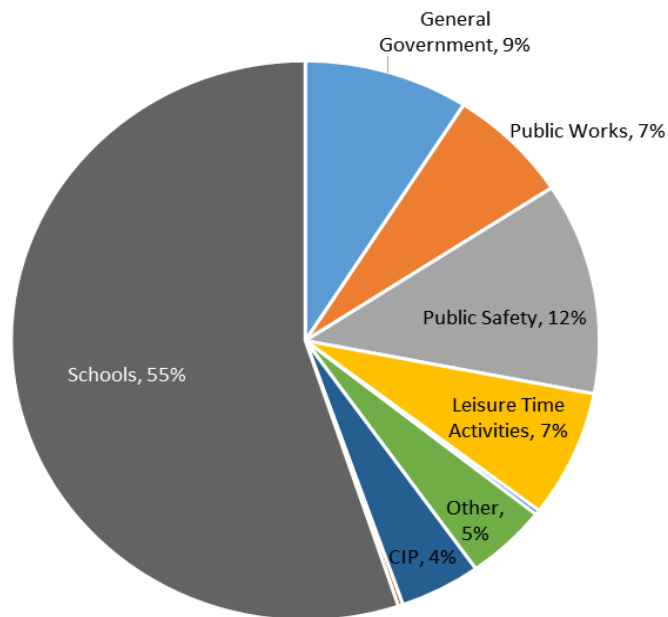
### REVENUE

According to the approved FY 2016 budget document on the Town's website, total revenue in Fiscal Year 2015 was \$27,124,366, including the overlay reserve. Property tax revenue made up 80 percent of the total, with municipal non-tax revenue making up another 15 percent. The remainder was shared between school non-tax revenue and the overlay reserve which is set aside to offset tax abatements. Budget information provided by the Town Manager note that revenues have been steadily increasing year over year since FY 2012. Figure 9.4 shows the breakdown of revenue sources for Fiscal Year 2015.

In addition to revenue generated locally by the municipality, the State of Maine also provides revenue sharing funding back to each municipality based a set formula which accounts for State Valuation, population, and tax assessments. According to data from the Office of the State Treasurer for calendar years 2010 through 2015, Kittery's revenue sharing reimbursements have declined by 23.5 percent over the five-year period<sup>i</sup>. At a time when costs are increasing, particularly school expenditures, the decrease in state revenue sharing is affecting the amount of locally generated revenue needed to continue with current service levels.

Figure 9.4: Fiscal Year 2015 Revenue Sources

Figure 9.5: Fiscal Year 2015 Expenditures



## EXPENDITURES

In Fiscal Year 2015, the Town spent \$27,141,118 on town functions, services, and schools. Of the twenty-seven million in expenditures, 55 percent went to pay for costs associated with the schools. Only 9 percent of the budget was spent on general government functions such as town administration, finance, legal services, and planning.

On the expenditures side, a point worth noting is the Kittery school district was not regionalized as part of the 2010 school reorganization effort. While many school districts were forced to reorganize and regionalize with neighbors, the Kittery school district chose not to. A financial analysis completed at that time indicated that regionalizing with another school district would not save Kittery much money. The school district does coordinate

with York and MSAD #35 whenever possible to save money on programming. Examples of this include the sharing of an Adult Education Director and certain transportation services.

## DEBT

Municipal debt maximums are set by the State of Maine. A municipality cannot incur debt in excess of 7.5 percent of its last state valuation. This does not include debt for schools, which can raise the debt limit to 10 percent of the state valuation. Municipalities can also take on debt for storm and sewer purposes, airport expenses, and special district purposes, but at no point can that total debt exceed 15 percent of the state's equalized valuation for Kittery.

As of June 20, 2014, the Town's long-term debt obligation was \$19,043,254 or 1.27 percent of the State Valuation. Since 2010, the Town has taken on six significant debt obligations:

1. \$2,665,992 - Upgrade to waste water facilities under the Clean Water Revolving Loan Fund program.
2. \$6,750,000 – Mitchell School
3. \$5,500,000 – Community Center
4. \$1,890,000 – Mitchell School
5. \$11,990,025 – Upgrades to sewers through the Clean Water Revolving Loan Fund
6. \$3,079,000 – CIP Bonds

The two additional bonds (#5 and #6 above) increased the Town's total debt to \$32,545,880, or 2.17 percent of the State's Valuation. The most recent bond rating completed for the Town placed it at Aa2 for Moody's and AA+ for S&P, which is one below the top bond rating.

The nearly twelve million dollar bond for sewer extensions out to the business park in Kittery was done as part of a ten year Tax Increment Finance (TIF) District initiative. As of today, no new development or betterments have taken place in the business district that would raise the tax increment to begin contributing money to paying off the bonded debt. The first debt obligation payments come due to the Town in Fiscal Year 2017 at a projected cost of \$583,617. Beginning in 2022, the anticipated tax increment payments from new development are expected. If tax increments do not increase in the coming years, the Town will be responsible for paying back the debt incurred by the public infrastructure extensions.

## INVESTMENTS

At the end of Fiscal Year 2014, the Town had an unassigned fund budget totaling \$4,345,203, which was an increase of \$187,965 over the prior fiscal year. According to the FY 2016 budget summary, the Town has a policy to maintain an unassigned fund balance in an amount equal to 2-2.5 months of government operations. For FY 2014, the amount was slightly below that policy directive. It is important to note that the Town does

maintain significant reserves in its capital and program budgets, and the School Department also maintains its own reserves.

### CAPITAL IMPROVEMENT PROGRAM

The purpose of the Capital Improvement Program (CIP) is to establish a framework for the financing of different capital needs over time. It represents a plan to commit to and pay for capital improvements. The types of investments listed in a CIP are typically larger, more expensive, and longer lasting, and they are not regularly occurring items. Kittery's CIP process was established in 2008. The CIP Committee is appointed by Town Council and is charged with evaluating all projects greater than \$25,000 in cost with an expected life of more than five years, as well as replacement assets greater than \$5,000. The Committee develops a five-year plan and submits it to the Town Manager for incorporation into the fiscal year budget request.

The FY 2016 recommended CIP was relatively level funded at \$1.159 million dollars in order to meet the Council's guideline of a maximum 1.7 percent increase in expense over the previous year. A majority of the CIP funding requests are for standard expenses that may come up in a given year such as equipment maintenance/replacement, sidewalk projects, parking lot maintenance, school building upgrades, and improvements to parks and recreation facilities.

### IDENTIFICATION OF PRELIMINARY ISSUES, CHALLENGES AND OPPORTUNITIES

The following is a preliminary list of issues, challenges and opportunities posed by the findings of the inventory of existing conditions of Kittery's fiscal capacity. Please note that these are subject to change with the preparation of goals and objectives, not yet drafted (at the time the inventory was prepared).

#### ISSUES AND CHALLENGES

The Town's tax rate has continued to increase even as local valuation increases. This is the result of a decrease in federal and state aid contributions and rising municipal expenditures largely outside the control of Town government. If total population continues to decline in Kittery, the tax base will need to spread across a smaller number of households, thereby continuing to increase taxes in the community.

In regards to future debt, the Town must ensure that when taking on debt with the expectation it will be paid off through a TIF or other measures that the Town be certain projections of future tax revenues will be realized. If not, the Town will be responsible for repaying a portion, or the entirety, of the debt obligation.

#### OPPORTUNITIES



Kittery is currently in very sound fiscal health. Current debt obligations are low as a percentage of total valuation, expenses are relatively stable, and revenues are rising. The Town should consider how it can increase its local valuation by encouraging the development or improvement of property in town as a way to increase assessed values. The Town's average tax bill for homeowners is high when compared with nearby neighbors. This could have the effect of pricing lower- and middle-income households out of Kittery. The Town is already losing population, and a continued decrease to the population base will impact future tax receipts.

Through the Comprehensive Plan process, the Town should be thinking about the future of the commercial properties along Route 1 and the implications of what may happen if those ever turn over. The Town's commercial tax base is high relative to surrounding communities, and losing that diversity in the tax base would be cause for concern. This could be helped by the projected build-out of the Business Park area along Route 236. Sewer service has been extended to the area, and water is expected to be extended by the developer in the future.

## REFERENCES

### DOCUMENTS

- Town of Kittery Approved Budget for Fiscal Year 2016.
- 2016 Kittery Capital Improvement Plan.
- Kittery Bond Rating Statement dated September 1, 2015.
- TIF District #3 – Business Park Report dated December 13, 2010.
- Revenue Sufficiency Analysis, provided by Nancy Colbert Puff on February 9, 2016.

### INTERVIEWS

- February 9, 2016 – Nancy Colbert Puff, Kittery Town Manager.
- February 12, 2016 – Allyn Hutton, Kittery School District Superintendent (via email).

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<sup>i</sup> Office of the State Treasurer of Maine website.  
[http://www.maine.gov/treasurer/revenue\\_sharing/monthly\\_distribution\\_s.html](http://www.maine.gov/treasurer/revenue_sharing/monthly_distribution_s.html). Data pulled for January 2010 through December 2015.