

J. FISCAL CAPACITY

The purpose of this section is to:

1. Summarize recent changes in Lubec's fiscal condition and predict how these changes might affect the Town in the future;
2. Project future trends for revenues and expenditures;
3. Identify major capital expenditures projected for Lubec over the next ten years; and
4. Assess Lubec's capacity to pay for these expenditures.

KEY FINDINGS AND ISSUES

Between 2004 and 2008, municipal general fund revenues in Lubec increased from \$2,538,265 to \$2,743,946 and expenditures increased from \$2,336,234 to \$2,841,493. During that time, Public Works, General Government and Education showed the greatest dollar expenditure increases, totaling over \$420,000. In 2009, the school budget increased by 18% and is projected to increase by another 50% in 2010/2011. Property tax revenue increased 12% percent between 2004 and 2008; and the valuation of the town rose nearly 43% percent over the same period.

At the same time, intergovernmental revenue declined by 32%. Between 2004 and 2008 the portion of the Town budget collected through property taxes rose from 75% to 81% at the same time as the total budget itself increased. The Town of Lubec faces real fiscal constraints on its ability to finance the current level of government services given the level of real and growing frustration with property taxes and the prospect for limited growth in the municipal tax base over the next five to ten years.

The Capital Improvement Plan at the end of this Chapter reflects these fiscal constraints and summarizes anticipated capital expenses over the planning period. Capital investments in Lubec are financed through general taxation, the use of capital reserve accounts, borrowing, and by pursuing state and federal grants. To date the Town of Lubec has remained within LD1 spending limits.

VALUATION

The primary method of generating revenue within the Town is through property taxes. These taxes are assessed on local property owners according to the value of their real estate and personal property. This assessment is known as the municipal valuation (the estimated value of all taxable property in Town) and is determined by the local tax assessor. According to the State of Maine Municipal Valuation Return Statistical Summary, Lubec' total real and personal property valuation nearly doubled from \$67.6 million in 2000 and \$128.5 in 2008. Although residential development played a role in the increase, the driving factor behind the rise in municipal valuation over this period was likely rising property values (particularly for coastal properties).

The state also places a total valuation on the town known as the State Valuation. Every year the Maine Revenue Services Property Tax Division reviews all arms length sales¹ that have occurred in each community. These sales are compared to the town's local assessed values to determine the assessment ratio or the percentage of market value that the town is assessing. The state valuation is used to determine the amount of revenue sharing the town will receive and the portion of the county tax that the municipality will pay.

Table J-1 LUBEC MUNICIPAL AND STATE VALUATION, 2000 - 2009

	Municipal Valuation	% Growth	State Valuation	% Growth	Municipal Valuation Ratio
2008	128,526,699	21%	158,950,000	8%	81%
2007	106,461,767	11%	147,050,000	24%	72%
2006	96,141,810	6%	118,300,000	19%	81%
2005	90,799,338	2%	99,550,000	11%	91%
2004	88,999,442	5%	89,750,000	10%	99%
2003	84,876,970	11%	81,650,000	10%	104%
2002	76,379,943	0%	74,300,000	5%	103%
2001	76,520,678	13%	70,550,000	3%	108%
2000	67,614,333	-	68,300,000	-	99%

Source: Lubec Town Reports & Municipal Valuation Returns

The state indicates that a town should be revalued at least once in every 10-year period. However, they also indicate that a revaluation must be preformed when the assessment ratio falls below 70% of market value. Lubec's state certified assessment ratio was at 104% in 2003 and decreased to 81% by 2008 as the State valuation rose more rapidly than the municipal assessment.

MUNICIPAL TAX BASE

Over the last several years, the Town of Lubec's municipal tax base has consistently grown. Total valuation in Lubec nearly doubled from \$67.6 million in 2000 to \$128.5 million in 2008. Over the most recent three-year period for which data are available, land valuations and building valuations have comprised nearly equal parts of the Town of Lubec's municipal valuation. Over the same time period, land valuations and building valuations have risen at approximately the same rate.

Table J-2 VALUATION BY PROPERTY CLASS

	Land Valuation		Building Valuation		Total Valuation
2008	\$67,777,535	53%	\$60,749,164	47%	\$128,526,699
2007	\$51,592,636	48%	\$54,869,131	52%	\$106,461,767
2006	\$4,7670,002	50%	\$48,471,808	50%	\$96,141,810

Source: Lubec Town Reports

¹ A sale that occurs between a willing seller and a willing buyer without any extenuating circumstances. Examples of non-arms length sales could be estate sales, interfamily transfers, foreclosure sales and auctions.

The largest driver of growth in the municipal tax base over the last five years has been rising real estate values, rather than new development. Increases in the tax base through rising real estate values have been off-set by enrollment of coastal and island properties in tax-exempt or tax-reduced conservation programs; as well as recent declining values in the regional real estate market.

Development in Lubec since 2000 has largely been comprised of seasonal residences along the coast and commercial development, concentrated near downtown. Services needed to support new development (in-town sewer, water, and road maintenance) have been absorbed within existing capacity. As such, tax revenues from new development have more than offset the costs of additional services and capital investments. Anticipated capital investments are identified in other parts of the Plan and are included in the Capital Investment Plan (see below). They do not include any additional services or capital investments to support recent or future development.

Over the next five to ten years, three factors that will impact the municipal tax base are changes in the regional real estate market, new residential and commercial construction, and continued enrollment of properties in tax-exempt or tax-reduced conservation programs. The Town of Lubec anticipates that gains in the municipal tax base expected from a modest level of new residential and commercial construction will be off-set by steady or declining real estate values and continued enrollment of coastal and island properties in conservation programs. Overall, the Town anticipates that the municipal tax base will remain constant or decline somewhat over the next five to ten years.

Tax exemptions

State law provides for tax exemptions for certain types of property such as charitable and benevolent, religious, literary and scientific, and governmental. Generally, the previously mentioned properties would be totally non-taxable by exemption. Partial exemptions also exist for veterans of foreign wars or their widows that have not re-married, individuals who are legally blind, and homestead exemptions for the homeowner's primary residence. The state does provide some reimbursement to municipalities for veteran and homestead exemptions.

Table J-3 LUBEC PROPERTY TAX EXEMPTIONS, 2006 - 2008

<i>Type of Exemption</i>	2008		2007		2006	
	<i>Assessed Value</i>	<i>% of Val.</i>	<i>Assessed Value</i>	<i>% of Val.</i>	<i>Assessed Value</i>	<i>% of Val.</i>
Veterans	\$ 450,000	0.4%	\$ 316,635	0.3%	\$ 490,590	0.5%
Parsonage	\$ 80,000	0.1%	\$ 80,000	0.1%	\$ 80,000	0.1%
Homestead	\$ 4,680,000	3.6%	\$ 4,012,564	3.8%	\$ 4,841,163	5.0%
Property	\$ 15,818,470	12.3%	\$ 15,550,313	14.6%	\$ 15,550,313	16.2%
Farmland	\$ 11,232	0.0%	\$ 29,295	0.0%	\$ 29,295	0.0%
Tree Growth	\$ 192,166	0.1%	\$ 161,880	0.2%	\$ 197,381	0.2%
Open Space	\$ 547,891	0.4%	\$ 457,895	0.4%	\$ 432,977	0.5%
<i>Current Use (Subtotal)</i>	<i>\$ 751,289</i>	<i>0.6%</i>	<i>\$ 649,070</i>	<i>0.6%</i>	<i>\$ 659,653</i>	<i>0.7%</i>
Total	\$ 21,779,759	16.9%	\$ 20,608,582	19.4%	\$ 21,621,719	22.5%

Since 2006, the total assessed value of property tax exemptions in Lubec has grown by less than 1% (\$158,040). With the rise in total valuation over the same time period, the assessed valuation of exempt property as a percent of total valuation actually declined (from 22.5% in 2006 to 16.9% in 2008).

Among exemptions, the homestead and property exemptions declined as a percentage of total valuation. Over this time period, three additional parcels covering 409 acre were enrolled in Open Space and one additional parcel cover 126 acres was enrolled in Tree Growth. The number of parcels enrolled in Farmland remained constant.

In 2008, enrollment in current use taxation programs in Lubec included:

- **Open Space:** 30 parcels covering 2,084 acres with an assessed value of \$547,891
- **Tree Growth:** 53 parcels covering 3,672 acres with an assessed value of \$192,166
- **Farmland:** 1 parcel covering 82.5 acres with an assessed value of \$11,232

Tax-exempt properties are located throughout the town, but the largest concentrations of tax-exempt properties are in South Lubec along the coast and in the area around Straight Bay. In 2009, the municipal assessor estimated that the reduced valuation “for Open Space” land resulted in an increase of approximately 9.7% in Lubec’s 2008 mil rate.”

Given Lubec’s already high tax burden and the projected high cost of maintaining Lubec’s existing infrastructure, the expansion of tax-exempt properties in recent years has become a significant issue of concern for many local residents.

MIL RATE

After the town’s budget is approved and all applicable state and local revenues are deducted from the approved expenditures, the town arrives at the dollar amount that will be raised through tax revenues. This amount is called the net commitment or appropriation. The local assessor arrives at a valuation for each taxable property in the town and the taxpayers are assessed their share of the tax burden through a mathematical calculation. The total appropriation is then divided by the total taxable or assessed valuation of the town to arrive at the minimum tax rate.

This rate is usually expressed in dollars (of property tax) per thousand-dollars of valuation, or in decimal form, commonly referred to as the mil rate. The difference between the amount that is actually committed to the collector and the total appropriation is called overlay. Overlay is commonly used to pay any tax abatements that are granted during that tax year. Any overlay that remains at the end of the year is usually placed into the general fund. The overlay cannot exceed 5% of the total appropriations. Since the mil rate is a direct result of a mathematical calculation, fluctuations in this rate will occur from year to year if there is a change in the total valuation or the tax commitment.

In Lubec the mil rate was \$0.02150 in 2006 and \$0.01930 in 2009. The decline in the mil rate over this period can be attributed to the fact that assessed property values have risen more rapidly than municipal expenditures.

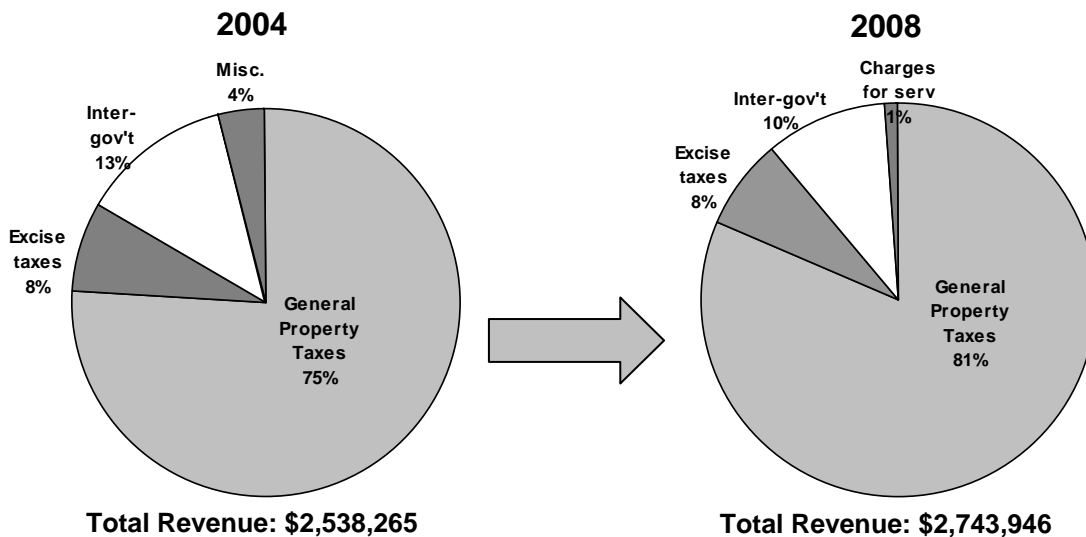
MUNICIPAL REVENUES AND EXPENDITURES

Table J-4 provides a summary of the combined general fund revenues for the town of Lubec from 2004 through 2008. Total revenue rose from \$2.54 million in 2004 to \$2.74 million in 2008. The largest revenue increase came from general property taxes which grew 12% from \$1.92 million to \$2.15 million. Revenue from other sources – notably intergovernmental revenues, which include state aid for education and road assistance – actually declined over the same period. As a result, property taxes now account for a greater share of municipal revenue than they did just five years ago: 81% in 2008 versus 75% in 2004.

Table J-4 TOWN OF LUBEC, REVENUES 2004-2008

Revenues	2004	2005	2006	2007	2008
General Property Taxes	1,921,562	1,847,519	1,926,694	2,112,390	2,154,926
Excise taxes	195,717	196,747	195,107	211,814	198,966
Intergovernmental ¹	321,274	301,810	366,487	241,916	265,172
Charges for service ²	-	29,055	34,408	21,110	30,604
Miscellaneous	99,712	69,536	151,965	145,037	94,278
Total revenues	2,538,265	2,444,667	2,674,652	2,732,267	2,743,946

Source: Town Of Lubec, Annual Reports, 2004/2005 through 2008/2009



¹Intergovernmental revenues consist of road maintenance funds and state park, tree-growth, veteran and homestead reimbursements.

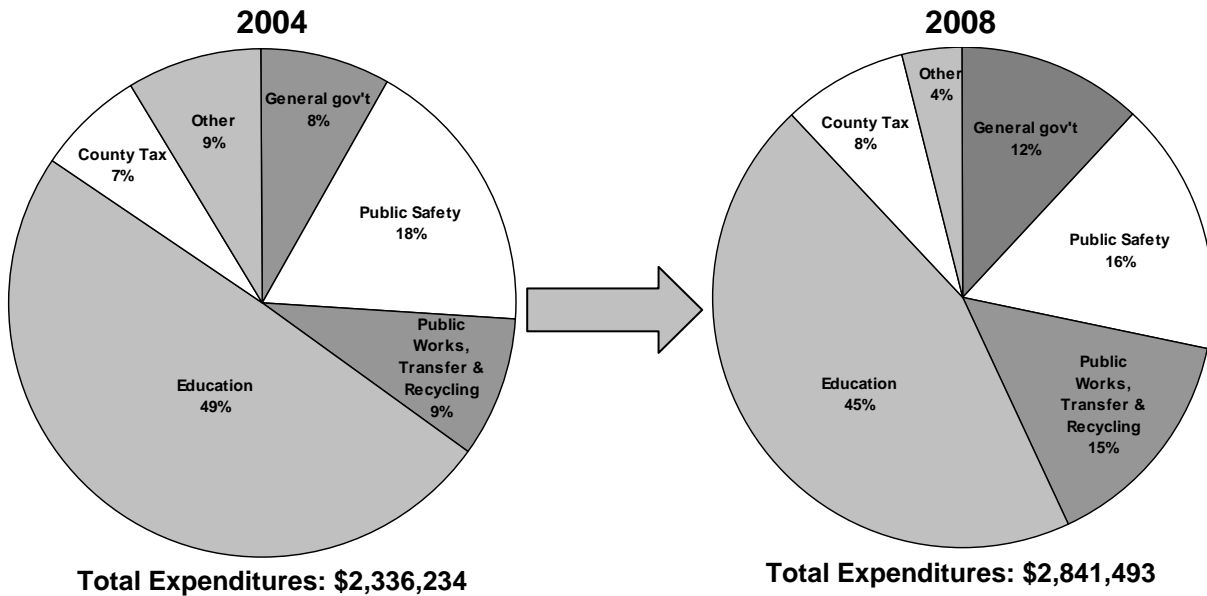
²Charges for services and other are those dollars that are received through departmental user fees, photocopy charges and application fees. Charges for services figure for 2004 are included in the "Miscellaneous" line.

Expenditures in the same five year period climbed from \$2.34 million in 2004 to \$2.84 million in 2008, an increase of 22%. Public works, with a dollar increase of over \$178,508 represents the largest dollar expenditure increase, followed by General Government at \$131,992 and then Education \$113,273.

Table J-5 TOWN OF LUBEC EXPENDITURES 2004-2008 (includes capital expenditures)

Expenses	2004	2005	2006	2007	2008	Change 2004 - 2008	
						Amount	Percent
Current							
General government	185,944	250,425	250,209	225,789	317,936	131,992	+ 71%
Public Safety	386,919	379,306	442,535	386,164	437,041	50,122	+ 13%
Public Works	132,154	130,405	210,526	184,616	310,662	178,508	+ 135%
Transfer & recycling	65,505	63,367	53,598	68,594	83,829	18,324	+ 28%
Third party requests	16,713	17,100	16,361	9,900	9,778	(6,935)	- 41%
Parks, Rec. & Library	20,500	32,696	45,778	13,500	3,776	(16,724)	- 82%
Education	1,092,322	1,147,055	1,183,224	1,279,776	1,205,595	113,273	+ 10%
County Tax	152,110	165,074	17,5519	183,827	214,369	62,259	+ 41%
Other ¹	149,327	141,477	92,221	184,365	83,597	(65,259)	- 44%
Depreciation	130,904	135,676	155,179	159,371	168,025	37,121	+ 28%
Interest	3,837	4,150	8,673	11,500	6,885	3,048	+ 79%
Total expenditures	2,336,234	2,466,731	2,633,823	2,707,402	2,841,493	505,259	+ 22%
Change in net assets	202,031	(22,064)	40,829	18,969	(97,547)		
Transfer of Fixed Assets	3,671,113	-	621,317	-	-		
Net Assets – July 1	3,873,144	3,873,144	3,851,080	4,513,226	4,532,195	659,051	+ 17%
Net Assets – June 30	387,144	3,851,080	4,513,226	4,532,195	4,434,648		

Source: Lubec Town Reports



¹Includes the expense categories: Unclassified, Paving, Shellfish conservation, Town Clerk, Street Lights and Truck for the years 2004 and 2005; and the category "Unclassified for the years 2006, 2007 and 2008.

As a result of these increases, Public Works grew as a percent of the total municipal budget from 9% in 2004 to 15% in 2008 and General Government grew from 8% to 12%. Education, which accounted for 49% of municipal expenditures in 2004 actually declined as a percent of total expenditures – though it remained the largest portion of municipal expenditures at 45% in 2008.

It is particularly noteworthy that the increase in expenditures on Public Works, General Government and Education – which together increase more than \$420,000 between 2004 and 2008 – came at a time when Intergovernmental revenues declined by \$56,000.

2009/2010 Budget and Projected 2010/2011

Full figures on the 2009/2010 budget have not yet been audited and presented. However, the summary figures on the 2009/2010 budget provided by the Lubec Town Office show that the Lubec school budget for 2009/2010 showed an 18% growth over the previous year, while the Lubec portion of the County Budget decreased by 6% and the remainder of the Town Budget decreased 7% as compared with the previous year.

Table J-6 2009/2010 BUDGET & PROJECTED 2010/2011 BUDGET

	2009/2010 (Actual)	% Change	2010/2011 (Projected)	% Change
School Budget	\$1,421,075.52	18%	\$2,130,075.50	50%
County Budget	\$ 202,572.00	-6%	\$ 202,572.00	0%
Town Budget	\$1,317,890.12	-7%	\$1,317,890.12	0%

Source: Lubec Town Office

For fiscal year 2010/2011, the school budget is projected to increase by 50% over the current year’s budget. Rapid growth in education spending over the past five years, coinciding with a period of declining school enrollment, has been a major source of growth in municipal spending. It is projected to be the only source of growth in municipal expenditures in the coming fiscal year.

Given the Town of Lubec’s already high tax burden and the projected growth in educational expenditures, the Town of Lubec needs to continue to explore options to reduce the growth in educational expenses. One such option that was recently (2010) adopted involved closing the Lubec High School. However other cost saving measures will be needed in the coming years.

Restricted/Capital Reserve Funds

As of August 4, 2009, the Town of Lubec maintained three capital reserve funds with balances as shown below. The municipal building roof reserve was spent down as part of the 2009/2010 budget. Fund balances in the other two accounts have not been used.

Table J-7 RESTRICTED FUND BALANCES CARRIED FORWARD, 2009

Account	Balance
Capital Reserve II	16,258.80
Harbor Insurance Reserve	13,112.55
Municipal building roof reserve	106,107.27

Source: Lubec Annual Report, 2008/2009.

Long Term Debt

State law limits the amount of debt a municipality may incur. This cap is set at seven (7) percent of the municipality’s State valuation. In addition, a 15 percent limit is applied to the combined total of the town’s debt plus all overlapping debt from quasi-municipal districts, including the school district, water and sewer districts, and county government.

In 2008, the Town of Lubec was responsible for \$396,561.76 in outstanding long-term debt, 0.2% of Lubec’s 2008 State valuation. Of that amount, Sewer Department debt account for \$226,434.25 and the Lubec Water Company is responsible for \$213,632.19 in outstanding debt.

FISCAL CAPACITY POLICIES & STRATEGIES FROM 1992 COMP PLAN

Town policies relative to fiscal capacity as established by the 1992 Comprehensive Plan are summarized in the table below as are recommended implementation strategies and notes on the status of each recommendation. A complete list of the policy recommendation from the previous Comprehensive Plan is included in *Appendix A: Executive Summary of the Town of Lubec Comprehensive Plan, 1992*. A full copy of the previous plan is on file in the Town Office.

Policy	Notes
It is the policy of the Town of Lubec to provide the most efficient and cost effective operation and finance of existing and future public facilities and services.	<i>This policy continues to align with municipals goals and should be amended to incorporate LD 1 spending limit requirements.</i>
Strategy	
Develop a five year Capital Improvement Program prioritizing the projects listed in the Capital Investment Plan in Section V of this Plan.	<i>The strategy was implemented following adoption of the 1992 Comprehensive Plan. It should be continued.</i>
Develop a strategy for assessing impact fees on developers according to the Capital Improvement Program.	<i>The Strategy has not been implemented. It should be continued.</i>

Source: Lubec Comprehensive Plan (1992)

Policies and implementation strategies relative to fiscal capacity in Lubec are presented at the end of this chapter. They include revisions as noted above, along with additional policies and strategies that reflect changes in conditions on the ground, local priorities and State and Federal policy since the previous Comprehensive Plan was adopted.

CAPITAL IMPROVEMENT PLAN

The comprehensive plan recognizes planned growth and a diverse mix of land uses within the town as an important aspect of fiscal planning. The primary implementation strategy for the fiscal capacity section is the development of a capital improvement plan (CIP). The purpose of a CIP is to establish a framework for financing needed capital improvements. A CIP guides budgeting and expenditures of tax revenues and identifies needs for which alternative sources of funding such as loans, grants or gifts will be sought.

Capital improvements are investments in the repair, renewal, replacement or purchase of capital items which can include equipment and machinery, buildings, real property, utilities and long-term contracts. Capital improvements differ from operating expenses or consumables which are ordinarily budgeted as operations. Capital improvements are funded through the establishment of financial reserves and generally have an acquisition cost of \$5,000 or more; usually do not recur annually; have a useful life of 3 or more years; and result in fixed assets.

For the purpose of this plan, the total costs have been recognized with an indication of the expected time frame for each item that is desired based on priority ratings. Each year the town Manager and the Selectmen review and approve the funding requests. Projects previously mentioned and identified throughout this comprehensive plan and existing reserve accounts are the basis for this capital improvement plan and have been incorporated into Table J-8.

The Town of Lubec typically funds capital improvements through general taxation, borrowing and pursuit of state and federal grants. There are currently no special mechanisms for funding capital improvements in Lubec (such as impact fees or Tax Increment Financing). However, the town has established several capital reserve accounts in anticipation of future capital expenditures, as summarized in Table J-7.

Future capital equipment needs for the foreseeable future are listed in Table J-8. Given these anticipated needs, it is in the town's best interest to make significant yearly contributions to all capital reserve accounts. Table J-8 should be evaluated as the town considers future yearly contributions. It is also recommended that the town keep significant balances within the reserve account to cover the cost of any unauthorized capital needs.

Table J-8 TOWN OF LUBEC CAPITAL IMPROVEMENT PLAN

DEPARTMENT/ AREA	ITEM	COST	PRIORITY ¹	POTENTIAL FUNDING SOURCES
Public Works	Public Works Garage	+\$200k	C	CDBG; Town Funds
Public Works	Equipment (pick-ups & loader)	~\$100k	D	Town funds
Public works	Address drainage issues on Dewey-Mowry St. (0.2 mi)	Unk	C	Town funds
Public works	Complete surfacing of Boot Cove Road (~3 mi)	Unk	B	Town Funds
Public works	Bayview St. repairs (0.1 mi)	Unk	C	Town funds
Public works	Washington St. / South St. sidewalks	~\$150k	B	MDOT (Safe Routes to School); CDBG Community Enterprise
Education / Public Works	Address drainage issues at Ball field	\$70k	A	CDBG

¹ The capital improvements identified in Table J-8 were assigned a priority based on the listed rating system. Logically, “A” improvements would be implemented prior to “B” and so on. A lower priority item may be funded ahead of schedule if higher priority items have already been funded or are prohibitively expensive, or if other sources of revenue (such as donated funds) become available. In order to fund some capital improvements projects, it may be necessary to begin to identify funding sources and set aside funds in advance of the projected time of funding.

A - Immediate need. A capital improvement rated in this category would typically remedy a danger to public health, safety and welfare.

B - Necessary, to be accomplished within two to five years. A capital improvement rated in this category would typically correct deficiencies in an existing facility or service.

C - Future improvement or replacement, to be accomplished within five to ten years. A capital improvement rated in this category would be desirable but is of no urgency. Funding would be flexible and there would be no immediate problem.

D - Desirable, but not necessarily feasible within the ten year time frame of the current plan.

POLICIES AND IMPLEMENTATION STRATEGIES

Goal: Lubec will plan for, finance and develop an efficient system of public facilities and services to accommodate anticipated growth and economic development.			
Policy	Implementation Strategy	Responsibility	Timeframe
Finance public facilities and services in a cost effective manner and reduce Maine's tax burden by staying with LD 1 spending limits.	Implement the capital investment plan by developing a capital improvement program prioritizing the projects listed in the Capital Investment Plan.	Selectmen	On-going
	Actively explore ways to reduce educational expenses. The Town should engage with the newly forms AOS to plan for re-use of the High School facilities.	Selectmen; School Board	Immediate
	Develop a strategy for assessing impact fees on developers according to the Capital Improvement Program.	Selectmen; Planning Board	Short-term (1-2 years)
	Review and/or update the capital improvement program biennially.	Selectmen	On-going
	Explore grants available to assist in the funding of capital investments within the community.	Selectmen	Short Term (1-2 years)
	Direct a minimum of 75% of new municipal growth-related capital investments into designated growth areas in the Future Land Use Plan.	Selectmen	On-going
	Work with neighboring communities and WCCOG to plan for and finance shared or adjacent capital investments to increase cost savings and efficiencies.	Selectmen	On-going
Pursue all legal means to seek full and timely reimbursement from the State for revenues promised to the Town; and to off-set revenues lost as a result of Current Use Taxation Programs.	Advocate with state legislators and appropriate departments to make full and timely payments of revenues promised to the Town.	Selectmen	Ongoing
	Publish the names of property owners benefitting from Current Use Taxation programs in the Town's Annual Report.	Selectmen; Tax Assessor	Ongoing