

J. FISCAL CAPACITY

The purpose of this section is to:

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

FINDINGS

Between 2003 and 2007, municipal general fund revenues and expenditures increased from \$1,189,635 to \$2,081,579. During that time, education showed the greatest dollar expenditure increase, an increase of over \$700,000, followed by Highway expenditure which grew by more than \$260,000 in the same period. Over all, expenditure grew by 100% over this period. In make the increase in expenditure, property tax revenue increased 26% percent between 2002 and 2006. The remainder was made up by an increase in intergovernmental revenue (from \$174,000 in 2003 to \$844,000 in 2007); and by the Town's ability to draw on municipal reserves.

Capital investment in Machiasport are financed through general taxation, borrowing and by pursuing state and federal grants. The town has established several reserve accounts in anticipation of capital investment. The Capital Investment Plan summarizes anticipated capital expenses over the planning period.

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.

The 1996 Comprehensive Plan noted the tax base in Machiasport was "characterized by primarily residential real estate." This continues to be true. Over the past several years, both town tax commitments and property values have risen; though assessed property values have risen at a higher rate than tax commitments.

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 the municipalities for veteran and homestead exemptions.

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 sales^a 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’s 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.

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. The last town wide revaluation was conducted in 1997. The town’s state certified assessment ratio was 73% of market value in 2008; and had dipped below 70% in all three of the prior years.

Machiasport’s property tax valuation is dominated by residential valuation. Over the past ten year, residential property values have grown dramatically, as reflected in Machiasport valuation. The Town anticipates a slower rate of growth over the planning period. Machiasport has been updating property valuation records, but should conduct a professional comprehensive, revaluation in the near future.

Valuations and Taxes

Machiasport’ total valuation increased 88% between 2005 and 2008 from \$45.5 million in 2005 to over \$85.6 million in 2007. Over the same time period real estate and personal property taxes increased nearly 26% percent from \$0.85 million in 2005 to \$1.07 million in 2008.

Table J-1 MACHIASPORT TOTAL VALUATION AND TAXES

Tax Years	Total Valuation	% Change	Real Estate and Personal Property Taxes	% Change	Tax Rate	% Change	State Valuation Ratio (%)
2005	\$45,480,158	-	\$852,956	-	0.01765	-	69%
2006	\$50,086,157	10%	\$821,413	-4%	0.01640	-7%	68%
2007	\$67,867,360	36%	\$950,621	16%	0.01380	-16%	57%
2008	\$85,634,589	26%	\$1,074,511	13%	0.01240	-10%	73%

Source: Machiasport Municipal Valuation Returns

MIL RATE

After the town’s budget has been 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

^a 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.

rate. This rate is usually expressed in dollars 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. The mil rate in 2005 was \$0.01765 and in 2008 was \$0.01240 (reflecting more rapid growth in valuation than expenditures).

Revenues

Table J-2 provides a summary of the combined general fund revenues for the town of Machiasport from 2002 through 2006. Total revenue rose from \$1.19 million in 2003 to \$2.08 million in 2006. The largest revenue increases was Intergovernmental Revenue which grew 482% during the five-year period. Revenue from property taxes and the excise tax source also increased over the same period but at a lower rate (2.5% for property tax revenue, and 18% for excise tax.

Intergovernmental revenues consist of road maintenance funds and state park, tree-growth, veteran and homestead reimbursements. The rate of increase in this category of revenue is not expected to continue. Choices made regarding educational expenditures may negatively impact intergovernmental revenue. The resulting loss of income would have to be made up through some combination cost saving or increased property tax commitments.

Table J-2 TOWN OF MACHIASPORT REVENUES 2003-2007

Revenues	2003	2004	2005	2006	2007
General Property Taxes	798,478	756,567	774,480	835,423	818,168
Excise taxes	142,534	154,003	168,163	179,318	167,715
Intergovernmental	174,038	173,707	163,551	168,045	844,467
School tuition	-	-	-	-	32,814
Interest & dividends	13,294	12,746	15,290	18,615	17,183
Clam license & other sales	20,850	21,600	27,002	20,150	18,175
Postal lease	-	1,320	1,320	1,430	1,320
Miscellaneous Other	17,392	15,304	26,897	18,678	26,178
Tree growth removal penalty	23,049	-	-	-	-
SAD #77 carryover	-	-	-	-	155,559
Total revenues	1,189,635	1,135,247	1,176,703	1,241,659	2,081,579

Source: Machiasport Town Reports

Expenditures

Expenditures in the same five year period climbed from \$1.07 million in 2003 to \$2.14 million in 2008, an increase of 100% percent. Education, with a dollar increase of over \$700,000 represents the largest dollar expenditure increase, followed by Highway expenditure which grew by more than \$260,000 in the same period. These increased expenditure were partially offset by an increase in intergovernmental revenue (from \$174,000 in 2003 to \$844,000 in 2007; see Table J-3); and by the Town’s ability to draw on municipal reserves (as reflected in Table J-5).

The Town of Machiasport is actively working to address rising expenditures in education; however, education expenses are expected to continue rising over the planning period (though hopefully at a slow rate of increase). Rising expenditure for Transportation reflect construction (New Hickey Road) and replacement of aging infrastructure.

Although road costs associated with new development have driving rising expenditure in the recent past, it is anticipated that tax revenue from new development will largely if not wholly offset the cost of needed additional services and capital investments over the planning period. The primary driver of growth in expenditures is anticipated to be rising school costs along with increased road maintenance costs (as reflected in the *Capital Investment Plan*).

Table J-4 MACHIASPORT EXPENDITURES 2003-2007 (includes capital expenditures)

Expenses	2003	2004	2005	2006	2007
General government	90,625	96,508	102,063	154,036	158,425
Public Safety	21,480	10,314	23,405	15,564	17,002
Highways	127,046	119,804	198,930	247,888	387,105
Health & sanitation (solid waste)	20,179	20,303	20,526	20,478	21,785
Recreation	-	-	-	-	-
Conservation	44,168	178,599 ^a	19,266	42,142	37,114
Education	645,404	641,650	623,787	697,300	1,360,717
County Tax	95,727	109,261	114,672	126,308	116,232
Unclassified	25,043	37,610	42,871	49,783	46,432
<i>Excess of revenue over expenditure</i>	<i>119,963</i>	<i>(-78,802)</i>	<i>31,183</i>	<i>(-101,840)</i>	<i>(-63,233)</i>
Total expenditures	1,069,672	1,214,049	1,145,520	1,343,499	2,144,812

Source: Machiasport Town Reports

The Fund Balance Reconciliation provided in Table I-5 provides an overview of the town’s financial situation as presented in the annual audits.

Table J-5 MACHIASPORT FUND BALANCES RECONCILIATION 2003-2007

	2003	2004 ^b	2005	2006	2007
Total Revenue	1263039	1,173,208	1,126,955	1,371,355	2,534,296
Total Expenditures	1,145,436	1,227,045	1,207,270	1,357,852	2,749,336
Excess of revenues over expenditures	<i>117,603</i>	<i>-53,837</i>	<i>19,685</i>	<i>13,503</i>	<i>-215,040</i>
Other financing sources (uses)					
Proceeds from debt issuance	-	-	-	-	60,397
Utilization of reserve fund balances	-	-	-	-	-
Utilization of unreserved fund balances	-	-	-	-	-
Operating transfers in	94,368	57,491	22,578	34,717	156,857
Operating transfers out	-94,368	-57,491	-22,578	-34,717	-156,857
Total other financing sources (uses)	-	-	-	-	60,397
Net Change in fund balances	117,603	-53,837	19,685	13,503	-154,643
Fund balance-beginning	1,009,186	1,127,337	1,073,500	1,093,185	1,106,688
Fund balance-ending	1,126,789	1,073,500	1,093,185	1,106,688	952,045

Source: Machiasport Town Reports

^a Include \$115,000 for Harbor dredging study.

^b No fund balance reconciliation sheet was included in the 2004 Town Report.

FINANCIAL CONSTRAINTS

Tax Incentives and Tax Exempt Properties

Machiasport does not currently have any tax increment finance (TIF) districts or other tax incentive programs that dedicate municipal tax revenue. There are a number of significant tax exempt properties in Machias including land held in conservation and state and town owned land. Significant parcels of conserved land include Libby Islands, Stone Island, Salt Island Preserve, Hog Island, and the Larabee Heath Preserve (depicted on *Map 2*). Aside from conserved land, other significant tax exempt properties in Machiasport include the Buck Harbor Correctional Facility, Fort O’Brien Historic Site, a handful of churched, and town owned properties (including the Town Office, Bucks Harbor Pier, Jasper Beach and the Fort O’Brien School).

County and School Administrative Unit Assessment

The combine county and school assessment represents approximately 70% of the overall town budget in Machiasport. While there has been some variation from year to year, over the five year period from 2003 to 2007 “core” municipal expenditures and the school assessments both grew at the same rate. That is to say that both the school assessment and core municipal spending double over this time period. The County assessment also grew, but at a slower rate.

Table J-6 COUNTY & SCHOOL ASSESSMENT AS A PERCENT OF TOWN BUDGET

	2003	2004	2005	2006	2007
Town Budget	1,069,672	1,214,049	1,145,520	1,343,499	2,144,812
County Assessment	95,727	109,261	114,672	126,308	116,232
School Assessment	645,404	641,650	623,787	697,300	1,360,717
County & School Combined	741,131	750,911	738,459	823,608	1,476,949
Percent of Town Budget	69%	62%	64%	61%	69%

Source: Town of Machiasport

The high rates of growth over this five year period reflect a number of factors, including rapid rising fuel and health care costs as well as unfunded state and federal mandates. Obviously, these rates of growth are not sustainable over the planning period. The limits that the rapidly increasing cost of education places on Machiasport ability to finance other needed capital improvement are reflected in the Capital Improvement plan, below. The Town continues to work with the school district to address cost savings.

LD 1 Spending Limitations

In 2005, the State enacted LD 1, which limits the growth of the tax assessments at various levels of government to rates reflective of Maine’s income and population growth. For municipalities, LD 1 establishes a base rate applies to a municipality’s “core” commitment, meaning the amount of revenue approved to fund municipal operations and services, excluding funds allocated for county taxes, local schools, TIF payments, and overlays.^a The specified growth rate allows property taxes to increase at the rate of Maine’s ten-year average personal income growth (adjusted for inflation) plus growth in the value of new development and improvements (i.e., “property growth factor”), adjusted for any change in state funding for existing services previously funded by property taxes. A municipality wishing to either temporarily exceed or permanently increase its base commitment limit must explicitly vote to do so.

^a These budget items are addressed elsewhere under LD 1.

Since the law was enacted, the Town of Machiasport has not exceeded its LD 1 spending limitation. To date, LD 1 spending limits have not impacted the community’s ability to pay for needed infrastructure or services.

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. The Town of Machiasport does not currently carry any long-term debt.

FINDINGS OF PREVIOUS COMPREHENSIVE PLAN & EXISTING POLICIES

Relative to fiscal capacity, the Comprehensive Plan adopted by the Town of Machiasport in 1996 found that: “The tax base in Machiasport is characterized by primarily residential real estate. The town tax commitments have increased at a much faster rate than property values; the tax rates have had to increase 56% during the last six years. Machiasport does, however, still have one of the lowest property tax burdens in the areas.”

Based on these findings, the Comprehensive Plan established as a municipal goal: “To plan for, finance, and develop an efficient system of public facilities and services to accommodate anticipated growth and economic development.”

In order to achieve this goal, the 1996 Comprehensive Plan made policy recommendations as summarized in the table below along with notes on the status of the policy recommendations. A complete list of the policy recommendation from the previous Comprehensive Plan is included in *Appendix A: Executive Summary of the Town of Machiasport Comprehensive Plan, 1996*. A full copy of the previous plan is on file in the Town Office.

Table J-7 POLICIES & STRATEGIES RELATED TO FISCAL CAPACITY FROM THE 1996 COMPREHENSIVE PLAN

Policies	Notes
The Town of Machiasport will develop and enhance its capacity to provide the most efficient and cost effective financing and operation of existing and future public facilities and services.	<i>This has not been implemented</i>
Machiasport will prepare, maintain and annually update a five-year Capital Improvement Program.	<i>This has not been implemented</i>
Implementation Strategies	Notes
The Town will prepare, maintain and annually update a five-year Capital Improvement Program.	<i>This has not been implemented. This strategy is address by other strategies.</i>

Policies and implementation strategies related to Machiasport’s fiscal capacity are presented at the end of this Chapter, following the *Capital Improvement Plan*. They included 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 town Selectmen review and approve the funding requests.

Capital reserve accounts

Capital reserve accounts are dedicated funds that can be drawn on fund specific capital improvements. They can also be used to “smooth” annual expenditures associated with “lumpy” on-going, maintenance costs. As of 2008, the Town of Machiasport maintained the following capital reserve accounts.

Table J-8 MACHIASPORT CAPITAL RESERVE ACCOUNTS, 2008

Reserve Account	Balance
Highway Maintenance	\$ 13,267
Town building repair	\$ 23,239
Computer account	\$ 2,092
Shellfish conservation	\$ 42,279
General assistance	\$ 2,266
Maritime maintenance	\$ 50,868
Animal control	\$ 51
Recreation	\$ 18
Education	\$191,637

Source: Town Report

As indicated in the *Chapter I. Transportation*, the Town of Machiasport should consider dedicating an additional \$5,000 year to the highway capital reserve account over the next several years to cover the “lumpy” costs associated with culvert replacement.

Machiasport should also consider creation of a separate capital reserve account for the acquisition of public access rights-of-ways as prioritized in *Chapter G. Marine Resources*.

Table J-9 MACHIASPORT CAPITAL IMPROVEMENT PLAN

DEPARTMENT/ AREA	ITEM	COST	PRIORITY ^a	RESPONSIBLE PARTY(ies)	FUNDING SOURCES
Highway	Guard rail on East Side Road	\$40,000 (~\$27/ft)	A	Road Commissioner	Town funds
Highway	Repave Old County Road	\$60,000	B	Road Commissioner	Town funds
Highway	Old County Road Extension/ Route 92 Re-alignment	\$400,000	C	Road Commissioner	MDOT; TIF; Town Funds
Highway	New vehicle	\$35,000	C	Road Commissioner	Town funds
Town Office	Phase III, Renovations at Liberty Hall	\$300,000	B	Campaign to Save Liberty Hall	Capital campaign; CDBG, <i>et al</i>
Town Office	New space for record storage and town office staff	\$150,000	C	Selectmen	MITF; Town funds
Town Office	Ballfield/baseball diamond behind town office	\$30,000	C	Selectmen	DoC
Fire department	Addition to provide indoor space for storage / drying	\$100,000	D	Fire Chief	CDBG; AFG
Fire Department	Replacement Brush Truck	\$150,000	C	Fire Chief	AFG
Harbormaster	Buck Harbor Pier (repairs)	Unknown	B	Harbormaster	SHIP
Harbormaster	Electric service a Pettegrow Beach boat launch	>\$10,000	B	Harbormaster	SHIP; BIG
Harbormaster	Gate House Ramp (pave)	\$15,000	C	Harbormaster	SHIP; BIG
Harbormaster	Pave access road to Sanborn Cove	\$25,000	C	Harbormaster	SHIP; BIG

- AFG: Assistance to Firefighter Grant Program (through FEMA)
- CDBG: Community Development Block Grant
- BIG: Boating Infrastructure Grants (Maine Department of Transportation)
- MITF: Municipal Investment Trust Fund (capital investments that support growth)
- MDOT: Maine Department of Transportation
- TIF: Tax Increment Financing
- SHIP: Small Harbor Improvement Program
- DoC: Department of Conservation

^a The capital improvements identified in Table J-8 were assigned a priority based on the listed rating system. 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. Capital improvements in this category would typically remedy a danger to public health, safety & welfare.

B - Necessary, to be accomplished within two to five years. Capital improvement 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: Machiasport 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.	Implement the capital investment plan by developing a capital improvement program.	Selectmen	On-going
	Establish a capital reserve account for the acquisition of public access (see <i>Chapter G</i>).	Selectmen; Budget Committee	Short Term (1-2 years)
	Account for the costs of replacing failing culverts through an addition of \$5,000 per year over the next several years; or establishment of a separate capital reserve account.	Selectmen; Budget Committee	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