

J. FISCAL CAPACITY

In order to maintain a consistent mil rate year to year, town governments must operate in a manner that is fiscally responsible. Large fluctuations in the tax rate can cause public concern and can also discourage economic development. Although the priorities of the town may change from change from one year to another, stable municipal finances are always a fundamental responsibility of town government. It is important for Pembroke and Perry to budget for all yearly expenditures while at the same time planning for the town's long-term objectives. As is the case with any business, the physical assets of Pembroke and Perry must be properly maintained through capital reserve accounts to protect the town's continued economic health.

The goal of this section, as with the Public Facilities section, is to plan for, finance, and develop an efficient system of public facilities and services to accommodate anticipated growth and economic development, without placing an enormous burden on the town's taxpayers.

The majority of the financial information for this section was taken from town reports.

VALUATIONS

The town's primary revenue source is through the taxation of real and personal property. These taxes are assessed to local property owners according to the fair market value of their property. This assessment is known as the municipal or town valuation and is determined by the local tax assessor.

According to the town report, Pembroke's total real and personal property valuation was **\$37,613,200** in 2004 and has risen to **\$50,952,700** in 2007 a 35.5% increase. The increase in Perry was much higher. According to the town report, Perry's total real and personal property valuation was **\$39,417,000** in 2003 and has risen to **\$85,785,300** in 2007, a 118 % increase.

State law provides for tax exemptions for certain types of property, such as: charitable and benevolent, religious, literary and scientific, and governmental. Generally, such 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. However, in many communities the number of exempt properties is increasing which decreases the municipal tax base. Since exemptions are established by statute, the town has virtually no choice but to grant an applicable exemption. Often, in such a case as a real estate transfer to a tax-exempt organization, the town has little notice that the property will seek exempt status and then the town must deal with the impact on the upcoming budget. As the amount of these exemptions increases, it becomes very difficult for the community to maintain a constant tax rate.

The state also places a total valuation on the town. This value is known as the State Valuation. Every year the Maine Revenue Services Property Tax Division reviews all arms length sales that have occurred in each community. (An arms length sale is 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.) 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 last town-wide revaluation in Pembroke was conducted in 1999. Pembroke's current state certified assessment ratio is 82 percent of market value.

The last town-wide revaluation in Perry was conducted in 1991. Perry's current state certified assessment ratio is 100 percent of market value.

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 performed when the assessment ratio falls below 70 percent of market value.

Perry approved a town-wide revaluation in 2009 and it is underway.

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 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 percent 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.

Mil Rates in Pembroke and Perry 2003-2009

	2004	2005	2006	2007	2008	2009
Pembroke	15.8	21.7	16.5	17.70	17.80	18.80
Perry	15.8	17.8	13.97	9.10	12.15 (17 month year at time of fiscal year change)	11.8

Maine Municipal Association (MMA) has ranked local property tax burden for all Maine municipalities. Their calculation considered municipal full value mil rate, commitment, median household income, median home value and property tax. The most recent data available is from 1999. The table below shows selected municipalities in Washington County, as well as the countywide average. A rank of 1 was the highest burden and 486 was the lowest. Pembroke was listed as number 368 and Perry was listed as number 324.

Table J-1: TAX BURDEN RANKINGS

Municipality	Tax Paid as % of Median Income	1999 Burden Rank
Lubec	6.61	15
Harrington	6.59	16
Eastport	6.56	17
Machias	5.78	35
Steuben	4.87	69
Jonesport	4.77	73
Milbridge	4.57	96
Addison	4.33	119
Columbia Falls	4.2	131
Calais	4.03	151
Beals	3.97	159
Cherryfield	3.66	202
Columbia	3.61	210
East Machias	3.34	259
Alexander	3.18	285
Perry	2.54	324
Pembroke	2.93	368
Jonesboro	2.72	350
Beddington	1.32	468
Centerville	1.18	472
Deblois	0.89	479
Washington County Average	3.44	253

Source: Maine Municipal Association 1999

MUNICIPAL REVENUES AND EXPENDITURES

Revenue

The tables below show the major sources of municipal revenue for calendar years 2003 through 2007 in Pembroke and for calendar years 2004-2009 in Perry. Intergovernmental revenues consist of road maintenance funds and state park, tree-growth, veteran, homestead and general assistance reimbursements. Departmental revenues are those dollars that are received through departmental user fees, photocopy charges, application fees, etc. Local revenues consist of: general assistance funds, sale of town property, and interest on investment. Other financing

sources include transfers from other funds, interest and municipal revenue sharing.

In Pembroke total revenues increased almost 34 percent over the past five years. As a percent of total revenues, property and excise taxes increased slightly from 73 percent to 76 percent during this period.

Table J-2: TOWN OF PEMBROKE REVENUES 2003-2007

REVENUES	2003	2004	2005	2006	2007
Tax Revenues, including homestead exemption	\$630,924	\$678,689			
Vehicle & Boat Excise	\$119,809	\$126,726	\$1,002,985	\$1,005,235	\$1,045,191
State Rev Sharing	\$63,849	\$69,364	\$78,540	\$93,181	\$89,944
State Road Assistance	\$43,260	\$43,260			
State Retirement Contributions	\$71,533	\$71,816			
Tree Growth & Veteran's Reimbursements	\$4,975	\$5,618	\$390,533	\$160,024	\$159,281
Interest Earned	\$9,520	\$9,198	\$10,660	\$19,918	\$24,217
Other Revenues	\$793	\$201			
School Lunch Fund Revenues	\$37,495	\$38,473			
Federal and State Grants	\$47,340	\$2,528	\$52,903	\$72,307	\$58,870
Total Revenues	\$1,029,498	\$1,045,873	\$1,535,621	\$1,350,665	\$1,377,503

Source: Pembroke Town Reports and Audited Financial Statements

In Perry total revenues increased almost 30 percent over the past five years. As a percent of total revenues, property and excise taxes increased slightly from 45.5 percent to 46.5 percent during this period.

Table J-3: TOWN OF PERRY REVENUES 2004-2008

REVENUES	2004	2005	2006	2007	2008
Property Taxes	612,322	610,354	656,683	648,186	851,748
Excise Taxes	106,644	114,162	127,168	148,090	129,206
Intergovernmental Revenues	750,783	744,015	773,777	979,366	890,528
On Behalf payments – State of Maine	59,469	59,326	53,362	62,147	75,935
Charges for Services			46,987	51,096	90,390
Investment and interest income	28,462	30,269	11,088	38,005	49,738
Unrealized gains (loss) on investments	1,533	(1,389)			
Realized gains on investments	2,490	(2,634)	1,848	6,187	(2,946)
Program Receipts	10,078	11,868			
Sale of Town owned Property		911			
Other	9,604	12,692	61,022	68,970	24,763
Total	\$1,581,385	\$1,579,574	\$1,731,935	\$2,002,047	\$2,109,362

Source: Perry Town Reports and Audited Financial Statements

Expenditures

The table below shows the amount of money expended for each of the major departments within the town of Pembroke for calendar years 2003 through 2007 and within the town of Perry for calendar years 2004-2008. In Pembroke in 2007, almost 43 percent of total expenditures went to

education as compared to approximately 31 percent in 2003. Total expenditures increased 32.4 percent from 2003 to 2007, while education expenses increased 82.6 percent.

Table J-4: TOWN OF PEMBROKE EXPENDITURES 2003-2007

EXPENDITURES	2003	2004	2005	2006	2007
General Government	\$76,267	\$82,244	\$90,439	\$93,202	\$73,189
Protection	\$20,985	\$235,028	\$27,915	\$36,934	\$28,017
Health and Sanitation	\$26,403	\$36,173	\$57,668	\$28,057	\$34,143
Highways and Bridges	\$180,784	\$204,826	\$330,828	\$338,164	\$334,583
Education	\$315,865	\$479,866	\$440,072	\$725,386	\$576,736
Unclassified	\$197,548	\$13,614	\$14,775	\$18,813	\$18,573
Assessments	\$63,848	\$70,716	\$67,847	\$87,622	\$102,266
State Retirement Contributions	\$71,533	\$71,816	\$74,621	\$93,224	\$95,281
State & Fed Grant			\$242,073	\$7,600	\$0
School Lunch Fund Expenditures	\$58,561	\$54,958	\$66,672	\$81,018	\$76,661
Total Expenditures	\$1,011,794	\$1,249,241	\$1,412,910	\$1,510,020	\$1,339,449

Source: Pembroke Town Reports and Audited Financial Statements

In Perry in 2008, a little more than 59 percent of total expenditures went to education as compared to approximately 66 percent in 2004. Contrary to the situation in Pembroke, while total expenditures increased 30 percent from 2004 to 2008, education expenses increased by a smaller overall percentage (23 percent).

Table J-5: TOWN OF PERRY EXPENDITURES 2004-2008

EXPENDITURES	2004	2005	2006	2007	2008
General Government	\$ 59,500	\$ 68,290	\$ 140,536	\$130,523	\$127,376
Public Safety	\$ 47,588	\$ 43,588	\$ 45,829	\$50,025	\$47,195
Public Works	\$ 269,292	\$ 245,558	\$ 232,970	\$322,869	\$336,856
Recreation	\$ 750	\$ 750	\$ 2,443	\$6,401	\$13,083
Social Services	\$ 5,979	\$ 6,074	\$ 10,582	\$34,732	\$15,112
County Tax	\$ 68,268	\$ 75,077	\$ 79,272	\$91,913	\$100,037
Education	\$ 1,105,978	\$ 1,050,836	\$ 1,111,856	\$1,156,432	\$1,430,207
Food Service				\$67,981	\$71,497
Grants and other programs				\$120,000	
On behalf payments - State of Maine	\$ 59,469	\$ 59,326	\$ 53,362	\$62,147	\$75,935
Capital Outlay					\$180,495
Other	\$ 12,514	\$ 2,065	\$ 2,458	\$4,620	
Debt Service	\$ 55,440				\$17,014
Total	\$ 1,684,778	\$ 1,551,564	\$ 1,679,308	\$2,047,643	\$2,414,807

Source: Perry Town Reports and Audited Financial Statements

Expenditures are affected yearly, not only by the local budget but also by the amount of state revenue sharing. It is difficult to predict municipal expenditures for the next ten years. Demands for services, county assessments, valuation, population, and many other factors all enter the very political process of determining expenditures every year.

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, in Perry an informal Budget Committee in cooperation with the Selectmen review the funding requests and make a recommendation for town meeting review. In Pembroke this task is completed by the Selectmen.

The capital improvements identified below 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 2 to 5 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 5 to 10 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 10- year time frame of the current plan.

Projects previously in this comprehensive plan and existing reserve accounts are the basis for this capital improvement plan and have been incorporated into the table below.

Table J-6: CAPITAL IMPROVEMENT PLAN - PEMBROKE

Item	Costs	Priority	Responsibility	Funding Sources
Reconstruction of Route 1 from Dennysville T/L to new road surface (~3 mile) including shoulders	\$3,000,000+	B	Maine DOT	General & Bond funds
Blinking light at junction of Route 1 And Route 214 **	\$7,500	A	Maine DOT	Local Roads reimbursement; Bond funds
Blinking light or stop sign at Junction of Upper Cross Road, Mount Tom Rd and River Road at Little Falls	\$7,500	A	Town	Local Roads reimbursement; Bond funds
Replace Arch Bridge guard rails. **	\$10,000	A	Town	Historic Preservation; local funds
Replace Pennamaquan East bridge.**	\$500,000	B	Town	Local funds
Landing/boat access improvements (lighting, parking, paving, floats)	\$10,000	B	Town	SHIP; CDBG; Boat excise taxes
Drainage and surface road improvements (Leighton Point Road ; Little Falls Road; Old US Route 1, Reversing Falls Road)	\$3,000,000	B	Town	Local funds
Town Office/records vault**	\$200,000	A	Town	Local taxes; coordinate with Town of Perry; Historical Collections and Facilities Grants, Maine Archives
2 Playground sets for Elementary School**	\$75,000	B	Town	Local taxes
Wellhead testing/development	\$200,000	B+	Town	Local taxes, DEP
One ton truck; chipper; 2 riding mowers; bush saws	\$40,000	B	Town	Local taxes
Septic system upgrades	\$10,000-\$30,000	A	Selectmen	Small Community Grant Program
Town-wide reassessment	\$50,000	A	Town	Taxes

** Municipal growth-related capital investments

CDBG: Community Development Block Grant
MDOT: Maine Department of Transportation
DEP: Maine Department of Environmental Protection
EPA: Environmental Protection Agency
SHIP: Small Harbor Improvement Program
DOC: Department of Conservation

Table J-7: CAPITAL IMPROVEMENT PLAN - PERRY

Item	Costs	Priority	Responsibility	Funding Sources
Landing/boat access improvements	\$10,000	A	Town	Boat excise taxes; SHIP, BIG
Historical records vault in expanded town building**	\$45,000	A	Town (approved 2009; construction pending 2010)	Historical Collections and Facilities Grants, Maine Archives
Plow Truck	\$85,000	B	Town – Public Works (approved 2009; purchase pending)	Excise and property taxes; reserve accounts
Backhoe	\$70,000	B	Town – Public Works (approved 2009; purchased Oct 2009)	Excise and property taxes; reserve accounts
Town Office facility**	\$150,000	C	Town (approved 2009; construction pending 2010)	Annexed land investment fund; grants
Implement 11-yr. road improvement plan	\$1,600,000	B	Town	Excise and property taxes; URIP funds
Additional bay for Fire Department and building expansion to build facilities to meet state regulations**	\$150,000	A	Town	Homeland Security CDBG (pending income survey in 2010 establishing eligibility)
Cannon Hill Road improvement	\$350,000	C	Town	Excise and property taxes; URIP funds
Library, historical/genealogy facility**		D		
Recreational and other infrastructure – Gleason Cove	\$250,000	D	Town	CDBG (pending income survey in 2010 establishing eligibility); state reimbursement funds; DOC; SHIP/BIG
Public commercial dock**	\$1,000,000	C	Town	SHIP/BIG; boat excise taxes, bond funds
Septic system upgrades	\$10,000-\$30,000	A	Selectmen	Small Community Grant Program
Town-wide reassessment	\$48,000	A	Town (approved 2009; pending 2010-2012)	Reserve Account
Public water wells at municipal building and at elementary school**	\$15,000	A	Town	Drinking Water Program; USEPA; taxes
New gymnasium at elementary school**	\$1,000,000	D	Town	taxes
Playground equipment at elementary school**	\$25,000	C	Town	taxes

** Municipal growth-related capital investments

CDBG: Community Development Block Grant
MDOT: Maine Department of Transportation
DEP: Maine Department of Environmental Protection
EPA: Environmental Protection Agency
SHIP: Small Harbor Improvement Program
DOC: Department of Conservation

SUMMARY

As indicated by the figures, both Pembroke and Perry have done very well in managing their finances over the last five years and the mil rate has remained within a consistent range. In the past, the town has budgeted for capital improvements through the use of grant funds and local revenues. The town has also designated funds for building maintenance. A Capital Investment Plan is now proposed as part of the Comprehensive Plan. Each town has kept funds in surplus in the past to cover capital improvements and will now formally create a capital investment reserve account with some of these funds.