

Fiscal Capacity

City of Rockland
2002 Comprehensive Plan

Chapter 11

FISCAL CAPACITY

The State of Maine determines a municipality's fiscal health based on its property valuation; the greater the valuation, the lower the tax rate required to raise a given amount of money. However, fiscal capacity is much more complicated in a service center such as Rockland. The City of Rockland not only provides services for Rockland residents, but also provides services to a large workforce, many of which live in surrounding communities, and a seasonal tourist population. The City of Rockland also provides a number of regional services creating a disproportionate number of tax-exempt properties. Tax-exempt properties include the following: religious, non-profit, and government.

Each municipality in the State of Maine has two (2) valuations. The first valuation is determined by the State of Maine. The State Valuation is used to determine fiscal health for State funding calculations, and as a baseline for the municipality's valuation. The second type of valuation is the Municipal Valuation. The Municipal Valuation is used for determining local taxes. The City's Valuation is based on the values determined by the City Assessor for real estate and personal property. The valuation of properties is based on recent sales of comparable properties. The City of Rockland Assessor determined the City's valuation to be \$470,884,400 for Fiscal Year 2001 and the valuation for 2002 to be \$544,723,800. The Assessor determines the amount of taxes to be raised. The amount of revenue to be raised through property taxes is determined as follows:

$$\frac{(\text{Municipal Budget} + \text{Share of School Budget} + \text{Share of County Budget} + \text{Overlay}) - (\text{Other Revenue Sources})}{\text{City Valuation}} = \text{Property Tax Revenue}$$

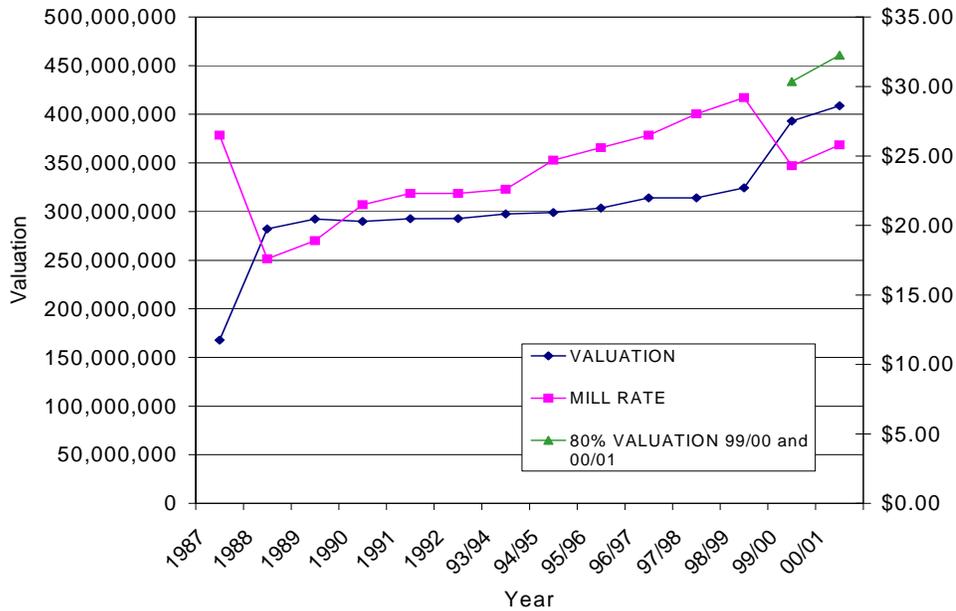
The Assessor then determines the tax rate or Mill Rate. The Mill Rate is determined by dividing the total amount of taxes to be raised by the City's valuation. The Mill Rate is the assessed burden on each property owner's share of the budget, less other revenue sources. One (1) Mil is worth one-thousandth (1/1000) of the value of a property as determined in the valuation. Based on the estimated budgets for the City, S.A.D. #5, and Knox County for Fiscal Year 2001/2002, the Mill Rate for 2001/2002 is \$23.70 per thousand dollars of valuation. Therefore, a property valued at \$100,000 would be responsible for paying \$2,370 in taxes for Fiscal Year 2001/2002.

The Treasurer takes the information provided by the Assessor, prepares the tax bill and distributes them to the property owners. The Treasurer then collects property taxes. If property taxes are not paid, the Treasurer proceeds with tax liens and tax foreclosures as necessary. In Fiscal Year 2001/2002 the Rockland Treasurer issues 162 property tax liens (the lowest number on recent record) and no foreclosures. The Rockland Treasurer usually does not foreclose on more than one property in any given year. The Finance Department provides fiscal recommendations to the City Manager and the City Council and manages the annual budget approved by City Council. The Finance director manages revenues, appropriations, borrowing and investments based on City Council direction and State Statutes.

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The Graph 11-1 shows the City's valuation from 1987 through Fiscal Year 2001/2002 and the Mill Rate during that same time period. Please note that 1993 is not shown on the graph because it was a 6-

Graph 11-1 City of Rockland Tax Rate and Valuation Comparison



month period during a change from a calendar year to a Fiscal Year (July-June).

The Graph shows a significant drop in the Mill Rate from Fiscal Year 1998/1999 to Fiscal Year 1999/2000. This drop was caused by change in City Policy from an 80% valuation to a 100% valuation when determining the Mill Rate. The lower Mill Rate does not represent a lower Tax Rate. Rockland's valuation grew slowly until Fiscal Year 1997/1998. However, the valuation of the City of Rockland has increased by nearly 50% in the past five (5) years from \$314,219,000 in Fiscal Year 1996/1997 to \$471,000,000 in Fiscal Year 2001/2002.

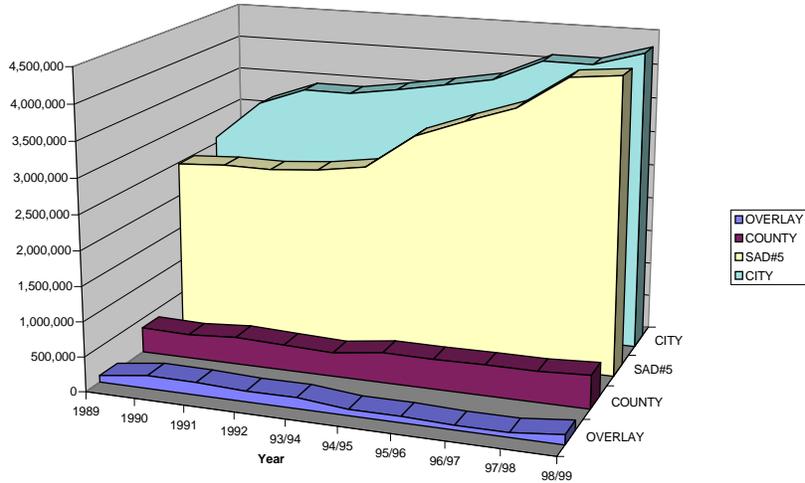
The City operates utilizing a balanced budget such that City expenses equal the City's revenues. Each year the City Council determines and approves a new budget. The department head for each City department must submit a proposed budget to the City Manager. The City Manager and the Finance Director then have a series of meetings with different department heads to establish a proposed City Budget. The City Manager presents the proposed budget to the City Council, the City Council holds a series of public meetings with the City Manager, the Finance Director and different department heads to develop a Preliminary Budget. The City Council approves the Preliminary City Budget, which is then posted in the newspaper for 10 days as required by State Statute. A public hearing is then held at which the Council receives public comments. After the public hearing is closed the City Council approves the final budget.

From a budgeting perspective, in order to affect a taxpayer's bill significantly, a budget item would have to equal one (1) mil. For FY 2001/2002, the City's valuation is estimated to be \$471,000,000; thus one mil is worth \$471,000. Increasing or decreasing the City budget by \$471,000 would have the effect of adding (or subtracting) \$1/per \$1000 of assessed value to the tax bill. For a property valued at \$100,000, the effect would be to add (or subtract) \$100 to the tax bill.

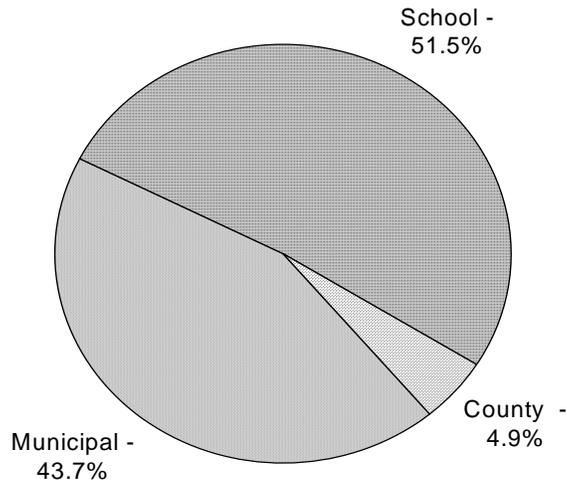
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percentage then usual in Fiscal Year 2001/2002 due to an influx of revenues from a bond for road paving. 1.1% of the budget was used for new equipment and miscellaneous expenses. Graph 11-6 shows expenditures by department for Fiscal Year 01/02. Overly shown on these graphs is defined as an amount of money that is budgeted beyond planned expenses in order to cover unanticipated needs. The Charts and Graphs in this section do not show sewer expenditures or Tax Increment Finance (TIF) payments.

**Graph 11-3 City of Rockland
Comparative Budgets 1989-1999**

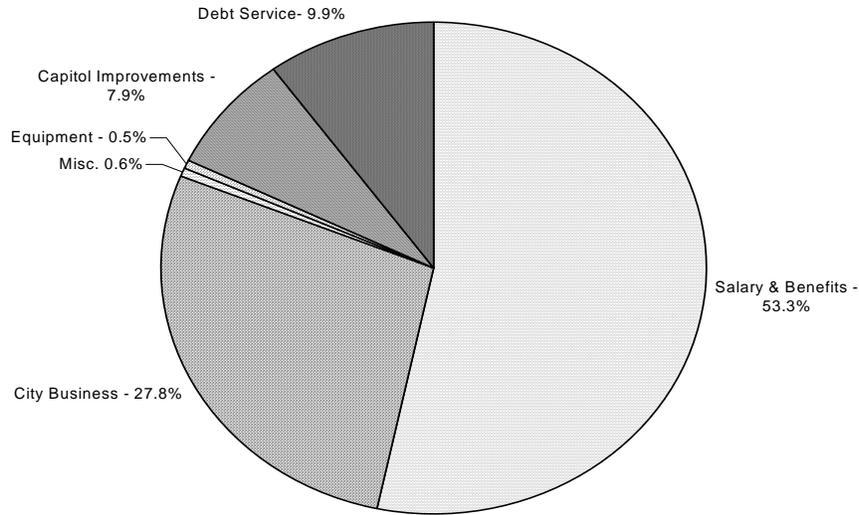


**Graph 11-4 City of Rockland
Property Tax FY 2001/2002
\$11,159,960**

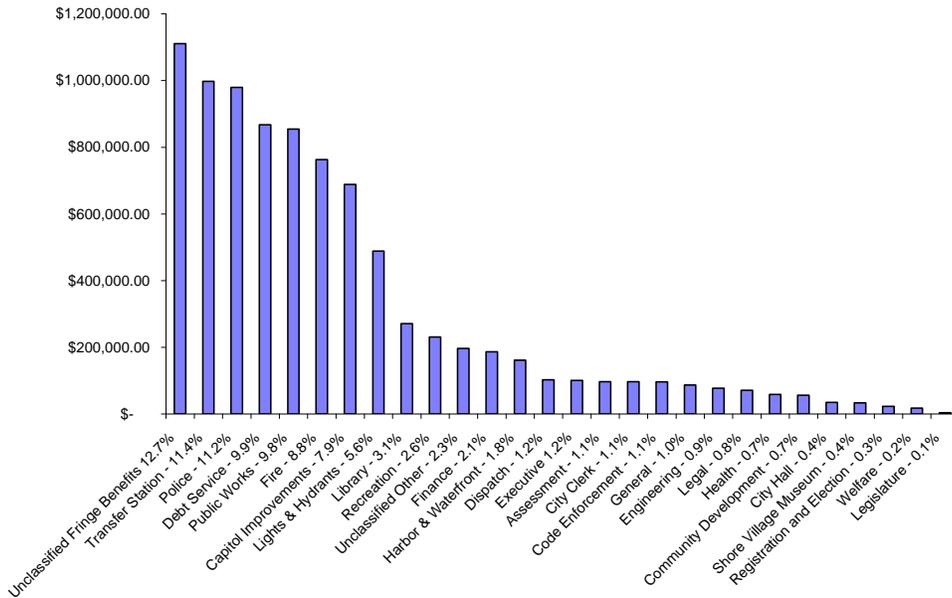


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Graph 11-5 City of Rockland Municipal Budget FY 01/02



Graph 11-6 Appropriations by Department FY 2001/2002



Future Revenue and Expenditures

The Maine Municipal Association releases a report ranking the tax burden of the 496 cities and towns in the State of Maine on an annual basis. The tax burden is based on a formula that accounts for the population, the average annual income, and the property valuation. The 2001 study showed that the tax burden for the residents of the City of Rockland is the 9th highest in the State. Because Rockland is a service center for surrounding communities the City provides a number of public services to non-residents. Recent projections estimate that the population of Rockland more than doubles during working hours. Many of these are employees and others that come to Rockland for shopping, recreation, worship, County services, arts and more. The tourism population also increases the level of services provided by Rockland. Rockland provides police protection, fire protection, library, road maintenance, harbor maintenance, and many other public services for these populations.

Over the past 10 years, the valuation of the City of Rockland has grown by 40%. This gain has been inconsistent. Projecting the future valuation based on the past 10 years, the City may expect an average growth of 4% per year in the next 10 years. However, the actual annual increase will most likely vary widely.

Assuming that the State Tax Laws stay the same, that Rockland's population will continue to erode, and that suburban demand for services will continue to increase, the tax burden on the City of Rockland residents and businesses is expected to remain high.

Debt

Municipal debt is governed by 30-A M.R.S.A. § § 5701-5705. A municipality cannot incur debt in excess of 7.5% of its last full state valuation. The voters may set a lower percentage than that, but not a higher amount (§ 5702). This debt limitation does not include debt incurred for schools, sewer/drain purposes, airports, or energy facilities, but in no event can the town's total debt, including these latter items, exceed 15% of the last full state valuation. The debt limits for the specific items mentioned are set forth in § 5702. The debt limit does not include or apply to Tax Anticipation Notes (TAN) and various other secured obligations mentioned in § 5703. The State Valuation for the City of Rockland in Fiscal Year 2001/2002 is \$433,500,000, the maximum debt limit (7.5%) for the City of Rockland in Fiscal Year 2001/2002 is \$32,512,500. Municipal borrowing of up to 5% of the State valuation is considered financially sound by lending institutions. The City of Rockland had \$4,112,775 of debt as of November 30, 2001, equal to 0.9% of the State Valuation. Based on these determinations, the debt load is acceptable. Rockland is not currently rated by the bond bank.

The City's debt for Storm Sewer and Sanitary Sewer purposes should not at any time exceed 7.5% of the last State Valuation; long term debt incurred by the City of Rockland for sanitary sewer is \$6,296,178 and for storm sewer is \$2,059,039.00 totaling \$8,355,217.00 or 1.9% of the State valuation.

Under 30-A M.R.S.A. municipalities can issue revenue bonds for improvements, extensions, or enlargements to municipal revenue producing facilities such as a sewer system to be paid for from sewer rate charges, or revenues. Improvements also include related systems such as a stormwater sewer separation project. City Code requires that bonds issued in excess of \$100,000 receive voter approval.

The City's debt for school purposes should not at any time exceed 10% of the last State Valuation. Long-term debt incurred by SAD 5 in Fiscal Year 2002 was \$7,152,192, and of that debt 63.3%, or

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\$4,527,338, is attributed to Rockland. Maine State Law forbids the total debt including Municipal and School debt from exceeding 15% of the last full State Valuation. The total debt of SAD5 and the City is \$16,995,338 or 3.9% of the full State Valuation for Fiscal Year 2001/2002. The City of Rockland is below the debt limits set by the State. As payments toward the debt continue, the amount of the debt will decrease.

Investment

The City of Rockland has thirty-five (35) Unrestricted Capitol Reserve Funds totaling \$2,141,000 and twelve (12) Restricted Capitol Reserve Funds totaling \$444,236. These funds are assigned for various uses, unrestricted funds uses can be changed by the City Council, and restricted funds cannot be changed by the City Council. The City Council recently established four (4) “rainy day” reserve accounts. The first account was fully funded in Fiscal Year 01/02 at 8% of the budget, the use of the funds for this account are not designated at this time. There are three other accounts that are not funded; they are to be created for equipment replacement, tax stabilization, and capitol improvements.

Municipal Investment is governed Maine State Law 30-A M.R.S.A. § § 5701-5705, which limits municipal investing to Government Issue bonds, government agency bonds and high quality corporate bonds. The City currently has no officially adopted investment policy, however, investment practices have been conservative, and follow State Statutes. All City of Rockland funds are in Trust Fund accounts at Bar Harbor Bank and Trust except for the Paving Bond Reserve Fund, which is in an interest bearing Trust Fund account at Key Bank.

Capital Improvements Program

The purpose of a CIP is to establish a framework for financing needed for capital investments. It is a plan to authorize, acquire, and/or construct a number of capital improvements. Capital investments have the following characteristics: They are relatively expensive; they usually do not recur annually; they last a long time; and they result in a fixed asset. The Rockland City Charter, Section 505, requires a submission to the City Council by the City Manager three months prior to the final date for submission of the budget of a five-year capital program. This program must include:

- A clear general summary of its contents;
- A list of all capital improvements proposed to be undertaken within the period;
- Cost estimates, method of financing and time schedules; and
- The estimated annual cost of operating and maintaining the proposed facilities.

In 1996, the City Council appointed a temporary ad-hoc Capital Improvement & Revenue Committee to provide a comprehensive review of the Capital Improvement Program. The Committee submitted its report on February 21, 1997. The report presents an in-depth analysis of the City’s capital projects, inventory of City property, financial alternatives for funding these projects, an evaluation of the City’s financial condition, proposed CIP policies, implementation actions, and the City’s CIP Goals. In addition, the report provided a detailed analysis of the City’s roads and wastewater treatment plant, the two biggest financial items on the list. The Committee proposed a greater reliance on user fees and a lesser reliance on the property tax. In addition, it proposes a self-imposed cap on the tax rate to no more than the rate of inflation if possible. It also includes a list of CIP Goals and Implementations. The

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Committee expired on January 31, 1998, however; a separate CIP Committee makes recommendations each Fiscal Year based on the 1997 Capital Improvements Program, current revenues, and current needs.

Summary

Overall, the City of Rockland is in good financial condition. Debt is below accepted limits and investments have been managed in manner that has been more conservative than limits set by the State of Maine. As a result, the City has the capacity to take on additional debt to fund many of the projects identified in this Plan, however; the City's high tax burden may be the limiting factor in implementing planning objectives. Unless the City's valuation increases significantly or unless Maine tax law are changed to be more favorable for service center communities, the City's high tax burden will remain a fiscal challenge. Preliminary cost estimates to implement the strategies in this plan total approximately \$16.2 million. Projects determined to be urgent amount to \$9.7 million in the first 5 years. Projects determined to be necessary amount to \$2.3 million in the first 5 years and \$2.97 million in the second 5 years. Projects determined to be desirable amount to \$4,188,000 in the first 5 years, and \$12,478,000 in the second 5 years. See Table 11-1 for further detail. Estimates were based on per-unit costs noted in Table 11-2. Per unit costs were determined with the help of the City Engineer, the City Assessor, and the Consumers Maine Water Company.

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Table 11-1 Rockland Comprehensive Plan Strategies and Costs				
GOAL	5-yr Plan	10-yr Plan	Priority	Funding Source
Construct sidewalks to comply with ADA	\$ 18,000.00		Urgent	City, MDOT
Construct new Public Safety building for police	\$ 2,000,000.00		Urgent	City
Construct new Public Works building	\$ 2,000,000.00		Urgent	City
Computerize parking ticket system	\$ 27,000.00		Urgent	City
Separate Storm water and sewer in the South End	\$ 4,000,000.00		Urgent	City, grants, private
Lindsay Brook Rehabilitation	\$ 50,000.00		Urgent	City
Waldo Avenue Gully Project Phase II	\$ 188,000.00		Urgent	City, grants
Expansion of Public Safety Building			Urgent	City
Sewer Pump Station	\$ 1,300,000.00		Urgent	City/Sewer grants
Recycling Improvements Phase II	\$ 107,000.00		Urgent	
TOTAL OF URGENT PROJECTS	\$ 9,690,000.00			
Purchase land along Lindsey Brooks	\$ 750,000.00		Necessary	City
Provide additional public facilities to support commercial fishing	\$ 100,000.00	\$ 650,000.00	Necessary	City, MDOT
GIS Mapping	\$ 69,125.00		Necessary	City, grants
High Pressure Breathing Air Compressor	\$ 24,000.00		Necessary	Grant
New Boiler for Public Safety Building	\$ 25,000.00		Necessary	City
Automatic Gate Opener for Plant Entrance	\$ 22,000.00		Necessary	Sewer
Replace 3 RAS pumps in 2 nd Pump Room	\$ 90,000.00		Necessary	Sewer
Plant Floor Coating	\$ 20,000.00		Necessary	Sewer
Roof Replacement of Transfer Station Building	\$ 25,000.00		Necessary	City
Contact Chamber Coating	\$ 38,000.00		Necessary	Sewer
Additional and Back-up 50-yard Sludge Trailer	\$ 11,216.00		Necessary	Sewer
Parking and storage areas for trailer launched boats		\$ 280,000.00	Necessary	City
Retain and improve public access to the breakwater		\$ 140,000.00	Necessary	City
Improve boating facilities at public landing	\$ 25,000.00		Necessary	City
Improve boating facilities at Snow Marine Park	\$ 25,000.00		Necessary	City
Replace CAT F-truck with Wheel Loader	\$ 14,940.00		Necessary	City
Consider purchase of property near downtown for parking	\$ 280,000.00		Necessary	City

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Consider installing year round pedestrian signs downtown	\$ 15,000.00		Necessary	City
Provide for paved shoulders for bikes (2 miles)	\$ 150,000.00	\$ 150,000.00	Necessary	City, MDOT
Hire Consultant to write regulations	\$ 25,000.00		Necessary	City
Hire 2 new Deputy CEO's to increase enforcement	\$ 300,000.00	\$ 500,000.00	Necessary	City
Shared Welfare Department caseworker	\$ 60,000.00	\$ 100,000.00	Necessary	City
Increase staffing in Public Works (3 new employees)	\$ 240,000.00	\$ 400,000.00	Necessary	City
TOTAL OF NECESSARY PROJECTS	\$ 2,309,281.00	\$ 2,970,000.00		
Invest in infrastructure in undeveloped areas	\$ 800,000.00	\$ 800,000.00	Desirable	City, grants, private
Develop access to natural features (the Bog)	\$ 200,000.00	\$ 200,000.00	Desirable	City
Purchase of harbor property w/ risk of landslides	\$ 350,000.00	\$ 350,000.00	Desirable	City
Neighborhood Park on waterside of Front Street	\$ 250,000.00	\$ 250,000.00	Desirable	City
Improve harbor trail and get easements	\$ 245,000.00	\$ 245,000.00	Desirable	City, MDOT
Establish better water access in North End	\$ 300,000.00	\$ 300,000.00	Desirable	City
Provide cruise ship accommodations		\$ 500,000.00	Desirable	City, MDOT, Private
Develop Samoset Road landslide area into park.	\$ 150,000.00	\$ 100,000.00	Desirable	City, grants, private
Provide additional dingy storage	\$ 25,000.00		Desirable	City
Second ROW access from public landing to Main Street		\$ 400,000.00	Desirable	City
Provide additional slips. Piers, and floats as needed	\$ 33,000.00	\$ 33,000.00	Desirable	City
Consider structured parking at Ferry Terminal		\$ 2,100,000.00	Desirable	City, MDOT
Construct sidewalks (3.25 miles)	\$ 500,000.00	\$ 500,000.00	Desirable	City
Expand bike path network (Bike plan acquisitions and trails)	\$ 300,000.00	\$ 300,000.00	Desirable	City, MDOT, Private
Provide year round local bus service (2 vans loop service)		\$ 2,400,000.00	Desirable	City, MDOT
Retain and develop 8.8 acres on West Meadow Road as park	\$ 160,000.00		Desirable	City, grants, private
Retain and develop 43 acre parcel on Dodge Mtn.	\$ 800,000.00		Desirable	City, grants, private
Develop parks and bike trails along Lindsey Brook	\$ 75,000.00		Desirable	City, MDOT
Renovate or build new Rec. Center		\$ 4,000,000.00	Desirable	City, grants, private
Invest in infrastructure to support affordable housing	\$ 100,000.00	\$ 500,000.00	Desirable	City, CDBG/DECD, MDOT, MITF, MSHA
TOTAL OF DESIRABLE PROJECTS	\$ 4,288,000.00	\$12,978,000.00		
TOTAL OF ALL PROJECTS	\$16,787,281.00			

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Table 11-2 Per unit costs		
ITEM	COST	UNIT
Water line	\$55	ln. ft.
Sewer line	\$150	ln. ft.
4' Shoulder	\$30	ln. ft.
Road (20')	\$50	ln. ft.
Sidewalk	\$60	ln. ft.
Bike Paths	\$60	ln. ft.
Trails	\$30	ln. ft.
Parking	\$2.50	sq. ft.
Land – downtown & waterfront	\$280,000	acre
Land – Bog	\$3,000	acre
Land – other	\$120,000	acre
Right of way (30')	\$84.50	ln. ft.
Right of way (15')	\$42.25	ln. ft.

It is the opinion of the Comprehensive Planning Committee, based on the financial information compiled in this chapter, that the City of Rockland has the fiscal capacity to complete all projects determined to be urgent and necessary. As previously stated, increasing the City’s tax burden may limit the number of projects completed. If all of the urgent and necessary projects were completed, there would still be some fiscal capacity available for those projects determined desirable. Funding of many of the projects determined to be desirable may be dependent on the future fiscal growth in the City.

Fiscal Capacity Issues

- (1) Rockland residents have a higher tax burden than surrounding communities because the City provides the public infrastructure as well as a number of regional and municipal services for non-resident visitors on a daily basis. How can Rockland fiscally keep up with the increasing impact of these non-residents on the infrastructure and services? Are there ways to “tax” non-residents for services and infrastructure provided by the City of Rockland when they visit? How can this be done without hurting local businesses?
- (2) Property tax is often not the most equitable way to pay the burden of financing City Government. Are there other opportunities to more fairly distribute the cost of government within the Maine Tax Code, such as expanded user fees for sewer and user fees for solid waste disposal? Should the City pursue changes in the State Tax Code to allow for other options such as local sales tax or a room and board tax?
- (3) The City of Rockland currently has a very low debt load compared to that allowed by the State Law. Should the City take advantage of additional borrowing capacity for needed infrastructure and other improvements, or should the City become more fiscally conservative and pursue even less dependence on bonds and debt?

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- (4) The City of Rockland currently has no investment policy in effect for city funds. Investment practices of City funds have been conservative. Is the practice fiscally compatible with the future of the City? Should the City adopt an official investment policy? Should changes, within Maine State Statutes, be made to allow for improved performance?
- (5) There are a large number of tax-exempt properties in the City of Rockland, some of these properties draw non-residents and people with special needs into the City, which then demand additional services. Is it appropriate to tax these properties through user fees and other fees to address their impact on the City? Does the draw of non-residents to the City benefit the City enough through increasing the success of businesses in the City?

Goal: Shift more of the burden of funding services from the property tax payers to those who benefit from those services.

Policies

- 1) Determine, evaluate, and implement user fee options where reasonable.
- 2) Lobby the State Legislature to change Maine Tax Law to benefit service center communities.
- 3) Lobby MDOT and legislature to change Maine highway funding requirements for Urban Compact Areas to remove or lessen required matching funds from City.

Strategies

- 1) Implement user fees such as pay as you throw fees at the transfer station, storm sewer fee, alarm fees, etc.
- 2) Evaluate the usefulness and feasibility of amending the Zoning Ordinance to include a provision for the collection of impact fees from new applicable development in all of the districts, as allowed by Maine's impact fee statute, Title 30-A M.R.S.A., §4354, as amended. The City should consider assessing impact fees from applicants if the expansion of the public facility and/or service is necessary and caused by the proposed development. Provisions to waive fees for the development of affordable housing and/or redevelopment of blighted areas should be considered. The impact fees charged must be based on the costs of the new facility/service apportioned to the new development. The fees must benefit those who pay; funds must be earmarked for a particular account and spent within a reasonable amount of time. Fees may be collected for the following, as well as for other facilities and services not listed below:
 - a. Waste water collection and treatment facilities
 - b. Water facilities
 - c. Solid waste facilities
 - d. Fire protection facilities
 - e. Roads and traffic control devices
 - f. Parks and other open space or recreational areas

Goal: Maintain sound fiscal policy and management.

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Policies

- 1) Weigh the benefits of a project and its timing against the added costs of incurring debt to determine whether it is more fiscally wise to acquire debt and construct or purchase now or save and construct or purchase later.
- 2) Review investment practices to assure the best return.
- 3) Save money in anticipation of known future expenses.

Strategies

- 1) Adopt Investment Policy.
- 2) Fund the remaining three “rainy day” funds for equipment replacement, tax stabilization, and capitol improvements.