

## APPENDIX A12 FISCAL CAPACITY

(September 10, 2002)

The fiscal capacity of a community is a key factor in its ability to accommodate growth while providing the facilities and services needed by the community. This section looks at the current financial condition of The Town of Sanford and its ability to manage new growth.

### A. Assessed Value

An important component of the Town's fiscal health is its property valuation: the greater the valuation, the lower the tax rate required to raise a given sum of money. In 2001, nearly 45% of the Town of Sanford's revenues came directly from property taxes. Understanding changes in the Town's assessed value and the implications of these changes explains the impacts felt by Sanford's citizens and businesses.

#### 1. State Valuation

Both the Town and the State track the community's property valuation. The State's valuation figures are theoretically adjusted each year to equal true market value. By State law, when the Town's valuation drops below 70% of the State's valuation, a revaluation is supposed to be conducted.

**Table A12-1.  
State Valuation of Town of Sanford**

| Year | State Valuation | Adjusted for Inflation*<br>(2001 dollars) | Percent Change<br>(from previous year) |
|------|-----------------|---|--|
| 1991 | \$824,250,000   | \$1,049,978,216                           | Not Applicable                         |
| 1992 | \$827,500,000   | \$1,023,676,964                           | -2.5%                                  |
| 1993 | \$799,450,000   | \$964,366,012                             | -5.8%                                  |
| 1994 | \$779,750,000   | \$918,937,620                             | -4.7%                                  |
| 1995 | \$721,650,000   | \$828,211,402                             | -9.9%                                  |
| 1996 | \$717,950,000   | \$798,107,363                             | -3.6%                                  |
| 1997 | \$717,500,000   | \$784,818,884                             | -1.6%                                  |
| 1998 | \$713,000,000   | \$767,141,355                             | -2.3%                                  |
| 1999 | \$735,900,000   | \$772,380,513                             | 0.7%                                   |
| 2000 | \$752,050,000   | \$764,079,482                             | -1.1%                                  |
| 2001 | \$797,200,000   | \$797,200,000                             | 4.3%                                   |

\* CPI-northeast urban, 1980-1982 =100

Source: *Municipal Valuation Return Statistical Summary*

Sanford's state valuation has decreased by \$27 million between 1991 and 2001, or a decrease of 3.3%. After adjusting for inflation, this decrease appears more dramatic— a \$253 million decrease or 24%. This is attributable to the decline of the town's manufacturing base, the aging residential infrastructure, and a deflated real estate market after the boom of the late 1980s.

Overall, the decrease was most dramatic in the recession of the early 1990s and, by the mid 1990s, the market value of Sanford's property had bottomed out and began to increase rapidly in the strong economy of the late 1990s. This cycle of bust and recovery through the 1990s was common in many of the state's older manufacturing communities.

## 2. Local Property Valuation

The Town's total valuation reflects actual market values only in the years in which it conducts a revaluation and upgrades to 100% of market value. Sanford's last revaluation occurred in 1987, although annual upgrades to market value have allowed the Town to maintain its 100% assessment ratio.

The local assessed valuation in 2001 was \$864,798,820 (Table A12-2). This represents a \$53 million increase since 1991, or a 6.5% increase. These numbers are different from the State's assessed valuations, but their pattern through the 1990s is the same; a dramatic drop in the early 1990s followed by stability in the mid-1990s and strength through the turn of the century.

**Table A12-2.  
Local Property Valuation**

| <b>Year</b> | <b>Local Valuation</b> | <b>Tax Rate</b> |
|-------------|------------------------|-----------------|
| <b>1991</b> | \$811,702,088          | 16.22/1000      |
| <b>1992</b> | \$814,450,758          | 16.22/1000      |
| <b>1993</b> | \$698,059,968          | 20.10/1000      |
| <b>1994</b> | \$701,994,298          | 21.18/1000      |
| <b>1995</b> | \$708,625,190          | 20.67/1000      |
| <b>1996</b> | \$716,111,960          | 21.56/1000      |
| <b>1997</b> | \$722,243,987          | 21.61/1000      |
| <b>1998</b> | \$702,718,230          | 21.12/1000      |
| <b>1999</b> | \$702,707,275          | 21.65/1000      |
| <b>2000</b> | \$797,135,880          | 20.04/1000      |
| <b>2001</b> | \$864,798,820          | 20.46/1000      |

*Source: Municipal Valuation Returns Statistical Summary*

### 3. Tax Rate

In 2001, Sanford's tax rate was 20.46mils <sup>1</sup>. The tax rate has varied from a low of 16.22 mils to a high of 21.65 mils. The current tax rate is below its 5-year average.

Tax rates and assessed valuations are correlated. A community with a higher assessed valuation needs a lower tax rate to raise a given sum of money. In Sanford, local valuation declined in the early 1990s and the tax rate went up (Table A12-2). In the late 1990s, the local valuation increased and the tax rate decreased.

When compared with similar communities, Sanford's tax rate is modest (Table A12-3). Sanford's Full Value Tax Rate used by the State to correct valuation distortions between communities was 18.70 mils in 2000. Typically communities closer to the coast had lower full value tax rates. Larger communities tended to have higher full value tax rates.

**Table A12-3.**  
**Tax Rate Comparison: 2000**

| <b>Municipality</b> | <b>Tax Rate</b> | <b>Full Value Tax Rate</b> |
|---------------------|-----------------|----------------------------|
| Kennebunk           | 18.50           | 12.79                      |
| Kittery             | 17.40           | 14.13                      |
| Biddeford           | 18.30           | 16.08                      |
| Scarborough         | 19.60           | 16.38                      |
| Saco                | 21.00           | 17.42                      |
| <b>Sanford</b>      | <b>20.04</b>    | <b>18.70</b>               |
| Old Orchard Beach   | 23.40           | 20.17                      |
| South Portland      | 21.55           | 21.76                      |
| Westbrook           | 22.00           | 20.87                      |
| Portland            | 24.00           | 20.86                      |

*Source: Maine Revenue Services*

### B. Tax Commitment

Tax commitment is the amount of revenue raised from property taxes each year. The Town's commitment has grown by more than \$4.5 million between 1991 and 2001. This represents an increase of more than 33%. After adjusting the commitment to account for inflation, the increase is less than \$1.0 million, or 5.5%.

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<sup>1</sup> A 20.46 mil rate means that a property will be taxed \$20.46 for every \$1,000 in assessed valuation. At this tax rate, a property assessed at \$100,000 will pay \$2,046 in taxes each year.

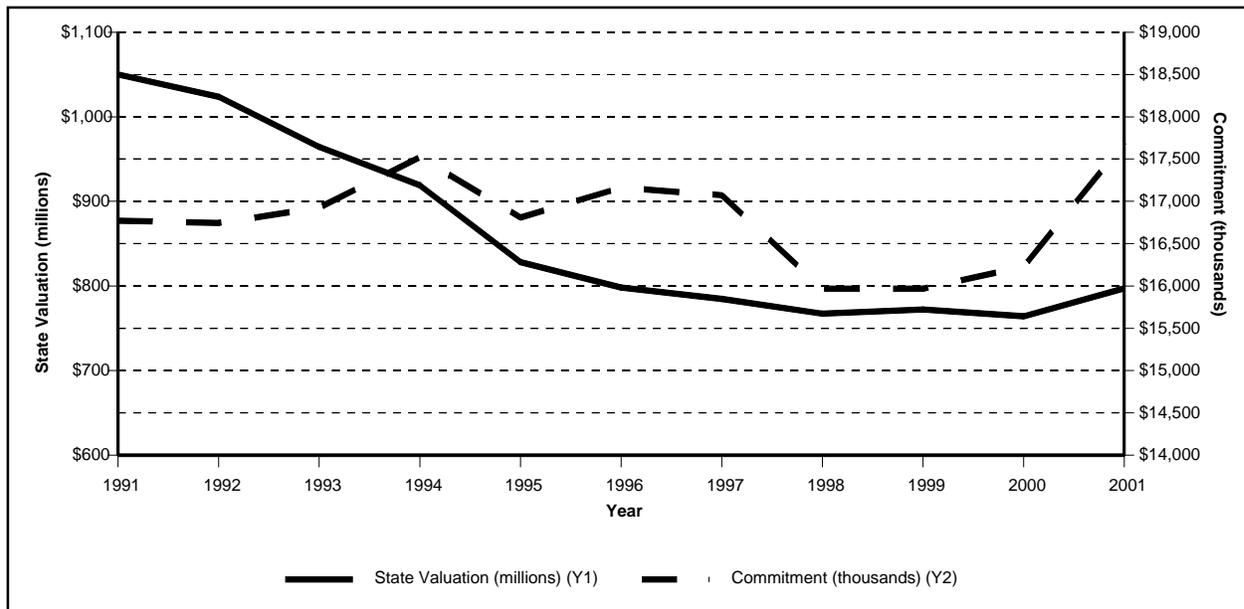
**Table A12-4.  
Tax Commitment**

| Year | Commitment   | Adjusted for Inflation (2001 dollars) | Percent Change (from previous year) |
|------|--------------|---------------------------------------|-------------------------------------|
| 1991 | \$13,165,853 | \$16,771,439                          | Not Applicable                      |
| 1992 | \$13,536,217 | \$16,745,273                          | -0.2%                               |
| 1993 | \$14,031,044 | \$16,925,464                          | 1.1%                                |
| 1994 | \$14,868,284 | \$17,522,316                          | 3.5%                                |
| 1995 | \$14,647,332 | \$16,810,209                          | -4.1%                               |
| 1996 | \$15,439,411 | \$17,163,184                          | 2.1%                                |
| 1997 | \$15,607,744 | \$17,072,129                          | -0.5%                               |
| 1998 | \$14,841,445 | \$15,968,424                          | -6.5%                               |
| 1999 | \$15,213,681 | \$15,967,863                          | 0.0%                                |
| 2000 | \$15,974,640 | \$16,230,164                          | 1.6%                                |
| 2001 | \$17,693,830 | \$17,693,830                          | 9.0%                                |

Source: Maine Revenue Services

Figure A12-1 displays the interplay of the State Valuation and local commitment, adjusted for inflation. While the local commitment has increased, this increase in real dollars had not taken effect until the 2001 budget year.

**Figure A12-1. State Valuation and Commitment, Sanford 1991 - 2001**



Note: inflation calculation using Bureau of Labor Statistics Northeast Urban CPI, All Items, 1982-1984 = 100

Source: Town Records; Maine Revenue Services; Planning Decisions, Inc.; Bureau of Labor Statistics

### C. Operating Expenditures and Revenues

Total revenues for the Town of Sanford have increased from \$32.5 million in 1997 to \$37.9 million in 2001. This is more than a \$5.3 million increase, or 16.4% (Table A12-5).

Sanford's revenues came from a variety of sources. The amount of revenue raised from property taxes increased by roughly \$1m, or 6.4%. Other sources of revenue increased more rapidly, including excise taxes (33%) and intergovernmental revenue (primarily state aid for education, 21%). Departmental Revenues and Charges for Services increased by more than 80%, or \$750,000.

**Table A12-5.  
Total Revenue, Sanford: 1997 - 2001(in thousands)**

| <b>Revenue</b>                                    | <b>1997</b>     | <b>1998</b>     | <b>1999</b>     | <b>2000</b>     | <b>2001</b>     | <b>%<br/>change<br/>(97-01)</b> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|---------------------------------|
| Property Taxes                                    | \$15,324        | \$15,560        | \$15,488        | \$15,774        | \$16,308        | 6.4%                            |
| Excise Taxes                                      | \$1,701         | \$1,807         | \$1,977         | \$2,189         | \$2,262         | 33.0%                           |
| Intergovernmental Revenues                        | \$14,038        | \$14,657        | \$15,387        | \$15,921        | \$16,986        | 21.0%                           |
| Investment Inc, Lien Chgs                         | \$551           | \$639           | \$654           | \$624           | \$635           | 15.3%                           |
| Departmental Revenues and<br>Charges for Services | \$934           | \$1,087         | \$1,011         | \$1,599         | \$1,688         | 80.8%                           |
| <b>Total Revenue</b>                              | <b>\$32,547</b> | <b>\$33,750</b> | <b>\$34,518</b> | <b>\$36,106</b> | <b>\$37,879</b> | <b>16.4%</b>                    |

*Source: Statement of Revenue and Expenditures, Town of Sanford*

These revenues have been expended by the town annually. The cost to run the Town of Sanford has increased by more than \$6.0 million between 1997 and 2001, or 19.6% (Table A12-6). Major line items have varied. Only General Health Services experienced a decrease in expenditures of 9%. The County Tax and expenses for Capital Improvements have increased moderately. Public Works and Debt Service have increased faster than the increase in general government (annual debt service increased from \$7,000 to \$359,000 in the last five years). Education expenditures increased in line with the rest of the government.

**Table A12-6.  
Total Expenditures, Sanford: 1997 - 2001 (in thousands)**

| <b>Expenditures</b>              | <b>1997</b>     | <b>1998</b>     | <b>1999</b>     | <b>2000</b>     | <b>2001</b>     | <b>% change (97-01)</b> |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------------|
| General Government               | \$1,054         | \$1,171         | \$1,240         | \$1,302         | \$1,329         | 26.1%                   |
| Public Safety                    | \$4,148         | \$4,233         | \$4,348         | \$4,769         | \$4,991         | 20.3%                   |
| Public Works                     | \$1,206         | \$1,222         | \$1,341         | \$1,421         | \$1,634         | 35.5%                   |
| Recreation and Cultural Services | \$705           | \$734           | \$769           | \$860           | \$865           | 22.7%                   |
| General and Health Services      | \$1,798         | \$1,813         | \$1,526         | \$1,590         | \$1,640         | -8.8%                   |
| Public Property                  | \$408           | \$425           | \$447           | \$516           | \$438           | 7.5%                    |
| Employee Benefits                | \$1,434         | \$1,473         | \$1,546         | \$1,616         | \$1,787         | 24.6%                   |
| County Tax                       | \$311           | \$312           | \$336           | \$339           | \$327           | 5.3%                    |
| Debt Services, not education     | \$7             | \$35            | \$179           | \$228           | \$359           | 5248.4%                 |
| Capital Plan                     | \$1,129         | \$1,071         | \$1,130         | \$1,312         | \$1,210         | 7.2%                    |
| Education, incl. debt service    | \$19,271        | \$20,076        | \$21,329        | \$21,902        | \$23,043        | 19.6%                   |
| <b>Total Expenditures</b>        | <b>\$31,469</b> | <b>\$32,566</b> | <b>\$34,191</b> | <b>\$35,857</b> | <b>\$37,622</b> | <b>19.6%</b>            |

*Source: Statement of Revenue and Expenditures, Town of Sanford*

## **D. Debt Service**

The Town of Sanford, like other urban communities, uses long-term borrowing to finance major capital expenditures. As of June 30, 2001, Sanford had more than \$5 million in outstanding debt (Table A12-7). This debt is for a range of projects, including school construction projects, the War Memorial Gymnasium, and the Rushton Street Landfill. The principal and interest cost of this debt typically cost around \$800,000 per year. Some of the debt reported in this table have already been retired.

**Table A12-7.  
Annual Debt Service Cost as of June 30, 2001**

| <b>General Obligation Bonds</b> | <b>Interest Rate</b> | <b>Final Maturity Date</b> | <b>Balance at End of Year</b> |
|---------------------------------|----------------------|----------------------------|-------------------------------|
| School Construction Bonds       | 5.20 to 6.50 %       | 2001, October              | \$155,000                     |
| Rushton Street Landfill         | 4.50 to 4.70 %       | 2001, November             | \$840,000                     |
| High School Heating Conversion  | 5.50 to 5.80 %       | 2004, October              | \$334,800                     |
| School Construction Bonds       | 7.25 to 7.30 %       | 2009, October              | \$2,717,325                   |
| War Memorial Gymnasium          | 4.30 to 4.40 %       | 2010, May                  | \$1,215,000                   |
| Nasson Academic Building Bonds  | 3.0 %                | 2019, March                | \$71,452                      |
| <b>Total</b>                    | <b>N/A</b>           | <b>N/A</b>                 | <b>\$5,333,577</b>            |

*Source: Sanford Financial Report, June 20, 2001*

The Maine Municipal Bond Bank uses a combination of informal threshold criteria by which it evaluates community's credit-worthiness. These are not hard-and-fast rules; rather, they provide a snapshot of the community's borrowing capacity.

- X The Town's debt (outstanding principal) should not exceed 15% of State assessed valuation. The limit in Sanford, therefore, would be \$120 million. Sanford's current outstanding principal of \$5 million is well below the limit.
  
- X The Town's per capita debt (total debt divided by the population) should not exceed \$400 - \$500. According to the 2000 Census Sanford's population was 20,806. This translates into a per capita debt of \$250, well below the limit.
  
- X The Town should be experiencing growth in assessed valuation. The Town's valuation had been stagnant in the mid-1990s, but has resumed growth more recently.

### E. Capital Improvement Program

Sanford has a capital improvement program required by town charter. CIP expenditures in 2001-2002 totaled \$1,759,288 (Table A12-8). Offsetting revenues totaled \$483,111. Total CIP funds raised through taxation 2001-2002 came to \$1,276,177. The two largest expenses included \$500,000 for street and road improvements and another \$625,000 for public works equipment.

**Table A12-8.  
Capital Improvement Program, 2001-2002**

| CIP Category                   | Amount      |
|--------------------------------|-------------|
| Expenses                       |             |
| Fire                           | \$130,000   |
| Police                         | \$87,350    |
| Public Works                   | \$1,441,938 |
| Total Expenses                 | \$1,759,288 |
| (minus) Offsetting Revenues    | \$483,111   |
| Total To Be Raised by Taxation | \$1,276,177 |

*Source: Warrant Articles, 2001-2002*

## **F. Issues and implications**

- X Like most municipalities in Maine and New England, the current economic slowdown, combined with the continuing rise in the cost of education and public services and the prospect of less state aid, may translate into greater tax increases than during the 1990s. This will put pressure on the Town to scrutinize all proposed new expenditures, including expenditures that this Comprehensive Plan Update may show to be desirable.
- X On the other hand, at least in fiscal terms, the Town has considerable borrowing capacity. The town's professional management and tax base have contributed to the Town's positive financial status.
- X The Town's public utilities are operated as separate entities and each has its own mechanisms for financing capital improvements and the operations of their systems. The Town needs to be cognizant of their programs, since they are also paid by the taxpayers.