

NOTE TO READERS: This is a *draft* of the Kennebunk Comprehensive Plan. The Comprehensive Plan provides us with a description of the town today in a range of categories, and identifies issues and recommendations for the future. The final version will include an introduction, be professionally formatted and contain multiple photographs. As a town resident, you are encouraged to look at this draft in this early format. **We are now looking for comments and opinions on its contents**, especially the *Issues & Implications* and *Recommendations* sections at the end of each chapter.

The Town will make changes to this draft based on the comments and opinions received, and residents will vote whether or not to accept the final Plan in June 2019.

Chapter M: Fiscal Resources

Assessed Value

Town revenues are primarily a function of property valuations and property tax rates. Both the Town and the State track the community’s property valuation. The Town’s total valuation reflects actual market values only in the years in which it conducts a revaluation and upgrades values to 100% of market value. The State’s valuation figures theoretically are 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 townwide revaluation must be carried out. Kennebunk last conducted a revaluation in 2003. For fiscal 2017, Town valuation was equal to 89% of Equalized State Valuation.

The following table shows the growth in the Town’s property valuation over the years. The decade 2000-2010 showed rapid growth at a 10.5% annual rate but there was a significant slowing to 2.5% for the ten years ended 2018.

Kennebunk
Assessed Value and Tax Rate
1990-2017

	Local Assessed Value (\$000)	State Assessed Value (\$000)	Annual % Change	Tax Rate
1990	585,560	711,850		14.85
2000	764,887	845,600	1.7	18.50
2010	1,897,950	2,288,950	10.5	13.95
2011	1,922,409	2,126,200	-7.1	14.30
2012	1,936,881	2,128,300	0.1	14.40
2013	1,944,205	2,097,550	-1.4	14.40
2014	1,991,757	2,085,300	-0.6	14.95
2015	2,029,269	2,159,200	3.5	14.90
2016	2,043,619	2,245,800	4.0	15.30

2017	2,061,351	2,316,900	3.2	15.90
2018		2,380,350	2.7	16.55

The table below shows a comparison with neighboring communities, York County and the State. Declines in the first half of the decade were due to the 2008-2010 recession which had a lagged and significant impact on home sales, home valuations and real estate foreclosures.

	Comparative State Valuations 2008-2018 - \$000,000											Annual Rate of Change
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Kennebunk	2,327	2,361	2,289	2,126	2,128	2,098	2,085	2,159	2,246	2,317	2,380	0.23%
Kennebunkport	1,829	1,785	1,924	1,938	1,802	1,811	1,832	1,832	1,938	2,018	2,128	1.53%
Kittery	1,623	1,657	1,701	1,609	1,509	1,488	1,478	1,499	1,508	1,552	1,618	-.03%
Ogunquit	1,241	1,312	1,328	1,298	1,283	1,272	1,256	1,304	1,296	1,334	1,342	0.78%
Wells	2,844	3,012	2,935	2,875	2,810	2,801	2,774	2,933	3,034	3,106	3,167	1.08%
York	4,119	4,124	4,206	4,164	4,041	3,929	3,886	3,967	3,977	4,039	4,267	0.35%
York County	30,950	31,407	31,458	30,462	29,638	29,012	28,703	29,117	29,878	30,630	31,714	0.24%
Maine (Billion)	159.5	164.6	166.6	163.2	159.6	156.2	154.9	156.0	159.1	161.6	165.7	0.39%

Source: State of Maine Website

Operating Expenditure and Revenues

The table below provides detailed revenues and expenses for the Town as well as ten-year and five-year point-to-point annual growth rates. As noted above, taxes (primarily property) are the primary source of revenues although charges for services (5% of total revenues) have grown at a faster rate than taxes. Charges for services consist primarily of ambulance fees and Parks & Recreation fees. Expenses are dominated by the Town's allocation of RSU 21 School District expense at 59% of 2017 expenses. Overall expenses have pretty much paralleled revenues but exceeded them slightly in the most recent five-year period during which the Town issued bonds to cover the excess. Within the departmental breakdown of expense, the Public Services line item can be quite volatile, reflecting the impact of weather on annual snow removal and road repair costs.

	<u>2007</u>	Governmental Activities - \$ Millions						Annual	
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	Growth Rate	
								<u>10 Yr.</u>	<u>5 Yr.</u>
Revenues									
Taxes	24.19	29.70	29.91	31.77	31.77	33.58	35.17	3.8%	3.4%
Charges for Services	1.23	1.59	1.66	2.08	2.08	2.08	2.11	5.6%	5.8%
Other	3.33	2.28	2.10	1.55	1.56	1.57	1.70	-6.5%	-5.7%
Total	28.75	33.57	33.67	35.41	35.41	37.23	38.98	3.1%	3.0%
Expenses									
Education	15.63	19.50	19.54	20.66	20.83	21.70	22.71	3.8%	3.1%
Police & Fire	1.42	4.04	4.15	4.28	4.37	4.47	4.64	12.6%	3.1%
General Government	1.54	1.78	1.85	2.09	1.97	2.50	2.53	5.1%	7.3%
Public Works	0.60	2.81	1.99	2.05	2.51	2.41	2.73	16.4%	-6.0%
Employee Benefits	1.33	1.52	1.52	1.58	1.71	2.05	2.12	4.8%	6.9%
Recreation & Culture	1.11	1.14	1.24	1.37	1.43	1.46	1.51	3.1%	5.8%
County Tax	0.97	1.11	1.15	1.27	1.28	1.31	1.35	3.4%	4.0%
Health & Welfare	0.31	0.39	0.28	0.27	0.29	0.33	0.34	0.9%	-2.7%
Interest on Long-term Debt	-	0.24	0.22	0.30	0.32	0.29	0.35	NA	7.8%
Other	5.46	0.34	0.30	0.42	0.73	0.43	0.35	NA	0.6%
Total	28.37	32.87	32.25	34.30	35.44	36.96	38.63	3.1%	3.3%

Source: Town of Kennebunk Audited Financial Statements

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Borrowing Capacity

Kennebunk's bonds are rated AAA by Standard & Poor and Aa1 by Moody's. Of those with rated debt, nine other towns and cities in Maine had the same rating or higher in 2017. Most towns in Maine are not rated by the national agencies, either because they have little or no debt or because they borrow through the Maine Municipal Bond Bank. As of June 30, 2018, Kennebunk had \$13.7 million in bonds outstanding. Other obligations include accrued vacation and sick time (\$0.37), pension benefit obligations (\$0.31) and a net pension liability (\$2.04).

Outstanding Bonded Indebtedness 6/30/2017

Year Issued	Purpose	Balance (Mil.) June 30, 2018	Interest Rate	Retirement
2007	General Obligation	\$0	4.0%-5.0%	2026
2010	General Obligation	\$3.21	1.4%-4.0%	2029
2013	General Obligation	\$3.00	2.0%-4.0%	2028
2016	General Obligation	\$2.39	2.0%-5.0%	2030
2018	General Obligation	\$5.15	2.28%	2032

Source: Town of Kennebunk 2018 Bond Prospectus

Kennebunk is contingently liable for its share of any defaulted debt by entities of which it is a member. At June 30, 2017, York County had outstanding debt of \$5.1 million and RSU 21 had outstanding debt of \$65.1 million. Kennebunk's share was as follows:

	Direct Debt	Town's Percentage	Contingent
Town of Kennebunk	\$10.3	100.00%	\$10.3
County of York	\$5.01	7.52%	\$00.4
RSU 21	\$65.1	51.34%	\$33.4
6/30/2017			\$44.1

Source: Town of Kennebunk Fiscal 2017 Financial Statements

State law allows debt to rise as high as 15% of State assessed valuation (with certain limitations on the share that can be devoted to school, sewer, and other purposes). For the year 2017, the legal limit for the town would be \$347.5 million. Realistically, a community approaching the 15% limit might be stretched beyond its means. A more prudent threshold of 5% would translate, for Kennebunk, into a debt of \$116 million.

The table below shows Kennebunk's debt relative to neighboring towns. It should be noted that school systems and water and sewer may or may not be consolidated into a town's financials. And when water and sewer are consolidated, they are often offset by user fees rather than tax revenue. Therefore, care should be taken when comparing budgets, tax rates and debt levels from town to town.

Fiscal 2017

	Population (2010 Census)	Equalized State Valuation (000)	Total Debt (000)	Debt/ EV	Per Capita Debt
Kennebunk (1)	10,798	\$2,246	\$11.6	0.5%	\$1,075
Kittery - 2016 (2)	9,490	\$1,508	\$15.9	1.1%	\$1,676
York (3)	13,641	\$4,039	\$34.4	0.9%	\$2,519
Wells (4)	10,184	\$3,106	\$3.1	0.1%	\$303
Kennebunkport (5)	3,535	\$2,018	\$0.9	0.5%	\$267

- (1) Excludes Water & Sewer and Schools. Including School debt, debt/capita \$4,052, debt/equalized valuation 1.9%. Kennebunk Sewer District debt was \$5.5 million at the end of 2016.
- (2) Includes Sewer and Schools
- (3) Includes Schools. Water & Sewer are independent
- (4) Excludes Water & Sewer and Schools. Including School debt, debt/capita \$2,680, debt/equalized valuation 0.9%
- (5) Includes Sewer. Including School debt, debt/capita \$7,727, debt/equalized valuation 1.4%

Capital Improvement Plan

The Town has a Capital Improvement Plan (CIP). The CIP includes a list of all capital improvements proposed within the next five succeeding fiscal years as an inventory of possible capital projects, some of which may ultimately be financed through the issuance of indebtedness. The issuance of debt, however, is subject to the prior review and recommendation of the Board of Selectman to the Town Meeting for voter approval. Traditionally, the Town sets aside reserves each year to provide funds that are ultimately used to finance the acquisition of various capital improvements. Other capital improvements are typically financed from appropriations from the Town's current funds, for the respective fiscal year, or from federal or State grants, to the extent available. No official action has been taken by the Town at this time to authorize bonding for future projects in the CIP. The following displays the next ten years of the Town's current Capital Improvement Plan:

Capital Improvement Plan

<u>Project</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Police Vech	\$51,000	\$114,000	\$84,000	\$94,000	\$114,000	\$42,000	\$84,000	\$114,000	\$126,000
Police Equip	110,600	14,600	15,300	13,900	59,400	36,100	44,100	20,000	5,000
Fire Vech & Equip	100,300	665,800	17,000	1,021,600	14,000	655,000	47,500	27,000	149,600
EMS Vech & Equip	0	283,000	18,000	317,000	37,800	301,000	0	266,000	56,600
EMA Equip (generators)	120,000	0	0	0	0	90,000	0	0	0
Public Ser Vech & Equip	686,000	324,500	260,000	361,000	210,000	412,000	133,800	320,000	8,450
Recreation Vech	0	0	0	0	0	0	0	0	50,000
Recreation Fac	0	400,000	35,000	60,000	25,000	40,000	25,000	70,000	140,000
Gen Govt Fac	284,500	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Other Miscellaneous	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Sub-Total Vech & Equip	1,377,400	1,876,900	504,300	1,942,500	535,200	1,651,100	409,400	892,000	610,650
Roads & Sidewalks	1,600,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total	\$2,977,400	\$2,876,900	\$1,504,300	\$2,942,500	\$1,535,200	\$2,651,100	\$1,409,400	\$1,892,000	\$1,610,650

<u>Project</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2032</u>	<u>15 Year Total</u>	<u>15 Year Average</u>
Police Vech	\$84,000	\$0	\$42,000	\$84,000	\$114,000	\$124,000	\$1,271,000	\$84,733
Police Equip	22,600	23,800	30,000	17,500	17,500	17,500	447,900	29,860
Fire Vech & Equip	614,500	167,200	63,400	82,500	60,000	494,000	4,179,400	278,627
EMS Vech & Equip	0	285,800	70,000	248,000	16,000	250,800	2,150,000	143,333
EMA Equip (generators)	0	0	40,000	10,000	0	0	260,000	17,333
Public Ser Vech & Equip	225,000	640,000	270,000	170,000	205,000	119,500	4,345,250	289,683
Recreation Vech	85,000	85,000	0	0	120,000	0	340,000	22,667
Recreation Fac	45,000	0	40,000	0	0	0	880,000	58,667
Gen Govt Fac	50,000	50,000	50,000	50,000	50,000	50,000	984,500	65,633
Other Miscellaneous	25,000	25,000	25,000	25,000	25,000	25,000	375,000	25,000
Sub-Total Vech & Equip	1,151,100	1,276,800	630,400	687,000	607,500	1,080,800	15,233,050	1,015,537
Roads & Sidewalks	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	15,600,000	1,040,000
Total	\$2,151,100	\$2,276,800	\$1,630,400	\$1,687,000	\$1,607,500	\$2,080,800	\$30,833,050	\$2,055,537

Issues & Implications

- It should be noted that it is very difficult to make debt and tax rate comparisons between towns. This is because some municipal governments consolidate some or all of the following into their operations: schools, sewers, water service and trash collection. For Kennebunk, sewer and water are entirely separate from the Town financials, while school expenses are included in the tax rate, and school debt is accounted for only as “indirect” debt (i.e. not on the Town balance sheet).
- A significant increase in RSU 21 debt and an increasing inventory of major capital projects (for municipal facilities, roads and sidewalks, seawalls, etc.) has led to a significant increase in Kennebunk’s direct and indirect debt in recent years. This, coupled with rising interest rates, is likely to put increasing pressure on the tax rate.

Recommendations

- Moody's Investor Services announced in February 2018 that municipalities' preparedness and planning for climate change would be taken into consideration when assessing credit risk. Recognizing this, the Town should immediately proceed with recommendations elsewhere in this plan for addressing climate change.
- The Town should take care to match its debt with the lives, or term, of assets being financed. The use of long-term debt to finance current expenses or short-lived assets only results in shifting current shortfalls to future taxpayers.

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