

# **The Estimated Impact of the Palesky Tax Cap Proposal on Gorham**

Prepared for:

Citizens to Reduce Local Property Taxes Statewide

Prepared by:



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## **INTRODUCTION**

The town of Gorham is located in Cumberland County 9.5 miles southwest from downtown Portland. Incorporated in 1764, it is approximately 50 square miles in size with a population of 14,141. As the Portland economy continues to expand westward, Gorham has experienced significant residential and commercial growth over the last twenty years and now functions as a regional center for outlying rural areas. The Town of Gorham is governed by a council/manager form of government. The town has its own school department.

The Town Manager and Finance Director used an allocation method to determine budget impacts. The estimated property tax loss from the tax cap was allocated between the municipal and education components of the budget according to their share of the current tax commitment. Once the municipal portion of the tax loss was known, it was allocated among the service categories according to their percentage of the total current year budget. Exceptions were solid waste, debt service, and county tax. Solid waste is funded primarily through pay-per-bag fees and would not be significantly impacted by a property tax loss. It is assumed that the town would be obligated to pay for current debt obligations and the county tax. A similar allocation approach was used in determining potential cuts in full- and part-time employees. The town manager can be reached at 207-839-5041 or dcole@gorham.me.us.

**PROPERTY TAX REVENUE IMPACT**

2004 Municipal Valuation	<u>\$859,361,000</u>
Effective Date of Last Revaluation	<u>1-Apr-01</u>
Assessment Ratio (02/04 ratio)	<u>0.82</u>
Estimated Equalized 2004 Valuation (divide 2004 municipal valuation by assessment ratio unless revaluation became effective within last 2 years then use actual municipal valuation)	<u>\$1,048,001,220</u>
Tax Commitment with 10 Mill Cap (multiply estimated equalized 2004 valuation by .010)	<u>\$10,480,012</u>
Voter Approved Debt (FY2005 payment on debt; only include current year payment on debt which was approved by the voters before 1999 or approved by at least 2/3 of the voters between 1999-2004)	<u>\$1,636,038</u>
Total Tax Commitment Allowed under Tax Cap (tax commitment with 10 mill cap plus voter approved debt service)	<u>\$12,116,050</u>
FY2005 Actual Total Tax Commitment	<u>\$17,719,184</u>
Estimated Property Tax Revenue Loss under Tax Cap FY2005 (actual commitment minus tax commitment allowed under Palesky)	<u>\$5,603,134</u>
Estimated Property Tax Revenue Loss as % of FY2005 Actual Total Tax Commitment	<u>32%</u>

Notes:

Valuation figure excludes homestead exemption. Total tax commitment includes estimated overlay and TIF.

2004 Municipal Valuation and FY2005 Actual Total Tax Commitment are estimates used for the current budget.

## **SUMMARY**

The Town of Gorham has a 2002 full value tax rate of 16.11 mills. For the 2004-05 fiscal year the town has an estimated property tax commitment of \$17,719,184. With a ten mill cap and allowance for voter approved debt service, the maximum commitment for Gorham would be reduced to \$12,116,050. This would be a loss in property tax revenues of \$5,603,134, or 32% of the current year property tax commitment.

Approximately 71% of the town's tax commitment goes to education, 23% to municipal services, and 4% to the county tax. Based on the last completed fiscal year and the town's current year budget, the town maintains an undesignated, unreserved fund balance of approximately 15% of general fund revenues. This is a prudent amount based on guidelines development by the Government Finance Officers Association.

With a loss of 32% of its property tax revenues under the proposed tax cap, and distributing the cuts according to current budget percentages, Gorham would need to make nearly \$4.0 million in cuts to its education department budget and \$1.6 million in cuts to its municipal operating budget. Among the municipal service areas that would experience the largest potential cuts in operating dollars would be public safety (including police, fire, and emergency medical services) with a cut of \$563,844, roads with a cut of \$253,486, and the library with a cut of \$84,495.

In terms of employment impacts, to meet the loss of revenues from the tax cap, the town would need to potentially cut approximately 25 full-time and 7 part-time positions, just on the municipal side of the budget. The municipal departments with the greatest potential total job losses would be public safety with 16 positions cut and public works with 6.

Services would be significantly impacted by the loss in revenues and positions under the Palesky tax cap proposal. Among the potential municipal service impacts include the loss of police detectives and dispatching, reduction of routine road maintenance, reduction of plow routes from 11 to 7, elimination of all road construction and paving projects, elimination of recreation field maintenance, and significant reductions in operating hours for the town office and library.

In addition to the municipal service cuts, the town would need to implement user fees and charges for many of its programs to cover 100% of costs. All of these impacts are on top of a cut of nearly \$4 million to the education budget, for which specific service impacts are not analyzed as part of this analysis.

## **SERVICE IMPACTS**

It is estimated that Gorham will lose 25 full-time positions and 7 part-time positions. Based on the magnitude of the loss of property tax revenue, Gorham anticipates some combination of the following cuts:

### **Public Safety**

- Significant reductions in police personnel would result in the cuts of both the School Resource Officer positions and detective positions.
- The Communication Department would likely be reduced to 4 1/2 positions or completely eliminated; the County would perform dispatch functions.
- All street lights, except those located near critical intersections, would be eliminated.

### **Public Works**

- Routine road maintenance would be reduced. The town would reduce the number of plow routes from 11 to 7.
- All road construction and paving projects would be eliminated.

### **Parks, Recreation and Library**

- The town would recommend the elimination of all recreation field maintenance, with users becoming responsible for maintenance; program fees would be increased.
- The Baxter Memorial Library would operate on a 3 day/week schedule; fewer books would be purchased and outreach services, such as home deliveries, to the homebound would be eliminated.

### **General Administration**

- The municipal office would be open 3-4 days per week rather than 5 days.

### **Education**

- Education will suffer a \$4 million cut. Service cuts while likely significant were not estimated for this analysis

### **Additional Impacts on Business**

- Sidewalks in the business district that are currently cleared of snow will likely not be cleared as quickly, and in some cases, may not be cleared at all.
- Longer plow routes on public roads will likely lead to more accidents and delays in transportation of goods.

### **Fees and Charges for Services**

- Gorham would increase user fees wherever possible, requiring the user to pay 100% of the cost of the service.
- Gorham may actually lose revenue from non-property taxes if the town is forced to eliminate positions in Code Enforcement and/or Rescue departments.

## **BUDGET BACKGROUND**

2002 Full Value Tax Rate	16.11
2005 % of Tax Commitment - Municipal	24%
2005 % of Tax Commitment - School	72%
2005 % of Tax Commitment - County	4%
Current Fiscal Year	Jul 1 04-Jun 30 05
Current Year General Fund Expenditures	\$22,665,473
Undesignated, Unreserved Fund Balance (in last completed fiscal year)	\$3,330,889
Undesignated, Unreserved Fund Balance as a % of Current Year Total General Fund Expenditures	15%
2005 Long-Term Debt Outstanding	\$32,902,542
2005 Five Largest Taxpayers	Valuation
Central Maine Power Company	\$25,854,300
Grondin, R.J. and Phillip	\$10,001,900
Gorham House	\$9,803,700
Maritimes and Northeast Pipeline	\$6,831,300
Gorham Savings Bank	\$6,685,700

### Notes

Tax commitment and budget data are estimates used for the current budget.

<b>Palesky Tax Cap Impact - Gorham</b>												
<b>Budget Impacts</b>												
<b>Expenditure Category</b>	<b>2005 Budget (Actual)</b>				<b>Estimated Budget Cuts under Palesky Tax Cap</b>				<b>2005 Estimated Budget under Palesky Tax Cap</b>			
	<b>Operating</b>	<b>Capital</b>	<b>Total (oper.+cap.)</b>	<b>Category Total as % of Total</b>	<b>Operating</b>	<b>Capital</b>	<b>Total (oper.+cap.)</b>	<b>Category Total as % of Total</b>	<b>Operating</b>	<b>Capital</b>	<b>Total (oper.+cap.)</b>	<b>Category Total as % of Total</b>
<b>General Administration</b>	<b>\$2,870,614</b>	<b>\$10,000</b>	<b>\$2,880,614</b>	<b>12.7%</b>	<b>\$601,216</b>	<b>\$10,000</b>	<b>\$611,216</b>	<b>10.4%</b>	<b>\$2,269,398</b>	<b>\$0</b>	<b>\$2,269,398</b>	<b>13.5%</b>
<b>Public Safety</b>	<b>\$2,696,132</b>	<b>\$96,903</b>	<b>\$2,793,035</b>	<b>12.3%</b>	<b>\$563,844</b>	<b>\$96,903</b>	<b>\$660,747</b>	<b>11.2%</b>	<b>\$2,132,288</b>	<b>\$0</b>	<b>\$2,132,288</b>	<b>12.7%</b>
Law Enforcement	\$1,268,819	\$66,933	\$1,335,752	5.9%	\$264,860	\$66,933	\$331,793	5.6%	\$1,003,959	\$0	\$1,003,959	6.0%
Fire	\$629,367	\$28,000	\$657,367	2.9%	\$131,618	\$28,000	\$159,618	2.7%	\$497,749	\$0	\$497,749	3.0%
Rescue	\$371,791	\$0	\$371,791	1.6%	\$77,996	\$0	\$77,996	1.3%	\$293,795	\$0	\$293,795	1.8%
Other Public Safety	\$426,155	\$1,970	\$428,125	1.9%	\$89,370	\$1,970	\$91,340	1.6%	\$336,785	\$0	\$336,785	2.0%
<b>Public Works</b>	<b>\$1,987,633</b>	<b>\$165,892</b>	<b>\$2,153,525</b>	<b>9.5%</b>	<b>\$253,486</b>	<b>\$165,892</b>	<b>\$419,378</b>	<b>7.1%</b>	<b>\$1,734,147</b>	<b>\$0</b>	<b>\$1,734,147</b>	<b>10.3%</b>
Roads	\$1,210,481	\$165,892	\$1,376,373	6.1%	\$253,486	\$165,892	\$419,378	7.1%	\$956,995	\$0	\$956,995	5.7%
Solid Waste	\$777,152	\$0	\$777,152	3.4%	\$0	\$0	\$0	0.0%	\$777,152	\$0	\$777,152	4.6%
Other Public Works	\$0	\$0	\$0	0.0%	\$0	\$0	\$0	0.0%	\$0	\$0	\$0	0.0%
<b>Codes, Health &amp; Human Services</b>	<b>\$210,276</b>	<b>\$0</b>	<b>\$210,276</b>	<b>0.9%</b>	<b>\$43,873</b>	<b>\$0</b>	<b>\$43,873</b>	<b>0.7%</b>	<b>\$166,403</b>	<b>\$0</b>	<b>\$166,403</b>	<b>1.0%</b>
<b>Parks, Recreation, &amp; Library</b>	<b>\$629,982</b>	<b>\$7,647</b>	<b>\$637,629</b>	<b>2.8%</b>	<b>\$131,617</b>	<b>\$7,647</b>	<b>\$139,264</b>	<b>2.4%</b>	<b>\$498,365</b>	<b>\$0</b>	<b>\$498,365</b>	<b>3.0%</b>
Parks and Recreation	\$222,933	\$7,647	\$230,580	1.0%	\$47,122	\$7,647	\$54,769	0.9%	\$175,811	\$0	\$175,811	1.0%
Library	\$407,049	\$0	\$407,049	1.8%	\$84,495	\$0	\$84,495	1.4%	\$322,554	\$0	\$322,554	1.9%
<b>Education (local appropriation from property taxes only)</b>	<b>\$12,588,286</b>	<b>\$0</b>	<b>\$12,588,286</b>	<b>55.5%</b>	<b>\$3,978,225</b>	<b>\$0</b>	<b>\$3,978,225</b>	<b>67.6%</b>	<b>\$8,610,061</b>	<b>\$0</b>	<b>\$8,610,061</b>	<b>51.3%</b>
<b>County Tax</b>	<b>\$659,977</b>	<b>\$0</b>	<b>\$659,977</b>	<b>2.9%</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$659,977</b>	<b>\$0</b>	<b>\$659,977</b>	<b>3.9%</b>
<b>Debt Service</b>	<b>\$595,172</b>	<b>\$0</b>	<b>\$595,172</b>	<b>2.6%</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$595,172</b>	<b>\$0</b>	<b>\$595,172</b>	<b>3.5%</b>
<b>Other (anything not included in above categories)</b>	<b>\$146,959</b>	<b>\$0</b>	<b>\$146,959</b>	<b>0.6%</b>	<b>\$30,873</b>	<b>\$0</b>	<b>\$30,873</b>	<b>0.5%</b>	<b>\$116,086</b>	<b>\$0</b>	<b>\$116,086</b>	<b>0.7%</b>
<b>TOTAL</b>	<b>\$22,385,031</b>	<b>\$280,442</b>	<b>\$22,665,473</b>	<b>100.0%</b>	<b>\$5,603,134</b>	<b>\$280,442</b>	<b>\$5,883,576</b>	<b>100.0%</b>	<b>\$16,781,897</b>	<b>\$0</b>	<b>\$16,781,897</b>	<b>100.0%</b>

**Notes:**

There would be no cuts to solid waste because solid waste is currently funded primarily through pay-per-bag fees

<b>Palesky Tax Cap Impact - Gorham</b>												
<b>Employment Impacts - excluding education</b>												
Service Category	2005 # of Positions (Actual)				Estimated Position Cuts under Palesky Tax Cap				2005 Estimated # of Positions under Palesky Tax Cap			
	Full Time	Part Time	Total (full+part)	Category Total as % of Total	Full Time	Part Time	Total (full+part)	Category Total as % of Total	Full Time	Part Time	Total (full+part)	Category Total as % of Total
<b>General Administration</b>	<b>15.6</b>	<b>1.2</b>	<b>16.8</b>	<b>15.1%</b>	<b>-4.5</b>	<b>-0.3</b>	<b>-4.8</b>	<b>15.1%</b>	<b>11.1</b>	<b>0.9</b>	<b>12.0</b>	<b>15.1%</b>
<b>Public Safety</b>	<b>39.6</b>	<b>16.0</b>	<b>55.6</b>	<b>50.1%</b>	<b>-11.5</b>	<b>-4.6</b>	<b>-16.1</b>	<b>50.7%</b>	<b>28.1</b>	<b>11.4</b>	<b>39.5</b>	<b>49.9%</b>
Law Enforcement	22.0	0.3	22.3	20.1%	-6.4	0.0	-6.4	20.1%	15.6	0.3	15.9	20.0%
Fire	5.6	11.0	16.6	15.0%	-1.6	-3.2	-4.8	15.2%	4.0	7.8	11.8	14.9%
Emergency Medical Services	4.0	4.8	8.8	7.9%	-1.2	-1.4	-2.6	8.1%	2.8	3.4	6.2	7.8%
Other Public Safety	8.0	0.0	8.0	7.2%	-2.3	0.0	-2.3	7.3%	5.7	0.0	5.7	7.2%
<b>Public Works</b>	<b>17.8</b>	<b>1.8</b>	<b>19.6</b>	<b>17.6%</b>	<b>-5.2</b>	<b>-0.5</b>	<b>-5.7</b>	<b>17.8%</b>	<b>12.7</b>	<b>1.3</b>	<b>13.9</b>	<b>17.5%</b>
Roads	17.8	1.8	19.6	17.6%	-5.2	-0.5	-5.7	17.8%	12.7	1.3	13.9	17.5%
Solid Waste	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%
Other Public Works	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%
<b>Codes, Health &amp; Human Services</b>	<b>3.4</b>	<b>0.9</b>	<b>4.3</b>	<b>3.8%</b>	<b>-1.0</b>	<b>-0.3</b>	<b>-1.3</b>	<b>4.1%</b>	<b>2.4</b>	<b>0.6</b>	<b>3.0</b>	<b>3.7%</b>
<b>Parks, Recreation, &amp; Library</b>	<b>9.6</b>	<b>3.7</b>	<b>13.3</b>	<b>12.0%</b>	<b>-2.8</b>	<b>-1.1</b>	<b>-3.9</b>	<b>12.3%</b>	<b>6.8</b>	<b>2.6</b>	<b>9.4</b>	<b>11.9%</b>
Parks and Recreation	3.6	0.0	3.6	3.2%	-1.1	0.0	-1.1	3.3%	2.6	0.0	2.6	3.2%
Library	6.0	3.7	9.7	8.7%	-1.7	-1.1	-2.8	9.0%	4.3	2.6	6.9	8.7%
<b>Other (anything not included in above categories)</b>	<b>1.0</b>	<b>0.5</b>	<b>1.5</b>	<b>1.4%</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>1.0</b>	<b>0.5</b>	<b>1.5</b>	<b>1.9%</b>
<b>TOTAL</b>	<b>87.0</b>	<b>24.0</b>	<b>111.0</b>	<b>100.0%</b>	<b>-24.9</b>	<b>-6.8</b>	<b>-31.7</b>	<b>100.0%</b>	<b>62.1</b>	<b>17.2</b>	<b>79.3</b>	<b>100.0%</b>

**Notes:**

The part-time employees, fire and rescue call force, and fire per diem employees are reported as FTE's under the part-time heading. The FY2004 actual hours paid were divided by 2080 (40 hrs x 52 weeks) to come up with the full-time equivalent.

Other = cable TV. positions

All data excludes education