

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

Prepared for:

Citizens to Reduce Local Property Taxes Statewide

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September 2004

## INTRODUCTION

The City of Rockland is located in Knox County and is the county seat. It is located on the coast in the midcoast area of Maine. It encompasses 15.1 square miles and has a population of 7,609. It was incorporated in 1848. Historically the city relied on shipbuilding, lime processing, granite quarrying, and commercial fishing and lobstering for its economic base. Today, these traditional industries are joined by retail and services as Rockland functions as a primary service center for communities in the midcoast region. The city is governed by a council/manager form of government and is part of SAD 5.

The City Manager and the Finance Director preformed the financial impact analysis and preparation of the budget. The City of Rockland has appointed a citizens group to provide analysis of the local impact. This Committee continues its work, and is separate from this process; although the assumptions listed below will be used for both analyzes. It is worth noting that the product from the Committee will be a more general discussion of the issues and impacts of the tax cap. The Town Manager can be reached at 207-594-0300 or [thall@ci.rockland.me.us](mailto:thall@ci.rockland.me.us).

To the extent possible, the information contained in this analysis is based on current applicable law. However, it is essential to make certain assumptions to forecast the impact of the proposal, as there are multiple technical and legal issues to be considered. All assumptions used in the calculation of the financial impact and likely implementation of the initiative are based legal advisory opinions from the Maine Attorney General and/or commentary from members of the Maine Supreme Court. The specific assumptions related to the financial impact can be summarized as follows:

- The 1% (or 10 mil) tax rate is applied to the 2004 municipal values in order to project 2004 revenue loss – projected loss at \$4.85M.
- All existing municipal debt is exempt from the 10 mil cap – 2004 annual debt service is \$717,000, translating into 1.1 mils; therefore total of 11.1 mils.
- Roll back provisions of the initiative to 1996/97 value will not be upheld – 2004 value used for impact analysis.

In preparing the budget with the tax cap imposed certain assumptions were as used. First, priority was given to those positions or municipal functions required by statute and all legal or contractual obligations. Second, public safety services, including Police, Fire/EMS and Public Works were given this highest priority. Municipal services that will be self-funded were retained – Fire, Harbor, and Solid Waste. Simply stated, not enough resources exist to provide these “essential services”, not to mention all the other services. Obviously, increases in existing fees and institution of new fees were considered as well in the proposed budget. Although the details of the new non-ad valorem service fees have not been developed, the City in its analysis limited these new fees to areas that we believe can be realistically accomplished, notwithstanding the concerns regarding collection.

**PROPERTY TAX REVENUE IMPACT**

2004 Municipal Valuation	<u>\$625,254,400</u>
Effective Date of Last Revaluation	<u>2003</u>
Assessment Ratio (02/04 ratio)	<u>0.98</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>\$625,254,400</u>
Tax Commitment with 10 Mill Cap (multiply estimated equalized 2004 valuation by .010)	<u>\$6,252,544</u>
Voter Approved Debt (annual 2004 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>\$714,002</u>
Total Tax Commitment Allowed under Tax Cap (tax commitment with 10 mill cap plus voter approved debt service)	<u>\$6,966,546</u>
2004 Actual Total Tax Commitment	<u>\$11,817,308</u>
Estimated Property Tax Revenue Loss under Tax Cap 2004 (actual commitment minus tax commitment allowed under Palesky)	<u>\$4,850,762</u>
Estimated Property Tax Revenue Loss as % of 2004 Actual Total Tax Commitment	<u>41%</u>

## **SUMMARY**

If the Palesky Tax Cap were to pass, the City of Rockland would lose an estimated 41 percent of its property tax revenues. The City currently maintains an undedicated, unreserved fund balance of around 9 percent of total General Fund expenditures. This is a level within the range recommended by the Government Finance Officers Association. The Town Manager summarizes the result of the analysis best,

“This process proved to be extremely challenging. Based on “reasonable” and “most likely” assumptions, the municipal government infrastructure of the City Of Rockland would be decimated with passage of the tax cap as proposed. The number of legal and technical glitches in the initiative are problematic and confirm our belief that this is poor legislation at best”.

Due to the magnitude of the revenue loss in Rockland, all services would be impacted and many of them severely including:

- Elimination of 3 public safety positions (1 officer, Traffic Enforcement Officer, MDEA Agent).
- Elimination of 4 public works positions.
- Total elimination of the library and recreation programs from property tax support.

Yet, in spite of the significant and drastic cuts in municipal services, a \$1.38 million shortfall remains in the estimated budget under the tax cap. According to the City Manager, the only way to close the gap to live within the constraints imposed by the tax cap would be to eliminate any tax support for Police and Public Works. If it came to this, law enforcement would be turned over to the Knox County Sheriffs Office and, a service/user fee could perhaps support Public Works.

## **SERVICE IMPACTS**

In attempting to determine the impact on municipal services of a \$4.85 million reduction, the City chose to prioritize services in the following categories:

**Statutory** – Those positions expressly required by statute or local charter. These positions are as follows: Assessor, Animal Control Officer; Code Enforcement Officer/Health Officer, Tax Collector/Treasurer, Clerk and City Manager, Harbormaster and overlay.

**Core** – Public Safety: Police, Fire/EMS and Public Works; street lights and fire hydrants; general government (including administrative, finance, legal and insurance); Contractual obligations – debt service, dispatching, TIF payments.

**Non-Core** – Library, Recreation, Engineering, Community Development, support staff

**Discretionary**- Rockland Fish Pier, Shore Village Museum, external support

The post tax cap budget reflects municipal services in the “statutory” and “core services” categories only. All “non-core” and “discretionary” services are totally eliminated, with the exception of departments that are self-funded – Solid Waste, Fish Pier and Harbor.

Impacts on specific service areas include:

### **General Administration**

- Generally, all departments in this category were classified as core and therefore essential to be maintained at some basic level.
- With the exception of insurance, all received a 30% reduction in appropriation. These departments are essential for the basic functioning of government.

### **Public Safety**

- Stated as a priority.
- In order maintain professional full-time Police coverage, three positions were eliminated (1 officer, Traffic Enforcement Officer, MDEA Agent and part time ACO and summer traffic officer), along with all special duty assignments.
- Full-time, career professional Fire/EMS personnel remain in tact through support from increased fees for inspection/licensing and a new non- ad valorem Fire District Service Fee and existing EMS fees.
- Dispatching is contracted through Knox County and therefore is an obligation that must be maintained. Harbormaster is self – funded through fees.

### **Public Works**

- Maintained as a core service, although significantly decreased budget, with the loss of four FT positions.
- Elimination of fall/spring clean-up.

- No snow removal of snow in downtown.
- Sidewalks turned over to residents.
- Abandonment of “bare roads” policy.
- No assistance to other departments or organizations.
- Sewer Fund responsible for maintenance of combined sewer system.

### **Codes/Human Services**

- Elimination of one staff member in Code Office.
- General Assistance maintained as part-timer.

### **Recreation and Library**

Total elimination of both departments, resulting in layoff of 3 FT/10 PT in Recreation and 6 FT/4PT in the Library.

### **Education**

As Rockland participates in SAD#5 with two other communities, no impact projected for schools. The financial impact on Rockland would be reduced if the school and county were required to live within the cap and share proportionally in the burden.

### **Debt Service**

Contractual obligation, therefore full debt service requirements included. Since all debt was voter approved it is assumed exempt from the tax cap (totals 1.1.mils). Assumption disregards 2/3 requirement.

### **Other**

In spite of these significant and drastic cuts in municipal services, a \$1.38 M shortfall remains. The only way to close the gap to live within the constraints imposed by the tax cap would be to eliminate any tax support for Police and Public Works. If it came to this, law enforcement would be turned over to the Knox County Sheriffs Office and, a service/user fee could perhaps support Public Works.

### **BUSINESS IMPACTS**

- As a service center, Rockland has a higher than average percentage of non-profit organizations who are tax exempt. New service fees would extend to this sector; therefore, they would be affected.
- Generally speaking the commercial and industry tax payers will benefit the most from the tax cap as the “higher value” properties stand to benefit the most from the cap. However, the negative impact on communities, through reduced municipal services and educational systems, may have a negative impact on business.
- This initiative does little to improve the dire situation of “affordable housing”, a problem that plagues all coastal communities and one that is extremely important to the business community.

## **ADDITIONAL IMPACTS**

There are several ancillary impacts that should be considered. The following represents a discussion of these unintended consequences:

### **Bond/Credit Ratings**

From time to time, all municipalities borrow money and incur long-term debt to fund large capital projects. The tax cap stands to hamper our ability to receive favorable bond ratings, which in turn results in higher interest rates. In a typical long-term borrowing scenario, a municipality pledges “its faith and credit”; however with a tax cap, our ability to raise money through taxation is limited, which will translate into higher rates. This is particularly important in that the post tax cap environment will require more long-term borrowing as sufficient funds will not be available through the annual budget process.

### **Homeowners Insurance costs**

Any reduction or alternation of Police and Fire services will result in higher homeowner’s insurance costs. It is impossible to calculate the increase in comparison to savings from property taxes, but certainly there will be some shift in costs.

### **Tax Deductions**

The tax cap will result is a shift from property taxes to user or services fees to support municipal services. With this transition, property owners will lose the ability to deduct property taxes from state and federal income taxes.

## **NON PROPERTY TAX REVENUE IMPACTS**

Alternative revenue sources must be considered. Certainly all “services” the City offers must be considered for fees to cover costs.

The following are current fees for which increases would be considered:

- Building Permits
- Parking fines
- Harbor and Waterfront fees
- Special Event fees

The following fees would also be considered:

- Solid Waste - Pay-As-You-Throw, Landfill Tipping fees.
- Fire District - fee based on “fire risk” - consider such factors such as square footage, occupancy (use), construction type, etc.
- Fire Hydrant - perhaps included with Fire District or stand-alone.
- Street Light - fee assessed on front foot basis.
- Public Works - front foot assessment or based on parcel size.

The overriding concern regarding increased and particularly new fees is that they are soft estimates. It is unknown whether residents will pay more for fees or whether service fees could be assessed on an equitable basis to pass legal muster. Finally, and most

importantly, the uncertainties surrounding collection methods make it difficult to rely on fees to fund municipal services. The Legislature must provide for guaranteed methods for collection, similar to the lien and automatic foreclosure process. In spite of these concerns we see no alternative than to institute fees to cover essential municipal services.

**BUDGET BACKGROUND**

2002 Full Value Tax Rate	21.90
2004 % of Tax Commitment – Municipal	44%
2004 % of Tax Commitment – School	50%
2004 % of Tax Commitment – County	5%
Current Fiscal Year	
Current Year General Fund Expenditures	\$15,436,529
Undesignated, Unreserved Fund Balance (in last completed fiscal year)	\$1,371,229
Undesignated, Unreserved Fund Balance as a % of Current Year Total General Fund Expenditures	9%
2004 Long-Term Debt Outstanding	\$4,751,565
2004 Five Largest Taxpayers	Valuation
Marine Colloids, Inc.(FMC)	\$32,696,200
Bracebridge Corp. (MBNA)	\$22,433,800
Douglas Dynamics, LLC (Fisher Plows)	\$10,605,800
Wal-Mart Real Estate Business Trust	\$8,989,400
Harbor Plaza, LLC	\$8,593,000

Budget Impacts Rockland												
Expenditure Category	2004 Budget (Original) (Actual)				Budget Cuts under Palesky Tax Cap				2004 Budget under Palesky Tax Cap			
	Approps	Non-Tax Revenues	Net	Capital	Approps	Non-Tax Revenues	Net	Capital	Approps	Non-Tax Revenues	Net	Capital
General Administration												
Legistature	4200	0	4200		-4200	0	-4200		0	0	0	
Executive	111499	0	111499		-33450	0	-33450		78049	0	78049	
Assessment	102231	-218246	-116015		-30669	0	-30669		71562	-218246	-146684	
Finance	209668	-972950	-763282		-62900	0	-62900		146768	-972950	-826182	
Legal	81588	-850	80738		-24476.4	0	-24476.4		57112	-850	56262	
City Clerk	99389	-46450	52939		-29817	0	-29817		69572	-46450	23122	
Registration & Election	14685	-75	14610		-4405	0	-4405		10280	-75	10205	
General	75035	-1500	73535		52525	0	52525		127560	-1500	126060	
City Hall	35843	0	35843		25090	0	25090		60933	0	60933	
Engineering	72229	-4275	67954		-72229	4275	-67954		0	0	0	
Law Enforcement	1010090	-60300	949790		-122026	0	-122026		888064	-60300	827764	
Fire	850619	-60728	789891		0	-789891	-789891		850619	-850619	0	
Dispatch Services	123418	0	123418		0	-61709	-61709		123418	-61709	61709	
Public Works	969539	-137000	832539		-292944	0	-292944		676595	-137000	539595	
Solid Waste	905499	-407747	497752		0	-497752	-497752		905499	-905499	0	
Street Lights & Hydrants	499197	0	499197		0	-286000	-286000		499197	-286000	213197	
Code Enforcement	103862	-38400	65462		0	-38400	-38400		103862	-76800	27062	
Recreation	224474	-26750	197724		-224474	26750	-197724		0	0	0	
Harbor & Waterfront	143638	-124850	18788		0	-18788	-18788		143638	-143638	0	
Municipal Fish Pier	121660	-121660	0		0	0	0		121660	-121660	0	
Shore Village Museum	34970	-26350	8620		-34970	26350	-8620		0	0	0	
Library	313380	-34245	279135		-313380	34245	-279135		0	0	0	
Debt Service	893475	0	893475		0	0	0		893475	0	893475	
Community Development	58447	0	58447		-58447	0	-58447		0	0	0	
General Assistance	17202	-4000	13202		-5161	0	-5161		12041	-4000	8041	
Contributions to Service Orginazations & Agencies	30000	0	30000		-30000	0	-30000		0	0	0	
Unclassified--Fringe Benefits	1257518	0	1257518		-170362	-325312	-495674		1087156	-325312	761844	
Unclassified--Other	323912	0	323912		-15381	-42160	-57541		308531	-42160	266371	
TIFF Reimbursement	57443	0	57443		0	0	0		57443	0	57443	
Overlay	198790	0	198790		-50000	0	-50000		148790	0	148790	
CIP (General Fund) Waldo Avenue Drainage				30685	0	0	0	-30685				0
<b>Sub Total</b>	<b>8943500</b>	<b>-2286376</b>	<b>6657124</b>		<b>-1501676</b>	<b>-1968392</b>	<b>-3470068</b>	<b>-30685</b>	<b>7441823.6</b>	<b>-4254768</b>	<b>3187055.6</b>	<b>0</b>
<b>SAD #5 (committed Budget)</b>	<b>5953221</b>	<b>0</b>	<b>5953221</b>		<b>0</b>	<b>0</b>	<b>0</b>		<b>5953221</b>	<b>0</b>	<b>5953221</b>	
<b>Knox County</b>	<b>552835</b>	<b>0</b>	<b>552835</b>		<b>0</b>	<b>0</b>	<b>0</b>		<b>552835</b>	<b>0</b>	<b>552835</b>	
<b>Total</b>	<b>15449556</b>	<b>-2286376</b>	<b>13163180</b>		<b>-1501676</b>	<b>-1968392</b>	<b>-3470068.4</b>		<b>13947879.6</b>	<b>-4254768</b>	<b>9693111.6</b>	
Payment in lieu of taxes		-35000								-35000	-35000	
Use of Fund Balance		-248497								-248497	-248497	
Other Non-Tax Revenues		-1062375								-1062375	-1062375	
<b>Total Non-Tax Revenues</b>		<b>-3632248</b>								<b>-5600640</b>	<b>8347239.6</b>	
<b>Tax Revenue</b>		<b>-11817308</b>								<b>-6966546</b>	<b>-6966546</b>	
<b>Total Revenues</b>		<b>-15449556</b>								<b>-12567186</b>		
<b>Deficit</b>										<b>1380693</b>	<b>1380693</b>	

Employment Impacts - Rockland						
Service Category	2004 # of Positions (actual)		Estimated 2004 # of Positions Cut under Palesky tax Cap		Estimated 2004 # of Positions under Palesky tax Cap	
	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time
General Administration						
Legistature	0	5	0	0	0	5
Executive	1	2	0	-1	1	1
Assessment	3	0	-1	0	2	0
Finance	4	0	-1	0	3	0
Legal	1	1	-1	-1	0	0
City Clerk	2	0	-1	0	1	0
Registration & Election	0	4	0	-1	0	3
General	0	0	0	0	0	0
City Hall	0	0	0	0	0	0
Engineering	1	1	-1	-1	0	0
Law Enforcement	22	2	-3	-2	19	0
Fire	16	25	0	0	16	25
Dispatch Services	0	0	0	0	0	0
Emergency Medical Services (Separate Fund) (User Fees)						
Other Public Safety						
Public Works	16	2	-4	-2	12	0
Solid Waste	7	1	0	0	7	1
Street Lights & Hydrants	0	0	0	0	0	0
Code Enforcement	3	0	-1	0	2	0
Recreation	3	10	-3	-10	0	0
Harbor & Waterfront	2	5	0	0	2	5
Municipal Fish Pier	1	1	0	0	1	1
Shore Village Museum	1	1	-1	-1	0	0
Library	6	4	-6	-4	0	0
Education (local appropriation from property taxes only)						
Debt Service	0	0	0	0	0	0
Community Development	1	1	-1	-1	0	0
General Assistance	0	1	0	0	0	1
Contributions to Service Orginazations & Agencies	0	0	0	0	0	0
Unclassified--Fringe Benefits	0	0	0	0	0	0
Unclassified--Other	0	0	0	0	0	0
TIFF Reimbursement	0	0	0	0	0	0
Overlay	0	0	0	0	0	0
CIP (General Fund) Waldo Avenue Drainage Project	0	0	0	0	0	0
Other (anything not included in above categories, please describe)	0	0	0	0	0	0
<b>Total</b>	<b>90</b>	<b>66</b>	<b>-24</b>	<b>-24</b>	<b>66</b>	<b>42</b>