
CHAPTER 4: FISCAL CAPACITY

Property Tax Base

The property tax base of a community is its most important financial asset. A community with a relatively high valuation can raise a given sum of money with a relatively low tax rate. On the other hand, a community with a relatively low valuation will need a higher tax rate to raise the same sum of money.

In general, communities with substantial commercial and industrial development tend to have higher valuations than residential communities. Waterville has a relatively low valuation, in part because industrial property constitutes only a small percentage of the tax base. Table 4-1 shows assessed value by land use as a percentage of total assessed valuation.

TABLE 4-1					
ASSESSED VALUE BY LAND USE 2012					
	INDUSTRIAL	COMMERCIAL	RESIDENTIAL	EXEMPT	TOTAL
Assessed Value	\$39,581,200	\$203,655,400	\$346,031,000	\$167,987,000	\$757,254,600
Percent Of Total	5%	27%	46%	22%	100%

Source: City of Waterville Assessor, March 2013

The City's largest tax bills are summarized in Table 4-2. Listings with no assessor parcel number are personal property bills. Note, for example, that Huhtamaki pays considerably more personal property taxes (on formed fiber machinery) than real estate taxes (on the half of its building that is located in Waterville).

Huhtamaki and Mid-State Machine are the only industries among the recipients of the highest tax bills. Three of the highest taxed properties are either residential (Crestwood Park Apartments on West River Road and Thayer Garden Apartments on Quarry Road) or mixed uses with apartments (the Hathaway Creative Center).

TABLE 4-2					
HIGHEST TAXED PROPERTIES 2013					
REAL ESTATE AND PERSONAL PROPERTY					

Map	Block	Lot	Owner's Name	Total Assessment	Taxes @ .02565
			HUHTAMAKI INC	\$ 15,838,500.00	\$ 406,257.53
61	80		WALMART STORES INC	\$ 13,860,800.00	\$ 355,529.52
61	90		ELM PLAZA CORPORATION	\$ 12,568,100.00	\$ 322,371.77
			Mid-State Machine	\$ 9,318,100.00	\$ 239,009.27
44	319		MERIMIL LIMITED PARTNERSHIP (Hydro-power facilities at the Hathaway Creative Center)	\$ 9,111,300.00	\$ 233,704.85
41	102		WP2011 WATERVILLE ASSOCS LLC (Shaw's Plaza)	\$ 8,033,700.00	\$ 206,064.41
44	311		HATHAWAY MILL PO LLC (Commercial and residential)	\$ 7,000,000.00	\$ 179,550.00
61	80	3	HD DEVELOPMENT OF MARYLAND INC (Home Depot)	\$ 5,907,200.00	\$ 151,519.68
27	38		WOODLANDS INC (Assisted Living)	\$ 5,585,100.00	\$ 143,257.82
1			CENTRAL MAINE POWER CO (Transmission lines throughout the City)	\$ 5,395,600.00	\$ 138,397.14
69	12		HUHTAMAKI INC	\$ 4,656,500.00	\$ 119,439.23
58	93		HYDRO KENNEBEC LLC (Kennebec River Dam)	\$ 4,090,600.00	\$ 104,923.89
62	4		GIRI WATERVILLE LLC (Best Western Motel)	\$ 4,073,100.00	\$ 104,475.02
63	259		MAINE CENTRAL RAILROAD CO	\$ 3,318,700.00	\$ 85,124.66
22	130		EWT LLC 3 (Crestwood Park Apartments)	\$ 3,199,300.00	\$ 82,062.05
41	5		KMD INVESTMENTS LLC (Marden's)	\$ 3,116,300.00	\$ 79,933.10
61	30		EWT LLC 8 (Thayer Garden Apartments)	\$ 2,945,600.00	\$ 75,554.64
41	82		VICKERY COMPANY LLC (Hampton Inn)	\$ 2,924,100.00	\$ 75,003.17
37	257	3	HANNAFORD BROS CO (JFK Mall)	\$ 2,655,700.00	\$ 68,118.71
41	102	2	WP2011 WATERVILLE ASSOCS LLC (Flagship Cinema)	\$ 2,569,500.00	\$ 65,907.68
37	257		WP WATERVILLE ASSOCIATES LLC (Portion of JFK Mall)	\$ 2,292,500.00	\$ 58,802.63
			WALMART STORES INC	\$ 2,076,500.00	\$ 53,262.23
43	118		OAK GROVE REALTY LLC (Nursing Home)	\$ 2,034,100.00	\$ 52,174.67
37	257	1	WP WATERVILLE ASSOCIATES LLC (Portion of JFK Mall)	\$ 2,025,300.00	\$ 51,948.95

Source: Waterville City Assessor March 2013

Tax Exempt Property

Aside from the City's heavily residential tax base, a second reason that Waterville has a relatively low assessed valuation is that the City has a high percentage of tax exempt real property. Table 4-1 shows that 22% of Waterville's assessed valuation is tax exempt. This compares with Augusta at 28% (with a considerable amount of State-owned real estate) and Winslow at 8%. (Source: Maine Revenue Services, Municipal Valuation Return Statistical Summary on line.)

Table 10-1 in Chapter 10: Existing Land Use shows that in 2012, of the 7,559 acres of land in Waterville, 2,449 acres, or 32 percent, were tax exempt. By far the highest number of tax-exempt acres is owned by the City (1,207 acres), followed by colleges (794 acres) and, at much lower numbers, churches (132 acres) and hospitals (118 acres). Other owners of tax-exempt property include Kennebec Water District (KWD), Kennebec Sanitary Treatment District (KSTD), Waterville Sewerage District (WSD), Waterville Housing Authority, the State of Maine, the U.S. government, and various charitable and fraternal organizations. Seton Village Inc owns Seton Village, which has its own tax-exempt assessing code. That is, Seton Village is not included in the church category above.

Small Footprint

A third reason for Waterville's low valuation is the relatively small land area of the City. Map 4-1 shows Waterville within the Kennebec Valley Council of Governments (KVCOG) region. Waterville is only 13.58 square miles, as compared to Winslow's 36.82 square miles, and Augusta's 55.13 square miles. (Source: QuickFacts, U.S. Census Bureau on line)

Historical Valuations and Taxes

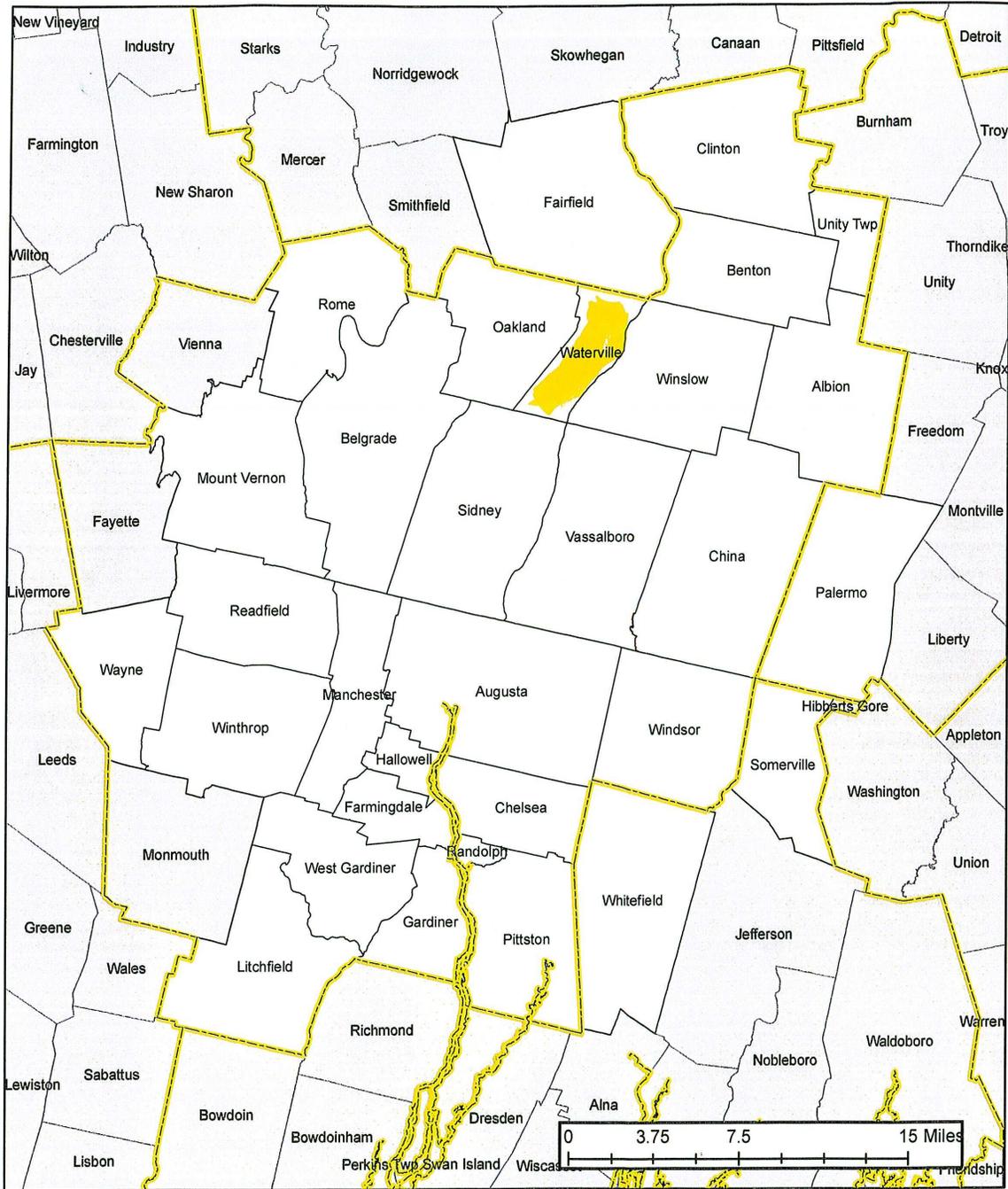
The State Bureau of Property Taxation bases its compilation on actual property transactions so as to reflect market conditions. The State figures for any given year are two years old and thus do not reflect recent market changes. Waterville's figures reflect market conditions only in those years when it conducts a revaluation and adjusts its values to reflect market conditions. Assessed valuation may, however, remain at 100% of market value for several years after a revaluation, as was the case for the thirteen years from 1994 through 2006.

Revaluation

State law requires that when a municipality's valuation drops below 70% of State valuation, the community must undertake a revaluation. Twenty years after Waterville's last complete revaluation in 1993, the City Assessor estimated that a complete revaluation would cost approximately \$400,000.

Table 4-3 provides an overview of Waterville's valuation over time. The table includes both State and City figures for the past few years and for 1995.

Information for 1995 is included to provide some historical perspective on mil rate and municipal value. 1995 was a decade before the Waterville Commons Shopping Center was completed. Chapter 10: Existing Land Use includes a list of development projects constructed between 1996 and 2012.



MAP: 4-1

For Planning Purposes Only
Created 12-30-2010 by IWR

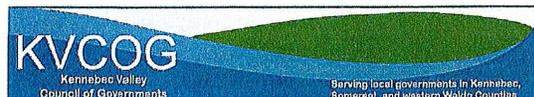


Table 4-3					
HISTORICAL VALUATIONS AND TAXES					
Year	State Valuation	Municipal Valuation	City % of State Valuation	Waterville Tax Assessment	Tax Rate (Mils)
1995-96	\$544,600,800	\$540,083,000	100	\$12,043,851	\$22.30
2008-09	\$819,200,000	\$629,709,444	74.8	\$ 15,806,138	\$24.40
2009-10	\$824,050,000	\$631,590,746	72.6	\$ 15,749,161	\$24.15
2010-11	\$810,050,000	\$632,481,608	79.2	\$ 15,744,598	\$24.15
2011-12	\$789,200,000	\$627,873,184	79.2	\$ 15,994,798	\$24.65
2012-13	\$771,800,000	\$634,964,728	79.2	\$ 16,555,349	\$25.65
2013-14	Not Available	Not Available	82.5	Not Available	Not Available

Source: City of Waterville Assessor.

TABLE 4-4				
COMPARATIVE VALUATION FIGURES 2012				
Municipality	2010 Population	2012 State Valuation	State Valuation Per Capita	Valuation Per Capita Rank
Waterville	15,722	\$789.2 million	\$50,197	5
Augusta	19,136	\$1,518.85 million	\$79,371	2
Winslow	7,794	\$578.05 million	\$74,166	3
Oakland	6,280	\$502.8 million	\$80,063	1
Fairfield	6,735	\$368.55 million	\$54,721	4

Source: U.S. Census and Maine Revenue Service Property Tax Division (on line).

Valuation Comparisons

Waterville's wealth relative to other communities can be measured by comparing State valuations and value per capita. Table 4-4 contains those numbers for Waterville, Augusta, Winslow, Oakland, and Fairfield. Waterville's State valuation is considerably higher than the valuations of the smaller towns. However, Waterville has considerably less value per capita than the smaller towns, because Waterville has so much more population than each of those towns.

Tax Comparisons

Not surprisingly, Waterville's relatively low per capita valuation results in relatively high tax rates. Table 4-5 shows that Waterville's full value tax rate is higher than Augusta's and the tax rates of all towns abutting Waterville (with the exception of Fairfield), for which Waterville functions as a service center. Waterville's tax rate falls between those of Brunswick and Lewiston, the homes of Bowdoin College and Bates College.

TABLE 4-5 COMPARATIVE FULL VALUE TAX RATES 2010
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MUNICIPALITY	TAX RATE 2011	FULL VALUE TAX RATES 2010*
Waterville	24.65	18.74
Augusta	17.30	16.77
Winslow	15.50	15.22
Fairfield	19.20	18.97
Oakland	13.05	12.20
Benton	11.50	9.57
Sidney	10.00	9.14
Vassalboro	10.00	10.46
Brunswick	23.68	14.41
Lewiston	25.79	20.18

Source: Tax Rate: Maine Revenue Service Property Tax Division (on line).

Full Value Tax Rate: Maine Municipal Association.

*Homestead, BETE, and TIF adjusted

TABLE 4-6
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
2008-2013 (For the Year Ended June 30)

	2007-2008 Actual	2008-2009 Actual	2009-2010 Actual	2010-2011 Actual	2011-2012 Actual
<u>Revenue</u>					
Taxes	17,033,185	16,692,662	16,519,710	16,695,017	16,943,352
Intergovernmental	15,371,759	15,252,745	13,835,804	12,970,453	14,030,940
Other	4,195,979	4,684,352	3,576,210	5,897,214	3,381,955
Total Revenues	36,600,923	36,629,759	33,931,724	35,562,684	34,356,247
<u>Expenses</u>					
City Expenditures	15,974,621	18,821,991	15,131,988	15,711,161	15,651,247
School Expenditures	19,364,456	19,858,379	19,330,246	18,664,944	19,432,358
Total Expenditures	35,339,077	38,680,370	34,462,234	34,376,105	35,083,605
Change in Fund Balance	(1,261,846)	2,050,611	530,510	(1,186,579)	727,358
Ending Fund Balance	10,353,624	8,303,013	7,772,503	8,959,082	8,231,724

Declining Revenue

	2007-2008 Actual	2008-2009 Actual	2009-2010 Actual	2010-2011 Actual	2011-2012 Actual
Excise Tax	1,548,444	1,461,043	1,429,547	1,447,982	1,473,415
Revenue Sharing	2,924,537	2,406,580	1,854,621	1,725,518	1,713,395
School Subsidy	11,641,637	12,033,850	11,487,368	10,973,230	11,758,027

Provided by the City Finance Director, April 2013.

Revenues and Expenditures

Waterville's General Fund revenues and expenditures over the past five years are shown in Table 4-6. School expenditures account for well more than half of Waterville's expenses. Critical Revenue Sharing from the State and excise tax on automobile sales in Waterville both are down since 2008.

Personal Property

Table 4-3 shows that the City has experienced only minimal growth in assessed valuation over the past five years. A direct consequence of the enactment of the Business Equipment Tax Exemption (BETE) program in 2008 has been a steady erosion of the local personal property tax base. (See below.) That trend is expected to continue. Personal property is defined as furniture and fixtures, machinery and equipment used in trade.

Personal Property Valuations:

Year	Assessed Valuation	Assessed BETE Valuation	Total Valuation
2008/2009	\$83,644,500	\$4,744,340	\$88,388,840
2009/2010	\$77,716,600	\$8,660,527	\$86,377,127
2010/2011	\$72,310,700	\$11,041,589	\$83,352,289
2011/2012	\$66,758,700	\$10,415,236	\$77,173,936
2012/2013	\$69,228,500	\$7,173,239	\$76,401,739

Provided by City Assessor, April 2013.

Use of Surplus

The City's undesignated fund balance or surplus is the cash balance remaining in the City's general fund when all financial obligations have been met at the end of the fiscal year. These funds are from greater than expected revenue and/or lower than budgeted expenses.

The City strives to use reserves for capital improvements and not for operational needs. This was true for the period 2001-2008, but since then, the City has had to rely on the use of surplus each year to balance the budget. Fortunately, the City's fund balance (surplus) far exceeded the amount required by policy.

As of April 2013, the City Council's policy is to maintain a surplus of at least 16% of the total budget, about two months of operating expenses or about \$6 million. The surplus currently is at \$6 million. If revenues do not increase, the City will have to raise taxes, decrease services, reduce the surplus below 16% of total budget, or make a combination of those changes.

The amount of undesignated fund balance that the City needs to maintain depends upon several factors. The loss of critical revenue from the State (for the City and schools) is an important reason for a surplus cushion. Reserves should be sufficient to cover uncollected property taxes. If, for example, the City were to conduct a revaluation causing the tax burden to increase on homeowners and causing more to be unable to pay their taxes, the City would need to have more

reserves to cover the loss. Reserves also should be adequate to cover non-payment by both major taxpayers and related businesses that are dependent upon the largest taxpayers, in the event that they suspend operations in the City. Fortunately, (or unfortunately), there is no one taxpayer big enough to threaten property tax revenue collections. A lack of alternative revenues to fund City services, should property tax revenue decline, is an additional reason to maintain a high fund balance.



PROPOSED CAPITAL IMPROVEMENT PROJECTS

2012-2016

DEPT.	ITEM	EST COST	REQUEST 2012-2013	REQUEST 2013-2014	REQUEST 2014-2015	REQUEST 2015-2016
ADMINISTRATION	Property Revaluation	\$350,000				\$350,000
AIRPORT	Runway 14-32 Reconstruction	\$50,000	\$50,000 **			
	Runway 5-23 Reconstruction	\$445,000		\$45,000	\$200,000	\$200,000
	Pavement repairs	\$25,000	\$25,000			
	Equipment	\$245,000	\$245,000 **			
PARKS AND REC.	Equipment	\$210,295	\$65,295 **	\$67,000	\$40,000	\$38,000
	Equipment	\$112,000	\$112,000			
	Facilities (tennis court)	\$100,000	\$100,000			
	Cemetery Chapel	\$50,000	\$50,000			
	Head of Falls	\$400,000				\$400,000
	Pool Repair	\$150,000				\$150,000
PUBLIC SAFETY	Fire Station Boiler	\$15,000	\$15,000 **			
	Fire Engine	\$400,000	\$74,785 **			
	Fire alarm system upgrade	\$57,290	\$57,290			
	Equipment	\$60,000	\$60,000			
	Rescue Vehicle	\$100,000				\$100,000
	New Police Station	\$3,419,615	\$3,419,615 **			
PUBLIC WORKS	Equipment	\$1,396,425	\$261,425 **	\$295,000	\$405,000	\$435,000
	Equipment	\$265,000	\$265,000			
	Facilities	\$150,000	\$150,000 **			
	Road Reconstruction	\$1,500,000	\$1,500,000 **			
	Trafton Road Interchange	?				
	Airport Road Extension	?				
	Traffic Study	?				
SCHOOL	High School Repairs (Phase 4 & 5)	\$5,300,000				\$5,300,000
TOTAL		\$14,800,625	\$6,450,410	\$407,000	\$645,000	\$6,973,000

**To be funded through 2013 Bond Issue

Capital Improvement Program

Capital improvement planning is done on a five-year basis. Each year the City removes one year from the schedule, updates the remaining years, and adds a new one. There are times when needs are removed altogether and other times when items are delayed or rushed to the front.

As stated earlier, the preferred financing option is to pay for necessary improvements from the City's cash on hand (surplus). For some improvements (library renovation, police station construction) it makes much more sense to borrow to pay for these in order to have future residents (users) help to support them.

Regionalization of Services and Facilities

The City shares both services and facilities with neighboring communities.

- **Emergency Services:** Currently, the City has mutual aid agreements for fire and police protection and shares a fire chief with Winslow. The City provides dispatching of emergency services to seven (7) other towns for a fee.
- **Utilities:** We partner through the Waterville Sewerage District, the Kennebec Water District, and the Kennebec Sanitary Treatment District.
- **Solid Waste:** The City and the town of Winslow both share the use of the Oakland Transfer Station and the agreement for waste transport to the trash incinerator in Orrington. The City also partners with Winslow in the Waterville-Winslow Solid Waste Corporation for recycling purposes.
- **Schools:** The City is a member of AOS 92. The City houses the superintendent's office and the Regional Area Resource Center and owns the Mid-Maine Technical Center which serves students from many other towns. Waterville also is home to Educare, a regional early childhood learning center attached to the Mitchell School.
- **Recreation:** The City welcomes residents of other towns to use our municipal swimming pool (for a small fee), Pine Ridge Golf Course, and our Quarry Road Recreation Area, among many other recreation facilities.
- **Technology:** The City provides information technology support to Winslow, Oakland, and Clinton on a fee basis.
- **Economic Development:** The City co-owns FirstPark, an industrial park, with twenty-three other towns. Waterville also supports Central Maine Growth Council, an economic development agency, as well as the Mid-Maine Chamber of Commerce, and Kennebec Valley Council of Governments, a regional planning agency.
- **Waterville Public Library:** WPL is used by residents of other towns for a fee.

At the present time, the City does not see any substantial fiscal capacity enhancements by combining other municipal services with area towns. Over the years, the City has tried to share even more facilities with our neighbors. However, other towns have declined Waterville's proposals to combine police and fire departments, to share a high school, and to regionalize the airport.

For more information, see Chapter 6: Public Facilities and Services.

Development Patterns and the Cost of Service Provision

Sprawl and the high cost of providing services to far flung development has not been an issue in Waterville over the past decade. Map 10-2 in Chapter 10: Existing Land Use shows that most of the growth in Waterville since 2000 has occurred in the designated growth areas of the City. In fact, a considerable amount of recent development has occurred in renovated buildings or on redeveloped sites near the downtown. Furthermore, given that the State projects minimal population growth in Waterville over the next decade, sprawl is not expected to be a concern over the ten-year life of this plan.

Tax Increment Financing (TIF)

Tax increment financing (TIF) allows the City to shelter increases in valuation from losses in State revenue sharing and State general purpose aid to education (GPA).

Waterville currently has seven TIF districts. Those are:

- Main Street (Elm Plaza, Waterville Commons, and nearby land on the north side of Main Street),
- Huhtamaki,
- Airport,
- Downtown,
- Mid-State Machine,
- Lockwood (Hathaway), and
- Gilman Place.

The State placed a cap of 5% on the number of acres any community may have in TIF Districts. Waterville has a total of 9,016 acres including streams, ponds, and roads, which allows us to TIF 450 acres. Currently, we have 384.16 acres in TIFs, including the 160.44 acres in our Downtown TIF which the State exempts from the cap. The Elm Plaza TIF will expire in 2017, freeing up 91 acres for new TIFs.

In addition to restricting the number of acres in TIFs, the State also placed a cap of 5% on the original assessed value (OAV) that any community may have in TIF districts. The OAV of our Downtown TIF, \$52,033,100, is exempt from that total. At this time, Waterville has only \$19,162,730 of OAV that counts toward our 5% cap. Waterville can TIF approximately double that amount of value.

Long Term Debt

Table 4-9 contains a summary of the City's long-term debt, showing the balances remaining at the end of the fiscal year. By law, the City's total indebtedness cannot exceed 15% of the total State valuation for the City. However, the State recommends that debt not exceed 5% of State valuation. For Waterville, maximum debt recommended is 5% of \$824.1 million, or \$41.2 million, well more than the City's current debt of \$22,890,084.

<u>Long-term debt:</u>	Date of Issue	Original Amount Issued	Date of Maturity	Interest Rate	Balance at 6/30/2012
1997 General Obligation Bond	11/1/1997	3,880,000	2012	4.35-5.00%	90,000
2002 General Obligation Bond	11/1/2002	5,300,000	2032	2.00-5.00%	3,500,000
2005S School Renovation	4/13/2005	538,051	2014	0.00%	78,802
2005 General Obligation Bond	6/14/2005	5,285,000	2025	3.50-4.00%	3,100,000
2007 QZAB Bond	10/9/2007	965,000	2022	1.44%	727,549
2008 QZAB Bond	7/16/2018	516,279	2023	1.84%	424,000
2009 QZAB Bond	11/18/2009	4,333,368	2025	1.40%	3,755,586
2011 QSCB Bond	5/26/2011	5,000,000	2025	5.69%	4,066,407
2011 General Obligation Bond	5/3/2011	3,150,000	2031	2.00-4.00%	3,150,000
2011 General Obligation Bond	5/3/2011	3,096,000	2020	1.70-2.85%	3,096,000
2012 QSCB Bond	7/15/2011	943,859	2027	5.37%	901,740
Total bonds and notes payable					<u>\$ 22,890,084</u>

The City's Standard and Poor's bond rating of A Plus allows us to borrow at a favorable rate of interest. Changes in the City's fiscal situation, such as a significant decrease in reserves, could cause the City to risk losing its excellent bond rating.

City Debt Per Capita to Per Capita Income

The State recommends that the ratio of City debt per capita to per capita income be less than 5%. Waterville's ratio is 7.3%. [(\$22,890,084/15,722 persons) / \$19,894 per capita income (in 2011)]

Issues and Needs

The issues related to Waterville's municipal finances include the following:

- 1. Tax Base.** Waterville's tax base is relatively weak, and the City's total per capita valuation

is low relative to other communities.

2. Revenues. Municipal revenues have declined over the past five years.

3. Debt. The City's long-term debt is 7.3% per capita, higher than recommended by the State. However, total debt is relatively low.