

Appendix 14. Fiscal Capacity and Capital Investment Plan

REVENUES AND EXPENDITURES

Southwest Harbor's revenues are heavily dependent on residential property taxes, which make up 82% of all property tax revenues. Overall, 86.4% of all revenues were derived from property taxes between 2003 and 2009. As property values have increased in SW Harbor at a faster rate than much of the rest of the State, the Town's portion of the State's revenue sharing has decreased in actual dollar amount and as a percentage of total revenue. State revenue sharing as a percent of total revenue drifted slowly downward from 2.1% in 2003 to 1.3% in 2009. Excise taxes averaged 5.5% of revenues and decreased slightly over the same time period. As the State works to balance its own budget, the burden is shifting more and more toward property taxes. Revenues from fees has increased gradually during the last two years as the town adjusted fees for building permits, moorings and dock use to help defray some of the costs of administering these services.

Between 2003 and 2009 an average of 65.4% of property taxes went to education and as is commonly the case in Maine, education represents Southwest Harbor's biggest single budget item. Because of high real estate valuations as a coastal community, virtually the only state education reimbursement the town receives is partial reimbursement for special education. Over the last five years, Protection (dispatch, police, fire, ambulance) has been a relatively large portion of the municipal budget when compared with General Government, Health/sanitation, Transportation, Debt service, and even Capital Outlay expenses. During this time period, the town has also bonded the construction of a new fire station, most of the renovations to the police station, and required water system upgrades. In the past, Water and Sewer operations and capital improvements were paid for by through user fees, but that is likely to change as voters have recently decided that the costs of capital improvements should be born by all voters whether or not they use the services. During this 5-year period, general Government and Transportation expenses have grown; Health/Sanitation expenses have decreased.

Table 14.f. Revenues and Expenditures (at the end of this chapter) summarizes the Town's revenues and expenditures by category for 2003-09.

There is little in the way of "needed additional services" as a result of development in Southwest Harbor. With the shrinking population (Table 14.a below), the focus rather is on repairing, maintaining and modernizing the service infrastructure we already have.

Table 14.a. MSP0 Population Estimates and Projections for Southwest Harbor

Est. Population (US Census)				Projected Population (US Census)				
1990	1995	2000	2005	2010	2015	2020	2025	2030
1967	2077	1969	1983	1979	1956	1914	1851	1778

Development in the last 12 years (since the publication of the 1996 Plan) includes 12 new roads with a total of 79 buildable lots; 46 of these lots remain vacant. (And in the past year an additional subdivision that allows for the development of 40 dwelling units on 20 acres has been approved.) Together these scattered vacant subdivision lots comprise our Growth Area in the Future Land Use Plan for the next decade. (See attached table Private Roads/Built and Vacant Lots at the end of this section.) All of the roads are private and with the exception of the new and expanded Community Health Center at 16 Community Lane and the new 40 dwelling subdivision at Village at Ocean’s End, all of the properties have private septic systems. The town has no plans to take over maintenance of any of these roads or to extend sewer lines.

In 2007 there was an increase in property tax valuation of \$3,200,000 as a result of subdivision and building. The increase in 2008 was another \$4,400,000.

Capital investments from 2005 - 09 were expenses that had long been deferred, and were not related to needs generated by recent development (a mix of year-round and seasonal residences). Development has also not generated a need for additional services. All newly built roads have been private and the Town has no plans to take them over. Water and sewer extensions where present, are paid for by the developer. Development has not had a quantifiable impact on the cost of education, police and fire protection, or other services and costs.

CAPITAL FUNDING

Capital funding in Southwest Harbor had been accomplished through savings in reserve accounts, through bonding, and now through our Capital Improvement Plan. Though median income levels in SW Harbor are relatively high, with significant infrastructure needs during the planning period ahead, the town will actively search out grant monies to help with these projects. (See attached Table 14.g Funding Sources at the end of this section.) Based on Maine Municipal Association’s 2007 Fiscal Survey, Southwest Harbor’s debt service is about average for Maine towns of similar size. Southwest Harbor assesses no impact fees but it has recently raised building permit fees and this plan recommends considering impact fees in the future.

At the end of FY 2008-09 Southwest Harbor’s total debt principal including school and Water and Sewer Dept. debt, stood at \$6,545,353 or 0.84% of the last full state valuation, which was \$776,050,000. This is well below the 15% debt permitted by law. The community has sufficient borrowing capacity to borrow funds necessary for capital expenditures for infrastructure improvements.

The Capital Improvement Plan is reviewed and updated annually before Town Meeting. Studies have been budgeted for the next fiscal year to assess and prioritize needed infrastructure improvements, which will be included in future CIPs. Because of the scattered nature of our Growth Areas (see Chapter 6 Future Land Use), we do not anticipate extending municipal water, sewer or roads to these areas or needing capital to do so. Development of the CIP as an effective planning tool has improved in recent years with growing understanding of its function by staff and the general public. As potential projects are identified and scheduled (particularly if they are large and complex), we anticipate that funding sources and mechanisms will also be developed.

Opportunities to share capital investments with adjacent towns to improve efficiencies are most evident in the area of education, but community identity and politics have traditionally dominated the conversation and there are no plans for further consolidation expected in the next planning period.

In the future, voters concerned about high per pupil elementary education expenses (school enrollment stands at less than half the school's capacity), increased tax burdens for an aging population with fixed incomes, and little prospect for change in the tax base, may become growingly reluctant to vote for major capital expenditures.

FUTURE CAPITAL INVESTMENT NEEDS

PUBLIC BUILDINGS. The 1996 Plan identified the need for the renewal and expansion of municipal service buildings. To date the Fire Dept. has undergone an expansion from 1476 to 9600 sq. ft. completed in the fall of 2006. In 2005 the Town bonded for \$1.1million to build the new Fire Station after having bonded for \$210K in late 2002 to purchase the 6.74 acre Legette property where the station is now located. The next major capital purchase for the Fire Dept. is expected to be a ladder truck.

With the departure of the Fire Dept., space in the lower level of the municipal building became available and, as recommended in the 1996 Plan, the Police Dept. has been expanded into it. The new expansion, which was completed in the spring of 2010, includes a new backup generator adequate to serve the entire building including the Town Offices upstairs and the ambulance service on the southern end of the building.

The Capital Improvement Plan includes monies to design and construct renovations to the Town Offices and provide secure and fireproof storage space for the town's records. The Town Offices are small for day to day operations, they lack adequate storage for materials that need to be accessible, and the meeting room is cramped and shabby. The town clerk's desk is not handicapped accessible and neither are the staff toilets. The Harbormaster shares a small office in winter with the assessors. Interest has been expressed in broadcasting Selectmen's meetings on the town's public access channel, but at this time, there is no room for the equipment that would be required for this service.

WATER AND SEWER. In the spring of 2003, the town used \$743K to reconstruct the sewer lines along Main St. In the fall of 2004, the town spent \$1,006,733 (\$1006.7K) to upgrade the wastewater treatment plant; \$361K of this was grant money from USDA.

A new, modern water filtration plant was completed in 1998. The bond for this project was \$800K. Recent additional upgrades have been applied at a bonded cost of \$954K. These upgrades included 4 items: extension of the water intake out to a deeper location in Long Pond, purchase of an emergency generator at the filtration plant, a diesel generator at the pumping station, and installation of aeration equipment at the water filtration plant. The purpose of the latter was to comply with new DEP water quality standards. As water quality standards continue to become more stringent, more capital improvements may be needed. These projects received grant monies in the amount of \$263K under the federal government's 2008 stimulus program.

In May 2010 residents voted 238-235 to fund future water and sewer capital improvements through taxation rather than user fees.

ROADS, SIDEWALK, DRAINAGE. Roads, sidewalks and drainage for storm water runoff have been identified over and over again by voters as being inadequate. In the fall of 2003 the roadways of Clark Point and Herrick Roads were replaced along with the underlying sewer lines. A sidewalk was constructed on the eastern side of Herrick Rd. from Clark Point Rd. to the Harbor House Daycare. As the roads are rebuilt, consideration should continue to be given to updating the sewer and water delivery systems.

Some of the worst roads are state owned with no immediate prospect of repair. The public most often complains about the sidewalks along State Route 102. Plans to repair the sidewalks are awaiting design, development and funding of Route 102, from Seal Cove Road in Southwest Harbor and south into Tremont. Failing any state plan, the Town has nevertheless committed \$107,000 to immediately needed patching and paving of the sidewalk from the middle of the village to the Manset Corner to make it safer for pedestrians. The sidewalk is crumbling and broken in many cases. The state is fixing several storm drains along this stretch.

A 2007 Comprehensive Plan Committee Survey also identified bicycle ways as an infrastructure improvement wanted by both year-round and seasonal residents (as well as visitors), but these too await state action, particularly along Route 102 where they are most needed.

DOCKS. Continuing its commitment to maintaining a working harbor, the recommendation to purchase the "Hook property" next to the Manset Town Dock has been carried over from the 1996 Plan. Fishermen, boat builders and boat service businesses express their general satisfaction with the harbor infrastructure, but do

complain of lack of sufficient parking, particularly at the Lower Town Dock. There are no obvious places to locate additional parking near the town center or the docks.

In 2010 the town will see completion of an expansion to the Lower Town Dock making it accessible at all tides. The project will cost about \$270,000 and will be paid for out of the capital improvement plan and a 50/50 match from MDOT's SHIP Grant Program.

Going forward, budgeting priorities will be for the continued repair and maintenance of roads and sidewalks, sewer and water lines. Bicycle ways or at least wider road shoulders could be a part of road projects where there is room and this would be particularly valuable along Route 102. Not only could this promote alternative clean transportation and reduce traffic, it would be seen as an attraction for those tourists who like to bicycle on MDI in summer.

PUBLIC TOILETS. Public toilet facilities are seasonal only and they are not handicapped accessible. The permanent toilets behind the village green and at the Lower Town Dock are difficult to keep clean. There are porta-potties at the Manset and Upper Town Docks.

Allocations for these infrastructure repairs and renovations (as well as for vehicle replacement, etc) can be found in the current Capital Improvement Plan (begun in 2008) in Appendix 15.

TAX BASE AND VALUATIONS

Southwest Harbor's tax base is stable. Of the 8,884 acres of land in Southwest Harbor, 3,813.65 acres (1504 parcels) are taxable. This is down slightly from 1996 when there were 3822.67 acres (1466 parcels) of taxable land. 82% of the taxable land is residential. Commercial land makes up 16% of taxable property.

Table 14.b Southwest Harbor's Tax Base

Residential	82%
Commercial	16%
Other	2%

Total Taxable acreage: 3,813.65 acres

The tax base rests primarily on residential homes (Table 14.b), more and more of which have become seasonal homes and homes for retirees. This trend is expected to continue with fewer and fewer families raising children in Southwest Harbor. 163 students were enrolled at Pemetec as of October 1, 2008, down since the publication of the 1996 Comprehensive Plan when there were 264 students in 1995-96 (Table 14.c below).

Table 14.c. Student Enrollment, Past and Current

	Pemetic	MDIHS
95/96	264	-
10/01/08	163	92

Source: 1996 Comprehensive Plan Inventory and <http://www.u98.k12.me.us/files/home/Oct1enroll08.pdf>

The State Planning Office projects student enrollment at Pemetic will fall still further to 142 students by 2015.

Table 14.d. Southwest Harbor School Populations and Projections through 2017

	Official Counts			Projections							
	1990	2000	2010	2011	2012	2013	2014	2015	2016	2017	
Elementary	175	149	96	101	101	101	102	103	103	103	
Middle School	63	90	60	50	47	44	42	41	40	39	
High School	83	110	92	103	102	101	99	97	95	94	
TOTAL	321	349	248	254	250	246	243	241	238	236	

Retirees' incomes tend not to expand with the economy and with costs. High property values and a reduction in state revenue sharing have strained middle and working class incomes in Southwest Harbor and it is increasingly difficult for some year round residents, particularly owners of shorefront property, to pay their property taxes. The disproportionate reliance on property taxes (i.e. land values), which do not necessarily reflect a taxpayer's ability to pay, constrain the town's ability to raise funds for needed infrastructure repairs and capital improvements.

Between 2003 and 2009 an average of 65.4% of property taxes went to education and as is commonly the case in Maine, education represents Southwest Harbor's biggest single budget item. Southwest Harbor's education cost per student was \$17,433 in 2007-08 compared to the state average of \$10,658. The county assessment in the fiscal years 2005-08 was 4.0% of each year's appropriation (Table 14.e.). Interest may be growing to look at ways to find economies of scale in the delivery of education, possibly by combining services with the town of Tremont, which finds itself in a similar situation to Southwest Harbor in terms of economic pressures/limitations/opportunities. At this time, no capital investments are shared with neighboring communities, and it is not evident what opportunities there might be for doing so.

Table 14.e. 2005 – 2009 Municipal Tax Rate Calculation Form, Southwest Harbor

Appropriations	2008-09	2007-08	2006-07	2005-06
County Tax	289,059/.04	284,726/.04	275,837/.04	268,903/.04
Mun. Approp.	3,169,070/.42	3,096,015/.42	2,708,112/.39	2,560,822/.38
Educ. Approp.	4,075,305/.54	4,008,111/.54	3,913,761/.57	3,853,052/.58
Total Approp.	7,533,434/1.0	7,388,852/1.0	6,897,801/1.0	6,682,777/1.0

The State valuations listed below are equalized throughout the state and lag about 2 years behind municipal valuations and actual selling prices.

Table 14.h. SW HARBOR MUNICIPAL AND STATE VALUATION 1997-2009

YEAR	MUNICIPAL	MILL RATE	STATE
2009	\$773,791,000	8.95	\$776,050,000
2008	771,762,000	8.70	717,900,000
2007*	782,814,300	7.95	638,900,000
2006	350,721,200	17.30	546,650,000
2005	346,371,800	17.30	499,950,000
2004	340,117,500	16.80	410,000,000
2003	**	15.60	351,450,000
2002	332,677,700	14.60	330,350,000
2001	330,447,000	13.90	297,300,000
2000	310,955,200	16.60	242,200,000
1999	286,084,100	12.60	231,000,000
1998	**	14.35	226,900,000
1997	230,240,000	13.75	222,100,000

*Revaluation

** Unable to locate

TAX EXEMPT PROPERTY

The principal tax-exempt property in Southwest Harbor is Acadia National Park which owns approximately 4,324 acres with an additional 176 acres in easements. This is about half the total land area of 8,884 acres in Southwest Harbor. In lieu of property taxes in fiscal 2007-08, the Park paid the town \$10,522; in fiscal 2008-09, the Park paid \$23,455. Park land is largely undeveloped and arguably the single biggest draw for tourists and retirees who represent a significant part of Southwest Harbor's economy. A report by the Maine State Planning Office said that, "*In 2006, tourism directly and indirectly generated roughly one in five dollars of sales throughout Maine's economy. It supported the equivalent of one in six Maine jobs.*" (Economic Impact of Tourism in Maine: Explanation and Citation, SPO, February 2008).

Other tax exempt properties include state, county and town owned land, property of benevolent and charitable institutions, property of literary and scientific institutions, parsonages and houses of religious worship, property owned in trust by fraternal organizations, real property owned by persons determined to be legally blind, and veterans' exemptions. These properties were valued in total in 2007 at \$23,820,200

(2007 Municipal Tax Rate Calculation Form, Southwest Harbor), which was 3% of the total municipal valuation.

Table 14.i. Taxable and Non-taxable Acreage in Southwest Harbor

LAND	ACRES
ACADIA	
-park	4,324
-easements	176
TAXABLE	
-residential (82%)	3,128
-commercial (16%)	610
-other (2%)	76
TAX EXEMPT	570
TOTAL	8,884

No revenue is dedicated to tax incentive programs and the state does not reimburse the towns for loss to valuations for land put into farmland, open space and working waterfront. It reimburses for land in tree growth at a rate of 90%, but even so the actual dollar amount that the Town receives is negligible.

Table 14.j. Acreage in Current Use Programs (2009)

	ACREAGE	VALUATION	VALUATION FOR TAX PURPOSES	LOSS IN VALUATION
Tree Growth	409	\$1,227,000	45,399	1,181,601
Farmland	161.2	621,200	81,200	540,000
Open Space	11.2	1,128,200	550,600	577,600
Working Waterfront	-	-	-	-

In April of 2007 the Southwest Harbor Board of Selectmen placed 70.44 acres into the Pine Tree Zone Program, but no expanded business development has as yet occurred as a result.

In 2009, Southwest Harbor issued 469 Homestead Exemptions, 468 of which were for the full amount of \$13,000.

LD 1: Southwest Harbor has not so far exceeded its LD 1 spending limits. At the annual Town Meeting, citizens approve the budget articles item by item. In a separate article we vote whether to increase the property tax levy over the LD 1 limit if the sum of the budget items were to exceed the limit. The voters have shown strong support for this decision. The mechanism of the annual limits of LD 1 as a means of managing tax increases does not appear to be of much interest to the average voter.

LD 1 LIMITS 2005 – 2010

2010	\$2,868,740
2009	\$2,801,285
2008	\$2,719,335
2007	\$2,629,155
2006	\$2,573,208
2005	\$2,482,915

Table 14.f Revenues and Expenditures for the Fiscal Year Ending:

REVENUES	2009	2008	2007	2006	2005	2004	2003
Property Tax	6,630,713	6,260,068	6,031,283	5,967,623	5,729,940	5,317,156	4,900,725
% of all Revenues	88.00%	87.00%	87.00%	85.00%	87.00%	86.00%	85.00%
Local Rd. Asst.	19,812	21,504	20,280	20,544	18,852	17,944	18,324
Excise Tax	342,982	379,764	376,153	390,169	377,714	359,111	343,643
% of all Revenues	4.60%	5.30%	5.40%	5.60%	5.70%	5.80%	6.00%
Registrations	*	*	*	*	*	10326	9579
State Rev. Sharing	99,834	110,839	115,288	126,245	135,221	131,442	123,068
% of all Revenues	1.30%	1.50%	1.70%	1.80%	2.00%	2.10%	2.10%
Invest. Earnings	51,340	96,997	107,918	102,524	33,649	24,266	39,287
% of all Revenues	0.70%	1.30%	1.50%	1.50%	0.50%	0.40%	0.70%
Int. on Del. Taxes	38,084	38,556	28,408	21,697	17,888	22,617	21,875
Docks and Floats	70,790	57,545	56,515	50,928	48,031	30,066	33,093
Water/Sewer Fees	20,010	20,000	20,000	20,000	20,000	20,000	20,000
Solid Waste Rev.	57,707	52,459	53,955	48,651	43,974	29,799	34,422
Park Grant				39,990	28,701		
Permits/Fees, other	202,432	19,5340	159,160	270,646	156,058	169,479	205,724
TOTAL	7,533,704	7,233,073	6,968,958	7,019,025	6,621,317	6,160,907	5,749,739
EXPENSES							
Gen. Gov.	460,889	438,339	389,371	345,986	339,187	323,430	338,113
Protection	919,773	886,495	989,823	1,025,290	912,912	875,628	824,863
Health/San.	351,304	365,410	380,054	399,901	406,340	376,717	375,884
Transport.	374,572	350,662	257,998	248,474	238,278	221,747	283,230
Education	4,099,777	3,856,595	3,887,733	3,604,988	3,880,014	3,707,010	3,541,773
% of Prop. Taxes	62.00%	62.00%	64.00%	60.00%	68.00%	70.00%	72.00%
% of Exp.	60.00%	59.00%	59.00%	58.00%	61.00%	61.00%	61.00%
Unclassified	201,165	227,457	290,565	196,412	208,618	176,591	143,310
Assessments/Debt	400,346	394,699	398,514	412,471	345,601	340,062	307,831
% of Expenses	5.90%	6.00%	6.00%	6.60%	5.50%	5.60%	5.30%
Unbudgeted Exp.				2612	11,703	2259	633
TOTAL	6,807,826	6,519,658	6,594,058	6,233,522	6,333,562	6,032,888	5,817,264
Capital Outlays	403,975	215,127	1,449,368	336,631	442,828	326,075	1,015,512
TOTAL EXP.	7,211,801	6,734,785	8,043,426	6,570,153	6,776,390	6,358,963	6,832,776
TTL.LIABILITIES	7,778,770	7,929,138	8,239,307	8,766,056	9,179,072	8,729,026	8,471,991
% of State Val.	N/A	1.10%	1.30%	1.60%	1.80%	2.10%	2.40%
*Subsumed under Permits, Fees, Other.							

Table 14.g Funding Sources

Date	Item	Total Cost	Bonded	Tax/Reserve	Grants
1998	Repairs, Manset Town Dock	70,000	0	35,000	35,000
1998	Comp. Plan implementation	N/A	0		9,500
1998	Gateway	N/A	0		5,000
1998	Historical/Archeological Survey	N/A	0		7,000
1998	Comp. Plan for Town Trees	10,000	0	5,000	5,000
12/09/98	Water Filtration Plant	800,000	800,000	0	0
12/09/98	Water Dept.	402,000	402,000	0	0
1998-06	CIP Highway	337,918	0	346,700	0
12/17/00	Water Dept. Vehicle	N/A	0	8,782	0
May '99	Relocate Radio Antenna etc.	25,000	0	25,000	0
06/08/99	Police Cruiser	N/A	7,641		0
08/14/99	Town Bond	N/A	41,980		
05/01/00	School Construction		5,221,000		0
2001-04	CIP Harbor	66,300	0	66,300	0
12/06/02	Legette property (for fire station)	210,000	210,000	0	0
2002	Fire Truck	160,000	0	160,000	0
11/13/03	Ford Motor Co.	N/A	13,172		
11/20/03	Downtown Sewer	570,000	570,000	0	0
11/20/03	Downtown Sewer	173,000	173,000	0	0
FY '03	Fire Dept. Protection Equipment	90,000	0	0	90,000
11/17/04	Waste Water Treatment Plant	1,006,733	617,000	28,733	361,000
2004	Safe Routes to Schools				35,500
2004	Fire Truck	20,000	0	20,000	0
2004	Generator (Fire Dept.)	43,000	0	0	43,000
05/26/05	Fire Station	1,100,000	1,100,000	0	0
2005	Park Upgrades	150,000	0	40,000	40,000
2005	Photocopier	6,800	0	6,800	0
2006	Fire Truck	212,000		212,000	
2008	Lower Town Dock, est.	270,000	0	135,000	135,000
2009	Police Station	480,000	380,000	100,000	0
2009	Water Dept.	954,000	954,000	0	263,000*

* Principle forgiveness.

Source: Annual Reports 1998-2009, 2009-10 CIP