

Fiscal Capability and Capital Improvement Plan

Overview

Growth in Kennebunk is inevitable, and the State projects a population increase of 7.8% by 2031. The Town recognizes the financial benefit of clustering new construction in Growth Areas close to existing Town services and infrastructure. There is a tipping point between revenues gained from property taxes paid by new homes, and the expenses undertaken by the Town to provide services to homes located far from Growth Areas. Accordingly, at least 75% of municipal capital spending is directed toward Growth Areas, with a caveat that storms caused by the effects of climate change and sea level rise may create the need to repair the Town's seawall or other coastal infrastructure, which are, in general, not located in zoning districts categorized as growth areas.

Kennebunk's fiscal year runs from July 1 through June 30. Sewage treatment, public water, electricity and broadband services are not provided by the Town, but by other public utility companies, and so the cost of these services is not included in Town expense and revenue structure. *(Please see Public Facilities and Services for a complete description of these utilities.)*

As noted, the Town recently completed a comprehensive Facilities Study to determine the age, condition, functionality and expected lifespan of all Town facilities, while measuring the future needs of each Town Department, to prioritize long-term planning. Preliminary findings are that the Town Garage and Transfer Station require upgrade and expansion. At this time, the total cost of Town Garage work is unknown, although it is expected that the Town will need to borrow funds for a portion of the project's cost. Accordingly, the Capital Improvement Plan shown here does not include information related to this project. The priority of other Town needs has not yet been determined, although it is apparent that space available for Town staff, Police, Fire and emergency services is cramped, and will need to be addressed in future years *(See Public Facilities and Services for more detailed discussion on a department-by-department basis).*

Real Estate Taxes and Assessed Value

Town revenues come primarily from property taxes, which are calculated using the assessed value of each parcel and the mil rate. Tax bills are assessed to the owner of each property as of April 1 of each year, and are payable semi-annually, in October and April.

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 town-wide revaluation must be carried out. Kennebunk conducted a revaluation in 2018, and adjusted property values accordingly.

The table below shows the changes in the Town's property valuation over the past several years.

**Town of Kennebunk Assessed Value and Tax Rate
2010-2021**

	Local Assessed Value (\$000)	State Equalized Value (\$000)	Annual % Change	Tax Rate	Assessment Ratio
2010	1,897,950	2,288,950	10.5	13.95	85%
2011	1,922,409	2,126,200	-7.1	14.30	90%
2012	1,936,881	2,128,300	0.1	14.40	95%
2013	1,944,205	2,097,550	-1.4	14.40	95%
2014	1,991,757	2,085,300	-0.6	14.95	95%
2015	2,029,269	2,159,200	3.5	14.90	95%
2016	2,043,619	2,245,800	4.0	15.30	95%
2017	2,061,351	2,316,900	3.2	15.90	90%
2018	2,073,728	2,380,350	2.7	16.55	85%
2019	2,093,668	2,492,800	4.7	17.50	85%
2020	2,816,517	2,694,150	8.1	13.75	100%
2021	2,815,935	2,982,600	10.7	14.15	100%

Municipal Budgets and Independent Financial Audits

The current municipal budget is available for review on the Town’s website. Also posted, depending upon the time of year, is the proposed upcoming budget that will be voted upon by residents each June. The budget includes proposed expenditures and the means of financing them.

The creation of a proposed budget is a joint project of the Budget Board, the Select Board, the Town’s Finance Director and the Town Manager, with discussion and input from all Town departments, and also includes a review of any appropriate action items from the current Comprehensive Plan. Public hearings are held prior to the proposed budget being finalized and scheduled for a town-wide vote.

The Town’s financial status is audited each year by a third-party Certified Public Accountant firm, with the firm’s report, along with previous years’ reports, also available on the Town’s website. Both the government-wide and fund financial statements categorize primary activities as either “business-type” activities (which are PAYT, the Town’s Pay-As-You-Throw trash program, and the Town’s electrical inspection program) or “governmental” (the bulk of activity).

In the audit’s Statement of Net Position, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column and (b) are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Town's net position is reported in three parts: net investment in capital assets; restricted net position; and unrestricted net position. The functions are also supported by general government revenues: property taxes, certain intergovernmental revenues, miscellaneous revenues, etc.

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. All costs are charged directly to the corresponding department.

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost, with the following guidance:

- Contributed assets are reported at fair market value as of the date received.
- Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.
- Infrastructure such as streets, traffic signals and signs, roads, bridges, underground pipe (other than related to independently owned utilities) are capitalized.
- Other costs incurred for repairs and maintenance are expensed as incurred.
- Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.
- All retirements of assets have been recorded by eliminating the net carrying values.

Estimated useful lives of capital assets are as follows:

- Buildings 20 - 50 years
- Infrastructure 50 - 100 years
- Machinery and equipment 3 - 50 years
- Vehicles 3 - 25 years

Each year’s audit contains a full explanation of the rationale used to report on the Town’s fiscal status.

5 Year Comparison of Overall Town of Kennebunk Expenses and Revenue

	2015	2016	2017	2018	2019	2020	5 Year % Change
Revenues							
Taxes	\$31.77	\$33.58	\$35.17	\$36.85	\$39.22	\$41.35	30.15%
Charges for Services	\$2.08	\$2.08	\$2.11	\$2.15	\$2.50	\$2.27	9.13%
Other	\$1.56	\$1.57	\$1.70	\$2.41	\$2.10	\$2.33	49.36%
Total	\$35.41	\$37.23	\$38.98	\$41.41	\$43.82	\$45.95	29.77%
Expenses							
Education	\$20.83	\$21.70	\$22.71	\$23.97	\$25.82	\$27.14	30.29%
Police & Fire	\$4.37	\$4.47	\$4.64	\$4.90	\$4.99	\$5.30	21.28%
General Government	\$1.97	\$2.50	\$2.53	\$2.49	\$1.81	\$1.61	(18.27%)
Public Works	\$2.51	\$2.41	\$2.73	\$2.83	\$2.13	\$2.64	5.18%
Employee Benefits	\$1.71	\$2.05	\$2.12	\$2.11	\$1.88	\$2.74	60.23%
Recreation & Culture	\$1.43	\$1.46	\$1.51	\$1.52	\$1.55	\$1.50	4.90%
County Tax	\$1.28	\$1.31	\$1.35	\$1.38	\$1.27	\$1.30	1.56%
Health & Welfare	\$0.29	\$0.33	\$0.34	\$0.35	\$0.35	\$0.38	31.03%
Interest on Long-term Debt	\$0.32	\$0.29	\$0.35	\$0.30	\$0.35	\$0.41	28.13%
Other	\$0.73	\$0.44	\$0.35	\$0.58	\$2.39	\$2.30	215.07%
Total	\$35.44	\$36.96	\$38.63	\$40.43	\$42.54	\$45.32	27.88%

Capital Improvement Plan and Long Term Financing Mechanisms

Kennebunk’s bonds are rated AAA by Standard & Poor and Aa1 by Moody’s. 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. Kennebunk has a long term capital plan that is updated every year and projects significant

future capital expenditures over a 15 year period. On average it consolidates its borrowing needs on average every 3 years in a bond offering direct from the town on the open market in order to take advantage of interest rates based on the town’s sound fiscal reputation by the rating agencies mentioned above. As of July 14, 2020, Kennebunk had \$10.33 million in bonds outstanding and an additional \$6.46 million approved but not issued.

Outstanding Bonded Indebtedness

Year Issued	Purpose	Balance (Mil.) June 30, 2020	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 2021 Finance Director’s Budget Report

Kennebunk is contingently liable for its share of any defaulted debt by entities of which it is a member. At June 30, 2020, York County had outstanding debt of \$2.9 million and RSU 21 had outstanding debt of \$60.8 million. Kennebunk’s share was as follows:

	Direct Debt	Town’s Percentage	Contingent
Town of Kennebunk	\$ 11,990,000	100.0%	\$ 11,990,000
County of York	\$ 2,900,000	7.51%	\$ 217,790
RSU 21	\$ 55,924,402	50.99%	\$ 28,514,175
Total			\$ 40,721,965

Source: Town of Kennebunk Fiscal 2020 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 2021, the legal limit for the town would be \$447.4 million. Currently, Town debt is less than 10% of the statutory limits.

The Town’s Capital Improvement Plan (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. 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. The decision to issue debt is subject to review and recommendation of the Select Board to the Town Meeting for voter approval.

The Town of Kennebunk’s Capital Improvement Plan from 2019 through 2032, for predictable expenses, is shown below. As noted, the Plan is adjusted at five year periods.

**Town of Kennebunk Capital Improvement Plan
2019-2032**

Project	2019	2020	2021	2022	2023	2024	2025	2026	2027
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 Miscellaeous	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

Project	2028	2029	2030	2031	2032	2032	15 Year Total	15 Year Average
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 Miscellaeous	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

Goals, Policies & Strategies

State Goal

- To plan for, finance and develop an efficient system of public facilities and services to accommodate anticipated growth and economic development.

Local Goals

- To improve the efficiency and effectiveness of public service delivery through formal and informal means of inter-local cooperation and communication;
- To proactively evaluate the adequacy of current public facilities and procedures, and formulate plans to expand and update as necessary, while concentrating Town financial resources in Growth Areas.

Policies

- To finance existing and future facilities and services in a cost effective manner;
- To explore grants available to assist in the funding of capital investments within the community;
- To reduce the tax burden on the taxpayers of Kennebunk by continuing to stay within what was formerly known as “LD 1” spending limitations
- To ensure the public safety needs of the Town’s citizens are met, with attention paid to the needs of seniors, who comprise a high percentage of residents

Strategies

Timeframes: Short term = 0-3 years; Medium term = 3-5 years; Long term = 5+ years

Description	Timeframe	Responsible Parties
<i>Explore opportunities to work with neighboring communities to plan for and finance shared or adjacent capital investments to increase cost savings and efficiencies</i>	<i>Ongoing</i>	<i>Select Board, Finance Director</i>
<i>Develop a plan and associated budget process that analyzes current and future adequacy of all Town buildings and facilities for both short and long term use</i>	<i>Ongoing</i>	<i>All Town Departments</i>
<i>Develop a long-term plan and associated budget process to transition Fire Rescue from per diem volunteers to full time staff</i>	<i>Ongoing</i>	<i>Finance Director, Fire Chief, Select Board, Town Manager</i>
<i>Continue refining the formal technology disaster recovery plan</i>	<i>Ongoing</i>	<i>IT Department, Town Manager</i>
<i>Continue to take steps to plan for potential climate change effects to assure the Town's credit risk as identified by Moody's Investor Services is not adversely impacted</i>	<i>Ongoing</i>	<i>Finance Director, Select Board, Community Planning & Development</i>
<i>Continue to match Town debt with the lives, or term, of assets being financed</i>	<i>Ongoing</i>	<i>Finance Director, Select Board, Town Manager</i>
<i>Identify capital improvements needed to maintain or upgrade public services to accommodate the community's anticipated growth and changing demographics, with intent to concentrate 75% of spending in growth areas</i>	<i>Ongoing</i>	<i>Finance Director, Town Manager, Select Board, Community Planning & Development</i>
<i>Develop a plan that defines future staffing needs and key personnel succession</i>	<i>Short Term</i>	<i>Select Board, Town Manager, HR Director</i>