

2011

A Comparative Fiscal Analysis of Scarborough, Maine

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2011

A Comparative Fiscal Analysis of Scarborough, Maine

A Comparative Report to the City of
Scarborough

A Public Policy Management and Finance Program
Master's Capstone Project Analysis

By
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Muskie School of Public Service
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FORWARD

By Josephine M. LaPlante

The environment of government finance in Maine has been highly variable over the past three decades, with mounting pressure on local employment and service hub communities to provide services not only to residents but many non-residents as well. As employment in Maine has diversified and become more services and tourism oriented, the use of service and employment hubs has increased, imposing public service and infrastructure investment costs on those municipalities who serve as the “workhorses” of tourism and economic development. Although development increments the local property tax base, a mismatch often emerges between service requirements and the municipality's short term ability to finance them as a consequence of the concentration of costs at the time of service expansion and infrastructure provision. When business expansion has not brought significant taxable equipment to the tax roll, growth in the local property tax base generally has been incapable of offsetting the budgetary impact of needed investments in infrastructure and service capacity. State tax policy that limits financing choices almost exclusively to the property tax can propel a short term mismatch into a structural budget deficit. The on-going mismatch between spending pressures and revenues derived from the property tax and school aid has pushed taxes in many employing and service centers to levels that exceed those in nearby suburbs by a substantial margin.

Over more than two decades, most Maine hub communities have experienced a combination of constantly increasing demands for spending in the face of voter resistance to property tax increases. During the 1989 and 1990 legislative sessions, several bills were approved that would have helped fiscally-strapped local governments. However, before the benefits could be implemented fully, Maine lawmakers saw the state seized by a tenacious recession. Despite the constraints faced, or perhaps due in part to those constraints, as this report will show, Scarborough has distinguished itself as a professionally managed and fiscally vibrant community. Nonetheless, the looming possibility of a statewide tax limitation and amidst continuing effects of the Great Recession make a careful analysis of fiscal opportunities and constraints especially timely. Scarborough's capacity to adapt to budgetary constraints and take advantage of economic opportunities will be influenced by the current state of its financial affairs, including whether any flexibility exists to increase taxes, procure other revenues, or to reduce costs, and by local demographic and economic trends that shape the fiscal horizon. Both future demand for public services and the ability and willingness of residents to finance them are tied to decisions made today and to trends that are influencing the face of the community.

Maxwell Chikuta's comparative case study of Scarborough fiscal constraints and opportunities was undertaken as part of a series of studies by Muskie School masters' degree

candidates. The next section of the report, which was written by me, provides the framework used for these studies. As the description of the framework underscores, local public finance is a highly complex arena in which multiple internal and external forces influence opportunities and create constraints on action. By immersing students in the real world of finance, they gain practical experience applying statistical and financial tools, while also contributing to the development of useful information for their clients.

The analysis provides an arm's length look at Scarborough's fiscal situation, so the identification of issues and opportunities has the benefit of objectivity. On the other hand, despite working closely with the city, the author is not as knowledgeable about Scarborough as its manager and policy makers. The analysis is not an effort to second guess policy makers, but rather, to prompt thinking and where appropriate to inform dialogue. Given data limitations and the arm's length viewpoint of the study, findings and any conclusions drawn should be viewed as preliminary and suggestive, to serve as grist for discussion and planning. The opinions and judgments presented in the report do not represent the views of the Muskie School or the town of Scarborough.

The sustained interest of public finance students at the Muskie School on the problems faced by Maine's employing and service centers—and their willingness to undertake field based analysis for clients like Scarborough—have helped me to build a large, comparative data base dating back to 1985. During the academic year 2011-12, with the assistance of a graduate assistant, I will be working to analyze and synthesize the financial indicators data base with information from a series of community case studies that included Scarborough. Without the willingness of municipalities like Scarborough to serve as hosts to student researchers, and without your readiness to provide data and advice, it would be far more difficult and perhaps impossible to undertake integrative studies. It is my sincere hope that all of our work will pay off by producing a report on the status of Maine's economic workhorses that can persuade the Legislature that the fiscal problems of the hubs require a carefully articulated policy and help them to make significant strides in shaping meaningful tax reform.

Thank you for your participation in this important endeavor!

Josephine M. LaPlante
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I. Introduction

By Josephine M. LaPlante

THIS STUDY: PURPOSES & METHODS

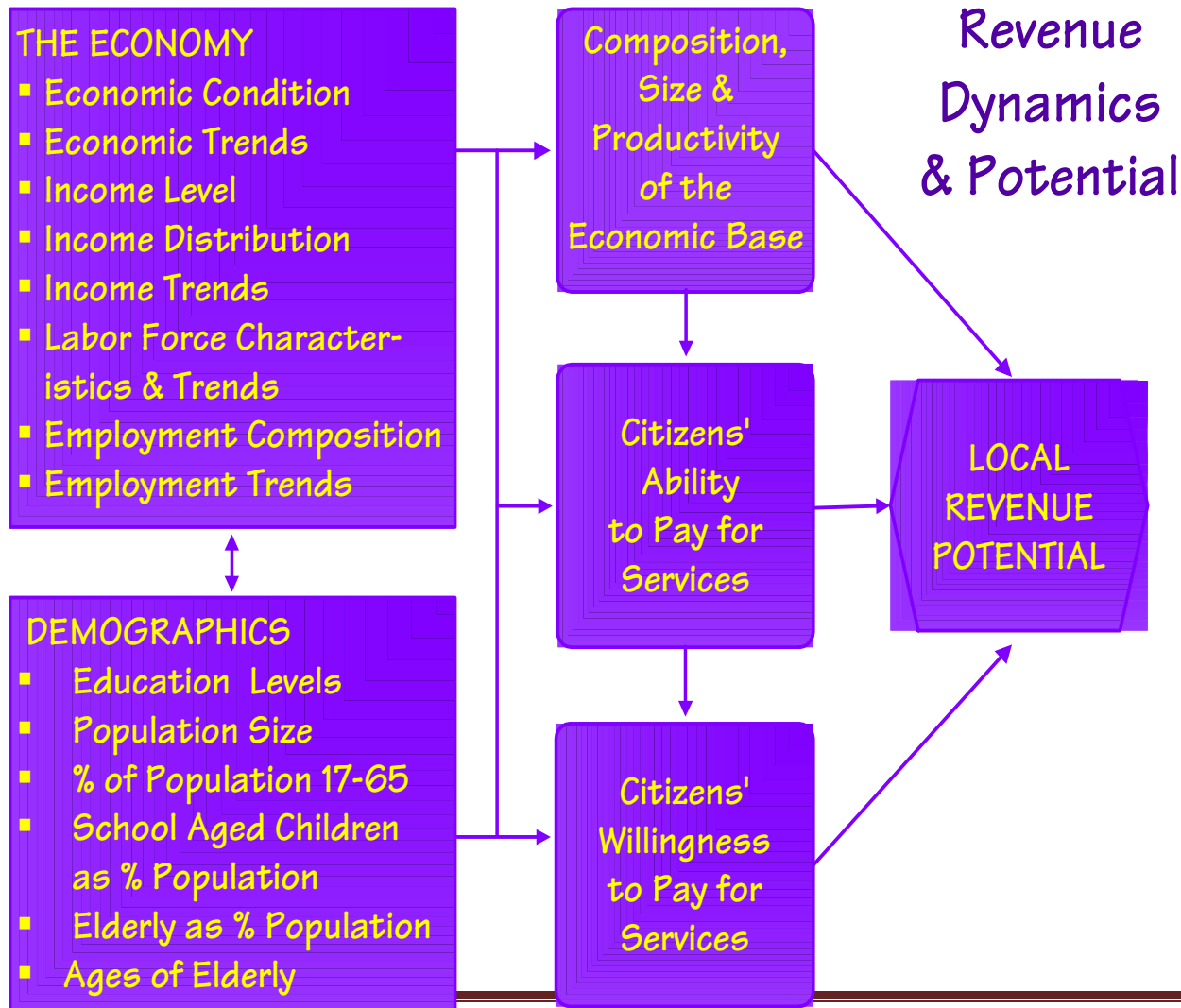
This study seeks to assess Scarborough's fiscal and budgetary position within a comparative framework, in an effort to assist the town in identifying fiscal trends, opportunities and potential policy pitfalls. This scope and content of the analysis requires the author to make sense of a complex set of community fiscal indicators and budget data.

Framework for Comparative Fiscal and Budgetary Analysis

There is an interrelationship between the fiscal (economic, demographic and socio-economic) characteristics of a community and the need and demand for services, the timing of budgetary pressures, the local ability to finance services and infrastructure, and the willingness of citizens to pay for various services. Exhibits One and Two show these relationships graphically. Exhibit Three shows the complex interdependencies between fiscal characteristics, budgetary choices, and the tax effort required, and the feedback effect of tax effort on citizen willingness to pay and local revenue capacity. Although the diagrams may appear to be very complicated at first glance, an example should help to clarify some of the principal interrelationships. Let's consider school spending. School spending is dependent in part upon what economists call "demand factors," or circumstances that influence how much a community will need to spend to achieve an "output" commensurate with an expected result. In Maine, a good example would be the amount that would need to be spent to get students to the point where they can meet the state's new "learning results." Characteristics that influence needed resource inputs include the number of children to be educated, trends in school enrollment, whether portable classrooms must be rented or a new school constructed, and the family circumstances of pupils in the schools (e.g., whether English is spoken at home, whether pupils have access to a computer at home, and how prepared parents are to assist students with homework.)

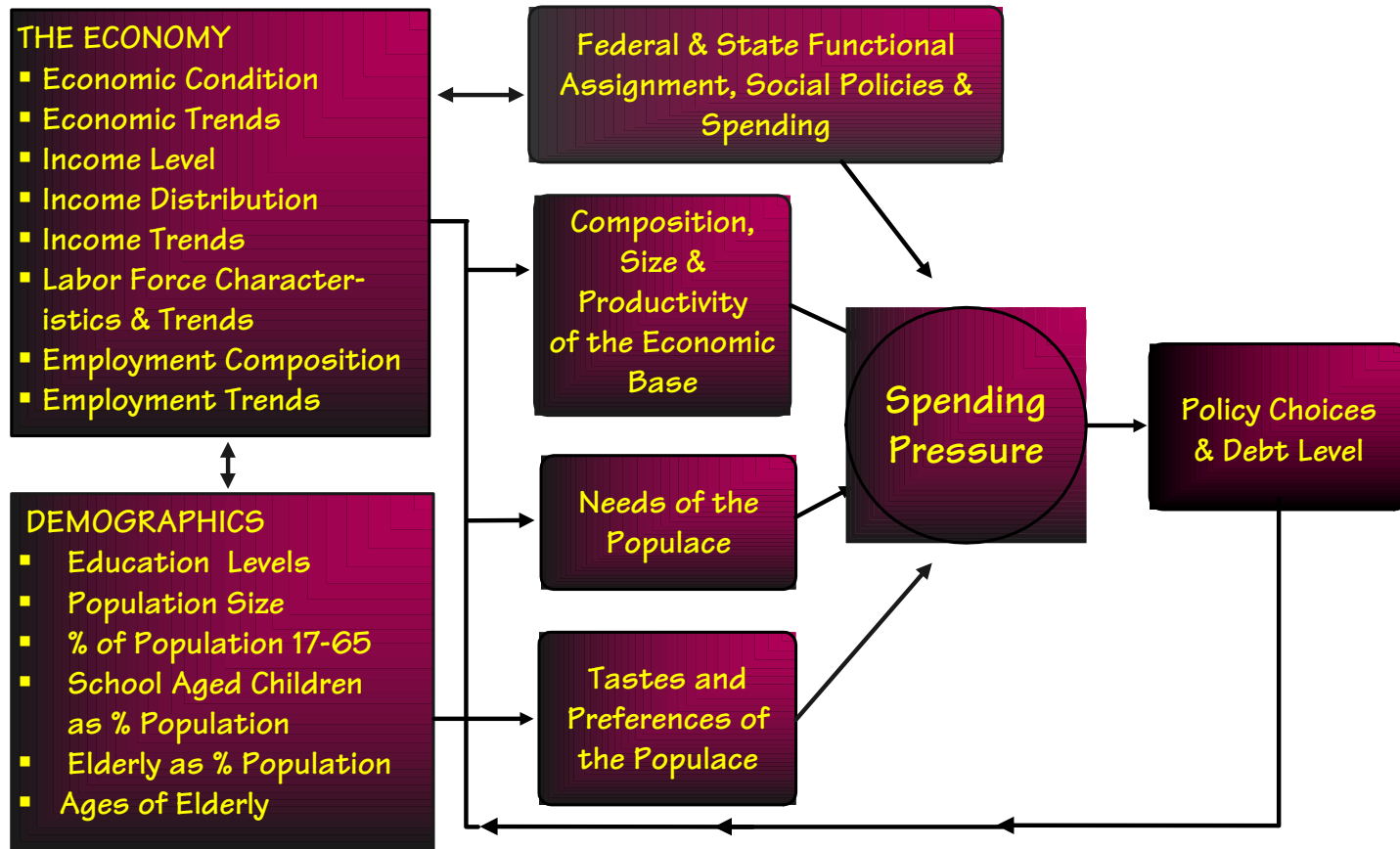
Although the need for spending is a crucial influence on public budgets, the amount a local government actually spends on a any service is affected by the adequacy of financial resources, which depends on both the ability and the willingness of taxpayers to pay for those services. As many communities have learned, the size of the economic base is the same as the size of the available revenue base. Scarborough faces a discrepancy between its economic and revenue bases due to state tax policy that limits many states and local governments operate under tax limitations. While the highly restrictive Palesky measure has not (yet) passed in Maine, LD1 has constrained growth in local spending. Some local governments like Bath continue to operate under a round of local spending and tax limitation measures passed in the late 1980s that later were repealed in places like Scarborough. In the absence of adequate resources, a high level of

Exhibit One: Fiscal Forces and Local Revenue Capacity



Josephine LaPlante, 2012

Exhibit Two: Fiscal Forces and Spending Demands



Josephine LaPlante, 2012

need for a service will not be met fully, or if addressed, will tend to crowd out other needed spending. The Great Recession exacerbated issues related to resource scarcity.

Factors that influence ability to pay include the incomes of households, the level of property valuation and trends in value, the composition of the economic base and whether there is strong competition from that sector for budgetary resources, and the amount of state and federal aid received. The willingness to pay for public services and resultant tax effort are more complicated. However, especially when it comes to local schools, willingness to pay may be expected to be influenced by the income and educational level citizens, by whether town residents have lived in other states with more urbanized (and suburbanized) populations and consequently more extensive public services, and by the “median” or typical tax payer’s sense of whether his own financial situation is improving or deteriorating.

Finally, various factors affect the unit or per pupil cost of providing education through direct influences on costs (e.g., heating, distance students must be transported) and via efficiency gains and losses (economies and diseconomies of scale.) When a district is reasonably large and has fairly large schools that are nearly filled, unit costs will be minimized through these economies of scale. Just as importantly, the capacity to offer more and better services usually accompanies these economies. In the educational arena, more course offerings are possible, there can be an increased specialization in terms of curriculum and extracurricular activities, and lab equipment or computers that would be unfeasible in a small school are attainable. In contrast, small districts with several small schools see overhead increase appreciably and the benefits that accompany larger size evaporate.

The Reference Set Method of Comparative Analysis

Policy advisors and financial managers often rely upon interstate and inter-local comparisons to facilitate identification and evaluation of finance policy options and alternatives. In using a comparative perspective, we should acknowledge at the outset that there are always data problems that limit the conclusions which may be drawn to some extent. Although service cost data should be considered on a unit basis, such as cost per mile or per recipient, programmatic and performance data are not routinely compiled and reported. As a consequence, comparisons usually must rely upon per capita expenditure and revenue data.

A second and frequently overlooked problem that can jeopardize the reliability of comparative analyses is differences in the *assignment of responsibility for various public functions* among states. For example, in some states, the state is fully responsible for welfare while in others counties may deliver the service and assist with the financing of costs. In the states where local governments deliver welfare, the state's welfare expenditure will appear low relative to other states while the expenditure for state aid to local government will appear to be high. As a consequence, comparing municipalities within a single state facilitates meaningful conclusions, because all or most places face similar statutory obligations and constraints.

Third, to further complicate comparative analysis, the *composition or sub-categories of functions* typically also varies greatly. Some states include youth services in the departments of human services or mental health, while others have a stand-alone agency for that purpose. At the local level, some towns budget for rescue services under the fire department while others do not and some use a centralized dispatch system while others have separate fire and police dispatchers. Efforts have been made to adjust for these kinds of discrepancies, but differences may emerge nonetheless.

Finally, the usefulness of comparative data wanes when the costs associated with delivery of a particular service are likely to be affected by production conditions that vary among localities within states, such as weather conditions, density of the population, age of the housing stock, and crime rate. If we are to use comparative analysis to assess budgetary opportunities and constraints, differences in factors that make it more expensive for one community to deliver services must be factored in to the analysis.

For these reasons, the preferred approach to analyzing fiscal and budgetary position is to select a comparison or "reference" set of communities that share key characteristics with the town of interest. The idea behind the reference set approach is to choose a group of communities that *on average* share fiscal circumstance with the town being studied, especially with respect to (1) the cost of service delivery, (2) demands for service, (3) revenue capacity determinants, and (4) the ability to finance services. Although no single town used as part of a reference set will provide a complete basis for delineating "high" from "low" responses to budgetary demands and constraints, the average circumstance of a group of generally comparable units of government is expected to provide a reasonably accurate proxy of an efficient response.

As Mr. Chikuta explains in the next section, he will use two distinct reference sets to analyze Scarborough's fiscal position. The first reference set is constructed to permit the traditional spending pressures and revenue capacity comparative approach described above, so it includes places that on average face community fiscal indicators similar to those of Scarborough.

Although some of the reference towns individually are very different than Scarborough, it is the *combination of characteristics* that is expected to yield relevant benchmarks. Because these communities were selected to achieve an average circumstance that mirrors Scarborough's fiscal situation as a hub community, they may fail to highlight important trends or circumstances in Scarborough that matter to taxpayers, potential residents, and businesses seeking to locate in the region. This may be especially so when property tax trends and burdens are considered: looking only at hub communities can provide an inaccurate sense of how citizens feel about their tax situation. Mr. Chikuta has selected another comparison group: an amenity and competitiveness reference set.

The use of this second set extends the traditional reference set approach by acknowledging explicitly that: (1) citizens are more likely to compare their public services and taxes to those in nearby towns than to other hub communities, (2) people seeking new housing will compare towns in a defined geographic area, and (3) businesses seeking to locate within a region will compare towns on multiple dimensions ranging from the quality of schools (which is an interest to their employees) to tax rates to economic development incentives.

An idea long influential in budgeting is that "what is being spent should be distinguished from what is being accomplished and the nature and the size of the problem(s) being faced."¹ Using a reference group to study, spending permits us to control partially for the nature and extent of problems being faced by a community. By permitting the direct comparison of apples and apples, rather than apples, oranges and grapefruit, comparison of one town to a reference set:

- Lets us to separate out at least some of the influences on spending that lie beyond the control of policy makers.
- Implicitly acknowledges constraints placed upon policy makers by their town's relative ability to pay.
- Provides a reference point or target for assessing whether spending and taxes and their respective rates of growth appear "high," "low," or "about average," given conditions known to affect the cost of service production.
- As the town plans for future growth and development, enables a bench marking type of budgetary and fiscal comparison that should facilitate identification of emerging opportunities and sources of constraints and may reveal pitfalls imbedded within seemingly straight forward choices.

¹ Carol Lewis, "Interpreting Municipal Expenditures" in Richard Rich (ed.) *Analyzing Urban Services*, Lexington Books, 1984.

II Comparative View of Scarborough: Amenities and Competitiveness

The town of Scarborough is located in Cumberland County on the southern coast of Maine. The town is a coastal resort area. It is located about 7 miles south of Portland. Scarborough is part of the Portland–Scarborough–Biddeford metropolitan area (About our town, n.d.). With a resident population of just under twenty thousand, Scarborough is the tenth largest city in Maine and the third largest in Cumberland County (American fact finder, 2012).

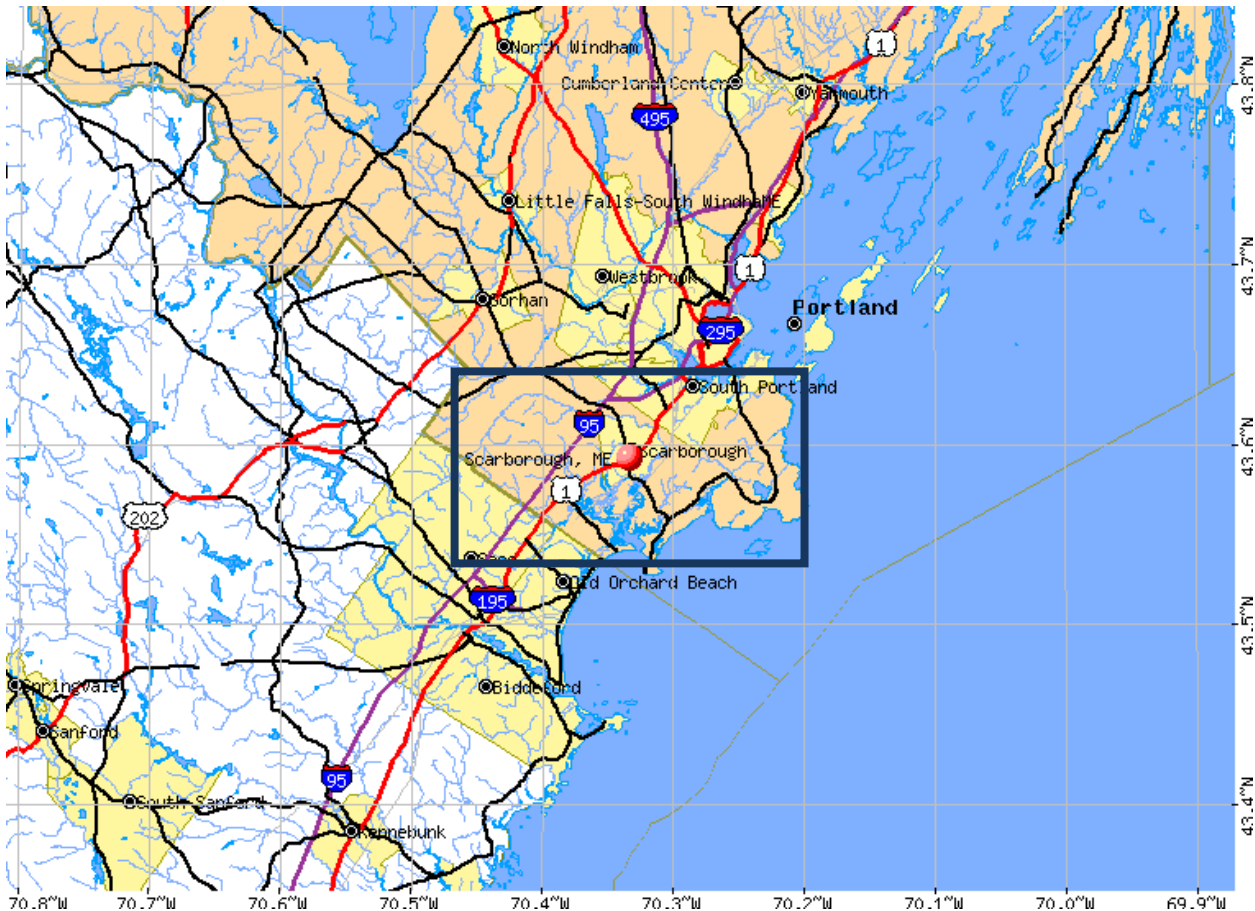


Figure 1 Scarborough, Maine

“The settlement of Scarborough was one of the earliest made on the New England coast. The town was incorporated in 1658 and was named for Scarborough, England. It included the lands of Black Point, Blue Point, and Stratton’s Island and extended back eight miles from the sea, and these boundaries of have changed almost every century” (About our town, n.d.). By October, 1676 Scarborough, was a town consisting of three settlements with more than one hundred houses and one thousand head of cattle that had all been ruined. Some of the settlers had been killed while others were taken captive by Native Americans. These remaining people tried over and over again to reconstruct but peace was not possible. In 1690, the town was deserted due to Native American uprisings, with people moving to Portsmouth and other settlements that were further south. The second settlement of Scarborough is thought to have begun in 1702 (About our town, n.d.).

Today Scarborough is one of the fastest growing and energetic communities in southern Maine (Town of Scarborough Main, n.d.). It has a lot to offer including sandy beaches and the rocky coastline that has been made famous Winslow Homer, a local artist. The biggest saltwater marsh in Maine is positioned within the boundaries along with Rachel Carson Wildlife lands. “Scarborough is a suburban community that offers open spaces, parks and recreational areas for its residents and visitors. Scarborough is easily accessed through the two interstate highways 95 and 295. The newest area for businesses to locate in Scarborough is along the Haigis Parkway, located right at Exit 6 off the Maine Turnpike” (About our town, n.d.).

A reference set approach may be used to gauge Scarborough’s livability, attractiveness and competitiveness relative to other Maine cities and towns that contend with it for business and residential location. These towns include nearby neighbors like Scarborough, Brunswick and Cape Elizabeth, as well as other communities around the state that may appeal to businesses or residents. While it is difficult to define and measure precisely community characteristics that may make it attractive to businesses and households, a significant amount of research is revealing factors that matter. For the purposes of this analysis, Scarborough’s competitive reference set includes Auburn, Augusta, Bangor, Biddeford, Brunswick, Lewiston, Portland, Scarborough, Saco, Sanford, Waterville, and Westbrook.

Within Scarborough there is a Higgins Beach, Scarborough Beach State Park, Scarborough Historical Society & Museum, Scarborough Marsh Audubon Center, Scarborough River Wildlife Sanctuary and Beech Ridge Motor Speedway. There is a strong sense of community, with citizens taking pride in the city. The array of social and cultural services continues to attract a highly educated population. And, with so much to offer, Scarborough is a popular destination site that each day attracts thousands of visitors.

Table 1 compares amenities and factors that may contribute to the vibrancy of a community, which include live theater; art galleries; nightlife; outdoor recreation; citywide celebrations; local college or university; and public perception of local schools. The ratings shown are the author’s assessment and represent one view; as such, the ratings are provided only to prompt discussion and self-assessment.

The ratings in Table 1 are subjective and suggestive only, presented to foster discussion rather than to provide definitive indicators. Nonetheless, the number of activities checked for Scarborough show that it is a place that has room for growth. Depending on one’s interests, the Scarborough community has a lot to offer. The Scarborough Community Chamber partners with the town to offer a free seven week concert series at Memorial Park in July and August with music spanning from the Beatles to the 80's music.

Table 1: Community Vibrancy Factors & Amenities: A Comparison of Scarborough and the Reference Set

	Live Theater	Arts Galleries	Nightlife	Outdoor Recreation	Citywide Celebration	Local College	Public Perception of Schools
Auburn	✓ +	✓ +	✓	✓	✓	✓	✓
Bangor	✓ +	✓	✓	✓	✓	✓ +	✓
Biddeford	✓	—	✓	✓	✓	✓	✓
Brunswick	✓ +	✓	✓	✓	✓	✓ +	✓
Cape Elizabeth	—	—	—	✓	✓	—	✓ +
Falmouth	—	✓	—	✓	✓	—	✓
Freeport	✓	✓	✓	✓	✓	—	✓
Gorham	✓ +	✓	—	✓	✓	✓ +	✓
Portland	✓ +	✓ +	✓ +	✓	✓ +	✓	✓
Scarborough	—	—	—	✓	✓	—	✓
South Portland	✓	✓	✓	✓	✓	✓	✓
Westbrook	—	✓	✓	✓	✓	✓	✓
Yarmouth	—	—	—	✓	✓	—	✓ +

The Landing at Pine Point is a renovated church and a wonderful venue to listen to music. Beech Ridge Speedway is described as New England's premier short-track speedway with a third-mile asphalt oval raceway open from April to September. Scarborough Downs not only has live harness racing but simulcasts thoroughbred and harness racing from tracks across the country. The Nonesuch Golf Course and Willowdale Golf Course are affordable public golf courses with comfortable clubhouses (Entertainment venues, 2011). Each amenity plays a role in the city's economic development and sense of place.

Portland is the largest city in Maine and has earned a great reputation for its wonderful cuisine, diverse shopping, and fun arts district. Old Orchard Beach is a beautiful seaside town with amusement parks, concert venues, and many quaint hotels for your Southern Maine stay. Cape Elizabeth has beautiful beaches, lighthouses, and scenic drives through the Nonesuch River marshes

to enjoy a beautiful Maine afternoon, regardless of the season (Entertainment venues, 2011). These communities have embraced revitalization through the infusion of culture, creativity, diverse recreational opportunities, and citywide celebrations.

Bangor is a major employer and service center; it is the third largest city in Maine, home to two major medical hospitals, part of an area University and College community, and the second largest producer of taxable sales in Maine. Bangor is also a regional arts and cultural center. Within its borders are the Bangor Museum, the Maine Discovery Museum, and the Penobscot Theatre Company. The city has a Symphony Orchestra, art galleries, a Summer Sidewalk Art Festival, and recently has played host to the American Folk Festival. For outdoor recreation Bangor provides 30 parks, five miles of walking, biking and cross country trails, a 27 hole municipal golf course, and picnic areas overlooking the Penobscot River. Bangor's economic and community rebirth and vitality are a direct reflection of the value the city has placed on supporting cultural gatherings and activities, outdoor recreation, citywide celebrations, and post-secondary institutions.

III Comparative Spending Pressure

Municipalities in Maine vary with respect to both the mix and the level of services they are expected to provide, and in addition, in their respective abilities to pay for services demanded. Demands for public services originate from residents and local businesses, and also from non-residents who “use” the community as a place to work, shop, dine, attend college, enjoy the arts, and conduct governmental business, among other activities.

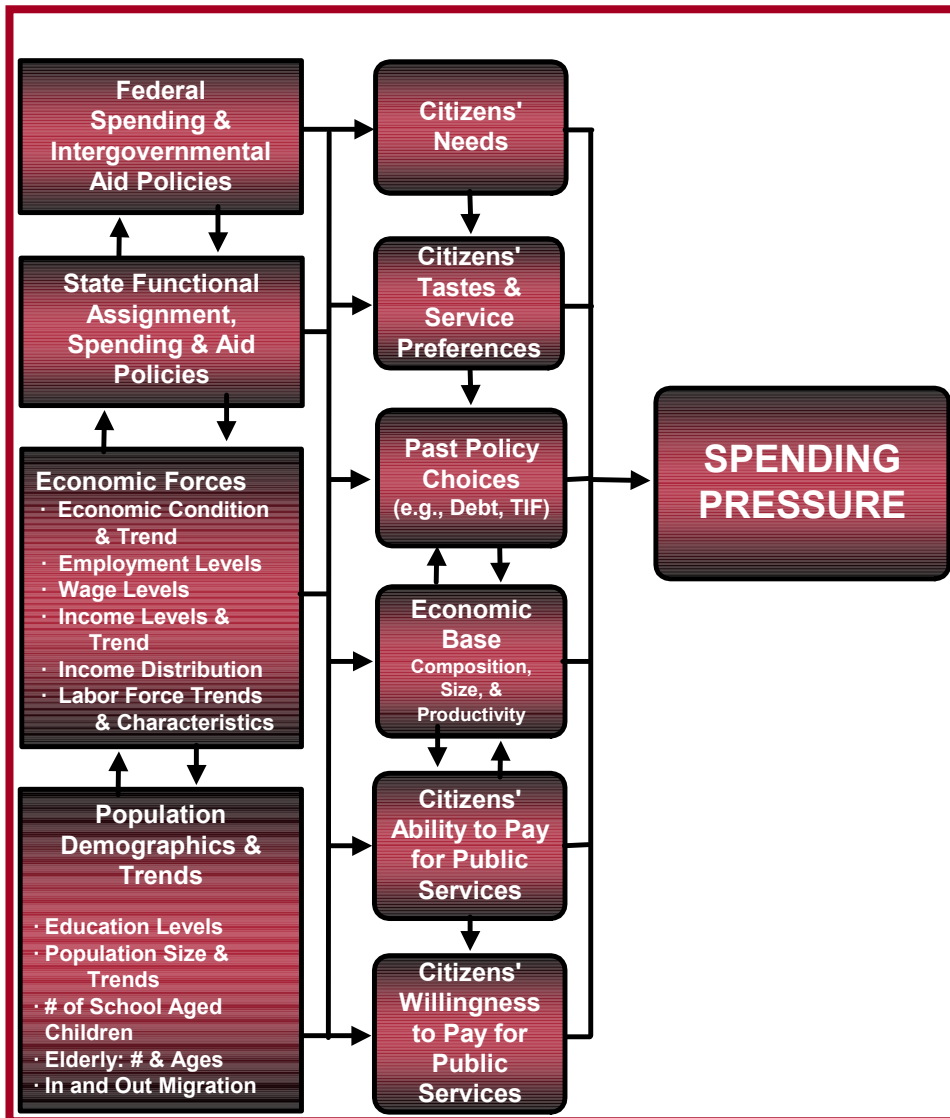
In 1998, the State Planning Office reported that 71% of all jobs, 74% of all services, and 77% of all consumer retail sales occurred in just 69 of Maine's nearly 500 municipalities”.² As destinations for employment, shopping, eating, healthcare, education, and recreation, Maine's employment and services hubs daily provide services not only to their larger than average resident populations and businesses, but also to sizable numbers of non-residents. Scarborough stands out among the service and employment hubs as a major destination, with very large numbers of non-residents flowing in and out of the city on a daily basis.

Traffic control, accident investigation, policing, road maintenance, snow removal, fire protection, garbage removal, and sanitation are provided at levels commensurate with the size of the user population, not the respective municipality's resident population. Although a major hub community like Scarborough generates significant tax sales and income tax revenues, these revenues accrue to the state of Maine. While a small portion of state collected sales and income tax revenues are returned to Maine municipalities in the form of municipal revenue sharing, Maine municipalities fund the bulk of locally provided services with the property tax. As a consequence, property tax rates tend to be much higher in the hub communities. Because the property tax is paid by resident households and businesses, numerous non-resident service users receive a “free ride”.

² Melrose, John, Revitalizing Maine's Service Centers, *Maine Policy Review*, 2003. Vol. 12(3): 48.

Using a fiscal framework and a comparative analytical approach, the next section of this paper examines the spending pressures Scarborough faces as an employment and service center, its fiscal capacity to respond to those spending demands, and trends that are influencing longer term spending needs and revenue capacity. As Professor LaPlante describes in the fiscal framework introduction, two reference sets will be used in an effort to capture a comparative fiscal picture, which will be based on Scarborough's position relative to communities that face budgetary circumstances similar to Scarborough, and a competitive snapshot based on a set of municipalities that may serve as sites for business and residential location.

When taken as a whole, a good fiscal reference set will share with Scarborough many of the factors that determine spending pressures and ability to pay for services. Selection of a reference set municipalities for Scarborough was based upon two sets of indicators. The first marker looked at indicators of spending pressures that include population size, employment in the community, the size of the non-resident user population relative to the resident population, and retail sales volume. The second marker considered indicators of fiscal capacity, including equalized property value and household income. The spending pressures and fiscal capacity reference set includes: Auburn, Augusta, Bangor, Biddeford, Brunswick, Lewiston, Portland, Saco, Sanford, Scarborough, Waterville, and Westbrook



Josephine LaPlante,

Population Size and Trends

A population size for municipality is the simplest indicator of the needs of the residents for services. Commonly, larger communities require more services, at least in the aggregate. The U.S. Census Bureau annually provides estimates of the population of each state by municipality. The most recently available is the estimated population as of July 1, 2005. Table 2 compares Scarborough’s population size with its reference set for 1990 and 2005 and tracks trends in size over the 15 year period.

As Table 2 reveals, Scarborough’s 1990 population of 12,504 was almost 50% below the reference set average of 26,495 and it is the least populated area. Over the fifteen year period, Scarborough saw an increase in population of 51.13% or 6,393 people, while the reference set experienced on average a modest decrease of -0.53% or 406 people less than the 1990 population of

26,453. It is important to note that the reference set average change in population is a combination of very rapid increases in some localities, including nearby Scarborough, with sharp decreases in six other places including neighboring Westbrook. Interesting, Portland's population increased slightly during this period.

Municipality	Estimated Population in 1990	Estimated Population in 2005	Absolute Change 1990-2005	Percent Change, 1990-2005
Auburn	24,233	23,602	-631	-2.60%
Augusta	21,510	18,626	-2,884	-13.42%
Bangor	34,776	31,074	-3,702	-10.65%
Biddeford	20,996	22,072	1,076	5.12%
Brunswick	20,019	21,820	1,711	8.51%
Lewiston	39,142	36,050	-3,092	-7.90%
Portland	63,389	63,889	500	0.79%
Saco	15,206	18,230	3,024	19.89%
Sanford	20,485	21,734	1,249	6.10%
South Portland	24,098	23,742	-356	-1.48%
Waterville	17,379	15,621	-1,758	-10.12%
Westbrook	16,208	16,108	-100	-0.62%
R.S.A.	26,453	26,047	-406	-0.53%
Scarborough	12,504	18,897	6,393	51.13%
SCB as % of RSA	47%	73%	-157.4%	-961.7%
Source: ME State Planning Office, Population of Maine Municipalities, for Census years, 1960 to 2000; Annual Estimates of the Population for Minor Civil Divisions in Maine, 4-1-00 to 7-1-05.				

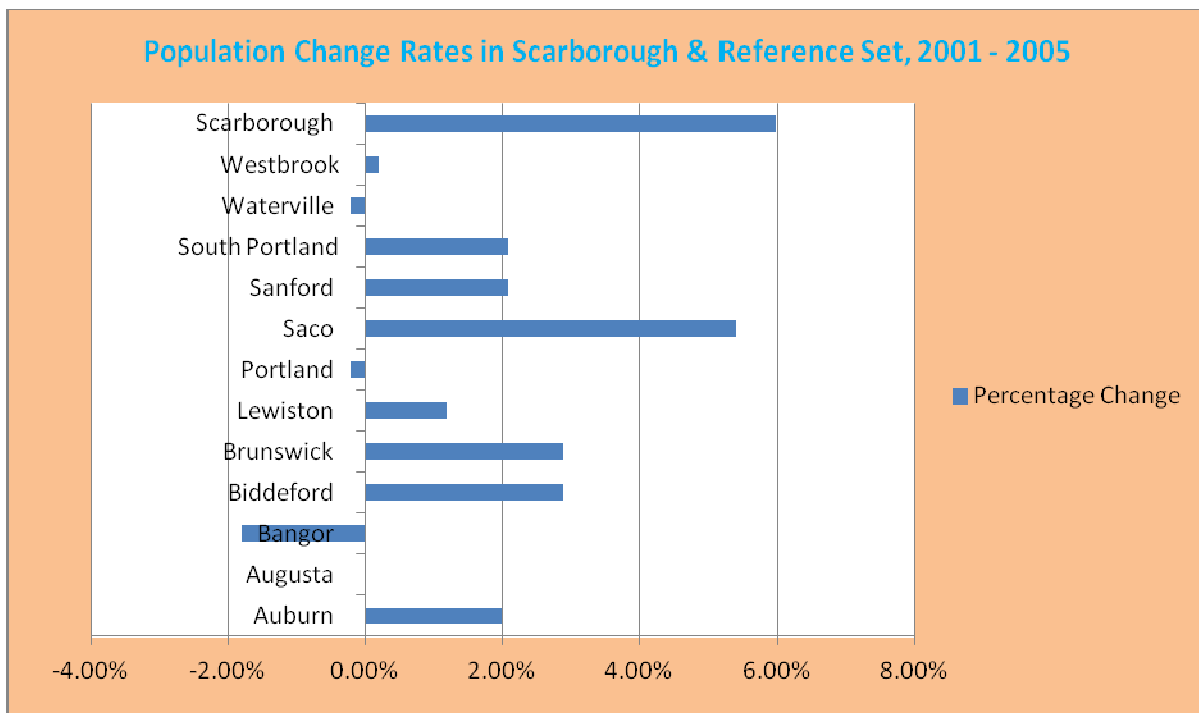
By 2005, Scarborough's relative position had changed, from 47% to 73% of the reference set average. However, Scarborough's rank increased from 14th to 11th largest place, edging out Augusta.

A look at an intermittent year (2001) reveals some differences that may help isolate Scarborough's situation better. As Table 3 shows, in 2001 Scarborough's population of 17,785 reached a rank of 11th in the reference set, moving slightly ahead of Saco's population of 17,303. Despite the gain over Saco, Scarborough's population was about 31% below the reference set average, twenty two percentage points more than its 1990 relative position. By 2005, Scarborough had maintained its lead over Augusta and gained the 10th largest place relative to the reference set average.

Municipality	Population 2001	Population 2005	Percent Change, 2001-2005
Auburn	23,149	23,602	2.00%
Augusta	18,635	18,626	0.00%
Bangor	31,657	31,074	-1.80%
Biddeford	21,446	22,072	2.90%
Brunswick	21,211	21,820	2.90%
Lewiston	35,607	36,050	1.20%
Portland	64,008	63,889	-0.20%
Saco	17,303	18,230	5.40%
Sanford	21,283	21,734	2.10%
South Portland	23,253	23,742	2.10%
Waterville	15,648	15,621	-0.20%
Westbrook	16,071	16,108	0.20%
Reference Set Average	25,773	26,047	-1.30%
Scarborough	17,785	18,897	5.99%
SCB as % of RSA	69%	73%	433%

Another consideration is the effect Portland's population has on the reference set average. Because Portland is so much larger than the other reference set towns, it tends to distort the average population when included in a small grouping. With Portland excluded, Scarborough's 2005 population is 16% below the average for the reference set communities.

As Figure 1 illustrates, Scarborough recently has exhibited healthy growth, exceeding the reference set average by an appreciable margin, and despite leading significantly ahead of Saco, Biddeford and Brunswick. Growth of population can be a sign of a fiscal resurgence, so long as the in-migration is composed of middle or higher socio-economic status households, who will support government services without placing extraordinary demands on services. On the other hand, an influx of more educated people is likely to expand the demand for heightened school quality. In such as circumstance, the tension between the older, less educated population and the newcomers can create community conflict; pressure from one sector of the population to spend more will meet opposition from longer term residents. We will return to this issue when we consider trends in demographics.



It is important to acknowledge that Scarborough is not an island. The population size in Scarborough will have the effect of rapid increases in spending pressure. However, in addition to the impact of changing demographics is likely to increase service demands in Scarborough by increasing the size of the public service user population and the frequency with which local services are utilized. Similarly, growth in tourism increases the effective population size of Scarborough, as its role as a shopping and social mecca increases (the building of the new Wal-Mart, Lowe's, and Sam's Club). Some of this effect is captured in labor force and retail sales trends, which we will consider shortly.

Service Area Size and Population Density

The square miles a community comprises is an important indicator of spending pressure, because it shows the service area. Population density is a related facet of spending pressure, because

the degree to which service units are spread out across the community influences the demand for services and the costs of service provision. Table 4 compares the area and the population density (persons per square mile) of Scarborough and the reference set municipalities.

Table 4: Area in Square Miles and Population Density, 2005			
Municipality	2005 Population	Area in Square Miles	Persons Per Square Mile
Auburn	23,602	59.77	395
Augusta	18,626	55.37	336
Bangor	31,074	34.45	902
Biddeford	22,072	30	736
Brunswick	21,820	46.78	466
Lewiston	36,050	34.09	1,057
Portland	63,889	19.44	3,286
Saco	18,230	38.48	474
Sanford	21,734	47.79	455
South Portland	23,742	12.93	1,836
Waterville	15,621	13.6	1,149
Westbrook	16,108	16.86	955
Reference Set Average	26,047	34	1,004
Scarborough	18,897	47.7	396
SCB as % of RSA	73%	140%	39%
Source: Maine State Planning Office: Population of Maine Municipalities, Census years 1960 to 2000			

The area to be served is a rough gauge of costs, because it considers the breadth of service delivery. Scarborough has the fourth arguably the third largest land area of any of the cities, with less than 48 square miles. By increasing travel time required, larger area always has inefficient service delivery. The average population density of the reference set in 2005 was 1,004 people per square mile. Scarborough's population density that year was 396 people per square mile, almost one third less than the reference set average.

With its less population size and large area, Scarborough turns out to be a low density community. The less comparative density means that some services may deliver less efficiently in Scarborough and some services that might be feasible in a high densely populated area become infeasible.

While high density has some advantages, there also will be a heightened need for spending on some services, especially fire prevention and fire fighting, garbage pickup, and traffic control and investigation, this is not the case in Scarborough. In less densely populated areas like Scarborough, less police presence also may accompany low police cost for peacekeeping. Increased population density may be accompanied by increased criminal activity, so police service costs may increase.

High density may combine with other community characteristics to exert pressure on spending. In Scarborough, the combination of low density with minimum active retail and hospitality sectors can be expected to place less pressure on police resources. Interestingly, greater density may reduce the costs of producing some services such as bussing children to schools and may make feasible services like public transportation that would be infeasible in a more geographically dispersed jurisdiction. Up to the point where high density equates with overcrowding, most services may be delivered more efficiently than in places where service units are dispersed widely like in Scarborough. As you know, both geographic dispersion and isolation increase greatly the costs of delivering education in rural parts of Maine.

On the other note, it is unlikely that Scarborough benefits from its low density. On balance, Scarborough has a room to expand economically, because of the large undeveloped land. However, less density means more available space for business and residential expansion, which may allow further benefits from economies of scale, that is to say, larger numbers of people served within existing service and infra-structure capacity.

A Closer Look at Cost Efficiencies

While higher density of population can produce efficiencies, the upper bound for efficiency gains may be limited by population size. Generally, larger places are able to achieve efficiencies in service delivery due to their scale; an “economy of scale” occurs when unit costs are lowered by tapping into declining costs for incremental expansion. Additional efficiencies may be achieved when population size is large relative to the physical area to be served. Scarborough has a small population by Maine standards and low density.

Economic Characteristics

Employment Levels and Trends

The rate of growth and the employment history of a municipality helps gauge whether or not a municipality is able to maintain, increase, or decrease spending on infrastructure. Table 5, “Employment Levels and Trends”, illustrates the change in employment, and the percentage change in employment levels in Scarborough and the reference set communities from 1997 to 2005. Scarborough traditionally has had a low employment base and placed 47% below the reference set average in 1997. However, Scarborough’s employment increased by 26.7% from 1997 to 2005, a rate that equaled more than 300% of the average growth rate of experienced by the reference set (which was almost 7.5%).

Municipality	Employment in Town 1997	Employment in Town 2005	Change in Employment 1997-2005	% Change in Employment 1997-2005
Auburn	14,361	15,998	1,637	11.40%
Augusta	25,302	26,992	1,690	6.70%
Bangor	31,918	36,428	4,510	14.10%
Biddeford	8,785	11,218	2,433	27.70%
Brunswick	11,743	11,917	174	1.50%
Lewiston	20,454	22,501	2,047	10.00%
Portland	64,048	69,326	5,278	8.20%
Saco	5,686	6,680	994	17.50%
Sanford	9,169	8,227	-942	-10.30%
South Portland	22,384	23,354	970	4.30%
Waterville	11,770	12,133	363	3.10%
Westbrook	10,109	11,485	1,376	13.60%
Reference Source Avg.	18,287	19,866	1,711	7.50%
Scarborough	9,742	13,276	3,534	26.70%
SCB as % of RSA	53%	67%	207%	356%

By 2005, the rapid growth rate in Scarborough had increased its employment to 67% of the reference set average, which is still notably higher but more in line than the previous difference.

Comparison of Labor Force Employed in Community to Resident Population

The pressure to spend on local services exerted by the employment of non-residents may be measured by calculating the ratio of population to labor force. The higher the ratio, the more services the municipality is being asked to provide for the non-resident user population. Table 6 shows key population and labor force indicators and the ratio of labor force employed in each town to resident population for the years 2001 and 2005.

- In 2001 the average ratio of labor force to population was 0.819% for the reference set.
- In contrast, Scarborough's ratio of 24.29% shows that the workforce was below the resident population size and short fall from the reference set average by -23%.

- By 2005 the ratio of labor force to population slightly stayed the same at 1% across the reference set, but Scarborough’s ratio increased to 70.25%.

Although some people counted in the workforce reside in the community, the very high number of people employed in Scarborough relative to its resident population illustrates dramatically the employing and service center issue in general, and foreshadows substantial budgetary pressures for the city of Scarborough.

Table 6: Trends in Resident Population and Labor Force Employed in Scarborough and Reference Set

Municipality	Estimated Population 2001	Estimated Population 2005	Labor Force 2001	Labor Force to Population Ratio 2001	Labor Force 2005	Labor Force To Population Ratio 2005
Auburn	23,149	23,602	15,598	67.38%	15,998	67.78%
Augusta	18,635	18,626	27,764	148.99%	26,992	144.92%
Bangor	31,657	31,074	35,811	113.12%	36,428	117.23%
Biddeford	21,446	22,072	10,844	50.56%	11,218	50.82%
Brunswick	21,211	21,820	12,378	58.36%	11,917	54.62%
Lewiston	35,607	36,050	22,517	63.24%	22,501	62.42%
Portland	64,008	63,889	71,027	110.97%	69,326	108.51%
Saco	17,303	18,230	6,158	35.59%	6,680	36.64%
Sanford	21,283	21,734	9,123	42.87%	8,227	37.85%
South Portland	23,253	23,742	23,679	101.83%	23,354	98.37%
Waterville	15,648	15,621	12,074	77.16%	12,133	77.67%
Westbrook	16,071	16,108	10,543	65.60%	11,485	71.30%
Reference Source Avg.	25,773	26,047	21,460	100%	21,355	100%
Scarborough	17,785	18,897	11,434	64.29%	13,276	70.25%
SCB as % of RSA	69%	73%	53%	77%	62%	86%

- Although the improved comparative position may signal a modest easing of new spending pressures, the ratio nonetheless stands below that of the reference set as a whole (-14%).

The percentage of workers employed in a place who commute into the community (rather than reside and work in the town) is an important indicator of spending pressure that derives from the economic base (LaPlante, 2013). On the next page, Table 7 shows this data for Scarborough and the reference set municipalities, based on U.S. Census 2000 estimates. In 2000, Scarborough had 21,838 total workers employed within the community, the fifth largest number of workers among

the reference set communities. Of those workers, 4,138 both lived and worked in Scarborough (i.e. resident-workers) and 17,700 commuters.

- ✓ The number of commuters employed in Scarborough ranks third, but as a percentage of total local employment, Scarborough ranks first.
- ✓ At 81%, the percentage of workers who commute into Scarborough exceeded by an appreciable average the reference set average of 70%.

Because this reference set was selected to reflect the spending pressures facing Scarborough, and includes other service centers, this comparison tends to understate the impact of in-commuting of workers on Scarborough’s municipal budget. Scarborough faces substantial spending pressure as a consequence of the size of the daily user population. This issue will be discussed further in the “conclusions” section of this report.

Scarborough’s Economic Geography

It is crucial to consider Scarborough’s trends within the context of its economic geography,

Table 7: Impact of “Commuting In” on Employment Totals, 2000

Municipality	Number of Locally Employed Workers			Workers Who Commute In as % of Locally Employed
	Total Employed Locally	Who Live & Work in Same Community	Who Commute Into the Community	
Auburn	15,073	4,519	10,554	70.0%
Augusta	25,428	6,017	19,411	76.3%
Bangor	34,199	11,109	23,090	67.5%
Biddeford	10,157	3,943	6,214	61.2%
Brunswick	12,260	3,063	9,197	75.0%
Lewiston	23,102	9,194	13,908	60.2%
Portland	64,946	21,439	43,507	67.0%
Saco	8,030	2,282	5,748	71.6%
Sanford	6,212	1,538	4,674	75.2%
Waterville	12,251	3,997	8,254	67.4%
Westbrook	10,148	2,153	7,995	78.8%
Reference Set Avg.	20,164	6,296	13,868	70.0%
Scarborough	21,838	4,138	17,700	81.0%
SP as % of RSA	108%	66%	128%	116%

Source: Census 2000 “Estimated Daytime Population and Employment-Residence

which is unique within Maine. As the map on the next page shows, three other major service centers—Portland, and Westbrook—come together in the general area of the Mall. Both the proximity of these other hubs and continuing development of these places will increase the demand for services in Scarborough, as people flow into, out of, and through the community. The spillover of spending demands is heightened by the location of roadways. Scarborough either hosts or is near eleven exits from the Maine Turnpike and Interstate 295 and has within its bounds the junction of these two primary transportation routes. The location of Maine’s major airport near this transportation junction will escalate the use of Scarborough’s public services.



- Access features that make Scarborough a major employment destination, serve to sustain and even increase spending pressures even when the size of the local population and workforce is stagnant or declining.

Retail Sales Levels and Trends

Taxable retail sales are an important indicator of the vitality of the economic base, but also the demands placed on local budgets. Because local retail establishments cater to residents and non-residents, adjusting retail sales by population lets us make more valid inter-local comparisons. Table 8 depicts the taxable sales per capita of Scarborough and the reference set communities for 2000 and 2006, and the percent change in per capita taxable retail sales between 2000 and 2006.

Municipality	Per Capita Taxable Retail Sales		
	2000	2006	Percent Change 2000-2006
Auburn	\$21,442	\$26,830	27.30%
Augusta	\$33,416	\$38,150	14.60%
Bangor	\$33,092	\$40,003	19.40%
Biddeford	\$8,240	\$12,391	57.70%
Brunswick	\$15,783	\$17,846	16.50%
Lewiston	\$8,098	\$8,954	11.80%
Portland	\$18,485	\$20,928	12.70%
Saco	\$11,597	\$13,579	26.00%
Sanford	\$9,249	\$10,950	22.50%
South Portland	\$32,372.00	\$38,242	20.00%
Waterville	\$17,960	\$23,447	30.70%
Westbrook	\$15,716	\$19,372	23.10%
Reference Set Avg.	\$18,788	\$22,558	20.06%
Scarborough	\$15,915	\$17,247	8.36%
SCB as % of RSA	85%	76%	11%

Source: Taxable sales, Maine State Revenue Services, "Sales by town thru 2006 Q4 Preliminary

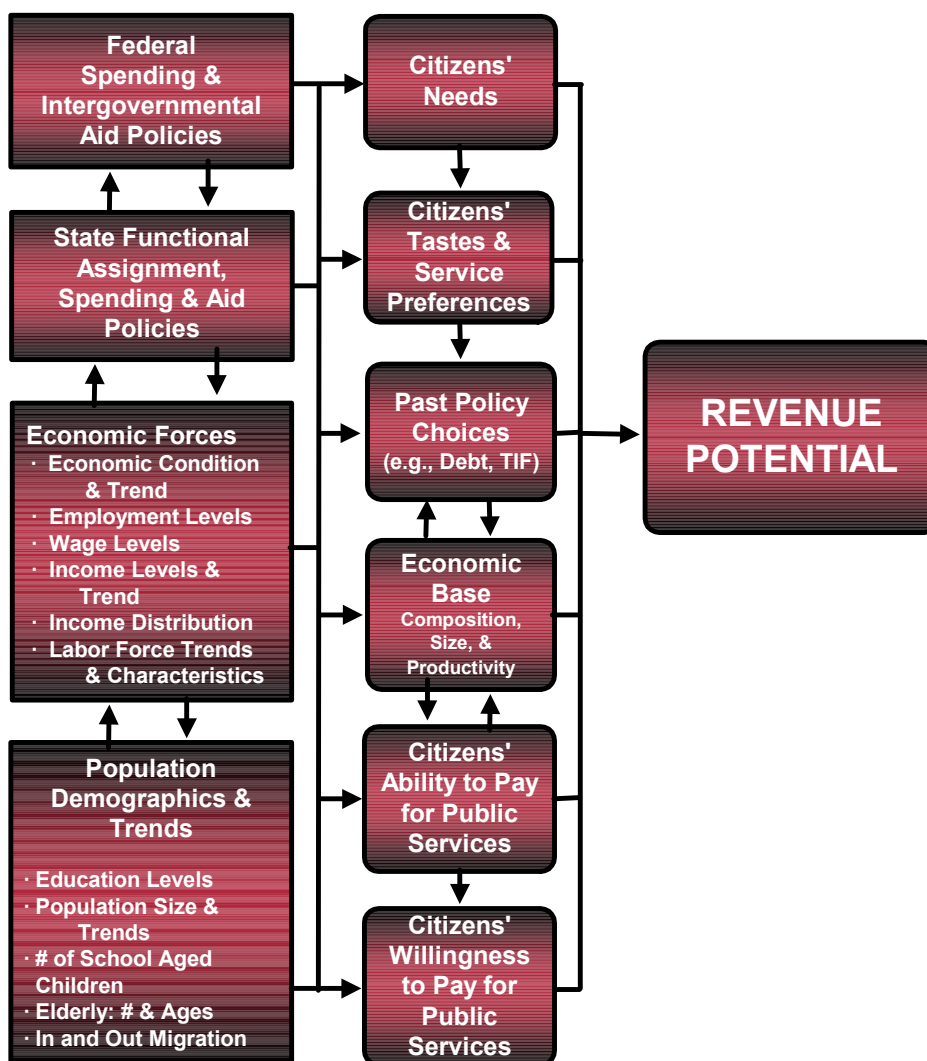
Scarborough’s taxable sales per capita in 2000 were \$15,915 in 2000, compared to the reference set average of only \$18,788, which placed Scarborough 15% below the reference set average. In 2000, Scarborough had the eighth largest taxable sales per capita, falling slightly below Waterville’s and Portland’s levels. By 2006, Scarborough’s taxable sales per capita had grown 8.36% to \$17,247, an increase of 8.36% without adjusting for inflation. The reference set average grew slightly, with taxable retail sales increasing 20.06% or \$22,558 per capita. Notice that the reference set average is driven by Biddeford’s increase, which reflects very rapid growth in a previously very small retail sector. Even with its significant increase, Biddeford’s per capita sales remain quite low relative to most other places.

Scarborough experienced slightly slower growth in taxable sales per capita than the reference set average, by 2006 it had moved down from eighth to ninth place (dropping a place to Brunswick) in taxable sales per capita amongst its peers. This shows a healthy retail center, which continues to prosper despite continuing competition from nearby Portland, Scarborough and Westbrook.

The analysis of the data in this section has provided a means of understanding the demand for services confronting Scarborough in its role as an employment and service center community and relative to the reference set. The next section examines Scarborough's ability to respond to internal and external spending demands, again in comparison to its reference set communities.

IV. COMPARATIVE FISCAL CAPACITY

Fiscal capacity is the ability of a community to finance services and infrastructure investments and reinvestments. Under Maine law, which limits local taxes to property and excise taxes on real, tangible property, fiscal capacity is determined largely by the value of the local property tax base. However, as Exhibit 5 illustrate citizens' ability and willingness to finance



service is a critical determinant of access to the property tax base. Also, as Exhibit 5 shows, State policies and aid to local governments are crucial influences on revenue potential. Let's begin by considering trends in property values, then move on to other revenue sources.

4.1 Trends in Equalized Property Values

Table 9 shows that in 2002 Scarborough's total property value was 9% above the reference set average and ranked 4th, and consideration on a per capita basis, Scarborough's valuation ranked 2nd. By 2006, Scarborough's comparative position had increased, with total valuation exceeding the reference set average by 29% and per capita valuation by 84%. Despite the improvement in position between 2002 and 2006, it is important to note that Scarborough's valuation grew rapidly as compare to other communities in the reference set. As a consequence, the growth rates for total and per capita valuation place Scarborough 59% above the reference set average, but given the magnitude of the tax base, even slow growth in other communities produces large gains in value. With its population size, Scarborough is well placed to meet the needs of its resident population.

Municipality	State Equalized Property Valuations				Percent Change, 2002-06	
	2002	Per Capita 2002 ¹	2006	Per Capita 2006 ²	Total Valuation	Per Capita Valuation
Auburn	\$1,127,950,000	\$48,726	\$1,658,250,000	\$70,259	47.00%	44.20%
Augusta	\$912,200,000	\$48,951	\$1,202,450,000	\$64,558	31.80%	31.90%
Bangor	\$1,606,250,000	\$50,739	\$2,063,300,000	\$66,400	28.50%	30.90%
Biddeford	\$1,263,350,000	\$58,908	\$2,244,050,000	\$101,670	77.60%	72.60%
Brunswick	\$1,185,950,000	\$55,912	\$1,777,200,000	\$81,448	49.90%	45.70%
Lewiston	\$1,375,550,000	\$38,631	\$1,948,850,000	\$54,060	41.70%	39.90%
Portland	\$4,305,150,000	\$67,260	\$7,039,000,000	\$110,175	63.50%	63.80%
Saco	\$1,011,250,000	\$58,444	\$1,805,400,000	\$99,035	78.50%	69.50%
Sanford	\$854,450,000	\$40,147	\$1,356,200,000	\$62,400	58.70%	55.40%
South Portland	\$2,128,900,000	\$91,554	\$3,411,200,000	\$143,678	60.20%	56.90%
Waterville	\$536,950,000	\$34,314	\$632,500,000	\$40,490	17.80%	18.00%
Westbrook	\$1,061,000,000	\$66,020	\$1,577,450,000	\$97,930	48.70%	48.30%
Ref. Set Av.	\$1,447,412,500	\$54,967	\$2,226,320,833	\$82,675	52.20%	49.40%
Scarborough	\$1,571,700,000	\$88,372	\$2,873,200,000	\$152,045	82.80%	72.10%
SCB as % of RSA	109%	161%	129%	184%	159%	146%

1 Based on 2002 value and 2001 pop; 2 based on 2006 value and 2005 pop)

4.2 Trends in Household Income

On the next page, Table 10 shows median household income at several times for South Portland and the reference set of places. Scarborough's 2006 median household income is \$66,626, which is 67% above the reference set average. Far more growth in income than the reference set between 1990 and 2000 pushed Scarborough 61% above the reference set in 2000, but slower than average growth more recently resulted in some lost ground. Because median household income is estimated for non-Census years, these trends should be considered suggestive only, but they point to

an affluent community, especially with respect to the reference set of places. Household income in Scarborough suggests a reasonably very strong ability to pay for services. In combination with higher than average educational levels among adults, a large resident K-12 student population, and increasing affluence, median household income is likely to generate a stronger than average willingness to pay for public services.

Table 10: Comparison of Median Household Income and Trends

Municipality	Median Household Income				Percent Change in Median Household Income	
	1980	1990	2000	2006	1990-2000	2000-2006
Auburn	\$13,529	\$30,245	\$35,006	\$40,525	15.70%	15.80%
Augusta	\$13,723	\$28,227	\$29,992	\$33,734	6.30%	12.50%
Bangor	\$12,635	\$27,056	\$31,803	\$32,806	17.50%	3.20%
Biddeford	\$14,064	\$28,658	\$33,634	\$39,003	17.40%	16.00%
Brunswick	\$14,652	\$32,677	\$41,967	\$46,498	28.40%	10.80%
Lewiston	\$12,348	\$26,202	\$30,033	\$32,659	14.60%	8.70%
Portland	\$12,203	\$28,023	\$36,219	\$40,797	29.20%	12.60%
Saco	\$15,614	\$33,076	\$40,553	\$51,727	22.60%	27.60%
Sanford	\$13,136	\$28,267	\$32,530	\$38,650	15.10%	18.80%
South Portland	\$18,410	\$43,239	\$56,588	\$66,626	30.90%	17.70%
Waterville	\$13,044	\$24,715	\$25,953	\$30,418	5.00%	17.20%
Westbrook	\$16,255	\$30,956	\$39,239	\$43,197	26.80%	10.10%
Reference Set Avg.	\$14,134	\$30,112	\$36,126	\$41,387	\$0	\$0
Scarborough	\$16,004	\$33,779	\$44,300	\$48,626	31.10%	9.80%
SP as % of RSA	113%	112%	123%	117%	163%	69%

4.3 Municipal Revenue Sharing

Fiscal capacity is influenced by state aid to municipalities. Established in 1987 by the Maine State Legislature in recognition of the “burden on the property tax” of “financing municipal services”, Municipal Revenue Sharing was created “to stabilize the municipal property tax burden and to aid in financing all municipal services”.³ Municipal Revenue Sharing (or Revenue Sharing), is funded by setting aside 5.1% of taxable sales, and personal and corporate income tax receipts for the month.

The Office of the State Treasurer then calculates the amount of money distributed to each municipality based on a municipality’s state valuation, tax assessment, and actual or estimated population. The distribution of funds is based on two formulas known as REV I and REV II. REV

³ 30-A, M.R.S.A. subpart 9 chapter 223 sec 5681

I is subject to an annual growth ceiling; once the cap is reached, all subsequent distributions of pooled funds in excess of the REV I ceiling are distributed based on the REV II formula. The formulas for REV I and REV II are as follows:

$$\text{REV I} = \frac{\text{Tax Assessment}}{\text{State Valuation}} * \text{Population}$$

$$\text{REV II} = \frac{\text{Tax Assessment}}{\text{State Valuation}} - .01 * \text{Population}$$

According to the State Treasurer's Office, the first step in determining the annual amount of Revenue Sharing allocated to each municipality is to calculate the property tax burden of each municipality.

The state defines property tax burden as "the total real or personal property taxes assessed in the most recently completed municipal fiscal year, minus the taxes assessed on captured value (CAV) within a tax increment financing district, divided by the latest state valuation"⁴ (in other words; tax assessment/state valuation).

The data used by the state lags behind by one to two years, so the "property tax burden" for fiscal year 2007 equals the 2005 tax commitment minus CAV tax (i.e. tax assessment) divided by the 2006 State Valuation.

When this figure is multiplied against the latest actual or estimated population of the municipality (based on 2005 data), the final number equals REV I.

The following sections take a closer look at the Tax Assessment and State Valuation portion of the REV I formula. Table 11 shows trends in municipal revenue sharing allocations to Scarborough and the reference set communities for 2000 and 2007.

⁴ 30-A, M.R.S.A. sec. 5681

Table 11a : Trends in Municipal Revenue Sharing Payments						
Municipality	Total			Per Capita Aid		
	2000	2007	Percent Change	2000	2007	% Change
Auburn	\$2,811,539	\$3,781,007	34.50%	\$121	\$160	32.10%
Augusta	\$2,166,927	\$2,520,594	16.30%	\$117	\$134	14.60%
Bangor	\$3,480,093	\$4,284,363	23.10%	\$111	\$136	23.10%
Biddeford	\$1,818,401	\$1,651,758	-9.20%	\$87	\$76	-11.90%
Brunswick	\$1,803,888	\$2,040,990	13.10%	\$85	\$93	9.70%
Lewiston	\$4,351,571	\$5,120,502	17.70%	\$122	\$141	15.70%
Portland	\$6,981,787	\$6,878,244	-1.50%	\$109	\$107	-1.40%
Saco	\$1,546,197	\$1,356,308	-12.30%	\$92	\$74	-19.50%
Sanford	\$1,968,465	\$2,065,136	4.90%	\$95	\$96	1.00%
South Portland	\$2,360,569	\$1,999,347	-15.30%	\$101	\$84	-16.70%
Waterville	\$1,731,994	\$2,819,612	62.80%	\$111	\$179	61.40%
Westbrook	\$1,537,104	\$1,674,138	8.90%	\$95	\$105	9.80%
Reference Set Avg.	\$2,713,211	\$3,016,000	11.16%	\$104	\$115	11.00%
Scarborough	\$1,325,982	\$1,395,552	5.20%	\$78	\$75	-4.00%
SCB as % of RSA	49%	46%	6%	75%	65%	13%

In 2000, Scarborough received \$1,325,982 or 1.25% of the \$105,349,999.74 in revenue sharing distributed from the state that year. In 2007, Scarborough received \$1,395,552 which was slightly more than the \$1,325,982 it received in 2000, but went -4.00% on the percentage for pre capital.

Looking at total revenue sharing allocations disguises the fact that population size changes can make funds received more or less adequate than they first appear. Table 11a– also shows revenue sharing per capita in 2000 and 2007. As you can see, Scarborough’s respective position slightly improves when revenue sharing is adjusted for population size, but the growth rate continues to lag significantly behind the reference set. When placed within the context of the greater

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degree to which Scarborough serves as an employing and retail center, the small and dwindling revenue sharing allocation is very troubling.

The reduction in municipal revenue sharing is even more serious than it appears, because during the seven year time span inflation reduced the purchasing power of one dollar. Table 11b – expresses the 2000 per capita revenue sharing amounts in 2007 dollar values, so that the purchasing power may be compared. This analysis reveals that most reference communities saw the purchasing power of their per capita revenue sharing receipts decline, but Scarborough and Saco were the most seriously affected.

Table11b: Trends in Per Capita Municipal Revenue Sharing Adjusted for Inflation				
	Per Capita MRS 2000	2000 Allocations Expressed in 2007 Dollar Values	Per Capita MRS 2007	Difference in PC Allocations in Inflation Adjusted Dollars
Auburn	\$121	\$145	\$160	\$15
Augusta	\$117	\$140	\$134	(\$6)
Bangor	\$111	\$133	\$136	\$3
Biddeford	\$87	\$104	\$76	(\$28)
Brunswick	\$85	\$102	\$93	(\$9)
Lewiston	\$122	\$146	\$141	(\$5)
Portland	\$109	\$130	\$107	(\$23)
Saco	\$92	\$110	\$74	(\$36)
Sanford	\$95	\$114	\$96	(\$18)
South Portland	\$101	\$121	\$84	(\$37)
Waterville	\$111	\$133	\$179	\$46
Westbrook	\$95	\$114	\$105	(\$9)
Ref Set Avg.	\$104	\$124	\$115	\$9
Scarborough	\$78	\$93	\$75	(\$18)

Table 11c- Computation of Municipal Revenue Sharing Showing Impact of Mil Rates

Municipality Name	Population	2006 Tax Assessment	2007 State Valuation	Mil Rate: \$s per Thousand	Rev I Computed Value
AUBURN	23,618	\$37,735,504	\$1,922,200	\$20	\$463,655
AUGUSTA	18,835	\$23,045,032	\$1,380,800	\$17	\$314,349
BANGOR	31,478	\$40,478,257	\$2,213,950	\$18	\$575,521
BIDDEFORD	21,596	\$30,744,245	\$2,465,400	\$12	\$269,308
BRUNSWICK	21,836	\$26,574,554	\$1,975,600	\$13	\$293,724
LEWISTON	36,290	\$39,244,439	\$2,266,700	\$17	\$628,306
PORTLAND	64,166	\$117,281,388	\$7,653,400	\$15	\$983,286
SACO	18,328	\$24,006,817	\$1,987,550	\$12	\$221,377
SANFORD	21,619	\$21,287,971	\$1,487,300	\$14	\$309,436
SO PORTLAND	23,729	\$48,455,205	\$3,642,750	\$13	\$315,639
WATERVILLE	15,740	\$14,659,220	\$697,450	\$21	\$330,828
WESTBROOK	16,013	\$26,419,380	\$1,723,650	\$15	\$245,441
SCARBOROUGH	18,604	\$37,448,666	\$3,255,800	\$12	\$213,986

Because the municipal revenue sharing program is designed to target more aid to municipalities with the heaviest tax burdens, Scarborough’s successful effort to bring property taxes under control explains in part its declining revenue sharing allocation. Table 12 shows “Taxable Sales” in 2000 and 2006 for Scarborough, the reference set communities, and the state of Maine as a whole. In 2000, Maine collected \$13,934,405,000 in taxable sales; of the total sales amount, 5.42% or \$272,766.30 dollars originated in Scarborough.

Scarborough ranked ninth that year in taxable sales amongst its peers and within the state. In 2006 the state of Maine collected \$16,989,256,000 in taxable sales 5.30% or \$341,234.10 of those sales dollars originated in Scarborough. This time, Scarborough ranked eighth in taxable sale revenue amongst its peers and within the state.

Table 12: Taxable Sales in Scarborough and Reference Set Communities, 2000 - 2006

	2000 Taxable Sales (in thousands)	2006 Taxable Sales (in thousands)	2000-2006 Change in Taxable Sales (in thousands)	2000-2006 % Chang in Taxable Sales
Statewide	\$13,934,405.00	\$16,989,256.00	\$3,054,851.00	21.92%
Auburn	\$497,245.00	\$638,970.60	\$141,725.60	28.50%
Augusta	\$620,103.90	\$722,545.30	\$102,441.40	16.52%
Bangor	\$1,041,452.00	\$1,250,539.80	\$209,087.80	20.08%
Biddeford	\$173,457.30	\$300,308.60	\$126,851.30	73.13%
Brunswick	\$334,348.50	\$376,881.90	\$42,533.40	12.72%
Lewiston	\$288,746.00	\$319,768.30	\$31,022.30	10.74%
Portland	\$1,186,476.50	\$1,330,287.50	\$143,811.00	12.12%
Saco	\$196,531.00	\$244,753.80	\$48,222.80	24.54%
Sanford	\$194,219.70	\$232,898.50	\$38,678.80	19.91%
South Portland	\$756,404.20	\$901,063.70	\$144,659.50	19.12%
Waterville	\$280,257.80	\$366,171.10	\$85,913.30	30.66%
Westbrook	\$253,559.10	\$309,466.90	\$55,907.80	22.05%
Reference Set Avg.	\$1,519,785.08	\$1,844,839.38	\$325,054.30	32.23%
Scarborough	\$272,766.30	\$341,234.10	\$68,467.80	25.10%
SCB as % of RSA	18%	18%	21%	78%

Between 2000 and 2006, taxable sales in Scarborough increased by \$68,467.80 or 25.10%. But as noted, as a percent of the reference set average, Scarborough’s taxable sales have decreased, albeit only slightly. This decrease hints at what is actually a two-year trend in declining taxable sales in Scarborough. In 2005 and 2006, Scarborough’s taxable sales decreased to levels below its 2004 and 2003 sales rates. At the same time, Scarborough’s neighbor, Scarborough, saw a strong growth in taxable sales. But even with slightly declining sales, Scarborough’s sales revenue was greater than the reference set average in 2000 by 170.01% and in 2006 by 168.06%. The volume of activity these figures represent suggest further spending pressure on Scarborough, without any recognition in the municipal revenue sharing formula of “point of origin” cost impacts of retail activity.

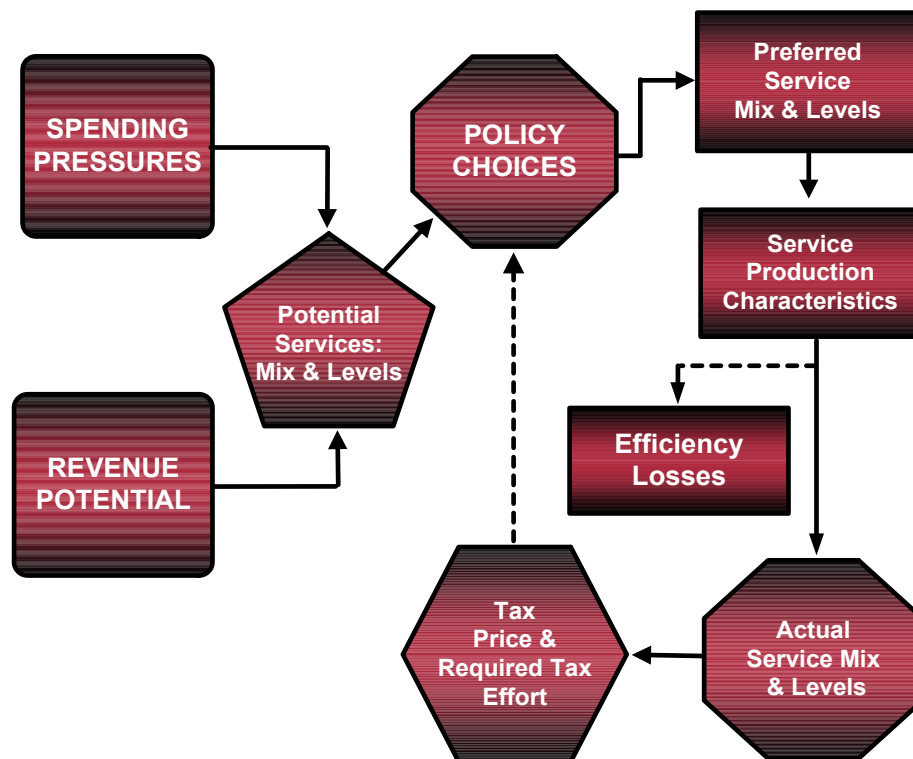
As we have seen, State Valuation is an important component of both the Revenue Sharing and General Purpose Aid formulas. There tends to be a general sentiment within Scarborough that both decreasing Revenue Sharing and decreasing General Purpose Aid are the results of strictly increasing valuation.

However, the reality is more complex than the perception. The Revenue Sharing formula is also compromised of tax assessment and population while GPA considers a variety of costs factors as well as student enrollment in its formula. Any of these components would effect a change in the formulas used to calculate State distributions, as would as an increase in valuation.

In addition, when the State distributes money from its Revenue Sharing pool and General Purpose Aid fund it considers changes in valuation in other communities against changes in valuation in Scarborough.

V. Budgetary Outputs: Local Tax Levels and Tax Burden

Determinants of Service Levels and Mix, Tax Price, and Required Tax Effort



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Table-16 shows the tax assessment in Scarborough and the reference set communities for 2000 and 2005. In 2000 Scarborough had the second highest tax assessment (at \$24,846,610). In 2005, Scarborough remained the sixth place leader with \$36,283,643 in tax assessment. Scarborough's absolute change in tax assessment from 2000 to 2005 was \$11,437,033 which was above (the reference set average) which represented a 46.03% increase which was above (the reference set average). Scarborough's absolute change was the second largest dollar amount change (behind Portland), but the first highest percent change out of the 13 reference set municipalities.

Table-16: Trends in Property Tax Assessments Scarborough and Reference Set				
Municipality	Tax Assessment 2000	Tax Assessment 2005	Absolute Change Tax Assessment 2000 to 2005	Percent Change Tax Assessment 2000 to 2005
Auburn	\$28,750,633	\$36,779,185	\$8,028,552	27.92%
Augusta	\$21,323,672	\$23,003,947	\$1,680,275	7.88%
Bangor	\$34,413,046	\$39,257,561	\$4,844,515	14.08%
Biddeford	\$20,317,948	\$28,829,859	\$8,511,911	41.89%
Brunswick	\$20,528,192	\$26,142,845	\$5,614,653	27.35%
Lewiston	\$35,145,718	\$38,567,638	\$3,421,920	9.74%
Portland	\$88,167,982	\$112,850,616	\$24,682,634	28.00%
Saco	\$17,291,864	\$22,615,255	\$5,323,391	30.79%
Sanford	\$15,763,159	\$20,155,224	\$4,392,065	27.86%
South Portland	\$37,488,847	\$46,555,683	\$9,066,836	24.19%
Waterville	\$12,918,012	\$15,061,873	\$2,143,861	16.60%
Westbrook	\$19,721,762	\$24,959,694	\$5,237,932	26.56%
Reference Set Avg.	\$29,319,236	\$36,231,615	\$6,912,379	23.57%
Scarborough	\$24,846,610	\$36,283,643	\$11,437,033	46.03%
SCB as % of RSA	85%	100%	165%	195%

Each year the Maine Revenue Service computes the equalized full value tax rate (i.e. the property tax rate or mil rate adjusted for tax increment financing (TIF) and the Homestead Exemption) to facilitate property tax (or mil rate) comparisons between municipalities, and to provide an indicator of relative tax burden. Table 17 shows the "Equalized Full Value Mil Rates" for the years 1999 to 2005.

Table17 - Equalized Full Value Mil Rates (Adjusted for TIF and Homestead Exemptions)							
Municipality	Equalize d Tax per \$1,000 of value 2005	Equalize d Tax per \$1,000 of value 2004	Equalize d Tax per \$1,000 of value 2003	Equalize d Tax per \$1,000 of value 2002	Equalize d Tax per \$1,000 of value 2001	Equalize d Tax per \$1,000 of value 2000	Equalize d Tax per \$1,000 of value 1999
Auburn	19.99	21.09	21.66	23.92	24.63	26.31	26.84
Augusta	17.04	19.92	22.15	23.39	24.26	23.69	24.43
Bangor	18.11	19.34	21.05	22.05	22.82	21.82	22.78
Biddeford	11.85	12.24	13.22	15.17	14.21	16.07	18.14
Brunswick	13.46	14.96	16.12	16.72	17.55	17.81	17.79
Lewiston	17.46	20.59	23.19	24.55	25.61	26.44	26.7
Portland	14.91	15.96	17.59	19.03	19.57	20.91	22.15
Saco	11.56	12.67	13.46	15.55	16.63	17.68	18.79
Sanford	13.83	14.98	15.38	17.68	18.62	19.17	19.71
South Portland	13.23	14.09	14.91	16.4	18.53	18.57	18.91
Waterville	22.37	24.98	24.72	25.62	25.09	24.92	25.24
Westbrook	15.27	17.97	17.3	18.44	19.3	19.35	19.67
Reference Set Avg.	15.75	17.39	18.39	19.87	20.56	21.06	21.76
Scarborough	11.23	12.52	12.86	13.93	15.11	16.27	17.41
SCB as % of RSA	71%	72%	70%	70%	73%	77%	80%
Source: ME Rev. Services, "Reported vs Full Value Tax Rates 2004-05, and Full Value Rates 1998-03							

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Mil rate is the number of dollars of tax that must be raised per \$1,000 of property value. Scarborough's equalized full value tax rate reached its highest level (during the years shown) of 17.41 mils per 1,000 dollars in 1999; almost 4 mils below the reference set average of 21.76 mils. To put mils into perspective, 22 mils are 2.2% of valuation. Proposition 2 ½ in Massachusetts limited the property tax rate to 2 ½ % of valuation. In contrast, the Palesky proposal would have limited property taxes in Maine to 1% of valuation or 10 mils.

- Equalized mil rates have been declining in Scarborough and the reference set.
- In 2005, at a rate of 11.23 mils, Scarborough's equalized mil rate was notably below the reference set average of 15.75 mil rates.

	Equalized tax Per \$1,000 of Valuation, 1999-2005						
	2005	2004	2003	2002	2001	2000	1999
Auburn	19.99	21.09	21.66	23.92	24.63	26.31	26.84
Augusta	17.04	19.92	22.15	23.39	24.26	23.69	24.43
Bangor	18.11	19.34	21.05	22.05	22.82	21.82	22.78
Biddeford	11.85	12.24	13.22	15.17	14.21	16.07	18.14
Brunswick	13.46	14.96	16.12	16.72	17.55	17.81	17.79
Lewiston	17.46	20.59	23.19	24.55	25.61	26.44	26.7
Portland	14.91	15.96	17.59	19.03	19.57	20.91	22.15
Saco	11.56	12.67	13.46	15.55	16.63	17.68	18.79
Sanford	13.83	14.98	15.38	17.68	18.62	19.17	19.71
South Portland	13.23	14.09	14.91	16.4	18.53	18.57	18.91
Waterville	22.37	24.98	24.72	25.62	25.09	24.92	25.24
Westbrook	15.27	17.97	17.3	18.44	19.3	19.35	19.67
Reference Set Avg.	15.75	17.39	18.39	19.876	20.56	21.06	21.762
Scarborough	11.23	12.52	12.86	13.93	15.11	16.27	17.41
SCB as % of RSA	71%	72%	70%	70%	73%	77%	80%

Source: ME Rev. Services, "Reported vs Full Value Tax Rates 2004-05, and Full Value Rates 1998-03"

VI. Conclusion

Scarborough is an employment and service center community that serves as a destination site for a regional population. The non-resident users that visit Scarborough create spending demands through their expectation of municipal services and by the additional strain they place on local infrastructure. The added level of services and infrastructure improvements create issues of fiscal capacity for Scarborough (and other hub communities) that rely mainly on property tax revenue. The introduction of Municipal Revenue Sharing was intended to stabilize the municipal property tax burden but it does not consider municipal fiscal capacity in its formula nor does it compensate hub communities for the costs associated with the benefits they provide to their user population

From this study the following points emerge:

Spending Pressures:

- Scarborough had the fourth lowest ratio of population to labor force in both 2001 and 2005 amongst its peers. The higher the ratio the more services the municipality is being asked to provide for the non-resident user population.
- In 2000, Scarborough had low percentage of total workers to non-resident workers amongst the reference set. A low rate indicates a low level of spending pressure by non-residents.
- Scarborough's population density in 2005 was 27% less than the reference set average. This low level of population density indicates a flexible strain on Scarborough to provide municipal services compared to its peers.
- Because of its industrial development such as the building of the new Wal-Mart and Lowe's, Scarborough will take the third largest retail center in Maine. Retail sales activity is an indicator of demand for municipal services from customers that include the non-resident user.

Fiscal Capacity:

- Since 1999, Scarborough's equalized full value mil rate has been less than the reference set average. In 2005, Scarborough's equalized mil rate was 11.23 while the average mil rate for the reference set was 15.75.
- Scarborough's median household income in 2000 and 2006 was greater than the reference set average. However the absolute change and percent change in median household income for Scarborough from 2000 to 2006 are more than the reference set average suggesting that median household incomes in Scarborough are keeping pace with the average change in the reference set communities.

Municipal Revenue Sharing:

- Scarborough had the largest dollar amount slightly increased and had slight percent increase in municipal revenue sharing from 2000 to 2006 amongst the reference set municipalities.
- In 2007, Scarborough received \$1,395,552 which was slightly more than the \$1,325,982 it received in 2000, but went -4.00% on the percentage for pre capital.
- When adjusted for inflation, the actual dollar amount of Revenue Sharing received by Scarborough in 2007 was \$6,9570 more than what it received in 2000. This represented a change of 5.2%.

Taxable Sales:

- Since at least 2000, Scarborough has generated the fourth lowest amount of retail sales in the state. Scarborough's taxable sales revenue in 2000 and 2006 was 82% less than the reference set average.

Tax Assessment:

- In 2005, Scarborough had the second highest tax assessment in the state. From 2000 to 2005, the absolute change in tax assessment increased by 46.03% - the second largest dollar amount change but the first highest percent change out of the 13 reference set municipalities.

Municipal Revenue Sharing: Options

Recognizing the burden on the property tax of financing municipal services, in 1987 the Maine State Legislature established what is commonly referred to as Municipal Revenue Sharing. Municipal Revenue Sharing is intended to help stabilize the property tax burden and to act as a source of aid in financing municipal services. When a municipality's State Valuation increases greater than other municipalities, and assuming all other factors remain unchanged, then the faster growing municipality will experience a decrease in Municipal Revenue Sharing and General Purpose Aid to local schools. When compared to other hub communities, Scarborough had the second largest amount of state valuation in fiscal year 2005-2006, and within the last three years Scarborough has had the third largest dollar increase in state valuation.

Hub communities such as Scarborough face greater spending pressures due to demand for public services derived from residents, the business sector, and non-resident users. As discussed in an earlier section, Scarborough faces substantial spending pressure as a consequence of the size of the daily user population. Herein lies the heart of the hub community fiscal pressure: while many municipalities see very little in-commuting, the hubs provide services to a large influx of workers.

With the highest percentage of non-resident workers, Scarborough will experience not only significant spending pressure, but also proportionally more than even most other reference set communities.

Given the treatment of business valuation in school finance formulas, the allocation of municipal aid primarily on the basis of population size, and the lack of state policies directed to offsetting the fiscal impact of service and employment hub service responsibilities, Scarborough is experiencing spending pressure that exceeds that of a typical Maine community. Because the tax base of Scarborough is very large, the town is able to finance its budget without excessively high tax rates. However, tax bills on individual homes are high, which may lead some citizens to conclude that the return on tax investment is not adequate. The structural mismatch between spending demands and local fiscal capacity created when a community serves as an employment and services hub should be addressed through state aid programs (LaPlante, 1989). As LaPlante notes, these communities serve as “workhorses” of the Maine economy and spend so that the economy may thrive. She suggests that state aid be targeted to offset the spending effects.

Maine’s Municipal Revenue Sharing was established to help stabilize the property tax burden and to act as a source of aid in financing municipal services. It was not intended to compensate hub communities for the costs associated with the benefits they provide to their user population. Presenting a comparison of Maine’s Revenue Sharing program to other state-municipal revenue sharing arrangements is complicated by the fact that states differ in revenue sources available (some states rely on just one source of revenue, while others use a combination of property tax, income tax, and sales tax), and by varying distribution formulas. Minnesota, Michigan, and Massachusetts have recently presented research papers analyzing their local revenue sharing programs. These papers provide an insight towards funding and distribution problems faced by other states.

Minnesota uses a tax-based sharing formula that excludes residential property and thus penalizes communities that have a greater share of commercial property. Michigan’s use of population in its formula has been found to unintentionally support sprawl while ignoring the infrastructure maintenance costs of the cities. Massachusetts’s local tax and revenue structure is criticized for being too narrow thus not allowing for opportunities to increase tax collection by both broadening the base of taxation and by capturing out-of-state tax dollars. In Maine, the Maine State Planning Office criticized Maine’s revenue sharing formula in their 1998 “Report of the Task Force on Service Center Communities” for relying on population—a factor that penalizes communities that are “growing slowly or losing population to the suburbs”. They recommended including a second tier formula that “recognizes the unique role and responsibilities of service center communities by including a share of state’s jobs in the formula”.

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