

FINANCIAL TERMS

Town operating expenses are paid for primarily from two sources:

1. Real Estate Taxes
2. Fees, such as Building Permits, Parking, Auto Excise Taxes, etc.

Capital Improvement Projects (CIP's) are funded from three sources:

1. Bonding
2. Undesignated Fund
3. Real Estate Taxes

Bonding is the process whereby the Town borrows funds via the Maine Municipal Bond Bank to finance construction of projects with long useful lives (for example, road construction, replacement vehicles). Monies are borrowed over a multi-year period (5 Years, 10 Years, etc.) and paid back annually. Repayments include both a proportional share of the principal and interest. Although bonding does not affect the real estate tax rate in the initial year the monies are borrowed, the principal and interest payments in subsequent years are paid for from real estate taxes.

Example: The Route 1 Project bond installment for the next year has a Principal payment of \$111,350 and an Interest Payment of \$34,327. Total debt repayment costs in next year's budget equal \$918,899.

The **Undesignated Fund** can be likened to a Rainy Day Fund or a Savings Account. Monies are put aside today for future use. The funds are not restricted to a specified purpose and can only be used after approval by the voters. Ogunquit currently uses the following formula to establish the minimum general fund balance: 10% of the current year tax commitment, plus one month's expenditures. Amounts in excess of the minimum are available for non-emergency purposes. Ogunquit has, in recent years, used Undesignated Funds to pay for CIP projects with shorter useful lives (for example, items which need to be replaced every 5-10 years).

The Undesignated Fund is increased at year-end if actual Town revenues exceed expenses. The Fund balance is reduced when voters approve its use to finance Capital Improvement Projects.

The Fund would maintain fiscal stability should an emergency arise. It also contributes to our excellent credit rating. The Government Finance Officers Association recommends a fund balance of between 18-25% of operating expenses. Ogunquit is at the high end of this range.

A **Capital Improvement Project (CIP)** provides for the construction, repair, or improvement of buildings or infrastructure. This includes new construction, additions, renovations, renewals, repairs, site development, utility services, extensions and plant improvements, parking facilities, roads, fixed equipment installation and similar projects. In Ogunquit, "Capitalization" begins with a minimum project budget of \$10,000 and also includes the purchase of vehicles.

The **Mill Rate** is the amount of tax payable per dollar of the assessed value of a property. It is based on "mills.", a fraction of a penny. It is a figure that represents the amount per \$1,000 of the assessed value of property and is used to calculate the amount of your property tax. The mill rate is calculated after the budget process is completed. It changes annually. The current rate is \$7.91, which means a property valued at \$500,000 would pay property taxes of \$3,955 annually.