

## *Joint Select Committee on Property Tax Reform*

**LD 1**

### **An Act To Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels.**

**PUBLIC 2**

<u>Sponsor(s)</u>	<u>Committee Report</u>	<u>Amendments Adopted</u>
RICHARDSON	OTP-AM	H-1
EDMONDS	OTP-AM	S-11

LD 1, a Governor's Bill, proposed to increase the state share of education costs, provide property tax reduction for Maine residents and reduce government spending at all levels. Specifically, the bill proposed the following.

Part A proposed to change the structure and operation of the State Budget Stabilization Fund and establish a General Fund growth limitation to control state spending and taxes.

Part B proposed to authorize the Intergovernmental Advisory Committee to identify best management practices that would facilitate property tax reduction through the increase in the state share of education costs.

Parts C, E and G proposed to establish caps on the growth of municipal, plantation and county spending, respectively. The caps could not be exceeded except in defined extraordinary circumstances or as overridden by a majority vote of the voters of the municipality or county.

Part D proposed to establish a cap on total education costs and to require the State to increase its share of school funding by paying 50% of the total cost of essential programs and services in fiscal year 2006-07 and 55% in fiscal year 2008-09. The funds made available for property tax reduction, as a result of the State's increasing its share of education funding, would be used to reduce property taxes. This property tax reduction could be overridden only by a majority vote of affected voters.

Part F proposed to provide funding for increasing property tax relief over the period of time during which the State is increasing funding of education spending up to at least 55%. Part F proposed to expand the nonelderly portion of the Maine Residents Property Tax Program by increasing household income limitations to \$50,000 for single-member households and \$75,000 for multimember households. This Part also proposed that the State Tax Assessor undertake a study of the Maine Residents Property Tax Program in order to examine how the maximum benefits under the program may be increased over time.

Part F also proposed to require the Maine State Housing Authority to create a property tax deferral program permitting Maine residents to defer the portion of property taxes on a principal residence that exceed 6% of income.

Part F also proposed to change the funding for the Business Equipment Tax Reimbursement, "BETR," program from a General Fund appropriation to an adjustment to individual income tax revenues.

Part H proposed to establish the goal of reducing the total state and local tax burden to the national average in 10 years. It also proposed to require the Governor, in consultation with the Legislative Council, to establish an independent commission to annually assess and report to the Governor and Legislature on progress toward the tax burden reduction goal.

Part H also proposed procedures for implementation of the Fund for the efficient Delivery of Educational Services and the Fund for the Efficient Delivery of Local and Regional Services.

## *Joint Select Committee on Property Tax Reform*

Committee Amendment "A" (H-1) proposed to replace the bill and provide the following:

Part A proposed to establish a General Fund appropriation limitation that limits the growth of General Fund appropriations to the rate established by a formula that is based on real personal income growth and population growth. The limit is higher when the state and local tax burden for the State is reduced to the middle 1/3 of all states.

Part A also proposed to restructure the Maine Budget Stabilization Fund and change the primary use of the fund to budget stabilization during periods when General Fund revenues are insufficient to meet allowable General Fund appropriations. The Maine Budget Stabilization Fund would be capped at 12% of General Fund revenues. When all designated year-end transfers of excess General Fund revenues have reached their caps, excess revenues would be transferred to a new Tax Relief Fund for Maine Residents.

Part B proposed to establish limits on the growth of county tax assessments.

Part C proposed to establish limits on the growth of municipal property tax levies.

Part D proposed the following changes to implement an increase in the state share of the cost of education from kindergarten to grade 12:

1. Provide a 4-year ramp to achieve 55% state share of 100% of essential programs and services;
2. Modify special education distributions;
3. Provide funds in fiscal year 2005-06 for various transition adjustments;
4. Direct the Commissioner of Education to develop and report recommendations for a transition adjustment in fiscal year 2006-07 to the Joint Standing Committee on Education and Cultural Affairs;
5. Direct the Department of Education to phase-in the impact of cost-sharing changes;
6. Exempt SAD 6 and SAD 44 from the total cost of education mechanism enacted by Public Law 2003, chapter 712;
7. Provide a school administrative unit spending cap based on 100% of the essential programs and services total cost of education and provide for a local override process;
8. Address conflicting provisions regarding administration and oversight of the Fund for Efficient Delivery of Educational Services; and
9. Clarify criteria to be used in determining the adjustment for isolated small schools in fiscal year 2005-06.

Part E proposed to change the Maine Residents Property Tax Program, also known as the circuit breaker program, by eliminating income eligibility requirements, raising the maximum benefit from \$1,000 to \$2,000, extending the application period through May 31st annually and establishing the maximum property taxes and rent constituting property taxes that may be considered in calculating the benefit.

Part F proposed to increase the homestead property tax exemption to \$13,000 for all homesteads.

## *Joint Select Committee on Property Tax Reform*

Part G proposed to set the ceiling on the Local Government Fund under state-municipal revenue sharing at \$100,000,000 in fiscal year 2005-06 and provide for future indexing of the ceiling according to the Consumer Price Index. This change would increase the portion of state-municipal revenue sharing funds transferred to the Disproportionate Tax Burden Fund, also referred to as Revenue Sharing 2, which would provide greater payments to municipalities with tax rates exceeding 10 mills.

Part H proposed to establish the goal of reducing the total state and local tax burden to the middle 1/3 of all states by 2015. It also proposed to require the State Planning Office to monitor and report on the progress of state and local government in meeting this goal and to collect and analyze data relating to state and local spending and revenues.

Part I contained appropriations and allocations to implement the bill.

Senate Amendment "J" to Committee Amendment "A" (S-11) proposed to strike the emergency preamble and emergency clause and make portions of the amendment apply retroactively.

### ***Enacted law summary***

Public Law 2005, chapter 2 provides the following tax and spending reform:

1. It establishes a General Fund appropriation limitation that limits the growth of General Fund appropriations to the rate established by a formula that is based on real personal income growth and population growth. The limit is higher when the state and local tax burden for the State is reduced to the middle 1/3 of all states. It restructures the Maine Budget Stabilization Fund and changes the primary use of the fund to budget stabilization during periods when General Fund revenues are insufficient to meet allowable General Fund appropriations. The Maine Budget Stabilization Fund is capped at 12% of General Fund revenues. When all designated year-end transfers of excess General Fund revenues have reached their caps, excess revenues are transferred to a new Tax Relief Fund for Maine Residents.
2. It establishes limits on the growth of county tax assessments.
3. It establishes limits on the growth of municipal property tax levies.
4. It makes changes to the education funding formulas to provide 4-year ramp to achieve 55% state share of 100% of essential programs and services; modifies special education distributions; provides various transition adjustments; directs the Commissioner of Education to develop and report recommendations for a transition adjustment and other issues in fiscal year 2006-07 to the Joint Standing Committee on Education and Cultural Affairs; directs the Department of Education to phase-in the impact of cost-sharing changes; provides a school administrative unit spending cap based on 100% of the essential programs and services total cost of education and provides for a local override process; and addresses conflicting provisions regarding administration and oversight of the Fund for Efficient Delivery of Educational Services;
5. It changes the Maine Residents Property Tax Program, also known as the circuit breaker program, by eliminating income eligibility requirements, raising the maximum benefit from \$1,000 to \$2,000, extending the application period through May 31st annually and establishing the maximum property taxes and rent constituting property taxes that may be considered in calculating the benefit.

*Joint Select Committee on Property Tax Reform*

- 6. It increases the homestead property tax exemption to \$13,000 for all homesteads and provides 50% state reimbursement to municipalities.
- 7. It sets the ceiling on the Local Government Fund under state-municipal revenue sharing at \$100,000,000 in fiscal year 2005-06 and provides for future indexing of the ceiling according to the Consumer Price Index. This change increases the portion of state-municipal revenue sharing funds transferred to the Disproportionate Tax Burden Fund, also referred to as Revenue Sharing 2, which provides greater payments to municipalities with tax rates exceeding 10 mills.

**LD 2                      RESOLUTION, Proposing an Amendment to the Constitution of    CARRIED OVER  
Maine to Limit the Rate of Change in Taxable Value of Homestead  
Land**

<u>Sponsor(s)</u>	<u>Committee Report</u>	<u>Amendments Adopted</u>
PERCY DAMON		

LD 2 proposed to amend the Constitution to authorize a municipality to limit the rate of change in the tax rate applicable to homestead land, defined as land that is exclusively and continuously owned by one or more residents of the State while the land remains the principal home of each owner, to the rate of change in the purchasing power of United States currency as consistently measured by a reliable index adopted by the Legislature.

This bill was recommitted to the Joint Standing Committee on Taxation and carried over by H.P. 1203 to the next special or regular session of the 122<sup>nd</sup> Legislature.

**LD 295                      RESOLUTION, Proposing an Amendment to the Constitution of    DIED BETWEEN  
Maine To Allow the Legislature to Permit Municipalities To Adopt                      HOUSES  
a Higher Property Tax Rate on Secondary Residential Property**

<u>Sponsor(s)</u>	<u>Committee Report</u>	<u>Amendments Adopted</u>
	OTP ONTP	

LD 295 proposed an amendment to the Constitution of Maine to allow the Legislature to permit municipalities to adopt a tax rate on secondary residential property that is up to 25% higher than the property tax rate on other property.

*Joint Select Committee on Property Tax Reform*

**LD 296**                      **RESOLUTION, Proposing an Amendment to the Constitution of Maine to Allow the Legislature to Authorize or Require a Growth Limitation on the Taxable Value of Small Business Land**                      **DIED BETWEEN HOUSES**

<u>Sponsor(s)</u>	<u>Committee Report</u> OTP ONTP	<u>Amendments Adopted</u>
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LD 296 proposed to amend the Constitution of Maine to allow the Legislature to authorize or require municipalities to limit the rate of increase in the taxable value of small business land. Change of ownership or use of qualifying land would result in a minimum penalty.

**LD 297**                      **RESOLUTION, Proposing an Amendment to the Constitution of Maine To Allow the Legislature to Authorize Municipalities To Adopt a Property Tax Assistance Program That Reflects a Claimant’s Ability to Pay**                      **ONTP**

<u>Sponsor(s)</u>	<u>Committee Report</u> ONTP	<u>Amendments Adopted</u>
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LD 297 proposed to amend the Constitution of Maine to allow the Legislature to authorize municipalities to adopt a property tax assistance program that reflects the resident's ability to pay.

This bill was committed to the Joint Standing Committee on Taxation and received a unanimous “Ought Not To Pass” recommendation from that Committee.

**LD 298**                      **RESOLUTION, Proposing an Amendment to the Constitution of Maine To Authorize the Legislature To Allow Municipalities To Exempt from Property Tax a Portion of the Value of Homesteads**                      **ONTP**

<u>Sponsor(s)</u>	<u>Committee Report</u> ONTP	<u>Amendments Adopted</u>
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LD 298 proposed to amend the Constitution of Maine to allow the Legislature to authorize municipalities to exempt from property tax a portion of the value of homesteads.

This bill was committed to the Joint Standing Committee on Taxation and received a unanimous “Ought Not To Pass” recommendation from that Committee.

*Joint Select Committee on Property Tax Reform*

LD 299

**RESOLUTION, Proposing an Amendment to the Constitution of  
Maine to Permit the Legislature To Allow the Current Use  
Valuation of Waterfront Land Used for or That Supports  
Commercial Fishing Activities**

**FINALLY  
PASSED**

Sponsor(s)

Committee Report  
OTP

Amendments Adopted

LD 299 proposed to amend the Constitution of Maine to allow the Legislature to provide for the assessment of waterfront land that is used for or that supports commercial fishing activities based on the current use of that property similar to treatment now available for farms, open space and forestland.

This bill was reported out by the Joint Select Committee on Property Tax Reform.

Senate Amendment "A" (S-12) proposed to correct the grammatical construction of the provision proposed in the constitutional resolution.

***Enacted law summary***

Constitutional Resolution, chapter 1, if approved by voters, amends the Constitution of Maine to allow the Legislature to provide for the assessment of waterfront land that is used for or that supports commercial fishing activities based on the current use of that property similar to treatment now available for farms, open space and forestland.

LD 300

**An Act to Provide a Schedule of School Funding That Provides  
55% State Coverage of the Cost of Essential Programs and  
Services over a Period of 2 Years**

**ONTP**

Sponsor(s)

Committee Report  
ONTP (Maj)

Amendments Adopted

LD 300 proposed to accomplish the following, subject to approval of the voters at a statewide referendum in November 2005.

1. Require the State to pay 55% of the cost of funding essential education programs and services beginning in state fiscal year 2006-07.
2. Pay for increased state education funding by extending the general sales tax to amusements, extending the 7% sales tax to include rentals of boat moorings and docks and increasing the general sales tax to 5 1/2% beginning May 1, 2006.