The Estimated First-Year Impact on Property Taxes of LD 1

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Outline of Presentation

• Property Tax Relief Referenda
  - Maine Municipal Association (MMA)
  - Palesky Tax Cap
• Governor Baldacci’s Property Tax Relief Proposal (LD 1 & LD 2)
• Estimated Impact of LD 1 on April 1, 2005 Property Taxes
• What next?
Property Tax Relief Referenda

- November 2003 and June 2004: MMA referendum to require state to fund 55% of K-12 Education (Passed 55%-45%)

- November 2004: Palesky Tax Cap referendum to cap local mill rate at 10, roll-back property values to 1996 and restrict valuation increases to no more than the rate of inflation. (Defeated 37%-63%)

MMA Referendum

- Require state to fund 55% of K-12 Education; an increase of $250M per FY
- Requires Taxation Committee to develop a tax reform bill that will provide funding for K-12 increase and be “revenue neutral”
- State prevented from reducing other local funding to pay for referendum
- Potential for 15% reduction in property taxes
Essential Programs & Services (EPS)

- Designed to measure the cost of K-12 education for each community to meet Maine’s Learning Results
- Provides equity in education funding
- Answers the question “55% of what?”

LD 1 & LD 2: Governor’s Property Tax Relief Proposal

- Comprehensive approach to property tax relief
- Combine state’s work on implementing EP&S and passage of MMA referendum by phasing-in both
- Place spending caps on state, county and local governments
- Set tax burden reduction goal
- Constitutional Amendment to limit growth in homestead land value
Specifics of LD 1

• Institute EP&S and phase-in increase in education spending over 4 years (46.5% in FY06, 50% in FY07, 52.5% in FY08 and 55% in FY09)
• Translates into additional $100 million in FY06 and $178 million in FY07 for state’s General Fund
• Spending caps on state, county and local governments to ensure tax relief
• Expand and clarify deposits and withdrawals from Budget Stabilization Fund

Specifics of LD 1 (continued)

• Expand Homestead Exemption and require municipalities to fund 50%
• Expand Circuit Breaker program to upper middle income households
• Set goal of reducing tax burden to middle third of states by 2015; Annual report on progress
• No tax increase to fund additional education spending
Legislative Outcome

- Select Committee on Property Tax Relief passes LD 1 with over 2/3 vote, but sends LD 2 to Taxation Committee for further review
- 122nd Legislature passes LD 1 with slightly less than 2/3 support

First-Year Impact of LD 1

[Graph showing Maine State & Local Effective Tax Rates 1996-2005]
This graph includes 467 municipalities.

**Historical Growth of Property Tax Commitments**

- **Forecasted**: 5.0%
- **Actual**: 1.7%

**Change in Property Tax Liability**

- **TOTAL**: $10.0 million
- **Maine Resident Homeowners**: $50.4 million
- **Other Residential**: +$2.0 million
- **State**: +$3.2 million

Maine resident homeowners saved $64.6 million.
What Next?

- Taxpayer Bill of Rights (TABOR)
- FY08/09 Biennial Budget – Final two steps to 55% - Further tax increase?
- LD 2 or some other proposal to limit property tax increases for residential taxpayers
- Income and sales tax growth, BSF and growth in EP&S