

MAINE STATE LEGISLATURE

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STATE of MAINE

SECOND REPORT

to the

LEGISLATIVE

RESEARCH

COMMITTEE

THE
GENERAL PROPERTY TAX
IN MAINE

by Dr. John F. Sly

Director, Princeton Surveys

Princeton University

PUBLICATION NO. 100-2

NOVEMBER, 1960

AUGUSTA, MAINE

STATE of MAINE



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GENERAL PROPERTY TAX

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by Dr. John F. Sly

Director, Princeton Surveys, Princeton University

This is the second report in a series of three reports that the Legislative Research Committee has requested Dr. Sly to prepare for the consideration of the people of Maine. It is concerned with the general property tax and two special aspects of this tax – the taxation of the “wild lands” and the relation of the property tax to school support. The third report will examine the state tax structure, and the implications of increased expenditures and additional revenue.

– Senator William R. Cole
Chairman, Sub-Committee
on State and Municipal
Tax Structure.

AUGUSTA, MAINE

NOVEMBER, 1960

For
SUMMARY
of
CONCLUSION
and
RECOMMENDATION

See pages 70 and 71



STATE OF MAINE
OFFICE OF THE GOVERNOR
AUGUSTA

JOHN H. REED
GOVERNOR

November 28, 1960


In his second report, Dr. Sly examines the general property tax in great detail, and proposes a variety of changes and adjustments for the consideration of the Legislature.

This is the largest single source of revenue in the State, and the tax we depend upon for the support of our schools and our municipal services at the local level.

Two aspects of this tax have raised special problems: (1) The taxation of our "wild lands" and its relation to the forestry industry; and, (2) the relation of the property tax to the support of our schools and the implication it raises as to state support of the foundation school program.

This report should be of great interest, and it is my sincere hope that it will receive wide distribution and be read by the citizens of our State.

Sincerely yours,


John H. Reed
Governor

STATE OF MAINE

RESOLVE (1959, c. 118), Proving that the Legislative Research Committee Study the State and Municipal Tax Structure of the State.

Legislative Research Committee authorized to study State and municipal tax structure of the State. Resolved: That the Legislative Research Committee be authorized to study and review the State and municipal tax structure of this State to determine the most equitable tax sources which can be utilized to finance expenditures of the State and municipalities.

Said committee shall have authority to employ such expert and professional advisors and such clerical and office personnel as its judgement may determine within the limits of the funds provided.

The committee's report shall contain recommendations for legislation believed necessary to correct any inequalities in existing methods of procuring state and municipal tax revenue. Such report shall contain a separate study of the taxation of property in the unorganized areas of the State and the taxation of railroad companies operating wholly or partially within the State with recommendations with respect thereto, if any; and be it further

Resolved: That the sum of \$50,000 be appropriated from the Un-appropriated Surplus of the General Fund and that any balance of this fund as of June 30, 1960 shall not lapse but be carried forward into the 1960-61 year to be used for the same purposes.

STATE OF MAINE

John H. Reed, Governor

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ACKNOWLEDGMENTS

As I said in the *First Report*, it is not practical to document a public report with the thoroughness of an academic study, but the dependence on the work of others and the guidance and counsel of those closely associated with these problems, requires both acknowledgment and appreciation.

Frank E. Jewett's thorough study, *A Financial History of Maine* (1937), remained an indispensable source for historical materials; and the report of the Maine Municipal Finance Commission, *The Financing of Public Schools in Maine* (1934), was most useful in the history of school finance. The recent publication of the U. S. Forest Service, *The Timber Resources of Maine* (1960), was invaluable for current data, as was also *Timber Resources for America* (1958) under the same authorship. Beginning with Maine's first tax report, *Report of the Special Tax Commission* (1890), there is a substantial list of public studies identified in the text, and the annual reports of the Bureau of Taxation, the State Board of Equalization, and the Commissioner of Education provided much basic information. The tables indicate the sources of their data.

Perhaps, however, the most significant materials came from unpublished sources and special compilations, provided by State administrative officers and their staff members. Ernest Johnson, State Tax Assessor, gave freely of his time to counsel and advise on a great variety of factual matters; and saved me from many errors of interpretation. Edward Birkenwald, Director, Property Tax Division, provided much unpublished data on forestry taxation and checked the manuscript against his close knowledge of the field. Austin Wilkins, State Forester, placed his files at my disposal, and from his wide experience gave valuable guidance to the presentation of the sections on the forest product. Warren Hill, Commissioner of Education, provided the freest access to his department files, and through his staff prepared many estimates and compilations in school finance.

In addition, I have consulted freely with citizens who would be affected by the conclusions and recommendations of this report, and have received most helpful cooperation. Again I must acknowledge the time and interest given by the Sub-Committee on State and Municipal Tax Structure, Senator William R. Cole, *Chairman*; to the Chairman of the Legislative Research Committee, Senator J. Hollis Wyman; and to Samuel H. Slosberg, Director of Research, Legislative Research Committee, for his helpful assistance in arranging the many mechanical details of this report.

John F. Sly

CONTENTS

PART I THE GENERAL PROPERTY TAX

	Page
The Property Tax Base	11
The Unorganized Territories	13
The Organized Territories	16
The Development of the Base	18
The Troubles with the Property Tax	21
Improving the Property Tax	26
A Program for Maine	
Assessment	28
Personal Property	31
Intangibles	32
Exemptions	34
Local Non-property Taxes	35

PART II THE TAXATION OF THE "WILD LANDS"

Forest Taxation: The Unorganized Territory	37
The Maine Timber Tax	38
The Forest Product	41
The Forest Tax in Maine	45
A Program for Maine	
Assessment in the Unorganized Territories	49
Assessment in the Organized Territories	49
Tax Equity and the Forest Industry	51
School Support in the Unorganized Territories	53

PART III THE PROPERTY TAX AND SCHOOL SUPPORT

Background of School Support	57
The Present State Aid Formula	58
Public School Costs, Current, Projected, Comparative	59
The Foundation School Program	67
Conclusions	70

TABLES

PART I THE GENERAL PROPERTY TAX

		Page
TABLE 1:	Property Tax Exemptions	12
TABLE 2:	Classification of Township Acreage, Unorganized Townships, by Counties, 1958	14
TABLE 3:	Maine Population, 1950, 1960, Assessed Valuation 1958, Distribution by Type of Government	15
TABLE 4:	Valuations Among Subdivisions, Maine State Valuation of 1958 on which 1959 and 1960 Taxes are Levied	17
TABLE 5:	The First Assessment "List" in Maine (1820)	19
TABLE 6:	Property Taxes Levied, State, County, Municipal, Selected Years, 1900-1959	21
TABLE 7:	State Valuations of Municipalities by County and by Valuation Groups, 1958	29
TABLE 8:	Property Taxes in Maine, Real Estate and Personalty, Distribution within Counties, 1959	32
TABLE 9:	Property Taxes in Maine, Personal Property, Distribution within Counties, 1959	33
TABLE 10:	Property Taxes in Maine, Taxes on Livestock, Distribution within Counties, 1959	34

PART II THE TAXATION OF THE "WILD LANDS"

TABLE 11:	State-Levy, Unorganized Territory, 1959	39
TABLE 12:	Net Volume of Growing Stock and Sawtimber Cut from Maine Forest, by Species, 1958	40
TABLE 13:	Ownership of Commercial Forest Land Area, by County Groups, 1959	41

	Page
TABLE 14: Number of Private Owners and Total Acreage of Privately-owned Commercial Forest Land, by Size-of-holding Class, Maine, 1959	42
TABLE 15: Output of Timber Products and Annual Cut of Live Sawtimber and Growing Stock in Maine, 1958	43
TABLE 16: Commercial Forest Land in Private Ownership, U. S. 1953 - Maine, 1952	44
TABLE 17A: State Valuations and Levies, Unorganized Territories, 1948-1959	50
17B: State and Local Valuations and Levies, Organized Territories, 1948-1959	50
TABLE 18: Sales-Assessment Ratios, Forest Lands in Unorganized Townships, 1958, State Valuations, 1951-1959	52
TABLE 19: Tax Rates and Tax Collections, Unorganized Areas, 1959	53

PART III

THE PROPERTY TAX AND SCHOOL SUPPORT

TABLE 20: Public School Costs in Maine, 1946-47, 1956-57 to 1959-60	60
TABLE 21A: Changes in State Aid for Education, Maine, 1940-1959	61
21B: Changes in Local Support for Education, Maine, 1940-1959	61
TABLE 22A: Changes in State Aid for Education, for 19 Cities and 22 Towns Operating High Schools with under 50 Pupils, Maine, 1950-58	62
22B: Changes in Local Support for Education, for 19 Cities and 22 Towns Operating High Schools with under 50 Pupils, Maine, 1950-58	62
TABLE 23: Comparative School Costs, Salaries and Current Expenditures, Maine and Other New England States, 1959-1960	65
TABLE 24: Personal Income and School Expenditures, Maine and Northeastern States, 1959-1960	66
TABLE 25: The Foundation School Program, Costs and State Aid, Maine	68

THE PURPOSE OF THIS STUDY:

To the People of the State of Maine:

The general property tax is the most important tax in the State of Maine. It yields more revenue than any other tax. It is the basic support for all local services, and its administration, yield and service distribution is very largely a matter of local determination.

Dr. Sly has made a detailed analysis of this tax, and has proposed certain policies for the consideration of the legislature. Part I considers the base, the yield and administration of the property tax. It suggests that steps be taken toward the establishment of larger assessment districts; the development of professional standards and qualifications in the assessment process; and the strengthening of the present supervisory functions of the Bureau of Taxation. It is further proposed that intangible personal property be exempted from taxation; that present exemption policies as applied to literary, scientific, benevolent and charitable institutions be more closely defined; and discusses local non-property taxes and their implications to the property tax.

Part II is concerned with a special phase of the property tax – the taxation of the “wild lands”. The study finds no evidence of different treatment in assessment policies as between the forest properties in the organized territories and general property in the organized territories. It suggests the study and consideration of a yield tax for the timber industry as opposed to the present property tax; and proposes that a uniform levy for school purposes be applied to the unorganized territory. This would place additional taxes of \$235,000 on the taxpayers of the unorganized territory, and increase general fund revenues by a similar amount.

Part III examines the property tax in relation to school support. It indicates that the state subsidy for school purposes is about 24 per cent of total school expenditures; that statutory increases under the foundation program will amount to about \$5 million for the next biennium, and the increased costs for local operations may increase some \$2 million. To maintain the present ratio of state support, and meet both local and statutory requirements, about \$7.2 million may be needed over the next biennium. The legislature, the report emphasizes, will have three choices: modify the foundation program; allow the impact to fall on the property tax; or increase state subsidies. The report indicates that these conclusions raise serious questions of finance, involving economic capacity, increased tax bases, and personal sacrifice – the subjects of the third and final report in this series.

Senator J. Hollis Wyman
*Chairman, Legislative
Research Committee*

THE GENERAL PROPERTY TAX IN MAINE

PART I

THE PROPERTY TAX BASE

The Constitution of the State of Maine (Art. IX, Sec. 8) establishes the basis for the assessment of property for taxation purposes. It says:

All taxes upon real and personal estate, assessed by the authority of this state, shall be apportioned and assessed equally, according to the just value thereof; but the legislature shall have power to levy a tax upon intangible personal property at such rate as it deems wise and equitable without regard to the rate applied to other classes of property.

This provision is important in three respects: 1) "to be apportioned . . . equally" means that a uniform tax rate is required — that is to say, the levy must be the same upon all classes of property (farms, homes, and businesses) within the taxing district; 2) such property is, moreover, to be apportioned and assessed "according to the just value thereof" — however the assessors may determine "just value", the appraisal must be uniform within any taxing jurisdiction provided, however, 3) that intangible personal property may be taxed at a different rate from all other property. Except for the provision pertaining to the classification of intangibles which was added to the Constitution in 1913, and the addition of the "and personal" in 1875, the provision is identical with the Article IX, Sec. 8 of the original Constitution of Maine, and as the first state tax report in 1890 said, "were substantially the laws of our ancestors under Massachusetts from the beginning."

In 1953, the State Tax Assessor was directed by the Legislature to review all laws relating to the taxation of property in Maine, and report his findings to the 1955 session. This was done, and a proposed redraft of chapter 92 of the revised statutes was adopted by the legislature as Chapter 91-A. The purpose of the revision was to remove all outmoded and conflicting provisions in the law while avoiding substantive changes. The result was a greatly improved statement of the general property tax.

The law (R.S. Ch. 91A) starts with a general description of the base against which the tax is to be levied. It reads like this:

All real estate within the state, all personal property of residents of the state, and all personal property within the state of persons not residents of the state is subject to taxation on the 1st day of each April. . .

The law then proceeds to define the terms used in this definition:

Real estate "shall include all lands in the state and all buildings and other things affixed to the same" — including water power, shore privileges, forests and mineral deposits appertaining thereto; interests or improvements in land the fee of which is in the state; interests by contract or otherwise in real estate exempt from taxation; and the lines of electric light and power companies.

Personal property "includes all goods, chattels, moneys and effects, tangible or intangible . . . all vessels, at home or abroad; money at interest and indebtedness due to the persons to be taxed more than they are owing; all public securities; and shares in moneyed and other corporations within or without the state, except as otherwise provided by law."

"**Residents**" are those domiciled within the State — that is, those persons who reside in the state with the intention of remaining there for an unlimited time; **non-residents** are those domiciled outside the state — either within the United States or a foreign country.

The law then defines a large number of modifications which are included under exceptions, exemptions and special provisions. In general, all personal property is taxed to the owner in the place where he **resides**, but because personal property (unlike real estate) is readily moved from place to place, there are "exceptions" to this rule. For example, all personal property used in trade, in the erection of buildings or vessels, or in the "mechanic arts", is taxed where such property is in use; and manufactured merchandise is generally taxed where such property is **situated**. The same rule applies to portable mills, stored potatoes, office furniture or fixtures,

TABLE 1

PROPERTY TAX EXEMPTIONS

(Arranged and classified from R. S. Ch. 91-A, as amended and related statutes)

- I. *Because of ownership:*
 - A. The property of the United States (Sec. 10, I-A)
 - B. The property of the State of Maine (Sec. 10, I-B)
 - C. The property of any public municipal corporation (Sec. 10, I-E)
 - D. All property exempt under the articles of separation (Sec. 10, I-C)
 - E. All obligations issued by the State or its subdivisions (Sec. 10, I-D)
 - F. All public airports and landing fields (Sec. 10, I-G)
 - G. All property owned and used by religious, benevolent, charitable, literary, educational and scientific institutions; the American Red Cross, veterans' associations and chambers of commerce (Sec. 10, II-A, B, D, E, F)

- II. *Because of personal status: under defined conditions –*
 - A. Estates of service men and veterans (Sec. 10, III)
 - B. Estates of persons under guardianship, the blind, the aged, and Indians on tribal reservations (Sec. 10, IV-A, B, C)
 - C. Estates unable to contribute (Sec. 10, IV-D)

- III. *Because of type of property:*
 - A. Personal property:
 - 1. Household personalty – except television sets – including wearing apparel, “farming utensils” and “mechanics tools” (Sec. 10, V-A [1959])
 - 2. Hay, grain, potatoes, orchard products and wool owned and in the possession of the producer (Sec. 10, V-B)
 - 3. Live-stock – mules, horses, neat cattle, sheep, swine, fowl, goats, *etc.* – as defined by age or number (Sec. 10, V-C)
 - 4. All radium used in the practice of medicine (Sec. 10, V-D)
 - 5. Loans secured by mortgages on real estate situated within the State (Sec. 10, V-E)
 - B. Real property: *under defined conditions –*
 - 1. The aqueducts, pipes and conduits of any corporation supplying a municipality with water (Sec. 10, VI-A)
 - 2. Mines of gold, silver or baser metals for a period of 10 years (Sec. 10, VI-B)
 - 3. The landing area of a privately owned airport (Sec. 10, VI-C)
 - 4. Reforestation projects for a period of 20 years (Sec. 10, VI-D)

- IV. *Because of interstate relations: under defined conditions –*
 - A. Property in interstate transportation or awaiting transshipment (Sec. 10, V-F)
 - B. Food products in a warehouse awaiting shipment outside the state (Sec. 10, V-G)
 - C. Vessels owned by persons residing out of the state (Sec. 10, V-H)
 - D. Pleasure boats whose owners reside out of the state (Sec. 10, V-I)
 - E. All hides and leather owned by persons residing out of the state (Sec. 10, V-J)

- V. *Because of in-lieu taxes:*
 - A. The capital stock of manufacturing, mining, smelting, agricultural, stock-raising, and real estate corporations (Sec. 10, V-L; Sec. 9, XI)
 - B. Personal property in another state or country (Sec. 10, V-K; Sec. 9, IX)
 - C. Telephone and telegraph companies: personal property (Ch. 16, Sec. 128-A)
 - D. Express companies: personal property (Ch. 16, Sec. 135)
 - E. Parlor car companies: personal property (Ch. 16, Sec. 123)
 - F. Railroads: the right of way and property thereon (except buildings) plus all personal property and rolling stock (Ch. 16, Sec. 115)

professional libraries, vending machines, boats (except those used exclusively in tidal waters), and house-trailers.

The chicken business – that is, “the business of raising domestic fowl exclusively for meat purposes” – is given special treatment. This tax is somewhat out of place as a property tax. It is really an excise – a privilege tax rather than a capital tax. The privilege is measured by the average number of fowl kept during the preceding taxable year, on the basis of one bird per square foot of house capacity or “25 percent of the total number of birds kept during the preceding period.” Anticipating the easy mobility of fowl, there is a cautioning provision: “The absence of fowl on April 1st (the assessment date) shall not be conclusive evidence as to the non-operation of the business . . .” At all events, the business is taxed in the municipality where the fowl are regularly kept – as are mules, horses and neat cattle, but “presence in a place for pasturing or other temporary purpose shall not be considered as regularly kept therein.”

Exemptions have become an important item in the property tax. The statutes (R.S. Ch. 91-A, Sec. 10) provide six major classifications within which are listed some 34 exemptions. Tax exemptions are usually intended to do one of five things: 1) to subsidize something; 2) to protect something; 3) to develop something; 4) to honor something; or 5) to equalize a tax burden. For example, the exemptions of benevolent, charitable, literary and scientific institutions – as well as the National Red Cross, veterans organizations, chambers of commerce, churches, and colleges – are in the nature of a subsidy to promote undertakings vested with strong social or economic

values; large homestead exemptions were, as a depression measure, enacted primarily to protect home ownership – a practice that Maine has avoided; exemptions for reforestation developments (20 years), mines (10 years), and privately owned airports available for public use, are primarily for development purposes; the exemption of the polls and estates of veterans (\$3,500 under defined conditions) is an acknowledgment of exceptional service to the state; and the excise tax on public utilities is usually in lieu of other taxes as an equalizing factor in the business tax field.

In brief summary, this can be said concerning Maine’s property tax base:

The real estate base is exceptionally intact, and exemptions are on the conventional side. There are no homestead exemptions, and no authorized industrial exemptions. There are three large classes of exemptions that do narrow the base – United States property, the taxation of which is prohibited by the Constitution; state property; and the property of municipal corporations. These, however, are common to every state, and have uneven impacts – some light and some extreme – on local taxing districts.

The personal property base contains the usual agricultural exemptions, the protection of inventories, goods in transit, and interstate provisions. Household personalty (except television sets) has been exempt since 1959. **Intangible personalty – stocks, bonds, notes, and other evidence of indebtedness, are still taxable as property – but very rarely taxed.**

The Unorganized Territories

Property taxation in Maine is unique because of the existence of large areas of unorganized territories. No other state has this condition to this extent. These territories have no organized municipal governments. They are the “wild lands”, marked off into townships – geographical areas approximately six miles square – originally established for survey purposes. Schools are under the direction of the State Department of Education, highways are the responsibility of the county commissioners, and the county sheriff is the law enforcement officer. The taxable acreage of the unorganized areas (practically all forest land) is some 8.8 million acres (Table 2) – about 42 percent

of the total area of the state, about 4 percent of the total valuation (Table 3) and contains less than one percent (7,588) of the population.

The Board of Equalization assesses property in the unorganized territories for three major purposes – to determine the base for the state tax on wild lands, the county tax for county purposes, and the Maine Forestry Fire District Tax. There is no state jurisdiction over the assessment of property in organized areas – cities, towns and plantations – except that the State Tax Assessor has general supervision over local assessment officials and may order the reassessment of property when it seems advisable

TABLE 2
CLASSIFICATION OF TOWNSHIP ACREAGE
UNORGANIZED TOWNSHIPS
 By Counties
 1958
 (In Acres)

	Taxable			Non-Taxable				
	Total Acres	Private Property	Public Lands	Federal	Public Purpose ¹	Tax Exempt ²	State Owned ³	Railroad
Androscoggin	—	—	—	—	—	—	—	—
Aroostook	2,510,016	2,405,405	100,160	51	5	544	3,846	5
Cumberland	—	—	—	—	—	—	—	—
Franklin	527,594	506,697	16,478	—	4	25	4,390	—
Hancock	310,179	297,241	11,275	—	31	29	1,603	—
Kennebec	6,116	6,037	—	—	—	79	—	—
Knox	1,262	1,261	—	—	—	1	—	—
Lincoln	1,610	1,610	—	—	—	—	—	—
Oxford	384,697	372,639	10,206	—	7	127	1,718	—
Penobscot	786,435	757,047	26,650	—	1,586 ^{a/}	117	963	72
Piscataquis	1,890,925	1,812,734	74,463	265	7	477	2,858	121
Sagadahoc	1,298	—	—	—	1,298	—	—	—
Somerset	1,686,598	1,621,517	61,330	—	4	499	3,094	154
Waldo	—	—	—	—	—	—	—	—
Washington	731,268	687,395	18,753	—	20,338 ^{b/}	—	4,777	5
York	—	—	—	—	—	—	—	—
Total	8,837,998	8,469,583	319,315	316	23,280	1,898	23,249	357

^{a/} Includes 1,562 acres Baxter State Park.

^{b/} Composed of 3,277 acres Peat Lands and 17,000 acres Indian Lands.

¹Schools, churches, cemeteries, town-houses, parks, etc.

²Owned by veterans, their widows, blind, disabled, etc.

³Tax acquired, right to cut timber reverted or never conveyed.

Source: Bureau of Taxation, *Maine State Valuation*, 1958 (Augusta, Me.: Nov. 25, 1958).

to assure "that all classes of property . . . shall be assessed in compliance with the law"—practically a futile provision. State, Forest Fire District and county taxes apply to all unorganized townships. School capital taxes, school taxes, road taxes and public service taxes apply only as special district levies. The state tax on "wild lands"—the unorganized townships—is 7¼ mills.

WHAT IS MEANT BY STATE VALUATION

There are, in fact, two valuations in use in Maine—a common procedure among the states. **First**, the state valuation, generally referred to as state equalized valuations. These are the

valuations determined by the State Board of Equalization after adjusting the valuations of the local assessors to a common ratio of assessed value to "just value"—in effect, true value. This means that the state valuations will show the same ratio of assessed value to true value (at present, about 50 per cent) for all taxing districts in the state. **Second**, there is the valuation placed upon property within each taxing district by the local assessor. This may be any ratio of assessed value to true value, and, in fact, is different for every municipality in the state. It will average about 35 per cent of true value. No taxes in the organized municipalities

are levied on state valuations. The state property tax and the county taxes in the organized areas are computed on state valuations, but the levy to raise the amount required is extended against the local valuations. Taxes in the unorganized areas, are, however, levied against the state valuations, and highway aid and school aid are distributed on the basis of state valuations. For comparative purposes, therefore, all valuations used in this report, unless otherwise indicated, are state valuations. The state values total about \$2.1 billion (Table 3), of which \$88 million is in the unorganized areas. The local values, as established by the local assessors (1959), totaled about \$1.6 billion.

These lands have a taxable valuation of some \$88 million (Table 3) and the levy by the state at 7¼ mills (1959) was \$635,500 (Table 11). The county

levy (at local rates) on property in the unorganized territories is likewise collected by the State Tax Assessor and distributed to the counties. The levy was \$142,000 in 1959. The Maine Forestry Fire District Tax is 4¼ mills (5.5 mills for 1960 only), except in organized municipalities where the rate is determined by a formula designed to weight the levy according to the ratio of taxable land within the taxing jurisdiction. The forestry fire district tax levied in the unorganized areas (1959) was some \$416,000, and in the municipalities about \$86,000. In addition, there was a school tax (\$182,000); a school capital tax (\$16,000); a road repair tax (\$68,000); and a public service tax of \$600. The unorganized areas of the State, provided, therefore, a total property levy (1959) of about \$1.5 million. This is the equivalent of a 17 mill levy on the total taxable valuation (\$88 million) of property in the unorganized areas; and accounts for 2 percent of the total property levy — state and local.

TABLE 3
MAINE POPULATION 1950, 1960
ASSESSED VALUATION 1958
DISTRIBUTION BY TYPE OF GOVERNMENT

	1950 Census			1960 Census			1958 State Valuation		
	Number	Population	% Distribution	Number	Population	% Distribution	Number	Amount (\$'000,000)	% Distribution
State Total	669	913,774	100.00		961,967	100.00	1,009	\$2,107.0	100.00
Organized Municipalities	491	905,086	99.05	492	954,379	99.21	492	2,019.4	95.84
Cities	21	350,426	38.35	21	358,910	37.31	21	876.4	41.60
Towns	412	542,071	59.32	413	580,552	60.35	415	1,121.0	53.20
Plantations	58	12,589	1.38	58	14,917	1.55	56	21.9	1.04
Unorganized Areas	178	8,688	0.95	a/	7,588	0.79	517	87.6	4.16
Townships	165	7,740	.85	—	—	—	401	86.8	4.12
Other unorganized areas	6 ¹	157	0.02	—	—	—	11	.5	0.024
Indian Reservations	2	677	0.07	(2)	(721)	—	2	—	—
Islands	5 ²	114	0.01	—	—	—	103	.3	0.017

a/ Reported as rest of county.

¹Gores, points, grants, tracts, patents.

²Counties reporting islands as not belonging to any town.

Sources: U. S. Bureau of the Census. *U. S. Census of Population: 1950* Vol. I, *Number of Inhabitants*, Chapter 19: Maine (1951); *1960 Census of Population*, Preliminary Reports, Population Counts for States, Maine, PC (P1) -21 (July 1960).

Maine, Bureau of Taxation. *68th Annual Report, 1958* (Augusta, Me.: Dec. 15, 1958); *Maine State Valuation, 1958* (Augusta, Me.: Nov. 25, 1958).

The Organized Territories

The organized areas are composed of four units of government — counties, cities, towns and plantations. There are 16 counties. Each county is controlled by a board of county commissioners, composed of 3 members elected for overlapping terms of 6 years. County functions are limited as compared to those outside New England. They are generally confined to the registry of deeds, probate and county courts, and jails. The county has no educational functions; no election responsibilities; no public welfare functions, and no highway duties in the organized areas, except financial participation in the cost of bridges. All county officers are elected, including a county attorney, county treasurer, sheriff, register of deeds, probate judge, register of probate, and clerk of the courts. County taxes are levied by the legislature on the recommendation of the county commissioners; and (like state property taxes) are levied against the municipality rather than directly against the property.

There are 21 cities containing 37 percent of the population of the state and 42 percent of the assessed valuation (Table 3). There is no general law defining city charters, and no requirement as to minimum population. The citizens of any town may petition the legislature for a city charter, and if approved, an act is passed establishing the city and prescribing its form of government. In spite of the fact that each city has its own charter, there is considerable uniformity. Tax administration is entirely in the hands of the local-governing bodies, and varies somewhat under charter provisions.

There are 413 towns incorporated under general laws, containing 60 percent of the population of the state and 53 percent of the assessed valuations (Table 3). The towns are governed by three, five, or seven selectmen, who may also serve as assessors, overseers of the poor, registrars of voters, and perform other duties in respect to elections. In addition, a town may elect 3 or more assessors, 3, 5, or 7 overseers of the poor (although in most cases, the selectmen serve), a town moderator, a town clerk, a town treasurer, and a school committee of three. In addition, the selectmen appoint a variety of minor officials. Taxes are levied by the town meeting. Except in independent (consolidated) school districts, there is no separate levy for schools. The school levy is included in the general levy for town purposes.

There are 58 plantations incorporated under general laws. These are merely simplified towns. They contain about 1.5 percent of the population of the state and about 1 percent (Table 3) of the assessed

valuation. The main difference from the town is that instead of selectmen, the assessors serve as the governing body. In addition, the plantation elects a moderator, clerk, treasurer, collector of taxes, constable, school committee and "other necessary officers." Taxes are levied by the plantation meeting, and as in the towns, the school levy is included in the general levy for plantation purposes.

There are a total of 492 organized municipalities (Table 3) accounting for 99 percent of the population of the state. Their total state valuation (1958) was about \$2 billion — some 96 percent of the total valuation of the state. These valuations are distributed among the 16 counties as shown in Table 4. It will be noticed that Cumberland, with no unorganized areas, has almost double the assessed value of any other county — \$477 million. Penobscot is its closest rival with a total assessed value of \$262 million with \$9 million in the unorganized townships. It is interesting to note that the Maine Ellipse developed in the First Report, composed of the 6 southwest counties — Androscoggin, Cumberland, Kennebec, Lincoln, Sagadahoc, and York (about 1/8th of the total area of the state) — contains 53 percent of the state assessed valuation.

The Maine statutes use the term assessment both in the sense of appraisal — that is, determining the value of the property; and in the sense of a levy — that is, the application of the tax rate to the tax base. The first step in appraisal is set forth in Ch. 91-A, secs. 34, 36:

"Before making an assessment, the assessors shall give reasonable notice in writing to all persons, liable to taxation in the municipality, to furnish the assessors true and perfect lists of their polls and all their estates, not by law exempt from taxation, of which they were possessed on the 1st day of April of the same year. . .

If any person after such notice does not furnish such list, he is thereby barred of his right to make application to the assessors or the county commissioners for any abatement of his taxes, unless he furnishes such lists with his application and satisfies them that he was unable to furnish it at the time appointed". . .

The assessors shall ascertain as nearly as may be, the nature, amount and value as of the 1st day of each April of the real estate and personal property subject to be taxed, and shall estimate and record separately the land value, exclusive of buildings, of each parcel of real estate.

These are somewhat loose provisions that leave much to inference and construction. They are (with nominal changes) the same provisions that Professor Lutz criticized in his report to the Recess Commission on Taxation in 1934 (p. 11):

Taxpayers must make a return, but the law is silent as to its form, and as to whether each shall use a convenient piece of paper or be supplied with an appropriate blank. Taxpayers must execute and bring in their returns. No responsibility is here placed on the assessors to go out and get them. Section 71 (91-A, sec. 36) requires the assessors to ascertain the value of taxable property, but it lays no serious obligation on them to do this, and offers no guides as to their procedure in so doing. The assessors do, however, make lists of taxable property since very few returns are given in. Failure to submit a list of taxable property subjects the delinquent only to a conditional inability to appeal for an abatement.

Much of this criticism is still valid. The Commerce Clearing House (1959) received replies from some 28 municipalities pertaining to returns required of taxpayers. Eighteen stated that such returns were required and included the larger municipalities such as Portland, Bangor, Lewiston, Augusta, Brunswick and Waterville. How effective the "requirement" is was not reported. Others responded with qualifications. Auburn stated that lists were requested, but were not enforceable by law. Houlton required lists only "for large concerns"; Mexico, for non-resident gasoline companies only; Sanford for industrial properties and the real and personal property of non-residents; and several — Biddeford, Livermore Falls, Norway and Rockland — required no listings.

When the inventory of property is completed — either by listing or otherwise — the assessors must then "ascertain as nearly as may be, the nature, amount and value as of the 1st day of each April of the real estate and personal property subject to be taxed (R.S. 91-A, sec. 36)"; and shall assess

TABLE 4
VALUATIONS AMONG SUBDIVISIONS
MAINE STATE VALUATION OF 1958
ON WHICH 1959 AND 1960 TAXES ARE LEVIED
(in millions of dollars)

Counties	Total	Municipalities	Unorganized Townships	
			Private Property	Public Lands
Androscoggin	\$ 181	\$ 181	—	—
Aroostook	179	151	\$27	\$1
Cumberland	477	477	—	—
Franklin	38	35	3	a/
Hancock	85	83	2	a/
Kennebec	174	174	a/	—
Knox	58	58	a/	—
Lincoln	55	55	a/	—
Oxford	98	95	3	a/
Penobscot	262	253	9	a/
Piscataquis	43	24	18	a/
Sagadahoc	42	42	—	—
Somerset	95	75	19	a/
Waldo	38	38	—	—
Washington	61	57	4	a/
York	221	221	—	—
Total	\$2,107	\$2,019	\$86	\$2

a/ Less than \$500,000. Private property: Kennebec, \$24,969; Knox, \$42,700; Lincoln, \$30,615. Public lands: Franklin, \$96,180; Hancock, \$57,680; Oxford, \$94,500; Penobscot, \$229,940; Piscataquis, \$444,430; Somerset, \$321,820; Washington, \$84,080.

Source: Bureau of Taxation, *Maine State Valuation, 1958* (Augusta, Me., Nov. 25, 1958).

(levy) against the "polls and estates" all municipal taxes and their proportion of state and county taxes (Sec. 37), and deliver such lists to the tax collector of the municipality, if any, or otherwise to the county sheriff for collection.

Under the title of **Abatement by Assessors; procedure** (91-A, sec. 48), there are summary provisions for at least a partial review of assessments. An aggrieved taxpayer may make application to the assessors "within one year of the date of commitment" for an "abatement" of his taxes (91-A, sec. 48-49). If he receives an adverse ruling from the assessors, he may appeal to the county commissioners and from there to the Superior Court. The Superior Court may, in turn, refer the appeal to the State Tax Assessor or to a special commissioner appointed by the court. Such reports become *prima-facie* evidence as to the facts. It would seem that this procedure offers only a partial adjustment of the assessment process. Each action contemplates a **reduction** in the assessment, and only in individual cases. There is no authority under the appeal process to raise an assessment if the facts lead to such a conclusion; although the Superior Court may return the appraisal to its value at the time the appeal was taken.

The law provides for two types of equalization both as among taxing jurisdictions and individual taxpayers. The State Tax Assessor is given authority (ch. 16, sec. 72) to order the reassessment of any real and personal property in any town when in his judgment such reassessment is advisable; and to employ, if necessary, special assessors at the expense of the town — also, practically a futile provision that has never been invoked. The State Board of Equalization has the duty (ch. 16, sec. 66) of equalizing state and county taxes among the municipalities and within the unorganized territory through adjusting "the assessment list of each town by adding to or deducting from it such amount as will make it equal to its just value."

Equalization is arrived at in this way: A com-

parison of forest land sales in 1959 and 1960 with the assessments (1958) in the unorganized areas, led to the conclusion that on the average such land was assessed at about 50 percent of current market prices. The Maine state valuation for each of the 492 organized municipalities was therefore set at 50 percent of the 1960 aggregate market value of all taxable property within the jurisdiction, in order to equalize with the assessments in the unorganized areas.

Field men of the Bureau of Taxation keep track of all recorded sales of property in each town. The 1959 or 1960 sales price is compared to the assessed valuation on each parcel. An average assessment ratio is determined for each class of property in each town, i.e. residential, mercantile, industrial, farm, etc. To determine the full value of property for each class, the assessed value of each class is divided by the average assessment ratio of the class. For classes of property in which there are insufficient sales in the current reporting period, reference is made to sales of similar properties in nearby jurisdictions, to appraisals, and to old valuations adjusted for physical depreciation and price appreciation.

In the case of forest lands in organized woodland municipalities, the Bureau will obtain an appraisal of the forest lands in the municipality without regard to individual ownership, and use this as the full value of such property in the jurisdiction. Broad estimates are made of the value of business machinery, equipment, supplies, and inventories. Where a municipality has unusual pieces of property accounting for a large share of its ratables, such as a power plant, such parcels are individually appraised. The full market valuation of all classes of taxable property is then added to give the "calculated full market value of the municipality." This number is then multiplied by 50 percent to give the proposed 1960 Maine State Valuation. After approval by the Board of Equalization, this figure becomes the official 1960 State Valuation on which taxes (state and county) for 1961 and 1962 will be determined.

THE DEVELOPMENT OF THE BASE

The present constitution of Maine contains two provisions pertaining to taxation:

Article IX, sec. 7: While the public expenses shall be assessed on polls and estates, a general valuation shall be taken at least once in ten years.

(This, it will be noticed, is in the form of a minimum — "at least once in ten years." At present there is a re-valuation annually in the organized areas and biennially in the unorganized areas.)

TABLE 5

THE FIRST ASSESSMENT "LIST" IN MAINE

(Classified and arranged from P.L. 1820, ch. 19, Sec. 6)

"A list of polls and estates, real and personal, for the several proprietors and inhabitants of the town of in the county of taken pursuant to an act of the legislature of this State, passed in the year of our Lord eighteen hundred and twenty entitled 'An Act to ascertain the estate ratable within this State.'"

1) POLLS	<i>Manufacturers</i>	C. INVENTORIES
18-21 years	Distill houses	<i>Businesses</i>
21 and over	Tanning houses	Stock-in-trade
Not ratable	Pot and pearlash works	
Paupers	Rope walks	<i>Crop</i>
State	Small arms	Bushels
Local	Iron works	Rye
	Mills	Oats
	Fulling	Corn
2) REAL ESTATE	Slitting	Barley
A. LAND	Cotton	Peas
<i>Agricultural (acres):</i>	Woolen	Beans
Tillage	Carding	<i>Others</i>
Upland	Other mills	Hops (pounds)
Salt Marsh		Hay (tons)
Pasturage	C. OTHERS:	Cider (barrels)
Woodland	Wharves (feet)	<i>Live Stock</i>
Unimproved	Other buildings —	Horses (3 yrs.)
Unimprovable	over \$20	Oxen (4 yrs.)
<i>Publicly owned:</i>	3) PERSONAL PROPERTY	Steers & cows (3 yrs.)
Townlands	A. MACHINERY & EQUIPMENT	Swine (6 mos.)
Other proprietors	Carding machines	D. HOUSEHOLD GOODS
<i>Publicly used:</i>	Spinning machines	Carriages — for persons and
For roads	(water operated)	baggage
<i>Others:</i>	Iron furnaces	
Covered by water	Grist mill stones	4) INCOME MEASURES
B. IMPROVEMENTS	(pairs)	Wharves (annual income)
<i>Homes:</i>	Saws (mills)	Commissions (factorage)
Dwelling houses	Vessels — 5 tons	Interest (public securities)
	or over	Stocks (value and income)
<i>Farms</i>	B. INTANGIBLES	Hay (annual crop)
Barns	U. S. Securities	Cider (annual production)
<i>Businesses</i>	State securities	Cows (per acre of pasturage)
Shops	Money	
Within dwellings	Bank Stock	
Outside dwellings	Plate (ounces)	
Warehouses	Stock	
Grist mills	Bridges	
Saw mills	Turnpike	
Bake houses		
Slaughter houses		

Article IX, sec. 8: All taxes upon real and personal estate, assessed by authority of this state, shall be apportioned and assessed equally, according to the just value thereof. . .

(The only qualification is as to the taxation of intangibles.)

It will be noted that the Constitution required a state valuation every 10 years — and this was done for each decade until 1891. In 1820 a law provided for the first valuation, and outlined a list of taxable properties (Table 5) for the use of local assessors. The law applied only to the State valuation, but the following year the same rules were made applicable to county and town assessments. The “list” was really an inventory of taxable assets plus a few income measures — bushels, pounds, tons, barrels, commissions and income — to give a basis for valuation. It is clear that the idea of a general property tax was not fully accepted. The Constitution required uniform (equal) treatment, but did not specify that all property should be taxed. There is no reference to town lots. Household personalty (except carriages) and agricultural and mechanical tools were omitted. Intangible personalty is confined largely to a narrow list of stocks, and there was no provision for debt deduction. Agricultural personalty was a matter of crops and livestock, except possibly carriages which were probably not too numerous as farm equipment.

The tax on polls and estates was levied by the legislature. When the amount to be raised was determined, a special committee of the legislature apportioned the levy among the cities and towns on the basis of assessed valuations. A certain amount of the tax was to be paid by polls. This amount was stated in cents per poll (a practice still followed in the Province of New Brunswick), but if the total levy on polls exceeded a fraction of the state tax (from 1/5 to 1/6) the poll tax was reduced to such fractional amount. The state treasurer delivered warrants to the sheriff of each county, the sheriff delivered them to the assessors, and the towns elected collectors to whom the assessors delivered the tax bills. The same collection procedure applied to town and county taxes, but county tax estimates required legislative approval before levy.

Subsequent acts (P.L. 1830, ch. 116) and (P.L. 1840, ch. 72) became more specific as to the property to be taxed. In 1836 (P.L. 201) the Treasurer was made collector of taxes in unincorporated places. In 1845 (P.L., ch. 159) the “list” system was abandoned, and the general property tax defined:

All real property (Sec. 2) within this state, all personal property of the inhabitants of this state, and all personal property hereinafter specified of persons not inhabitants of this state, shall be subject to taxation in the manner provided in this Act.

Real estate (Sec. 3) shall for the purpose of taxation, be construed to include all lands within this state and all buildings and other things erected or affixed to the same.

Personal estate shall . . . include (Sec. 4) all goods, chattels, moneys and effects, wheresoever they may be — all ships and vessels — whether at home or abroad — all obligations for money or other property; money at interest and debts due the persons to be taxed, more than they are owing — all public stocks and securities — all shares in moneyed corporations, within or without the state — all annuities payable to persons to be taxed when the capital of such annuity is not taxed in this state — and all other property, included in the last preceding state valuation for purposes of taxation.

Around these broad definitions there developed general rules to guide the assessor:

With some exceptions (inventories, machinery, equipment and livestock), personal property was taxable at the residence of the owner — as it is today.

Personal property that was mortgaged, was considered the property of the person in possession — this is the present rule.

Stock shares of manufacturing corporations were credited with the value of the corporation's real and personal property — this is the present concept of the tax on “corporate excess.”

With the transition from a specific property tax to a general property tax (P.L. 1845, ch. 159, sec. 5) exemptions became necessary:

The property of the United States and the state of Maine; the real and personal property of all literary, benevolent, charitable and scientific institutions incorporated in Maine; household furniture not exceeding \$200 to any one family; wearing apparel, farming utensils, mechanics tools and musical instruments not exceeding \$15; the real and personal property of all churches, all mules, horses, neat cattle, swine, and sheep less than six months old; the polls and estates of all Indians, persons under guardianship, and the poor, aged, and infirm who “in the judgment of the assessors would be unable to contribute towards the public charges.”

Jurisdiction became important. The general rule to tax the property at the domicile of the owner did not work well in lumbering and shipping enterprises. The new law (P.L. 1845, ch. 159, sec. 2) provided that lumber should be taxed where located, provided the owner occupied a store, shop, mill or wharf in the town. The rule found hard sledding in the courts, and finally gave way to the principle that the location of the property gave jurisdiction for the tax.

"Double taxation" became an early issue with railroads and manufacturing establishments. The taxation of both the stock and property raised serious

questions of equity. The right of way of the railroads was removed from the real estate base, (P.L. 1845, ch. 165), and the stock was declared personal property to be taxed at the domicile of the owner. The stock value of manufacturing corporations (P.L. 1845, ch. 165) was credited with the value of the companies' inventories and real estate, and the personal property became taxable where it was "situated or employed." With such provisions, the general property tax assumed the basic characteristics that define it today, and nearly all subsequent legislation was designed to refine the old rules or to meet new requirements as they arose.

TABLE 6

PROPERTY TAXES LEVIED STATE, COUNTY, MUNICIPAL Selected years: 1900 - 1959 (in thousands of dollars)								
	State Taxes		County Taxes		Municipal Taxes		Total Property Taxes	
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change
1900	\$ 908		\$ 455		\$ 5,875		\$ 7,148	
		+136.01		+27.69		+8.71		+27.46
1910	2,143		581		6,387		9,111	
		+95.43		+64.72		+136.76		+122.46
1920	4,188		957		15,122		20,268	
		+33.24		+56.22		+46.58		+44.27
1930	5,580		1,495		22,166		29,241	
		-8.64		-6.09		+27.40		+18.81
1942	5,098		1,404		28,239		34,741	
		-82.50		+36.04		+66.10		+43.08
1952	892		1,910		46,904		49,706	
		+60.87		+54.35		+56.52		+56.51
1959	1,435		2,948		73,414		77,797	

Source: *Jewett*, p. 129, 1900 to 1930; Bureau of the Census, *Governmental Finances in the United States: 1942*, p. 30; Maine, *Reports of the Bureau of Taxation* (Augusta, Maine).

THE TROUBLES WITH THE PROPERTY TAX

Tax reporting by the American states, directed toward improvements in their tax structures, started with a New York State Commission in 1870-71. In 1875 a Massachusetts Commission published an inquiry "into the Expediency of revising and amending the laws relating to Taxation and Exemption therefrom," and the next decade produced reports from

New Hampshire, Connecticut, West Virginia, Illinois and two from New Jersey. These reports were concerned largely with two things: first, aspects of property taxation—replacing the personal property tax, centralized supervision of assessments, the "listing system", and the taxation of intangible personalty; and second, the broader principles of tax-

ation — the “faculty theory”, the separation of state and local revenues, and the taxation of corporate and personal income.

In 1890, Maine received its first comprehensive tax study, **Report of the Special Tax Commission of Maine**. Its purpose was “to determine . . . the defects of our present system which afford just cause for complaint.” Public hearings were held in Augusta, many persons were interviewed, the tax laws of other states were examined and visits made to New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island and New York. The first complaint of the Commission was in regard to personal property. The report said:

- The substance of the complaint in Maine is that personal property is not reached for taxation; that those who have most of it escape their just portion of the burdens of the government; that in consequence, real estate and tangible personal property, such as the farmer and the village real property owners possess, bear an undue burden.

The Commission concluded that the complaint “is unquestionably well founded.” It was especially aggravating in regard to intangibles. For some 16 years the messages of every governor had called attention to the situation, and the Commission proposed “the listing system” as a remedy. This was a provision to require sworn inventories of all taxable property — a provision then in use in many states. Maine already had such a provision (as it does today), but it was, and still is, voluntary with the taxpayer. The proposal was to make the requirement mandatory.

The second concern of the Commission was equalization — that is uniform assessment as among taxing districts and as among taxpayers. The constitution provided for a valuation “at least once in ten years.” This had been undertaken by a board composed of one commissioner from each county, with the resulting competition for low valuations. The Commission proposed a State board of assessors (three in number, appointed by the governor with the consent of Council) with broad powers in tax matters, among them to equalize the valuation of the state biennially, and to prepare adequate statistical materials, which were presently non-existent. “No state,” said the Commission, “is so much remiss in this respect as ours.”

The local assessor came in for his share of reform. The complaint was stated this way

- Our Maine assessors are unquestionably as able and efficient as any and the fault is largely in the looseness of the tax law. Yet it has long been the custom of assessors to ignore the explicit requirement of the Constitution of the State. . . Property is assessed at much less than its just value in many towns. It is very common for assessors to value real estate at three-fourths, two-thirds and even one-half its true value. In the late returns of the assessors of all the towns of the State for the use of the State Valuation Commissioners it appears that the assessors of 132 towns based their taxes on less than “a just value” of the property assessed. Thirteen based them on four-fifths value, thirty-five on three-fourths value, fifty-three on two-thirds value, and sixteen on one-half, while in two towns the assessors considered their duty done when they assessed at one-third of the “cash value” of the property taxed.

The Commission’s proposals left little discretion with the assessor. It held him rigidly to a “just valuation” with no leeway for fractional values. In towns of over 2,000 population, the selectmen were no longer to act as assessors, but assessors were to be elected (3 or 5 with overlapping terms) to serve exclusively as assessing officers.

In addition, there was a variety of recommendations pertaining to many aspects of taxation:

- The poll tax was to be reduced from \$3 (for state, county and town purposes), and \$3 (for highway purposes), to \$2 in each case, and a maximum age limit of 70 years was established.

Mortgages were to be taxed in joint ownership — that is the mortgagee was to be taxed as joint owner with the mortgagor, to the extent of his interest.

Income taxes are inquisitorial, tend to evasion, fraud, and “downright perjury”, and demand “much vexatious labor” — they were not recommended.

A state corporate income tax in lieu of a state property tax was rejected — the state tax structure should not be independent of the towns or dependent on the corporations.

New direct sources of revenue should come mainly from the taxation of collateral inheritances, increased railroad taxes, the taxation of sleeping car companies, the taxation of insurance and guaranty companies, on gross instead of net premiums; taxation of foreign insurance companies; and the taxation of corporate franchises.

The principal result of this report was the establishment of the board of assessors by the 1891 legislature.

The act (P.L. 1891, ch. 103) provided for a board of 3; to hold office for 6 years, 1 to be elected by joint ballot of the legislature each biennium.

It was the duty of this board to equalize assessments as among the several towns and unorganized townships, and to fix biennially the valuation of real and personal property on which the state and county taxes were to be levied. It was to serve as a board of equalization, exercise some supervision over local assessors; and administer the railroad tax, corporate franchise tax, and taxes on telephone, telegraph and express companies. It was a full time job paying \$1,500 a year. Professor Jewett in his *A Financial History of Maine*, gives a brief appraisal of the first ten years of its existence:

● It is not easy to appraise the accomplishments of the state board of assessors during the first decade of its existence. For the first time, information became available concerning the amounts of the different classes of property assessed. It became possible to know what the tax rate was for every township in the state. It developed that in general it ran between eighteen and twenty mills. This seems moderate compared with the rates at present, but the people at that time considered it heavy. The board was unsuccessful in placing intangibles on tax rolls. The proportion of intangible property to the total property assessed was about the same at the end of the decade as it had been at the beginning. Undoubtedly greater equality of assessment among the towns was achieved. On the whole, the first decade of the existence of the board may be considered as a period of experimentation, the result of which was to build up a body of information and experience which enabled the board to function more efficiently in the period which followed.

Nevertheless, it seems that little was accomplished in the line of equalization. Standards of valuation remained unimproved, and intangibles continued to escape taxation. In 1908, Maine received its second tax study—**Report of the Maine Tax Commission**. This Commission was authorized by the 1907 legislature “to inquire into the present system of taxation . . . and to provide if possible, for a more equal, just and equitable system and . . . for a better and more complete system of assessment and collection of taxes in this state.”

The Commission reported that the Board of Assessors had failed to equalize property values. This failure, however, was due to “the absence of

efficient laws” rather than to the composition of the Board. It was urged that the law be strengthened—more authority over local assessors, closer and more frequent contacts with local assessors, and appointment by the governor rather than election by the legislature. It rejected the separation of state and local revenues, either by the withdrawal of the state from the property tax or by an established local levy for state purposes. The Commission likewise rejected a “stumpage tax” (a tax on timber when the timber was cut) in lieu of a property tax on the “wild lands”; but recommended that the state tax be apportioned on organized and unorganized territories in the proportion that their respective land values bore to the total land value of the state. It urged that intangibles be classified and taxed at a low rate—3 mills; that corporations remain on an *ad valorem* basis; and proposed various adjustments in special taxes.

The results of this report were moderate. The legislature of 1909 (Ch. 220) did strengthen the power of the Board of Assessors. It was to exercise general supervision over the administration of the assessment and taxation laws of the state, and over all local assessors and all other assessing officers. One or more members of the Board was to hold meetings in every county at least once a year “to inquire into the methods of taxation and to confer with and give necessary advice and instruction to local assessors.” Subsequent legislation (P.L. 1917, ch. 25) further increased the authority of the Board over local assessors, by providing that the Board might employ local assistance in any local reassessment it might order and charge such services to the municipality. “However,” reports Professor Jewett (1937), “not a single case has been found in which it has chosen to exercise authority.” Intangibles continued to escape taxation in spite of an amendment to the constitution (1913), giving the legislature authority to tax them in any way it considered appropriate. In the reorganization of state government in 1931, the Board of Assessors was abolished (P.L. 1931, ch. 216, sec. 29), and the present Bureau of Taxation created, within the new Department of Finance, with a single officer, the State Tax Assessor, as head of the Bureau and chairman of a new board of equalization.

* * *

In 1934, Maine had its first tax study by an outside authority in the public finance field. At that time Professor Harley L. Lutz, professor of Public Finance, Princeton University, prepared a report, *The System of Taxation in Maine*, for Governor

Brann and the Executive Council, under the supervision of the Recess Commission on Taxation. This report was a comprehensive examination of the state tax structure, with strong emphasis on the property tax. Broadly speaking, the conclusions were these:

1) The revenue system for state and local government rests on too narrow a base. It should be further supplemented by taxes other than the property tax.

2) The law and procedure of the property tax are in need of thorough revision — it is “obscure, indefinite and sometimes inconsistent.”

3) It is important that the administration of the entire tax system be centralized under the control of a state tax department, and that the equipment, personnel and appropriation be substantially increased.

4) The most helpful single step at the local level would be the creation of tax supervision districts under the control of state supervisory officers.

5) Changes and readjustments were proposed in certain non-property taxes — mostly business taxes — transportation, communication, banking and finance; and

6) Possibilities for supplemented revenue from sales, personal income, intangibles, and tobacco taxes, were suggested.

Although the comprehensive report of Professor Lutz received wide publicity and discussion, there was no response from the legislature. Very little happened to the tax structure during the depression years. An attempt to adopt a retail sales tax failed in 1937. New sources of revenue in the form of taxes on malt beer and alcoholic beverages served to balance losses under the general property tax, and there was little inclination to tighten the administration of assessments in the face of the fiscal pressures of the period.

In 1939 the legislature created a Recess Committee on Tax Equalization for the purpose of again considering “the necessity and desirability of legislation designed to enable the state tax assessor to establish equalization of state real estate valuations.” Equalization was defined by the Commission as the process of “equalizing the state and county taxes among the organized towns and unorganized townships.” The report outlined the statutory power of the Board of Equalization and the State

Tax Assessor. These powers as broadly stated in the law, gave unusual authority to assure a fair assessment of property; but the results were far from satisfactory. The report indicated that perhaps less than 100 towns used reasonably modern methods of appraisal. The remaining 400 made no pretense at using modern methods. There were almost no tax maps, no land classification, no unit values, no methods of establishing reproduction costs, and no checking of values with actual transfers. “The process of assessing in many towns,” said the Commission, “consists chiefly of copying into this year’s tax book the records of last year’s assessments.” It produced evidence of uneven assessments as between like properties in the same town; as between different classes of property in the same town; as between similar properties in different towns; and as between total assessed valuation in different towns. The Commission was particularly impressed with the unequal assessment of farm property:

● The facts . . . are that some apple farms are assessed at less than 30%, others at more than 80%; some blueberry farms at less than 20%, others at more than 60%; some poultry farms at less than 30%, others at more than 70%. The range in Aroostook potato farms is less pronounced, yet varies from 20% to 50%. The significance of these facts is, that instead of being taxed “equally according to the just value thereof” on their farms, as contemplated by the Constitution, some owners are paying two, three, and even five times as much as some other owners per unit of farm value. What a travesty on the plain intent of the law!

The Commission fell back on the Lutz report and suggested five recommendations — **A Maine Plan for Tax Equalization** — forming a “workable plan” depending only on the necessary personnel and moderate appropriations.

1) The State Tax Assessor should be given the authority to divide the state into no more than six equalization districts.

2) He should be given the authority to appoint qualified full time assistants to supervise each equalization district who should “use all proper means for the guidance of local assessors, in order to make the quality of the original assessment the best that can be obtained.”

3) The district supervisor would constantly compare assessed values with selling prices supplemented by appraisals where there were insufficient transfers of property.

4) In case the State Tax Assessor found it necessary to order a reassessment, the district supervisor would supervise such reassessment.

5) At the option of the taxpayer, appeals from the decisions of the local assessor could be taken directly to the State Tax Assessor as well as to the County Commissioners and the Superior Court.

The Commission defended its proposals in this way:

● It is inevitable that after years of competitive undervaluation of property by the towns, any effort to equalize assessed valuations by bringing them upward or downward to the level of just value will result in increasing the total valuation of the state. Tests recently made by the Bureau of Taxation show that assessed values in the seven counties already covered average 74.5% of just value. In the absence of like tests in the other nine counties, it is too early to forecast whether the statewide ratio of assessed to just value would materially differ from the ratio already established. If considerable additional valuation should be found, this does not seem to your committee to be of great importance as both the local and state property tax rates should diminish correspondingly. The significance of the entire plan, however, would not be confined to such lowering of tax rates. The chief long-run benefit would arise from the adjustment of the local tax burden on a far more equitable basis.

* * *

The 1934 Report had fallen upon the restraints of a depression period. The 1939 Report had been lost in the midst of the booming prosperity of World War II. Maine had resisted all movements toward broad based taxes, and it had steadily refused to strengthen the administration of the property tax.

In 1944, however, the Bureau of Taxation conducted a "Special Study for the Relief of Real Estate." In four reports it examined the impact of property taxes (at that time amounting to \$30 million) on business, residences, industries and occupational incomes, and issued a final report (1945) on forest taxation. Broadly, the conclusions were as follows:

1) Real estate taxes appear to be "equitably distributed" despite inequalities of assessment as between the real estate taxpayer and the non-real estate taxpayer.

2) The "burden" of real estate taxation did not appear to be disproportionate to income

with the exception of timberland in the organized municipalities — "a subject which should be given immediate consideration."

3) There were too many small governmental units of insufficient size to warrant employment of trained, full-time assessment officials.

4) The combining of governmental units would no doubt be a difficult and unwelcome procedure. The method which seems practical is for the state to give all the assistance possible, to the local assessors, through training and educational practices.

5) In the administration of the general property tax, there existed much unfairness because of inequality of assessment; and the report added — "it is the belief of those who have assembled the data for this report that inequality of assessments is something which has been present for a great many years, and is the product of circumstances which at this time are beyond the control of those administering the property tax. Additional training, education and funds for financing these activities must be forthcoming in order to organize a long range program to make a start towards the elimination of inequalities."

Following this report (1946), Governor Hildreth asked the Institute of Public Administration to prepare a "brief review of the tax policy problems now confronting the State of Maine." The "review" was short — 7 typewritten pages. It emphasized that "the tax system of Maine has come down for over a hundred years with less change and modernization than that of almost any other state." It recommended the adoption of a personal income tax, a retail sales tax, and a withdrawal by the State from the direct property tax. "In view of Maine's geographic location and competitive position in the national economy," the review said, "we recommend against the effort to levy new general corporation taxes or corporate income taxes. . ."

No action, however, was taken along the lines of these proposals. By 1950, however, Maine found increasing costs in state and local government, a current operating deficit in the general fund, and the certainty of still higher costs in the years ahead. Another Maine Tax Revision Committee was appointed under the chairmanship of Charles F. Phillips, President of Bates College. This Committee was not so much interested in reform as it was in revenue, but it nevertheless repeated many of the older recommendations designed to place the property tax in order and added a few suggestions of its own.

1) If new and substantial revenue is needed, the Legislature should enact a sales tax (with food exempt), a personal income tax, or a combination of these.

2) Intangible personalty and household personalty should be exempt from ad valorem taxation.

3) If a sales or income tax is adopted, the local poll tax should be abolished.

4) Administrative improvements in the property tax:

a. The division of the state into assessment districts large enough to support one full-time adequately paid assessor.

b. Assessors to be elected by the voters of the district, but from a panel of qualified individuals approved by the State Tax Assessor.

c. The training and supervision of such assessors to be the responsibility of the State Tax Assessor.

d. All valuations to be on a 100 per cent basis.

e. Appeals from the local assessors to go directly to a special State of Maine Appeal Board.

5) If sales or income taxes were adopted, all revenues from the property tax to go to local government.

* * *

There has been no full scale tax report since the Maine Tax Revision Committee of 1950, nor have there been any major changes in the tax structure except for the adoption of the retail sales tax, the state's withdrawal from the property tax in the organized areas, the addition of several additional state taxes and rate changes from time to time. Nor have there been any major administrative adjustments that have occupied so much of the time and effort of tax commissions of the past. The most that can be said for administrative improvements in the general property tax is this:

1) Assessment of property in the unorganized territories has been centralized in the office of the State Tax Assessor, and established on a basis that has brought little criticism or complaint.

2) The law has been strengthened to give the State Tax Assessor supervision over local assessments, but for practical purposes it is a general grant of power with no sanctions, and a lack of sufficient equipment, personnel and money to do the things the statute contemplates.

3) For the past 13 years professional programs for assessors have been conducted by the

Bureau of Taxation under joint sponsorship of the Maine Municipal Association, the Maine Assessors Association, and the International Association of Assessing Officers. Some 32 municipalities were represented in the 1960 school with 72 registrations. An assessors manual (first issued in 1947) has been prepared and field advisory services increased.

4) A substantial number of municipalities (some 27) have undertaken reappraisal programs over the past 3 years and 3 are now in progress – Waterville, Alfred and Lisbon. In many cases steps have been taken to maintain the valuations.

5) Many studies have indicated methods of improving the assessment process, but few major recommendations on a statewide basis have been adopted.

* * *

IMPROVING THE PROPERTY TAX

The assessment of real property for taxation requires that the assessor be able to do four things:

- * FIRST, he must discover the lands and buildings to be assessed;
- * SECOND, he must list and describe the lands and buildings to be assessed;
- * THIRD, he must value every individual piece of property within his jurisdiction; and
- * FOURTH, he must be able to justify his value to any taxpayer who may inquire as to the validity of his assessment.

The time has come to consider these fundamental facts:

- Modern standards of assessment have reached a point at which assessors are, in many cases, both unequipped and unqualified to follow. We insist on a method of selection (popular election) most unlikely to produce professional competence. We segment the assessing process among hundreds of jurisdictions and then complain of lack of uniform treatment. We identify the assessment district with the election district, and expect governing bodies to undertake reassessment programs that will increase taxes on hundreds of their constituents.

If this statement is accepted, there are certain features of the property tax in Maine (as well as in many other states), that should be examined with a view toward long-term improvements:

- There is little hope for permanent improvement in the assessment process until it is placed

on a professional basis — this means trained personnel with established qualifications.

With trained personnel, there must be adequate assistance, adequate equipment, and adequate pay.

(There are only 16 municipalities with full time assessors or assessing officers, with salaries ranging from \$4,200 to \$6,500 and \$9,500 in Portland.)

These requirements are not possible unless the assessment district is large enough to support a full-time operation.

State supervision, guidance, and perhaps correction will be essential to the maintenance of uniform standards.

No system of appeal will be adequate that is not administered by qualified personnel.

This is a very large order. It cannot be accomplished with a sweeping reform movement that violently upsets the practices of 150 years, ignores long established positions in the public service, mandates extreme readjustments in the administrative area of local government and provides no supporting studies indicating the precise ways and means the proposals are to be motivated. These indeed, have been the main reasons why so many of the recommendations of the commissions of the past have received no response from the legislature.

Other states have faced this matter in recent years, and made very substantial improvements. New Jersey proceeded in two ways: 1) by the efforts of a state-financed Local Property Tax Bureau which assists local assessors all over the State; and 2) by municipal contracting for professional local revaluations. The Local Property Tax Bureau, which for 20 years had consisted of one-half of one employee, was brought to life in February 1953, for the purpose of assisting local assessors and county boards of taxation in carrying out their statutory duties. It now has a field staff of 24 besides an office staff in Trenton. Its annual budget is about \$400,000. In the past ten years, 250 New Jersey municipalities have contracted with professional appraisal firms to revalue real estate within their jurisdictions. When the appraisal is completed it becomes the basis for a new tax roll, and it is anticipated that the local assessor and his staff will be able to keep up with changes for the next decade.

Contracting for a complete reappraisal of all its real estate is not a new experience for New Jersey municipalities. Some appraisals were completed as early as the 1920's and 1930's. There were a few at the end of World War II. The

great rush toward revaluation projects began, however, in the late 1950's. At that time the pressures of the Local Property Tax Bureau, armed with court decisions mandating equalization, were a powerful incentive. The great changes in land values caused by the exodus from the cities, the carving up of townships into residential and industrial areas, the general price inflation, the large amount of new building and remodeling, the "population explosions" in many communities, and urban renewal projects in others, were economic factors that led many municipalities to reassess all their real estate by professionals since the local assessor could not cope with the situation. The authority to pay for revaluation projects on a five-year note outside the debt limit was a helpful method of finance.

In Kansas, the 1957 legislature revised the state administrative structure by abolishing the State Commission of Revenue and Taxation and creating three separate departments — property tax appeals, property valuation, and tax collecting. The Property Valuation Department acts in an educative and consultative capacity. In cooperation with local officials, it prepares personal property assessment schedules that are used throughout the state; and makes similar preparations for the assessment of real estate. In addition, the Department conducts schools for assessors and places its field personnel in constant contact with local officials.

Pressure has been placed upon counties to revalue their property and to provide tax maps. Some counties have hired professional appraisers; but in other cases local people do the work, under the supervision of the assessor. In either case, the state will spot check valuations. Out of 105 counties, six completed revaluations in 1959 and 1960 and fourteen others are engaged in complete revaluation projects. To encourage professional revaluation, legislation permits counties to pay for them with five-year notes.

In Virginia the whole approach has been toward helping the local assessment officials. Beginning in 1946, the state has appropriated money to permit the Department of Taxation to employ professional appraisers to assist local assessors. The request for assistance must come from the locality, and the state has no supervisory powers. There is no state property tax and no state equalization. The equality of assessment within each jurisdiction is considered to be a local matter. Between 1946 and 1959, 82 out of 98 counties, 24 out of 31 cities, and one incorporated town have requested and received the full extent of the services offered by the Department of

Taxation. The Department also prepared tax maps for 38 counties and 13 cities. Many other localities have requested state assistance in the solution of special local problems.

In Oregon, it was common knowledge that property tax assessments were erratic, incomplete, and unequal; and in 1951, a statewide reappraisal program was adopted by the legislature. Over a ten-year period, each county in the state was to be completely remapped, new property records established and each parcel of property reappraised. The program was to be carried out by employees of the Valuation Division of the State Tax Commission, and the Commission entered into contracts with each county whereby the county paid approximately half of the costs.

As soon as one class of property in a county (the assessment district) is revalued, such property is placed on the tax rolls at the new values. At the same time, the Commission conducts a statewide program for personal property equalization. State employees spot-check assessments on inventory, machinery and equipment, and in consultation with county assessors, arrive at a uniform ratio of assessment. All appraisals of real property since January 1, 1957, have been made by certified appraisers who have passed a State civil service examination. Each county is required to employ one full-time certified appraiser for every \$30 million of taxable property in the county, and the appraisers work under the direction of the County Assessor, an elected official.

The great impetus to assessment reform in

West Virginia came in February 1957 when the Legislature authorized the State Tax Commissioner to contract with any county (the assessment district) for a complete revaluation and remapping of the area. Funds for the program are supplied 90 percent by the State and 10 percent by the county. By the end of 1959 contracts had been signed and the work had been started in 21 of the state's 55 counties. Applications of other counties are awaiting the availability of funds and state personnel. At the same time a program of preparing assessment guides, making studies and surveys, developing methods for valuation of unusual pieces of property, and advising the local assessors on their regular duties is carried on by the State Tax Commissioner with a sufficiently large staff for the purpose.

The state's 90 percent share is made up of cash expenditures for professional appraisal contracts, mapping, and preparation of records together with the costs of supplies, and the salaries of the personnel, facilities, and overhead allocated from the office of the State Tax Commissioner. Most of the work is therefore done by state employees who move from county to county doing the same type of work. While this statewide appraisal program is going on, no county is permitted to contract for a revaluation with a professional firm. The several counties which paid for their own revaluation projects in the five years prior to the introduction of the state program, will either be the last to be reappraised or have some of their expenditures for this purpose credited against their 10 percent share.

A PROGRAM FOR MAINE

Assessment

It is clear from the preceding discussion that over the past 70 years much of the tax thinking and most of the tax proposals, have been in the field of the general property tax. There have been improvements, but the fact remains that Maine still has 493 assessment districts. One of these, the unorganized areas, accounts for 42 per cent of the total area of the state. The remainder are the organized municipalities — 492 of them. A glance at Table 7 shows the size of these districts (1958) when measured in terms of state assessed values which, it must be remembered, are about 50 per cent of full value:

258 of these municipalities — 53 per cent of the total — have state assessed valuations of less than \$1 million.

155 — 32 per cent of the total — have state assessed valuations of less than \$500,000.

79 — 16 per cent of the total — have state assessed valuations of over \$5 million; and

4 cities — Portland, South Portland, Lewiston and Bangor — each have state assessed valuations over \$50 million, and together contain one quarter of the total valuation of the state.

If there is anything clear concerning the assessment process it is this:

Unless the assessment district is large enough to support a full time operation, there is no hope for an annual professional appraisal.

This conclusion has been urged in study after study. It has received the support of leading finance men throughout the years, and the State Tax Assessor has again summed the matter up in the most recent report of the Bureau of Taxation (1957-1958), p. 4:

... The organization of local assessing must be brought up to date. We have frequently complained about the poor pay and lack of status

of local assessors. Assessing today is a technical profession: it is not something that can successfully be indulged in as a pastime, voluntary or involuntary, by the uninformed layman. Our laws should be revised to provide for sound assessing units, for adequate pay, for full-time assessors, for the choice of assessors in a manner that will insure competent personnel, for tenure in office, and for uniformity in assessing practices throughout the state. At the same time, our laws relating to review or appeal should be revised to insure the same technical competence in the reviewing body that is necessary in the assessors themselves, and to insure uniformity of treatment throughout the state.

TABLE 7
STATE VALUATIONS OF MUNICIPALITIES
BY COUNTY AND BY VALUATION GROUPS
1958

County		In Thousands of Dollars			In Millions of Dollars						
		Less than \$100	\$100 to \$200	\$200 to \$500	\$.5 to \$1	\$1 to \$5	\$5 to \$25	\$25 to \$50	\$50 to \$75	\$75 to \$100	Over \$100
Androscoggin ..	14	—	—	—	3	7	2	1	—	1	—
Aroostook	69	1	9	23	12	19	4	1	—	—	—
Cumberland	26	—	—	—	1	11	11	1	1	—	1
Franklin	21	—	1	9	6	2	3	—	—	—	—
Hancock	37	1	4	6	10	12	4	—	—	—	—
Kennebec	29	—	—	1	5	17	4	2	—	—	—
Knox	18	—	1	1	5	8	3	—	—	—	—
Lincoln	19	—	1	2	4	10	2	—	—	—	—
Oxford	35	—	—	8	8	16	2	1	—	—	—
Penobscot	62	1	6	24	9	12	8	1	—	1	—
Piscataquis	20	—	3	9	3	4	1	—	—	—	—
Sagadahoc	10	—	—	1	2	5	2	—	—	—	—
Somerset	33	—	2	9	9	7	6	—	—	—	—
Waldo	26	—	—	9	9	6	2	—	—	—	—
Washington	45	—	10	14	13	4	4	—	—	—	—
York	28	—	—	—	3	15	8	2	—	—	—
Total	492	3	37	116	102	155	66	9	1	2	1
	100%	.61%	7.52%	23.58%	20.73%	31.50%	13.42%	1.83%	.20%	.41%	.20%

Over \$50 million: Androscoggin, *Lewiston* — \$100 million; Cumberland, *Portland* — \$237 million; Cumberland, *South Portland* — \$52 million; Penobscot, *Bangor* — \$82 million.

Source: Bureau of Taxation, Report (1957-1958), pp. 18-23.

It is proposed that the legislature consider the recommendation made so many times over the past 25 years, and reaffirm the principle of larger and more effective assessment areas, as already established in the chaptered laws of the state. Chapter 16, secs. 60 and 61 read as follows:

The state tax assessor may establish property assessment districts not to exceed 6 in number. He may combine two or more counties in order to form such a district, but no county shall be divided between 2 districts. He may rearrange such assessment districts from time to time at his discretion. . .

The state tax assessor may appoint a supervisor for each of such property assessment districts, and such other assistants as he may deem necessary for the proper discharge of the duties imposed upon him by the provisions of sections 60 to 61, inclusive. When appointed, such supervisors and assistants shall be subject to the provisions of the personnel law. . .

● **IT IS THEREFORE RECOMMENDED** that the legislature, by joint resolution:

- 1) Reaffirm the principle and acknowledge the need for the establishment of local assessment districts;
- 2) Declare the approach to more effective assessment areas to be mandatory upon approval of the legislature;
- 3) Accept the principle of full time qualified assessors for supervisory work, with adequate compensation and working facilities provided by the state;
- 4) Define "qualified supervisory assessors" as assessors subject to selection by the State Tax Assessor under the usual provisions for professional recruitment;
- 5) Declare that supervisory assessors shall give counsel, direction, and guidance to local assessors, and have such corrective duties as the statutes may define; and
- 6) Approve the establishment of experimental assessment districts pending the development of a full program.

● **IT IS FURTHER RECOMMENDED:** That prior to the establishment of such supervisory districts, the State Tax Assessor be authorized to conduct a study in preparation for the program. This study should determine:

- 1) The size, location and composition of such districts;

- 2) The procedure for the formation of such districts;
- 3) The method of selecting supervisory personnel;
- 4) The selection and authority of local assessing offices;
- 5) The relation of the supervisory personnel to the local assessors; and
- 6) The amount and distribution of the costs.

A resolution was introduced into the 99th legislature (Senate Document 324, Feb. 3, 1959) that provided for such a study. While it failed to pass, it would probably do what this recommendation requires. The resolution was as follows:

AN ACT DIRECTING A STUDY OF PROPERTY TAX ADMINISTRATION

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. Study of property tax administration. The State Tax Assessor is directed to make a study of the administration of the property tax in this State, including administration at both state and local levels, and the relationship between the State Bureau of Taxation and local assessing officers; and to report to the 100th Legislature the results of such study, together with recommendations for improvement in the administration of such taxes and for amendments and additions to existing statutes intended to facilitate such improvement in administration.

The State Tax Assessor is authorized to employ such technical and clerical assistance as may be necessary to conduct such study, and to appoint an advisory committee of not more than 12 persons to assist in such study.

The members of such advisory committee shall serve without pay; but they shall be entitled to reimbursement for necessary expenses incurred in attending meetings called by the State Tax Assessor.

Sec. 2. Appropriation. There is appropriated from the Unappropriated Surplus of the General Fund of the State the sum of \$20,000 to carry out the purposes of this act. Said sum shall not lapse but shall remain a continuing carrying account until June 30, 1961.

Such study should be presented to the next regular or special session of the Legislature with proposed legislation to place the recommendations into effect.

● **IT IS FURTHER RECOMMENDED:** That in preparation for the transition to assessment districts, the present supervisory functions of the Bureau of Taxation be immediately strengthened. The present personnel consists of 6 men. These men are not only engaged in supervising and assisting local assessing officials, but give a large part of their time to developing data for equalizing purposes. This is merely a token performance. As usual, the statutes give authority (Chapter 16, sec. 68) far beyond the facilities of the Bureau of Taxation:

The state tax assessor shall have and exercise general supervision over the administration of the assessment and taxation laws of the state, and over local assessors and all other assessing officers in the performance of their duties, to the end that all property shall be assessed at the just value thereof in compliance with the laws of the state. . .

In other words, these recommendations do no more than to propose that the legislature take steps to motivate the policies that are already established in the statutes of the state.

Personal Property

The tax base for personal property is usually considered to include household goods, business inventories, machinery and equipment, farm personalty and intangibles. This property is difficult to tax on any basis of uniformity and equity — there are indeed, substantial reasons why it should not be taxed at all, at least on an *ad valorem* basis. The principal factors in the taxation of personal property require that it be located within the jurisdiction; that it be relatively immobile so as not to be readily removed from the jurisdiction; and its appraisal must be within the competence of local assessors.

Household goods have long defied the assessing process, and in 1959 Maine removed them from the tax base, except for television sets. The assessment of business personalty — machinery and equipment, raw materials, goods in process and stock in trade, has proved an irritation to business. It is hard to assess equitably, uneven in its impact and is subject to erratic treatment. Agricultural personalty — livestock and machinery — has faced much the same difficulties, even with the help of elaborate assessment manuals in use in many western states.

In spite of these unsatisfactory conditions, only 5 states (Delaware, Hawaii, New York, Pennsylvania and Massachusetts) have eliminated all or almost all tangible personal property from their general property tax bases. Many states would like to follow these examples, but the great difficulty is the loss of revenue to the local governments affected. It is significant that 3 of the five states (Delaware, New York and Pennsylvania) abandoned the personal property tax during the depression years, when the base was low and revenues were small, and except in Massachusetts, no replacement of lost revenue was provided.

Intangible personalty has, perhaps, been the weakest point of the personal property tax base. Only fourteen states still continue to assess intangibles on an *ad valorem* base. In most of these states, the sums collected are insignificant and usually not segregated from other personal property taxes. The other states derive revenue from intangibles either from an income tax or from a special levy on intangibles, although a few states (Connecticut, Nevada, New Jersey and Washington) do not tax intangibles at all.

Twenty states tax intangibles at special mill rates separate from the general property tax levy. Only rarely do these taxes cover all intangibles. They usually apply to specific assets, such as solvent credits, bank stock, bank deposits, cash, etc. Only two states that tax intangibles under the general property tax also levy special taxes on intangibles: Georgia and Maine. In Georgia, only bank shares are subject to taxation under the general property tax, all other intangibles are subject to special levies. In Maine the opposite situation prevails: only bank shares are subject to special property taxation, all other intangibles are subject to *ad valorem* assessment under the general property tax.

It will be noticed (Table 8), that personal property taxes have totaled some \$14 million in 1959 — about 19 per cent of the total property tax levy. Oxford county had the highest ratio, 34 per cent; and the ratio fell as low as 11 per cent in York and 8 per cent in Lincoln. Twenty per cent of Oxford's 34 per cent (Table 9) was in machinery and equipment — one of the largest paper companies is located in Oxford; 8 per cent of York's 11 per cent was in stock in trade, industrial stocks and machinery and equipment — valuable resort property is the prin-

TABLE 8
PROPERTY TAXES IN MAINE
REAL ESTATE AND PERSONALTY
DISTRIBUTION WITHIN COUNTIES
1959

(amounts in thousands of dollars)

	Total Property Taxes	Real Estate Taxes			Personal Property Taxes
		Total	Land	Buildings	
State Total	\$76,213	\$62,099	\$15,014	\$47,085	\$14,114
Distribution (per cent)	100.00	81.48	19.70	61.78	18.52
Androscoggin	\$ 5,845	83.07	20.12	62.95	16.93
Aroostook	6,915	79.26	24.02	55.24	20.74
Cumberland	17,834	80.88	18.32	62.56	19.12
Franklin	1,530	84.89	26.09	58.80	15.11
Hancock	3,234	86.68	24.77	61.91	13.32
Kennebec	6,606	81.48	16.35	65.13	18.51
Knox	2,414	84.66	22.89	61.77	15.34
Lincoln	1,643	91.89	21.71	70.18	8.11
Oxford	3,711	66.13	18.22	47.91	33.87
Penobscot	9,711	79.65	15.77	63.88	20.35
Piscataquis	1,224	84.31	24.45	59.86	15.69
Sagadahoc	1,856	85.18	20.35	64.83	14.82
Somerset	2,907	81.85	21.94	59.91	18.15
Waldo	1,661	70.92	16.08	54.84	29.08
Washington	1,960	78.83	18.79	60.04	21.17
York	7,162	89.31	21.84	67.47	10.69

Source: Unpublished data of the Bureau of Taxation.

cial base; and 5 per cent of Lincoln's 8 per cent was in stock in trade, machinery and equipment, and water craft — a resort and agricultural area.

By far the largest single items (Table 9) on a statewide basis are stock in trade (\$4.4 million) industrial stock (\$1.6 million), and machinery and equipment (\$5.5 million). Together they account for about 80 per cent of the total personal property tax; and as much as 18 per cent of the total prop-

erty tax in Aroostook; 15 per cent in Androscoggin, 30 per cent in Oxford, 21 per cent in Waldo, and 17 per cent in Cumberland. These are important tax revenues, and any effort to replace them would be a major undertaking. It is probably best that personal property in Maine (except intangibles) await the improvement of the assessment process, rather than undertake a program of adjustment, that would doubtless, at this time, raise more problems than it would solve.

Intangibles

The Constitution (Act IX, sec. 8) gives great freedom in the taxation of intangibles. It provides that "the legislature shall have power to levy a tax upon intangible personal property without regard to the rate applied to other classes of property." Although this clause has never been litigated, it is thought to give the legislature the widest discretion in handling intangibles for purposes of taxation. The

practical choices would be these:

- 1) Classify intangibles and tax them at a low rate on an *ad valorem* base;
- 2) Remove them from *ad valorem* taxation, and tax them on an income base;
- 3) Exempt them from taxation.

There is no question but that something should be done about the property tax on intangibles; and there have been many efforts to handle the matter. At present they are taxed lightly or not at all. The last segregation for assessments of intangibles was in 1956. Twenty-eight towns reported assessments (appraisals) of \$1.5 million. In 1959, receipts from intangibles were reported with "other personalty" (Table 9). The state total of property taxes for this item was \$491,000 with probably a minimum portion from intangibles. There has been no success anywhere in taxing intangibles on an *ad valorem* basis. Two states (Tennessee and New Hampshire) tax the income from intangibles – but no other income. There is only one effective way to reach this type of property and that is through an income tax. If this is not available – and it is not

presently available in Maine – the best policy is to exempt intangibles from taxation.

There are advantages to this. Business is sensitive to uncertain taxes and intangibles are among the most uncertain. At present a tax official can give no assurance that intangibles will be taxed or ignored. Other states have experienced "tax lightning" where intangibles have been tax-free for many years, and were then suddenly assessed at local rates. It is disturbing to new business entering a state to have no assurance of the tax status of its assets; and citizens who might wish to retire to Maine, may well hesitate in the face of uncertain tax liabilities.

● IT IS THEREFORE RECOMMENDED –

That intangibles be exempted from taxation in Maine.

TABLE 9
PROPERTY TAXES IN MAINE
PERSONAL PROPERTY
DISTRIBUTION WITHIN COUNTIES¹
1959

(amounts in thousands of dollars)

	Stock in Trade	Industrial Stocks	Machinery & Equipment	Water Craft	Wood, Logs & Lumber	Furniture & Fixtures	Live Stock	Other Personalty ²
State Total	\$4,375	\$1,582	\$5,539	\$197	\$308	\$1,083	\$539	\$491
Distribution	5.74	2.08	7.27	.26	.40	1.42	.71	.64
Androscoggin	5.10	1.95	8.22	.01	.16	.31	.78	.40
Aroostook	8.26	.75	8.76	.02	.12	1.60	.56	.67
Cumberland	5.71	3.41	8.02	.18	.04	1.20	.21	.35
Franklin	4.47	1.58	3.38	.59	.85	2.09	1.46	.69
Hancock	2.95	.48	2.30	1.55	.95	2.73	.39	1.97
Kennebec	8.15	.38	4.86	.05	.24	2.94	.92	.97
Knox	4.53	.96	4.72	.92	.01	1.80	1.86	.54
Lincoln	2.24	.03	1.40	1.36	.06	1.41	1.08	.53
Oxford	3.24	7.18	20.03	.12	1.09	1.06	.59	.56
Penobscot	8.70	1.60	7.20	.06	1.23	.49	.54	.53
Piscataquis	7.21	.50	1.50	.11	2.00	2.62	1.13	.62
Sagadahoc	3.06	1.56	6.61	.31	.08	1.37	.57	1.26
Somerset	4.62	2.30	7.46	.06	.39	.64	1.91	.77
Waldo	5.75	1.09	15.00	.34	.08	1.93	3.32	1.57
Washington	4.02	4.14	7.49	1.37	.27	2.37	.53	.98
York	3.07	1.36	3.39	.05	.25	1.63	.54	.40

¹As a percentage of total property taxes levied in each county.

²Includes intangibles and other miscellaneous items.

Source: Unpublished data of the Bureau of Taxation.

TABLE 10
PROPERTY TAXES IN MAINE
TAXES ON LIVESTOCK
DISTRIBUTION WITHIN COUNTIES¹
1959

(amounts in thousands of dollars)

	Total Live Stock	Neat Cattle	Domestic Fowl	All Other Live Stock
State Total	\$ 539	\$ 302	\$ 203	\$ 34
Distribution .....	.71	.40	.27	.04
Androscoggin .....	.78	.55	.21	.02
Aroostook .....	.56	.43	.06	.07
Cumberland .....	.21	.09	.10	.02
Franklin	1.46	1.10	.22	.14
Hancock .....	.39	.14	.22	.03
Kennebec .....	.92	.51	.37	.04
Knox	1.86	.43	1.40	.03
Lincoln	1.08	.43	.61	.04
Oxford .....	.59	.43	.12	.04
Penobscot .....	.54	.36	.12	.06
Piscataquis	1.13	.80	.25	.08
Sagadahoc .....	.57	.33	.18	.06
Somerset	1.91	1.28	.57	.06
Waldo	3.32	1.11	2.13	.08
Washington .....	.53	.23	.17	.13
York .....	.54	.34	.17	.03

¹As a percentage of total property taxes levied in each county.

Source: Unpublished data of the Bureau of Taxation.

Exemptions

Exemptions are a difficult problem for every legislature. They are among the most stubborn provisions in the law; and it is a rare occasion, when, once enacted, they are modified or repealed. Table 1 indicates the present exemption policy in Maine. As has been said, this policy is on the conventional side. Each exemption has had its justification and each is designed to serve a public purpose. There is probably little need for repeal or even extensive modification, but certain exemptions are subject to easy abuse, and a tightening of regulations from time to time is sound tax procedure.

Tax reports have been almost silent on exemption policies, but the **First Report** of the Maine Legislative Research Committee (1952), examined the

exemption practices as applied to literary, scientific, benevolent and charitable institutions — “particularly those that operate summer camps within the state.” There has been no definite study of this matter, but there is an undercurrent of criticism that suggests improved regulatory requirements would be in order. The 1952 report, proposed the following conditions for the exemption of such institutions:

A. When the organization claiming exemption is incorporated under the general statutes covering the formation of such corporation or by special act of the legislature for purposes within the scope of the statutory section relating to such exemption.

B. When all profits derived from the operation and use of the property, and the proceeds of its sale when and if sold, are to be devoted to the uses under which the claim for exemption is made.

C. When no employee of such organization derives any profit from the operation of such property beyond reasonable compensation for essential services rendered.

D. When the organization claiming exemptions shall have filed with the state tax assessor, beginning in April 1954 and annually thereafter prior to April 1 of each year, an annual financial report for the preceding year in such detail as the state tax assessor may require to enable him

to ascertain the justification for the claimed exemption.

E. When the amount of real property for which exemption is claimed is not deemed by the assessing authority to be excessive for the use and need to which it is actually devoted.

IT IS THEREFORE RECOMMENDED, that —

- The legislature reconsider the exemption policies as applied to literary, scientific, benevolent and charitable institutions with a view to defining more closely their position under the property tax.

Local Non-property Taxes

One of the newest developments in municipal finance is the local non-property tax. There are three reasons for this: 1) excessive pressure on the property tax; 2) excessive pressure on state broad-based taxes and excises; and 3) the failure of state aid to bring financial support to municipalities without taking more (or approaching more) than the municipality receives. As complicated as this matter of taxation can become, there are only four bases upon which a taxing jurisdiction can levy taxes — property, income, sales and privileges. Property has been the major tax base for local government, and will doubtless remain so for many years to come. Privileges are expressed in terms of fees, licenses and excises, are usually a minor part of municipal revenues, and are generally classed as miscellaneous receipts. Income and sales, therefore, offer the only opportunities for new large scale revenues at the local level, and are based on the following theories:

A local income tax is based on the theory that gross earnings of individuals are a competent measure of tax-paying ability in the sense that the taxpayer pays when he earns and does not pay when he does not earn.

A local sales tax is based on the theory that consumer spending is a competent measure of tax-paying ability in the sense that what a person spends (sometimes exclusive of necessities) is a measure of his capacity to pay.

There are two conventional types of non-property taxes based on income: the earnings tax, and the gross

receipts tax. Gross receipts taxes on business are not widely used among the states, but have been accepted by a large number of municipalities. The local earnings tax as applied to individuals is largely a post World War II development. There are almost 1100 such taxes in five states (Pa., Ohio, Kentucky, Missouri and Alabama) as compared to 24 in 1950. Except that the local income tax has an income base, it has only a slight resemblance to federal and state income taxes. Exemptions, dependency credits, and progressive rates play no part in the tax. For individuals, the base is gross earnings. This maintains the earning feature as a measure of capacity to pay, but marital status, size of family, deductible items and progressive rates are not a part of either the theory or the practice of the tax as now applied in American cities.

There have been several justifications for this departure from conventional income tax theory. Considering a taxpayer's liability as a whole — federal, state and local — there is sufficient progression to permit a flat rate tax at the local level. It is no worse in this respect than the property tax, and local taxation has, from the beginning, been regressive in its impact. The rates have been low (the highest is Philadelphia, 1.5 per cent), and inequities are not great in terms of dollars. An income of \$3,500 at a flat rate of 1 per cent would pay \$35.00 — less than a 3 per cent general retail sales tax without exemptions, and much less than a property tax on a \$10,000 home. But there are more practical reasons — gross is always a strong base for yield; it is an easy base to determine; it is more stable than a net earnings base; and offers comparatively

little difficulty in administration. These matters doubtless outweigh theoretical arguments based on capacity to pay, particularly in jurisdictions that have survived for many years on flat rate taxes.

Although all local income taxes provide that individuals be taxed on a gross income base, business is uniformly taxed on a net income base — that is, taxable income is gross income less the expenses of doing business. The rates are the same as for individuals — usually 1 per cent or less. As between business and individuals, there is, therefore, a different relation — business has a tax offset and the individual does not. Gross has, however, a peculiar significance to business in tax matters. The ratio of net to gross varies greatly, and causes extreme variations in tax impact; but salaries and wages are not influenced by markups or profits, and respond more evenly to flat-rate taxation.

• • •

Gross income taxes on business are not widely used among the states but have been accepted by a large number of municipalities. This is a tax on the gross receipts of substantially all business on the basis of franchise or license privileges. If applied only to retailing, wholesaling and services it is usually regarded as a sales tax. If the rate is low — perhaps 1 mill — it is frequently considered as a license fee. If applied to individuals, it becomes a gross income tax.

Seven states have gross receipts taxes — Alaska, Arizona, Indiana, Mississippi, New Mexico, Washington and West Virginia.

Within 4 of these states there are some 39 municipal gross receipts taxes, as follows — Arizona, 3 (Phoenix, Prescott and Yuma); New Mexico, 1 (Albuquerque); Washington, 10 (including Seattle, Tacoma, Olympia and Vancouver); West Virginia, 25 (including Charleston, Parkersburg, Beckley, Wheeling and Huntington).

Within states that have no state gross receipts taxes, there are many municipalities that use the tax: for example, Alabama (Birmingham); Louisiana (New Orleans, Baton Rouge and East Baton Rouge); New York (New York City); Oregon (Portland); Pennsylvania (Philadelphia); Virginia (Bristol, Arlington County, Charlottesville, Norfolk and others).

Some gross receipts taxes would be classified by the Bureau of the Census as license fees (because of a low rate); and others combine a retail sales tax with the gross receipts tax. The base and rates are generally as follows:

Base: Gross receipts as measured by gross sales; as measured by gross production, or as measured by gross income.

Rate: From 1 mill to 1.5 per cent; when classified the rates may go as high as 7 or 8 per cent — and sometimes higher; they fall as low as 1/100 of one per cent.

The use of the local sales tax dates from the New York City sales tax of 1934. At present there are over 1,800 counties and municipalities in 11 states using the tax as compared to 87 in 1950. Eight of these states (California, Illinois, Mississippi, Louisiana, Alabama, New Mexico, Colorado, and Arizona) have state sales taxes. The remaining states (New York, Virginia and Alaska) have only local sales taxes. In four of these eight states the local sales taxes are locally administered (Alabama, Arizona, Colorado, and Louisiana). In three they are state administered (Illinois, Mississippi, New Mexico) and in one (California) they are both state and locally administered. Their rates vary from ½ to 1 per cent, and use taxes (except in Illinois) are part of the base.

The major base of a general consumers sales tax is sales of tangible personal property at retail. There are, however, many extensions into the service fields. The New York City sales tax, for example, extends to tangible personal property sold at retail; to public utility sales; to sales in restaurants, cafes and bars (including alcoholic beverages); businesses engaged in producing, fabricating, processing or printing, and information services — but not for food sold for off-premises consumption. California cities and counties have for the most part, adopted uniform sales taxes, identical with the state sales tax. Here, however, public utility sales (except water), food sold at retail, admissions, repairs and installations and hotel accommodations are exempt. In Illinois, Mississippi, and New Mexico sales taxes are identical with the state sales taxes, and state collection is mandatory.

Maine has not yet taken seriously to local non-property taxes. The usual pressures for revenue, may, however, bring the issue before the larger cities. In authorizing enabling legislation the legislature can properly consider five things: 1) Is the proposal constitutional? 2) Does it conflict with state tax policies? 3) Does it conform to accepted tax thinking? 4) Will it unduly disturb the economic environment of the area? and 5) Is it subject to local referendum for approval? Otherwise, the principle of local self government requires that enabling legislation be provided.

PART II

THE TAXATION OF THE "WILD LANDS"

The "wild lands" of Maine are composed of the unorganized townships — that is, all of the State, except the organized areas known as municipalities.

They contain about 8.8 million taxable acres, valued at some \$88 million.

The "wild lands" are assessed biennially by the State Board of Equalization, and when such assessments are equalized among the taxing districts, the tax base in the unorganized territory is established.

Against this base the state levies and collects three major taxes: a 7¼ mills state tax; a 4% mills forestry fire district tax; and a county tax at the county rate.

In addition, certain counties are authorized to contract with certain townships to provide building

fire protection, public dumps, public sewers, and street lighting, and to assess the townships for such services in an amount not to exceed ½ of 1 per cent of their respective valuations.

County Commissioners may further levy a tax not to exceed .3 per cent of the valuation of the township for road purposes; and upon the recommendation of the Commissioner of Education, and the approval of the Legislature, the State Tax Assessor collects a school tax, at a rate not to exceed 10 mills above the average municipal school rates for the preceding year; and a capital school levy not to exceed 1 per cent of the valuations in any one year.

The total levies on real estate in the unorganized areas for the year 1959 were as follows:

In thousands of dollars									
Total	State	County	Forestry District	Forest Fire	School		Roads	Fire Protection	Public Services
					Operating	Capital			
\$1,463.9	\$635.5	\$142.4	\$413.2	\$3.1	\$182.4	\$16.4	\$67.6	\$2.7	\$.6
100.00%	43.41%	9.73%	28.23%	0.21%	12.46%	1.12%	4.62%	0.18%	0.04%

Source: Bureau of Taxation, unpublished document (June 22, 1959).

FOREST TAXATION

The Unorganized Territory

By far the largest base for taxation in the unorganized territory is forest lands. This is important: first, because of revenues for the unorganized areas; second, because of conservation, the maintenance of timber resources; and third, because of the protection of Maine's principal economic base — timber, pulp and paper. The question is complicated by three factors: timber resources are located in both organized and unorganized areas — in the organized areas the assessment is made by local assessors, in the unorganized areas, by the State Board of

Equalization; the characteristics of the base (growing timber), do not lend themselves to the usual appraisal methods by which "just value" is obtained for the assessment of real estate; and the choice of various forms of taxation — property, severances and yield taxes, or combinations of these — make important differences to both the taxpayer and the taxing jurisdiction.

There are a few essential facts to keep in mind in considering the taxation of Maine's forest resources:

- The organized municipalities contain about 1/3 of the forest land area, and account for about 1/2 of the annual gross harvest estimated at some \$500 million for the gross product.
- Many farms contain tracts of cut-over and immature forest which will not produce timber for a long time.
- Maine, unlike some Western states, does not have huge stands of old growth saw timber of mature quality upon which a sustained annual yield can be realized while a second growth is underway.

The taxation of standing timber as property has always been difficult. The general property tax requires an annual payment from the taxpayer for the support of government. The amount of this payment is measured by the "just value" (usually interpreted as the "market value") of his property. The annual payment comes from an annual income and the market value (the assessment) is determined largely by what the assessor thinks the property would bring through a sales transaction between a "willing buyer and a willing seller."

The owner of timber, however, may have no annual income, at least until his holdings provide a "sustained yield" — a condition that may take many years to develop. If he is pushed to the point where he must have income for tax purposes he can do one of four things: 1) "strip" his land of all merchantable trees, both mature and immature — this will tend to disorganize the market, depress prices, and deplete or destroy the tax base. 2) He can cut prior to the most desirable time as to market price or maturity, in which case the economic effects will largely be limited to the owner. 3) He can dispose of his holdings for whatever price he can obtain — this may cause heavy personal loss, depressed capital values, and a reduction in the tax base. 4) He may permit his taxes to become delinquent, and either allow his property to be disposed of at a tax sale or to return to the public domain. In any case, there is an economic loss to the timber owner, the taxing jurisdiction, and the basic economy.

In any form of *ad valorem* taxation there are reasonable differences of opinion among appraisers; but because of the economics of the timber industry, the basic differences have been concerned with definitions of the tax base — broadly speaking, should it be property, yield, or franchise.

THE MAINE TIMBER TAX

The law defines forest land for tax purposes (Ch. 91-A, sec. 43) as "any single tract . . . exceeding 25 acres in area under one ownership which is devoted to the growing of trees for the purpose of cutting for commercial use." There is, however, one exception (Ch. 91-A, sec. 10.VI-D) that has been in the law since 1872: Cleared land which has been planted with 640 forest trees per acre and cultivated for 3 years may, upon the approval of the assessor, be exempt from taxation for 20 years, provided that such "grove of trees" is "kept alive and in thriving condition." This provision has fallen into disuse. It is applicable only to the organized territories, and adds nothing to sound forest practices. There are probably not over a dozen examples in the State today. The provision should probably be repealed.

The law plainly recognizes the peculiar condition associated with timber lands for purposes of taxation. Chapter 91-A, sec. 42, sets forth a forest land policy for the guidance of assessors:

* "It is declared to be the public policy of the state, by which all officials of the state and of its municipal subdivisions are to be guided in

the performance of their official duties, to encourage by the maintenance of adequate incentive the operation of all forest lands on a sustained yield basis by their owners, and to establish and maintain uniformity in methods of assessment for purposes of taxation according to the productivity of the land, giving due weight in the determination of assessed value to location and public facilities as factors contributing to advantage in operation.

It likewise establishes standards recommended by the **First Report** to the Legislative Research Committee in 1952 (Chapter 91-A, sec. 43), by which an aggrieved timber owner may seek relief in court:

* An assessment of forest land for purposes of taxation shall be held to be in excess of just value by any court of competent jurisdiction, upon proof by the owner that the tax burden imposed by the assessment creates an incentive to abandon the land, or to strip the land, or otherwise to operate contrary to the public policy declared in section 42. In proof of his contention the owner shall show that by reason

of the burden of the tax he is unable by efficient operation of the forest land on a sustained yield basis to obtain an adequate annual net return commensurate with the risk involved.

This provision has been no help. It is vague, indefinite, and impractical, and no appeal to the courts has been taken under the section.

As has been said, the assessment of timber lands is under two jurisdictions: those in the unorganized territories are assessed by the Board of Equalization, and those in the municipalities by the local assessors. In the case of land in the unorganized territories, the law provides that the Forest Commissioner shall prepare and deliver to the State Tax Assessor a record of all lands not included in the tax lists, and all lands on which timber has been sold or a permit to cut has been granted. This permits the State Tax Assessor to account for all tax exempt property, and to identify all active timber holdings. In addition, all owners of land in the unorganized territory or of rights of timber and grass on the public reserve lots, report such holdings to the State Tax Assessor, giving the "township, number, range and county" where such property is located. The Board of Equalization thereupon proceeds to place a value on all taxable property within the unorganized area for the purpose of taxation.

The first step taken in the process of taxing forest lands, is to determine the areas to be cruised. About 25 townships compose a unit of assessment, and the program begins with Oxford County, extends to Aroostook and Washington and clockwise through

out the unorganized area. Aerial photographs are taken of each unit to show the various forest species and to spot heavy cuttings, fire damage and inoperable holdings. The photographs are then carefully analyzed and cruise lines established. The actual cruise is to estimate quantities. From this a forest type map is prepared, showing varieties, species, size, young growth, second growth, and mature timber. In as much as there are some 400 townships (Table 3) in the unorganized areas, this means 400 forest type maps.

A cruise report is then prepared, summarizing the quantities of timber in each township. This will indicate the volume and kind of stumpage — hemlock, spruce, hardwood, white birch, poplar, maple, etc., and the type and characteristics of the property — water, bogs, roads, blueberry, alders, etc. This data is then transferred to an estimate sheet for each taxpayer showing the timber on his property in terms of cords or thousand board feet; and allowances made for decrement (loss) or increment (gain) in growth. To this total of each species a value is established, and gross value reduced to an amount per acre. From this is deducted 1/3 for "risk and carrying", and a net timber value, determined. A value is then assigned to the land and improvements, and the grand total becomes the state assessed value.

Against the base so established, the Board of Equalization extends the appropriate millages against all taxable property. The total of such millages classified as to purpose and base, looks like this (1959):

TABLE 11
STATE LEVY — UNORGANIZED TERRITORY
(1959)

Revised Statutes	Purpose	Rate ¹ (mills)	Property Tax Yield		Maximum Levy	
			Amount (\$000)	Distribution	Rate (mills)	Distribution
Ch. 16, sec. 77-A	State property tax	7.25	635.5	43.41	7.25	7.96
Ch. 36, sec. 95-96	Forest district tax and forest fire tax	4.75	416.3	28.44	4.75	5.22
Ch. 89, sec. 12	County property tax	1.02 - 2.36	142.4	9.73	2.36	2.59
Ch. 89, sec. 71-C	Fire protection (other than forest)	2.36 - 5.41	2.7	.18	5.41	5.94
Ch. 41, sec. 166, I	School tax	0.06 - 34.67	182.4 ^a	12.46	34.67	38.08
Ch. 41, sec. 169	School capital tax	0.08 - 10.00	16.4	1.12	10.00	10.99
Ch. 89, sec. 65	Road repair tax	0.02 - 22.75	67.6 ^a	4.62	22.75	24.99
Ch. 89, sec. 71-B	Public service tax	0.20 - 3.85	.6	.04	3.85	4.23
			\$1,463.9 ^b	100.00	91.04	100.00

¹The uniform rate, or the lowest and highest rate levied in 1959.

^aNet after the credit for state tax (R.S. Ch. 16, Sec. 77-G).

^bDoes not include \$33,800 in personal property taxes levied in the unorganized areas.

Source: Bureau of Taxation, unpublished documents (June, 1959).

A district that is fully taxed under each of these provisions can reach a total tax rate of \$91 per thousand dollars of valuation — or even higher. For example, Orneville, Piscataquis County, is taxed (in round numbers) as follows: state tax, 7.25 mills; forestry district tax, 4.75 mills; county tax, 2.36 mills; school tax, 34.67 mills; school capital tax, 10.00 mills; and road repair tax, 12.75 mills — a total of about 71.78 mills.

The last public report (1952) of the Legislative Research Committee pertaining to timber taxation concluded that —

* The present method of taxing timberlands in the unorganized territory, while doubtless worthy of serious study and susceptible to improvement, does not present an urgent problem, either with respect to revenue or conservation.

This statement is still true. Anyone who examines the assessment process of the State Tax Assessor as applied to forest lands, must conclude that it is well done — thorough, consistent, and modern. There is almost no complaint from taxpayers. The process is being constantly refined and intensified, and any new aspect of forest assessment seriously explored. The Board of Equalization has recently approved a study that may bring further precision to timber valuation. At its meeting on July 16, 1960 (Minutes, par. A, sub-sec. 4), the Board approved the following resolution:

* [It was] brought to the attention of the Board the fact that the timber growing interests are considering productivity as the important factor in the evaluation of forest land. It was brought out that in accordance with present law productivity could not be the exclusive factor in the evaluation of such land but that the Sewall Company should make a report based on a study to show the alternative value derived from considering productivity and considering the land with stumpage thereon. It was brought out that cutting practices have changed with the result that with sustained yields where cuttings are frequent and marketable wood is cut as soon as it is marketable wood, it means that the land is capable of producing income and has value, which value is not found by adding the stumpage value of the marketable wood of which there is a minimum at any one time to that of the bare land. It was discussed that perhaps with this change in forest practice our formula will have to be modified to ascribe more value to the bare land based perhaps on productivity with less value to the growth.

The assessment of timber in the organized territories has been the cause of considerable criticism. There are some 8 million acres of forest land in the organized areas. Almost all farms contain a wood lot, and there are, in addition, lots and tracts that are entirely woodland owned by both local and non-resident owners. These lands are of two types: one contains sufficient stands of merchantable timber to produce an immediate income; the second, due to excessive cutting or fire loss, contains stands that cannot yield an income for some time, although it is to be remembered that 50 per cent of the annual cut comes from the organized areas. It is the second class of lands that predominate in the organized towns. Valuations are entirely in the hands of the local assessors. They are ordinarily not trained tax men. The tendency is to apply the principles of the general property tax to timber lands, to guess at the figure, or to rely upon negotiation to determine the value. In theory, the property tax principle might be applicable if values could be related to income, but if

TABLE 12

NET VOLUME OF GROWING STOCK AND SAWTIMBER CUT FROM MAINE FOREST, By Species, 1958

Species	Growing stock cut		Live sawtimber cut
	Million cu. ft.	Equivalent in thousand cords	Million bd.-ft.
Softwoods:			
Spruce	66	825	232
Balsam fir	40	500	106
White pine	38	475	153
Hemlock	20	250	72
Cedar	4	50	13
Other softwoods	1	12	5
All softwoods	169	2,112	581
Hardwoods:			
Sugar maple	23	288	63
Beech	16	200	35
Yellow birch	12	150	34
Paper birch	11	137	40
Red oak	5	63	19
Other hardwoods	6	75	11
All hardwoods	73	913	202
All species	242	3,025	783

Source: U. S. Forest Service, *The Timber Resources of Maine* (1960), p. 46.

based on the established means of "just value", (the "willing buyer and the willing seller"), could lead to liquidating the property. The last report on timber taxation by the Maine Legislature Research Committee (November, 1952) had this to say:

* "The situation with respect to timberland taxation in the organized municipalities seems much more serious. Here the valuations of timberlands are determined by local assessors who usually have little knowledge in this field. These assessors seldom know what is on the land, and often may not even know where the land is. The custom seems to be to guess at a figure which will be within the limit of toleration of the owner. In general belief, it often makes a dif-

ference who is the owner, and whether he lives in the town. If the combination of high valuation and local tax rate creates a yearly tax burden so great that the land cannot be operated profitably by selective cutting or held for increment by growth, there is a strong incentive to strip the land (probably true only in extreme cases) and get rid of it. This is bad for the town in the long run, not only because stripping reduces future taxes, but also because it weakens the economic structure of the community and undermines its stability as a municipal unit. Few realize how dependent are the towns upon the forest resources. Actually it is within the organized towns that most of the wood is being cut.

THE FOREST PRODUCT

The recent report of the United States Forest Service, *The Timber Resources of Maine* (1960), emphasizes the following points pertaining to the timber industry:

* Timber is probably the most valuable single product of Maine's forest — pulpwood and saw

wood (Table 12) account for 90 per cent of the timber use.

* The 1958 cut of growing stock (Table 12) was 242 million cubic feet or 3 million cords of which softwood made up about 70 per cent (2.1 million cords).

TABLE 13
OWNERSHIP OF COMMERCIAL FOREST LAND
AREA BY COUNTY GROUPS, 1959

(In thousands of acres)

Counties and Groups	Ownership Class						All ownership
	Farm forest	Forest industries	Other ¹ private	Federal	State	Municipal	
Aroostook	343	1,608	1,851	4	(°)	48	3,854
Penobscot	231	558	1,160	(°)	17	4	1,970
Piscataquis	79	1,189	1,020	(°)	28	3	2,319
Somerset	198	1,340	614	(°)	(°)	3	2,155
Oxford-Franklin	294	753	883	**46	6	5	1,987
Washington-Hancock	222	1,059	1,024	22	4	1	2,332
York-Cumberland-Androscoggin	241	8	947	4	3	5	1,208
Sagadahoc-Kennebec-Lincoln-Knox-Waldo	384	6	941	1	6	6	1,344
All Counties	1,992	6,521	8,440	77	64	75	17,169

° Less than 500 acres

**White Mountain National Forest

¹ Miscellaneous individuals and non-forest industries

Source: U. S. Forest Service. *The Timber Resources of Maine* (1960), p. 60

WORDS AND PHRASES USED IN FORESTRY

Forest land area: 1) lands at least 10 per cent stocked with trees of any size capable of producing timber or influencing climate or water; 2) land less than 10 per cent stocked, not developed for other uses; 3) afforested areas.

Commercial forest land: forest land that is producing or capable of producing usable logs of wood; that can be economically operated; and that has not been withdrawn from timber use.

Volume: *sawtimber* volume is measured in board feet – a section of lumber 1 foot square and 1 inch thick before planing; *growing stock* is measured in cubic feet; *pulpwood trees* are measured in cords – 80 cubic feet of solid wood.

Sawtimber trees: softwoods 9 inches and hardwoods 11 inches in diameter at breast height.

Poletimber trees: commercial wood meeting specifications as to soundness and form – softwoods 5 to 9 inches, hardwoods 5 to 11 inches in diameter at breast height.

Pulpwood trees: five inches and larger including sawtimber, poletimber and even cull trees (defective timber) with usable portions of the main stems.

Growing stock: the net volume (gross volume less deduction for rot) in cubic feet of live sawtimber and poletimber trees from stump to a minimum 4 inch top of central stem inside the bark.

Annual cut: the net cubic-foot volume of live sawtimber and poletimber trees cut or killed by logging, land clearing, or cultural operations on commercial forest land during a year.

Net annual growth: the change from natural causes in net board-foot volume of live sawtimber on commercial forest land during a year.

Ingrowth: the net board-foot of trees that first become sawtimber trees during the inventory year.

Annual mortality of sawtimber: the net board-foot volume removal yearly from live sawtimber on commercial forest land through death from natural causes.

Hardwoods: broad leaf trees, that usually lose their leaves each fall.

Softwoods: trees that have needles and are green throughout the year.

Source: Adopted from U. S. Forest Service, *The Timber Resources of Maine* (1960), pp. 44, 69, 70.

* On volume basis the total cut from growing stock was distributed as follows:

	Million Cords	Per cent Total
Softwood sawtimber	1.71	56.6
Hardwood sawtimber	.51	16.8
Softwood poletimber	.40	13.3
Hardwood poletimber	.40	13.3
	3.02	100.0

* Timber was cut in every county, but more than one-half the volume was cut in the four northern counties: Aroostook, Penobscot, Piscataquis and Somerset.

The total cut in 1958 amounted to about 43 per cent of growth – growth 7.2 million cords and cut 3.0 million cords. The difference, 4.2 million is added to growing stock volume.

About 3.4 million cords (about 1/3 of gross growth) is being lost through mortality each year. A greater volume of trees died during 1958 than were harvested.

TABLE 14

NUMBER OF PRIVATE OWNERS AND
TOTAL ACREAGE OF PRIVATELY-OWNED
COMMERCIAL FOREST LAND, BY
SIZE-OF-HOLDING CLASS, MAINE, 1959

Size-of-holding class (in acres)	Number of owners	Thousand acres
Less than 100	62,557	4,121
100 to 500	14,265	2,788
500 to 5,000	528	770
Total small ownerships ¹	77,350	7,679
5,000 to 50,000	51	898
50,000 and over	23	8,376
Total large ownerships ²	74	9,274
Total all ownerships	77,424	16,953

¹Source: U. S. Forest Service, *Timber Resources for America's Future, 1958*. There is no recent estimate (since 1952) of the number of owners by size-of-holding class; however the acreages have been adjusted to conform with the 1959 data for large ownership.

²Source: Maine Forest Service, 1959.

Cited in the U. S. Forest Service, *The Timber Resources of Maine*, (1960), p. 59.

TABLE 15
OUTPUT OF TIMBER PRODUCTS AND ANNUAL
CUT OF LIVE SAWTIMBER AND GROWING
STOCK IN MAINE
1958

Product	Output of timber products ¹					Annual cut of sawtimber			Annual cut of growing stock		
	Volume in standard units		Roundwood volume			Softwoods	Hardwoods	Total	Softwoods	Hardwoods	Total
	Standard units	Number	Softwoods	Hardwoods	Total	Softwoods	Hardwoods	Total	Softwoods	Hardwoods	Total
			M cubic feet			M board-feet			M cubic feet		
Sawlogs	M board-feet ²	424,403	61,587	14,942	76,529	309,705	91,369	401,074	64,779	26,967	91,746
Veneer logs and bolts	M board-feet	42,580	—	7,903	7,903	996	58,944	59,940	288	12,448	12,736
Cooperage logs and bolts	M board-feet	1,633	295	—	295	1,488	—	1,488	325	2	327
Pulpwood	Standard cords ³	1,687,580 ⁴	102,703	29,483	132,186	265,766	30,768	296,444	102,254	22,793	125,047
Fuelwood	Standard cords	264,343 ⁵	130	12,357	12,487	188	21,132	21,320	111	10,723	10,834
Piling	M linear feet	131	57	21	78	286	101	387	59	22	81
Poles	M pieces	16	242	10	252	1,018	—	1,018	242	10	252
Posts	M pieces	123	122	28	150	19	96	115	127	28	155
Hewn ties	M pieces	12	32	—	32	396	—	396	39	—	39
Miscellaneous ⁶	M cubic feet	1,272	1,064	208	1,272	1,319	—	1,319	725	205	930
Total	—	—	166,232	64,952	231,184	581,181	202,320	783,501	168,949	73,198	242,147

¹Includes material from growing stock and other miscellaneous sources.

²International 1/4-inch rule.

³Rough wood basis.

⁴Includes 35,255 cords from plant residues used for pulp.

⁵Includes 108,247 cords from plant residues used for domestic and industrial fuels.

⁶Includes shingles, rustics and snow fences, chemical wood, lobster traps, and fish weirs.

Source: U. S. Forest Service, *The Timber Resources of Maine* (1960), p. 45.

Pulp and paper form Maine's most important industry. The pulp mills (some 28 of them representing 19 plants) are capable of producing 7.3 per cent of the United States total. Only 3 states (Florida, Georgia and Washington) have a greater plant capacity. Paper and allied products accounted for 27 per cent of the value of all manufactured products in Maine (1958),—some \$364 million.

The lumber industry reached a post-war high in 1949—480 million board feet. The volume of lumber (sawtimber) produced in 1958 (Table 15) was 424 million board feet—38 per cent of the total cut. It accounted for 8 per cent of all manufactured products—some \$110 million. The industry is composed of many small companies—some 669 sawmills and 131 small sawmills known as bolter mills, equipped to cut logs less than 8 feet long. As has been said, 90 per cent of the timber is used in the manufacture of pulp and lumber, the remaining 10 per cent (Table 15) in veneer (and its multitude of small products), cooperage, fuel wood, poles, posts and hewn ties. The report on *Timber Resources in Maine* (p. 19) summarizes the value of Maine's forest growth in this way:

* All in all, the forests of Maine provide raw material for the wood-using industries; they are the base for a growing recreation industry; and they are instrumental in the conservation of soil and water. In short, Maine's forests are a cor-

nerstone of the state economy. Their productivity affects the welfare of everyone in the State.

The ownership and distribution of privately owned commercial forests is important in considering a tax program. The Maine Forestry District in the unorganized areas contains 10.4 million acres held by 657 owners. The protected forest area in the organized municipalities contains some 6.9 million acres held by 76,822 owners—holdings of 500 acres or less (Table 14). How ownership is distributed by ownership classes is shown in Table 13. It will be noticed that the forest industries own about 6.5 million acres—about 40 per cent of the total private ownership; that farm forests account for some 2 million acres—about 12 per cent of the total; and that other private owners account for 8.4 million acres—about 48 per cent of the total.

The distribution of forest property by size of holdings is also significant for tax purposes. Table 14 shows this distribution. There are some 77,424 owners of commercial forest land in Maine. Of these, 62,557 (80 per cent) own properties of less than 100 acres. Some 14,265 (19 per cent) own properties between 100 and 500 acres. There are, however, 74 owners of properties of 5,000 acres or more, 23 of whom own tracts of 50,000 acres or over. In other words, 74 owners (1 per cent) own 55 per cent of the commercial forest lands.

The comparison of these Maine distributions with national distributions is about as follows:

TABLE 16

**COMMERCIAL FOREST LAND
IN PRIVATE OWNERSHIP
U. S. 1953—MAINE, 1952¹**

Size of Holding (acres)
Percentage distribution

Ownership	All Sizes		50,000 and over		5,000 to 50,000		500 to 5,000		100 to 500		Less than 100	
	Maine	U.S.	Me.	U.S.	Me.	U.S.	Me.	U.S.	Me.	U.S.	Me.	U.S.
Total												
All Private	98.7	73.3	48.8	11.9	5.2	7.1	4.5	9.5	16.2	20.0	24.0	24.8
Farm	11.6	33.8										
Forest Industries	38.8	12.8										
Other Private	49.1	26.7										

¹Average adjusted to conform with 1959 data for large ownerships.

Source: U. S. Forest Service, *The Timber Resources of Maine* (1960), pp. 58-60; *Timber Resources for America's Future* (1958), p. 82.

It is plain that there is little relation between the national pattern and the pattern that has developed in the state of Maine. Ownership by industries is about 3 times the national average; farm ownership is about 1/3; "other private" ownership (miscellaneous individuals, and non-forest industries) is about twice the national average and public holdings (about 1.3 per cent) are only about 1/20th the national average. As to size of holdings, Maine has 4 times the percentage of acreage in holdings of over 50,000 acres; about 1/2 the average in 500 to 5,000 acre holdings; and close to the national average in holdings under 500 acres.

While it is likely that national averages have a limited meaning in an industry depending so heavily upon diversified environments, extreme departures from a norm invite discussion. The heavy emphasis on forest industries as owners of commercial forest land, indicates a strong manufacturing base; suggests professional forest management practices and policies; and the likelihood of a sustained yield economy. Pulp and paper mills require a perpetual supply of pulp wood for sustained yield. Pulp mills cannot be picked up and moved like a portable saw mill. It is probably because of this that the pulp industry shows the highest productivity of cutting operations for a long term sustained yield. These characteristics are emphasized again in large holdings — 49

per cent containing 50,000 acres or more. With only 1.3 per cent of the commercial forest area in public holdings, the industry is almost wholly a private economy, with the key to future development in the hands of some 74 large owners. The exhaustive study of *Timber Resources for America's Future* (1958) conducted by the U. S. Forest Service, had these points to make concerning the national picture, that are pertinent to the forestry pattern in Maine:

There is conclusive evidence that the productivity of recently cut lands is poorest on the farm and "other" private ownerships.

Small private holdings, regardless of kind of ownership, clearly showed poorer productivity than large and medium-sized properties.

In contrast to farm and "other" private ownerships, about ¾'s of the recently cut lands owned by public agencies and the forest industries, qualified for the upper productivity class.

Two-thirds of the land owned by forest industries is in large holdings.

The pulp industry with 84 per cent of its recently cut lands qualified for the upper productivity class. This exceeded the national forests (81 per cent) and the lumber industry (73 per cent).

THE FOREST TAX IN MAINE

No other state has so large a portion of its level area in forest — 87 per cent; and no other state depends so heavily upon its forest to sustain its economic life. There are 17 million acres of commercial forest lands — about 18 acres per capita, more than 6 times the national average. They support Maine's largest industry — lumber, pulp, paper and wood turneries and maintain the recreational facilities of the State.

The forest industry has, on the whole, responded generously to its public obligations. It has built some 1,800 miles of improved roads through the "wild lands" — 500 miles by a single company. While these are primarily for timber harvesting, nevertheless, the industry has publicly invited the sportsman, tourist and camper to enjoy the free use of its woodlands, and has advertised and developed a guest relation with these visitors. It has cooperated in the development of some 360 public camp sites and lunch

grounds, and is considering larger responsibilities in this area. Summer homes, hunting and fishing camps, private beaches, and hotels are scattered throughout the wild lands on lease from the owners. Forest areas are being increasingly managed to produce more game. Some 350 winter deer yards are located within the unorganized territory, and the concept of multiple use management — recreation, wild life and timber — is being steadily expanded.

The problem of timber taxation in Maine resolves itself into three questions:

- 1) How should timber be taxed — property, severance, yield, or a combination of these;
- 2) The improvement of assessments, particularly in the organized territories; and
- 3) Is the timber tax out-of-line with other taxes?

First, how should timber be taxed? For perhaps a hundred years there has been criticism of the general property tax as applied to commercial forest properties. It is said to have been responsible for the rapid liquidation of mature timber, for instability of forest land ownership, and for retarding the reforestation of cut-over lands. There is doubtless some truth in these complaints, but there have been modifying factors in recent years that tend to reduce their force.

While it is true that there are many small holdings that are not yet on a sustained yield basis, all large holdings are now self-sustaining; and once a timber property has arrived at this point, it makes little difference to the timber owner whether it is taxed on its assessed value or on the value of the crop when harvested, provided the taxes are the same. It would not, moreover, make any difference to the support of local government, provided there was a sustained annual tax yield. Property taxes, moreover, are bearing a smaller ratio of total state and local government costs, and there is increasing resistance to further burdening the base, especially in the organized municipalities. It is true that there is still danger that fiscal pressures may tempt a legislature into increasing tax yields from a special base such as timber, or that a decline in non-property taxes may have a similar effect; but on the whole the property tax base is probably safer from excessive burdens than it has ever been.

There is another factor that has made the property tax more acceptable. The assessment process at the state level, has been greatly improved over recent years. As has been said, aerial photography has provided information for forest types and a rough measure of timber volume; and professional foresters supplement this data with spot cruises that refine the assessment to something approaching scientific precision. This has not only brought uniformity to the assessment process, and increased yields from the base, but it has done much to satisfy and reassure the taxpayer.

Over the years, nevertheless, discontent throughout the country with the property tax on timber, brought many attempts to reduce the hardships that resulted from a strict application of the tax. As early as 1860, "tax concessions" were established, that took the form of exemptions, rebates and bounties; and about the turn of the century, interest turned to forest management as it pertained to planted or natural stands of immature trees. This led to the yield principle of taxation. The basic idea of

this tax was to postpone all taxes on growing timber until the time of harvest. It did not relieve the taxpayer of all annual tax payments (the land remained subject to the general property tax or to fixed annual payments in lieu of the property tax); but the greater part of the tax was postponed until income was received from the cutting and sale of the timber. The amount of the tax was determined by the amount or the value of the timber cut, but the general practice was to state the tax as a percentage of the stumpage value of the timber harvested.

There also developed a third type of tax known as the severance tax. Whereas the yield tax displaced the property tax on timber, the severance tax is imposed in addition to the property tax, as well as at times in addition to the yield tax itself. The main purpose of the severance tax is additional revenue, usually dedicated to forestry requirements. The purpose of the yield tax is to time the tax payment to the receipt of income. Broadly speaking, therefore, the severance tax is levied **in addition** to the property tax, and the yield tax is levied **in place** of the property tax. The yield tax, is usually **ad valorem**; the severance tax specific. The distinction, therefore, is largely a matter of use and application. Both have the same tax base—gross income measured by yield, and both are, in fact, yield taxes.

There are some 14 states that have yield taxes. Eleven are optional (Alabama, Connecticut, Idaho, Massachusetts, Michigan, Minnesota, Missouri, New York, Oregon, Washington and Wisconsin)—that is, initiative remains with land owners as to whether or not they come under the provisions of the tax. Three (Mississippi, Massachusetts and New Hampshire) are mandatory on all land-owners. Six states (Alabama, Arkansas, Louisiana, New Mexico, Oregon and Virginia) have mandatory severance taxes, and three of these (Alabama, Louisiana and Oregon) also have yield taxes.

* * *

Within the New England states New Hampshire has been prominent in its experiments with timber taxation. Following a long period of study by the Governor's Timber Tax Study Committee (1948), a law was passed that was locally referred to as a severance tax but was probably more accurately a yield tax and is so referred to today. It provided that standing wood and timber (except sugar orchards, fruit trees, nursery stock, ornamental trees and mature growth) be exempt from the general

	Yield Tax	Severance Tax
Primary purpose of tax	To aid forestry by eliminating the annual tax on timber and substituting a tax at time of harvest.	To obtain additional revenue (proceeds may be devoted to State forest program).
Relation to the property tax	Imposed in place of the property tax on growing timber.	Imposed in addition to the property tax (or to the yield tax if this has been substituted).
Basis of payment; Timber	Usually <i>ad valorem</i> , — that is 10 per cent of stumpage value.	Usually specific — that is 50 cents per M bd. ft.
Bare land	Remains subject to property tax, sometimes in modified form.	Not affected.
Responsibility for payment	Rests upon the timber owner.	Rests primarily upon the timber operator.
Classification of forest land	Required under optional laws.	Never required.
Nature of tax	Gross income tax.	Occupation or privilege tax.

Source: U. S. Forest Service, *Forest Tax Law Digest* (1956), p. 7.

property tax. The land, however, was subject to assessment. The tax on timber cut was established at a normal rate of 10 per cent, with an additional 2 per cent until bonds issued (\$300,000) to cover reimbursement costs to communities experiencing loss of property tax revenue under the new procedure, had been retired. A reimbursement fund was established for the purpose. A formula was adopted which each year reduced the town claims against the state for reimbursement due to loss of tax revenue; and a tax abatement of 3 per cent tax on the stumpage value was provided for every tree cutting operation that was in accordance with cutting practices developed by the district forestry advisory boards and approved by the Forestry and Recreation Commission. The reimbursement fund, however, did not prove equal to its obligations, and in 1955, in spite of determined opposition from the lumbermen, the General Court eliminated the abatement provisions.

In 1929, Maine experimented with a yield tax. The Act (P.L. 1929, Ch. 306) defined "auxiliary state forests" (sec. 2) to include all areas covered by trees, owned by corporations, firms, or individuals, or which shall be planted to trees for use as fuel, or for manufacture or sale. Such areas must be capable of producing fifteen thousand feet, board measure, of softwood, and eight thousand feet,

board measure, of hardwood, or their equivalent per average acre. In cities and organized townships, the owner was to have filed plans or descriptions of such forest with assessors and forest commissioners, with a request that the property be included as a part of the auxiliary forests of the state.

State, town, and plantation assessors were henceforth to appraise only the land (sec. 3), at the same valuation as stripped forest land in the vicinity, but not to exceed \$2 an acre. The owner (sec. 4) was to pay a tax of $\frac{1}{2}$ of one per cent to the municipality, if he cut during the first year; 2 per cent, the second year; 3 per cent, the third year; 4 per cent, the fourth year; 5 per cent the fifth year — and thereafter 5 per cent upon "the stumpage value of all trees so cut." Not more than 10 per cent of the area of a town was to be admitted as part of the auxiliary state forest (sec. 7). The act was repealed in 1933, because of tax losses to the municipalities. The law itself was fragmentary, poorly drafted and showed no evidence of adequate preparation. It can hardly be considered as a fair test of a yield tax.

In 1945 the issue was again before the State. In that year the final report of the 1944 tax study by the Bureau of Taxation, was devoted to the taxation of forest lands. The report concluded that "Because the present application of the general

property tax, by local assessors is often faulty, because valuations are often based on compromises with owners or on arbitrary decisions to raise certain sums of money because equalizations between the various classes of property are imperfect, does not mean that it is impossible to apply the tax fairly. Undoubtedly it will remain our chief source of revenue, but it must be modified so that it will be as fair to forest land as to other classes of property." The proposal was, in effect, a modified yield tax. The first step was to determine the annual income from the stumpage cut. It was further assumed that a given interest rate represented a fair return to the owner on the determined value. The given interest rate is then added to the tax rate, and the annual income divided by this number. For example:

$$\begin{aligned} \text{Tax value} &= \frac{\text{Annual income, \$1,400}}{\text{Allowed interest .08} + \text{Tax Rate .06}} \\ &= \frac{\$1,400}{.14} \\ &= \$10,000 \end{aligned}$$

The tax would become \$600 and the return to the owner, \$800. The assumption behind this method of valuation is that the forest acreage must guarantee a fixed return (interest) and support a fixed tax levy. The estimated yield is therefore capitalized by the sum of these two rates — interest and tax. It was an effort to maintain the property tax principle but to base valuations on income. The report emphasized, however, "that this setup requires the owner to so cut his land that capital stock is not depleted (sustained yield), and that the State may have to assist forest dependent communities while badly depleted capital stock is being built up." Nothing, however, came of the proposal — and nothing should have come of it. It was a proposal to set the timber business apart for special treatment, by a guaranteed return for interest and taxes.

There were numerous studies of forestry taxation in the 1940's, the most thorough of which was made by the Bureau of Taxation (1947). This was an intensive examination of forest timber in Hancock County, and was based on the towns of Amherst, Eastbrook and Franklin. The report found that the forest land assessments were inequitable; properties were erroneously described; small properties were over assessed; and current assessment did not reflect the relative value of forest properties. The report, nevertheless, supported the property

tax, and approved the town assessment system, with these suggestions for an improved administration:

(1) Extension of the authority of the State tax assessor to provide for strong leadership in the assessment of the forest lands of Maine.

(2) Division of the State into possibly five supervisory assessment districts.

(3) Provision for the re-assessment of forest land in the State every five years. Instead of reviewing completely the whole acreage of the State every fifth year, one-fifth of the State would be handled annually. Furthermore in order to utilize staff services best, the assessment in any district would not be made as of a given date but would be a continuous process throughout the year.

The advantages of a yield tax are obvious. It is related to the income-producing capacity of the property. Payments coincide with income receipts. From the taxpayers' standpoint, it is predictable, and it can be used to encourage sound forestry practices. A property tax well-administered can, however, provide close to the same advantages when a sustained yield has been attained, and at the same time, avoid the principal difficulties associated with a shift in the tax base, namely, "peaking" — uneven taxes due to uneven yields — consequent loss of revenue to local communities, and the troublesome problem of replacement.

In organized territories, however, there are, as has been indicated, assessment problems. The Final Report of the Legislative Research Committee (1952) recommended this statutory provision, which was not accepted in the legislature:

"... the state tax assessor shall prepare and issue instructions designed to guide municipal assessors to uniformity in the taxation of forest land, including a method of classification of land on the basis of productivity which shall conform to the method applied by the state tax assessor to the assessment of forest land in the unorganized territory. Upon request of any court in which an action at law is pending, the state tax assessor shall cause the forest land in question to be examined by a competent person at the expense of the party challenging the assessment, and shall thereafter render to the court and to the contending parties an opinion as to its just value for purposes of assessment."

The trouble, however, is this: few local assessors have either the facilities or the knowledge to apply such standards.

A Program For Maine

★ **FIRST**, the assessment of commercial forest land in the unorganized territories is well done and is being steadily improved — there are no recommendations concerning this part of the program.

★ **SECOND**, the assessment of commercial forest land in the organized areas is poor — as it has always been. There is little current data to demonstrate the unevenness of assessment practices and assessment valuations, but the general situation is common knowledge:

- 1) State tax studies (in 1945, 1946, 1947, 1948, 1952, 1955) have emphasized the difficulties of the local assessment of forest properties;
- 2) Some 400 assessors, generally lacking in professional qualifications for forestry appraisal, can do little more than negotiate timber valuations;
- 3) The State Tax Assessor has neither the funds, personnel or equipment to provide local assistance — even if such assistance were practical.

There are four methods that might be considered to improve the assessment of forest properties in the organized areas:

- 1) Strengthen the authority of the State Tax Assessor: This means increased professional personnel to supervise forestry assessments over established districts in the organized areas; providing aerial maps, cruise personnel, and appraisal facilities; reporting the state findings to the local assessor, and possibly publicizing the results in the local press.

This hardly seems sufficient to meet the problem. Local assessors can, at present upon request, receive assistance from the State Tax Assessor, but very few have asked for such assistance. To extend this service would be costly; would doubtless arouse local opposition; and to publicize the result, would tend to local controversy with state officials. While this report would have no objections to providing the State Tax Assessor with additional authority, funds, and facilities to encourage the improved assessment of forest lands in the organized territories, it would not, be a significant answer to the present problem.

- 2) Give full authority to the State Tax Assessor to assess forest properties in the organized

area, as he now assesses such property in the unorganized areas. This would centralize the assessment of forest properties at the state level. Such assessment would be mandatory on the local assessor, and would require an adjustment of the state valuation to the ratio of assessed to true value, as established by the local assessor for other properties in the community.

State assessment of all forest lands is a common practice in the western states, but Maine has no tradition to support such a policy. Except for the unorganized areas, there has never been state assessment of property in Maine. This is even true of public utility property, which is generally state assessed throughout the country. State assessment of forest properties in the organized area would be expensive. It would involve thousands of small acreages and small taxpayers, and it would require adjustment to local ratios — not a difficult statistical problem, but one that could create considerable local irritation.

- 3) Encourage the establishment of assessment districts as suggested in Part I of this report. Such districts would be large enough to support the professional appraisal of forest properties, and with moderate state supervision, assure considerable uniformity throughout the state.

This has possibilities — but only long range possibilities. The assessment would remain local but the area would be large enough to support a qualified appraisal officer. It might, however, be some time before the plan would cover the state; and the prompt development of special assessment districts is in itself an uncertain project. Nevertheless, this might prove to be the most practical and most acceptable solution.

- 4) Shift from a property tax base to a yield tax base. This would require state assessment of all forest properties both in the organized and unorganized areas; provisions for such replacements as might be necessary to protect communities from tax losses; and such tax abatement program as might be desirable to encourage sound forest management.

To meet the local assessment problem, a shift to a yield tax would probably be the most immedi-

TABLE 17A

**STATE VALUATIONS AND LEVIES
UNORGANIZED TERRITORIES
1948 - 1959**

(amounts in millions of dollars)

	State Valuation ¹	Per Cent Change	State Levy	Per Cent Change
1948	47.1	+1.9	.7	+5.1
1950	49.7	+5.5	1.0	+46.9
1952	57.2	+15.1	.9	-3.0
1954	73.2	+28.0	1.1	+16.6
1956	78.9	+7.8	1.2	+11.2
1958	87.6	+11.0	1.5	+21.7
1959			1.5	+1.0
Change 1948-1958	+86.0%		+114.3%	

¹Includes Public Lots.

TABLE 17B

**STATE AND LOCAL VALUATIONS AND LEVIES
ORGANIZED TERRITORIES
1948-1959**

(amounts in millions of dollars)

	State Valuation	Per Cent Change	State and Local Levy	Per Cent Change	Local Assessed Valuation	Per Cent Change
1948	715.1	+6.4	44.1	+27.1	682.4	+8.9
1950	768.9	+7.5	46.3	+5.0	737.8	+8.1
1952	836.0	+8.7	48.8	+5.2	850.3	+15.2
1954	1,803.2	+115.7	54.3	+11.3	934.9	+9.9
1956	1,912.5	+6.1	62.0	+14.2	1,146.5	+22.6
1958	2,019.4	+5.6	71.3	+15.0	1,507.5	+31.5
1959			76.3	+7.0	1,637.5	+8.6
Change 1948-1958	+182.4%		+61.7%		+120.9%	

ate and most effective approach. This would also bring the advantages of the yield tax to the forestry industries – timely tax payments, uniform treatment, simplified assessment procedures, yields corresponding somewhat to economic cycles within the industry, and the further encouragement of forest conservation policies. This seems something that the State of Maine should consider. At present, data is not available to estimate what such a tax would mean in terms of yields, replacements and impact, but it is –

RECOMMENDED: That the Legislative Research Committee be authorized to undertake the study of a yield tax as applied to the State of Maine.

That such a study should include the following:

- 1) The extent of forest lands that are on a sustained yield basis;
- 2) The impact of a yield tax as opposed to the present property tax on local revenue;
- 3) Estimated yields from selected rates;
- 4) The competitive implications of a yield tax on the forestry industries;
- 5) The question of mandatory or optional provisions as opposed to a property tax;
- 6) Forestry conservation programs under a yield tax; and
- 7) Administrative problems and costs.

★ **THIRD**, the equity of taxes on the forestry industry as to assessments, rates, and yields, has been a matter of concern. Tables 17 A and B present data on the comparative treatment of assessments (1948-1959) as between the organized and unorganized areas and between state equalized valuations and local assessments. These figures are not absolute. They must be used with caution, and require considerable explanation. It will be noticed, however, that state valuations increased 86 per cent in the unorganized territories between 1948 and 1958. At the same time, state tax levies in the unorganized territory increased 114 per cent. During the same period the state valuation in the organized territory increased 182 per cent (twice the increase in the unorganized areas), but the total state and local levy increased only 62 per cent, as compared to 114 per cent in the unorganized areas.

There are facts in this picture that tend to modify the implications of the cold figures. Before 1952, the state valuation in the unorganized areas was found to be based on 1950 values; in the organized

areas, on 1940 values. In establishing the assessment ratio at 2/3's of the appraised value, the unorganized areas received a higher valuation due to the difference between the 1940 and 1950 price levels. In the revaluation of 1952, the valuation in the organized areas was brought up to 1950 prices and showed, therefore, an increase of 116 per cent as between 1952 and 1954. The valuation in the unorganized areas, already on 1950 prices, showed a comparatively modest increase of 28 per cent. Both valuations are, at present, about 50 percent of current (1960) prices.

The increase in levies in the unorganized areas was due in part to increased valuations, and in part to additional service requirements – particularly a 9.5 mills forest fire district levy in 1953 due to excessive forest fire damage, a 1½ mill levy in 1958, and a similar levy in 1960 for spruce budworm control. The relatively small increase in state and local levies in the organized areas (62 percent) may be explained in part by numerous increases in state aid for schools, and an increasing reluctance to burden the property tax. While these comparisons are not conclusive, there is no evidence of discrimination as between the state valuation of forest lands in the unorganized territories and the state valuation of municipalities.

The question of the comparative sales price of random tracts of forest lands and the assessed valuation is, at times, a matter of criticism. There are frequent reports of sales at large prices per acre that bear little reference to state assessed values. Table 18 represents sales data for the years 1951 through 1959, within the unorganized territory. Sales in the early years were excluded if heavy cuts had taken place. Lots which were combined with a larger ownership were likewise excluded, as it was not possible to determine the 1958 assessment on the particular tract sold. The sales price per acre varies from \$8.89 to \$27.70 depending upon the value of the tract. There is no record of timberland as such ever being sold for more than \$32 an acre in Maine. It will be noted that the average assessment ratio (unweighted) is 66.7 percent and that the annual average ranges from 33.2 percent to 105.9 percent. The weighted average assessment ratio of the sample was 44.5 percent varying from an annual high of 101.1 percent to an annual low of 23.7 percent. In the light of these figures the determination by the State Tax Assessor that current state valuations of forest property are at approximately 50 percent of the 1960 market values, seems well sustained.

TABLE 18
SALES – ASSESSMENT RATIOS
FOREST LANDS IN UNORGANIZED TOWNSHIPS
1958 STATE VALUATIONS

1951 – 1959

	Number Sales	Number Acres Sold	Sales Price	Sales Price Per Acre	1958 State Valuation	Average Assessment Ratios Weighted ¹	Unweighted ²
1951	7	41,964	\$ 380,310	\$ 9.06	\$ 384,500	101.10	105.87
1952	4	60,767	769,150	12.66	475,201	61.78	77.65
1953	1	1,480	15,800	10.68	7,700	48.73	48.73
1954	8	38,861	345,505	8.89	266,066	77.01	88.41
1955	5	80,452	1,047,800	13.02	566,628	54.08	57.17
1956	5	61,152	685,092	11.20	585,593	85.48	72.74
1957	7	176,887	4,900,800	27.70	1,700,639	34.70	52.73
1958	12	91,270	1,890,000	20.71	926,868	49.04	48.00
1959	4	90,139	2,138,500	23.72	507,182	23.72	33.23
Total 1951-59	53	642,972	\$12,172,957	\$18.93	\$5,420,377	44.53	66.70

¹Total 1958 State Valuation of all parcels sold divided by total of all sales prices.

²Average of the assessment ratio of each sale during the year.

Source: Unpublished data of the Bureau of Taxation.

Two large sales in 1957 and 1959 are in the comparison. They accounted for about one-third of the total acreage sold in the total sample and for over one-half the total dollars received. One parcel (142,000 acres) sold for \$31.63 an acre – a ratio to sales of 33 percent; and the other (78,000 acres) sold for \$26.48 an acre – a ratio to sales of 23 percent. Just why these sales were so much out of line is not known, but it is reported that both the buyer and the seller were equally informed. Another consideration is that the 1959 sale was based on cruises 20 years old or older.

There is, nevertheless, an undercurrent of feeling in the state that the forest industry is under-taxed or at least, that it is lightly taxed. This is a difficult thing to show with conclusiveness. In states that have no corporate income taxes (as Nebraska), it might be said, in the absence of other business taxes, that industry is in a favored position. In a state that relies heavily on severance taxes (as Texas), and has no broad based tax, it would seem that special business interests bear a disproportionate share of the burden. In a state com-

mitted to proportional taxation (as Maine) – uniform rates on a uniform base – the complaint of unequal treatment would depend upon favored rates or favored bases. The question becomes involved with matters of tax policy, effective administration and often the lack of timely adjustment; but there are facts to be considered in the Maine picture that give some guidance toward approaching the problem.

The basic rate for the taxation of all forest properties is 7¼ mills – a rate that has remained constant since 1933. This applies to both properties in the organized and unorganized territories, but the yield from the levy in the organized territories goes to the municipalities and the yield in the unorganized territories, to the general fund of the state. As has been said, however, there are, in addition, 8 other permanent taxes that apply or can apply to forest properties in the unorganized areas; and all municipal taxes apply to forest properties in the organized areas. The total amount raised in the unorganized areas (1959) was \$1.5 million – the equivalent of a 17 mill levy on the total valuation of \$88 million.

TABLE 19

TAX RATES AND TAX COLLECTIONS
UNORGANIZED AREAS
1959

Tax Rate in Mills	Number of Townships ¹	Property Taxes	
		Amount (\$000)	Per Cent Distribution
70 - 79	8	65	4.37
60 - 69	8	71	4.71
50 - 59	11	66	4.41
40 - 49	5	39	2.58
30 - 39	12	54	3.57
20 - 29	20	89	5.99
13 - 19	418	1,113	74.37
	<hr/> 482	<hr/> 1,497	<hr/> 100.00

Taxes in Organized Municipalities \$76,300,000

Total Property Taxes in Maine \$77,797,000

Per cent of Property Taxes from Unorganized Areas 1.9%

¹Includes Townships and Unorganized Areas outside of the Townships.

Source: Bureau of Taxation, *Maine State Valuation*, 1958 (Augusta, Maine: Nov. 25, 1958) and unpublished reports.

It is possible, however, to have a maximum levy for a township as high as 91 mills – or higher. This would be true if all authorized levies Table 11 were used to the maximum. While no township has reached the maximum, 8 have a rate of from 70 to 79 mills (Table 19); 8 from 60 to 69 mills, and 11 from 50 to 59 mills, applied against state equalized valuations. Four hundred eighteen townships out of a total of 482 (87 per cent) have tax rates of 13 to 19 mills – townships that have primarily only the three basic levies for the state tax, the forest fire district tax, and the county tax. These are equivalent to rates of \$13 to \$19 per \$1,000 of assessed valuation, in areas where there are no municipal services.

There is no data to show the tax yields from forest properties in the organized territories. In these areas, the properties are assessed by the local assessor and taxed at the local rates. There can be no question, however, that such properties are taxed at higher rates than all except a few in the unorganized territories. The question arises, however, as to the comparability of the assessments. There are those who feel that the municipal service need determines the tax base rather than any appraisal value of the property. There are others

who imply that negotiations between the assessor and the owner is the determining factor; and there are still others who are convinced that the assessed "value" is little more than whatever the assessor says it is, and that this is apt to vary considerably as between resident and non-resident owners. There is little doubt, however, that the assessment of forest properties in the organized areas, does not compare favorably with the state assessed properties in the unorganized areas.

Whenever it is thought that the taxes on forest properties should be increased, attention is at once directed toward the state tax of 7¼ mills. This tax yields (1959) some \$635,500 – about \$88,000 per mill. Even if the tax were doubled the benefits to the state general fund would not be great. Because of statutory credit provisions, the net to the general fund is about \$512,000. It must be remembered however, that the state tax accounts for a little more than a third of the total taxes on the unorganized areas, and that the other 8 taxes have potentials that could result in greatly increased burdens. Total taxes in the unorganized territory have, indeed, been increasing (Tables 17A and B) since 1952 at the biennial rate of 17 per cent, 11 per cent and 22 per cent; which compares with total tax increases in the organized municipalities of 11 per cent, 14 per cent and 15 per cent.

The overall conclusion is this: There is no evidence that would support an increase in property taxes on the forestry industry because of favored treatment of its property as opposed to municipal property.

SCHOOL SUPPORT IN THE UNORGANIZED TERRITORY

In spite of this conclusion, namely, that there is no justification at this time for increased taxes on unorganized areas because of under-taxation as compared to municipalities, there are matters of structure and service that suggest adjustments both in the distribution of the property tax burden and in the support of the service. Such adjustments would lead to both increases and decreases in the ratios of tax support from individual taxpayers, and to an overall increase in taxes for the unorganized territory as a whole. The purpose and extent of these proposals are as follows:

The present 7¼ mill state levy yields (1959) some \$635,500 – because of statutory credit pro-

visions, this is reduced to a net of \$512,000 for the state general fund.

The school levy (1959) in the unorganized territory to educate 1,500 pupils, is some \$200,000 (1959); and the total costs of the schools, some \$400,000. This leaves a balance of \$200,000 to be provided from the state general fund.

The school levy is unevenly distributed over 80 townships, varying (1959) from the statutory maximum of 34.67 mills, to a low of .06 mills. Four hundred two townships or unorganized areas outside of the townships, out of a total of 482, have no school levy.

Estimates of school costs in the unorganized territory for 1961-62 total some \$525,300; and for 1962-63, \$549,200. Inasmuch as the statutory limit is already reached in the townships with the most students, the school levy of \$200,000 will remain much the same, except for increased valuations. Some \$325,000 (\$525,000 less \$200,000) will, therefore, be required from the general fund (1961-62) to support schools in the unorganized territory.

● IT IS RECOMMENDED, THAT —

School costs in the unorganized area be defined as an area responsibility;

A uniform levy be applied to the area sufficient to provide for the full support of the schools;

The area be defined as subject to applicable provisions of the foundation school program, as applied to all school districts of the state;

Except for the normal foundation school program allotment, the state general fund to be relieved of all fiscal responsibilities for the schools.

These proposals require some explanation. As has been said, school support in the unorganized territory rests upon some 80 townships from a total of 482. This distribution is based on the theory that wherever there is a child attending school, there is a school service and therefore a school levy. If there is no child in school, there is no school service and, therefore, no school levy. This is the same theory that supports a school program in an organized school district, wherein the governing body for school purposes determines both the extent of the school service and the amount of the school levy. The township in the unorganized territory, however, has no governing body except the Legislature. It has no political status as an entity. It is, in fact, little different from a block of property as it appears on a municipal assessment map. To identify it, therefore, as a service area for

school purposes, is to associate it with a status that it does not have. There is no more reason for selecting a township for school support than to select a group of townships or even a region within the area.

There are three principal conditions that determine the tax levies in a township for school purposes: 1) the number of pupils; 2) the credit provisions as provided in R. S., Ch. 16, sec. 77-c; and 3) the tax rate limitations provided in R. S., Ch. 41, secs. 166, 169. The credit provisions were enacted (1951) at the time the state property tax was abandoned. Because the organized municipalities received the 7¼ mill tax that formerly went to the State General Fund, it was thought that the unorganized townships (in which the 7¼ mill tax was retained for state purposes) should likewise share in the benefit of the removal of the state tax. A provision was accordingly established that provided a credit up to ¾'s of the amount of school and highway levies, for the payment of the 7¼ mill tax.

The credit works this way. The 7¼ mill state levy applies in every township. If, for example, a township has a school levy of 12 mills, ¾'s of the 12 mills (9 mills) could be credited against the state tax. In this case, there would, in effect be no state tax, as the credit would fully absorb the 7¼ mill levy. If, however, the school levy were 8 mills, the resulting 6 mill credit would leave 1¼ mills of the state tax. If the township likewise had a road levy of 4 mills, an additional 3 mills (¾'s of 4 mills) could be applied against the 1¼ mills, and the state tax would again be eliminated. In practice, the credit is applied to road levies first and school levies second. It is this provision that reduced the State's 7¼ mill levy of \$635,500 to a net of \$512,000 for general fund purposes. In effect, it reduced the current tax levy on the unorganized territory by \$123,000.

The statutes likewise provide a limitation on school levies in any one township. The levy cannot exceed 10 mills on the dollar in excess of the average school tax rates of the municipalities of the state for the preceding school year. At present (1959) this average rate (for maintenance) is 24.67 mills, and 10 mills in excess of this brings the maximum levy permitted to 34.67 mills. Should the maintenance costs for schools in any township exceed this levy, the State makes up the difference from the General Fund. The result is, that some townships pay 100 per cent of school costs and others only a proportion. The school levy varied (1959) from a low of .06 mills in one township to a high of 34.67 mills in 23 townships.

The present state school subsidy program as amended by the 99th Legislature (R. S., Ch. 41, secs.

237-D and 237-E) provides for a foundation program allowance to each school administrative district as follows: 1) a dollar allowance per pupil in average daily membership depending upon the size of the school — from \$165 per elementary school pupil and \$280 per high school pupil in schools of over 800 pupils, to about \$200 per elementary school pupil and \$360 per high school pupil in schools of up to 25 pupils. 2) A percentage of state support of the foundation program. This varies from a maximum support of 66 per cent for municipalities which have a valuation of less than \$3,000 per pupil to a minimum support of 18 per cent to municipalities with valuations of \$12,501 per pupil and over.

The size-of-school measure is the base for foundation school program costs. This measure is adapted to an organized school district with its resident pupils, its governing body and its tax leeway expenditures above the foundation school program. The schools in the unorganized area have no local organization, are administered by the Commissioner of Education, and have no tax leeway on their own initiative. The levy for school purposes is, in fact, an administrative determination by the Commissioner, and although approval by the Legislature is required, the Legislature does not represent the unorganized area in the sense that a governing body represents a school district. The foundation program (in dollars) for the organized areas, is determined for each organized district on the basis of pupils multiplied by a stated allowance. The state undertakes to support this program on the basis of assessed valuation per pupil. The foundation program (in dollars) in the unorganized areas is determined in the first instance by the Commissioner of Education, and finally by the Legislature. The state's share is the excess of the cost in each township at the maximum levy. On the basis of assessed valuation per pupil, the unorganized area, considered as a unit, would fall in the highest group of the foundation school formulae — that is, over \$12,501 per resident pupil, and would receive a state share of 18 per cent of the foundation program cost.

In summary, it is recommended, that —

A uniform levy for school purposes be applied to the unorganized territory;

A foundation school program defined (in dollars) as the legislative appropriation for school purposes, be applied to the unorganized territory;

Under this program, the state will assume 18 per cent of the costs; the unorganized ter-

ritory, 82 per cent of the costs — the same ratio that now prevails in the larger cities of the state;

The credit provisions now applicable to school levies to be discontinued — they are not suited to a uniform levy;

The 10 mill limitation on the township levies will no longer be applicable — it is significant only when the township is the levy unit.

The support of the schools in the unorganized areas in accordance with the recommendations of this report requires the following provisions:

The anticipated appropriation for schools in the unorganized areas for 1961-62 of \$525,300 would require a tax levy for schools of \$430,746 (\$525,300 times 82 per cent). On the basis of the 1958 state valuation, a tax levy of 4.91 mills throughout the unorganized areas would be required. The balance of \$94,554 would come from the General Fund.

The anticipated appropriation for schools in the unorganized areas for 1962-63 of \$549,200 would require a tax levy for schools of \$450,344 (\$549,200 times 82 per cent). On the basis of the 1958 state valuation, a tax levy of 5.14 mills throughout the unorganized areas would be required. The balance of \$98,856 would come from the General Fund.

The present school levy of \$200,000 is the equivalent of a 2.3 uniform levy over the area. This proposal would require an additional levy of 2.7 mills to raise \$235,000.

★ The implications of this proposal would be as follows:

It would recognize public school support as the responsibility of the unorganized territory as a whole;

It would remove the inequalities in the levies from the present system of township support;

It would apply the foundation school principle to the unorganized territory, and support the foundation program on the same basis as in the large municipalities;

It would give the State General Fund about \$235,000 additional revenue for other purposes — a total free fund from the unorganized areas of \$447,000 — \$635,000 less road tax credit (\$94,000) and state school subsidy (\$94,500).

It would place additional taxes of about \$235,000 on the taxpayers of the unorganized territory.

PART III

THE PROPERTY TAX AND SCHOOL SUPPORT

The Constitution of Maine (Article VIII), sets forth the State policy in regard to the common schools:

“. . . the legislature are authorized, and it shall be their duty to require, the several towns to make suitable provision, at their own expense, for the support and maintenance of public schools . . .”

This is a clear expression of intent that the support of the public schools is a local responsibility; but from the beginning the state has participated in school financing. As early as 1828 (P.L., ch. 403), a common school fund was established from the proceeds of the sale of not exceeding 20 townships, and the interest distributed annually “among the several towns and plantations . . . according to the number of scholars.” The same act provided (Sec. 3) that any surplus in excess of public debt requirements from federal payments arising from the War of 1812 should likewise be placed in the public school fund. While this portion of the act was repealed in 1831, and no money accrued from this source, in 1833 the bank stock tax was dedicated to school purposes – the first appropriation from tax money to mark the beginning of a state aid policy.

This policy continued until after the Civil War. From time to time, the sale of additional townships added to the income of the Permanent School Fund and in 1857, 20 per cent of the receipts from the sale of all public lands was added. But when the state banks took out national charters, revenue from the bank stock tax disappeared. This raised new demands for school support, and in 1872 an annual state tax of 1 mill was dedicated to this purpose through the establishment of the School Mill Fund. The following year a tax of ½ of 1 per cent was levied on savings bank deposits and likewise dedicated to the schools, and in the same year (1873) aid was provided for free high schools. Apportionment remained on the per pupil basis.

These acts led to a marked increase in school expenditures – from \$66,000 in 1871 to \$500,000 in 1877 – far more than seems to have been expected.

As a result, the amount appropriated from the savings bank tax was reduced by half. With a falling off of bank deposits during the depression of the 1870's, this had a sharp effect on school finances, and there was a strong decline which lasted until deposits again increased – about 1881. From then until the turn of the century, school aid increased because of increased collections from both the bank tax and the school mill tax, plus some appropriations from the general fund.

Up to this time two school funds had been created – the Permanent School Fund in 1828 and the School Mill Fund in 1873. The first had been supported by land sales and the bank stock tax. The second depended upon the state mill property tax. In 1909 a third fund – the Common School Fund – was established and both the School Mill Fund and the Common School Fund were each supported by an annual 1½ mill state property tax. In 1913, therefore, the state was paying a 3 mill property levy for local school support.

In 1917, still another fund was created known as the School Equalization Fund to be supported from the Reserved Lands Fund. This fund had been financed from the sale of grass and timber on the reserved lands, the original purpose of which was to hold such moneys in reserve for the use of each township when and if it became incorporated. It became plain, however, that there were too many funds. In 1921 (P. L., ch. 173), therefore, the three existing funds were consolidated into the State School Fund to be supported by a 3 1/3 mill levy, in addition to the income from the Reserved Lands Fund and ½ of the tax on the deposits of savings banks and trust companies. By 1929, the 3 1/3 mill tax had become 4 1/3 mills, and the assessed valuation of the state had increased to some \$744 million – a 56 per cent increase over 1913 (\$478 million). By 1931 the common schools were receiving annual state aid of some \$2.3 million. In 1940, state subsidies were \$1.9 million; in 1950, \$5.9 million; and in 1959, \$13.1 million – a 120 per cent increase (Table 21A) over 1950.

Until the early 1920's, the distribution of state school aid had been almost wholly on a per pupil

basis but there had been strong indications and some action toward "equalizing" fiscal support. As early as 1864 and again in 1874 and 1875, legislation had required that certain portions of the State mill levies be used in the small districts. It was not until 1909, however, that an "equalization principle" was placed in the law designed to give special assistance to the "poorer communities." This law provided (P. L., ch. 198), that the state treasurer should, each year, deduct \$20,000 from the state school funds to be "set aside" and designated the "school equalization fund." Every town that raised 4 mills or more on its valuation for the support of schools, was to receive an increment of 10 per cent of its apportionment of state school funds for the preceding year.

By 1921 the act had been expanded and refined, but still fell short of the intent of the 1909 legislation. Chapter 173 increased the equalization fund to \$100,000. It also changed the method of distribution. Any school that failed to record 1,500 days of ag-

gregate attendance was to receive equalization aid equal to that given for 1,500 days of aggregate attendance. In addition to providing for "hardships" as incident to the unavoidable closing of a school and additional subsidies for local projects "worthy of encouragement," aid was permitted in those towns whose rate of taxation was "considerably in excess of the average rate for the state" but still failed to produce revenue sufficient to provide "a reasonable standard of educational efficiency." But there was a more important transition. The concept of distribution was changed. The law provided (P. L. 1921, ch. 173) that subsidies would henceforth be distributed on a three-way formula: 1) on the basis of teaching positions (\$100 for each position); 2) the school census (\$3 per capita); and 3) the "amount available" for "aggregate attendance." This was the pattern of apportionment and equalization that, with frequent and increasing dollar allowances, persisted until 1951, when there was another complete break with distribution policies.

The Present State Aid Formula

There have been six major developments in the support of public schools that have determined educational fiscal policy for the State of Maine:

- 1) Acknowledgement from the earliest days of statehood (1828) that the support of the common schools was a joint responsibility of state and community.
- 2) The abolition (1893) of the "district system" and the acceptance of the "town system" as the educational unit of the state.
- 3) Provision (1897) for the state support and control of public schools in the unorganized territories.
- 4) Acceptance (1909) of the principle of "equalization" in the distribution of state aid.
- 5) The adoption (1951) of a modified foundation school program; and
- 6) The enactment of the "Sinclair Law" (1957) to provide a full foundation school program and to encourage the consolidation of school districts throughout the state.

In 1951 the Legislature (P. L., ch. 386) adopted the concept of general aid education. The older concepts of teaching positions, school census and aggregate attendance were abandoned. Instead, the several

cities, towns and plantations were divided into 9 classifications according to their valuations per resident school child. The valuation was that established by the State Board of Equalization; and the resident school children were the average of the last two annual enrollment reports. For each classification there was a different subsidy, based on the net average educational cost of each district for the preceding two years. For example, Class 1 provided for a state valuation per resident pupil of not over \$1,500, and committed the state to 65 per cent of the operating expenditures. Class 9 provided for a state valuation of \$7,501 and over and committed the state to 25 per cent of the first \$20,000 operating expenditures and 14 per cent of the balance. For the first time, also, the law established a minimum salary program for teachers ranging from \$1,500 for a certified teacher, to \$1,800 for a teacher with a master's degree. In 1955 (P. L., ch. 449), due to heavy increases in state equalized valuations, the classes were increased to 24 — Class 1 with a state valuation per pupil of \$3,000 and under with 65 per cent state support; and Class 24 with a valuation of \$15,001 and over, with 15 per cent of state support.

Until this time (1955), Maine had recognized the principles of general aid and equalization. It did

not, however, provide for a guaranteed educational program for every school child in the State. Each school district provided its own educational program, and received state support on the basis of its assessed valuation per pupil and educational costs. There was a third and final step to be taken — the adoption of a foundation school program. The requirements of such a program as developed throughout the country were these:

To establish a basic educational program guaranteed to every child in the state, toward which the state will provide financial support — this is the foundation program cost.

To equalize the cost of education as among the "poorer" districts and the wealthier districts by requiring a greater local support from the wealthier districts — this is the local "fair share."

To recognize state responsibility for education in all districts, regardless of wealth, by guaranteeing a minimum participation by the state in all districts — this is "minimum aid."

Following an excellent study for the Maine Legislative Research Committee prepared by J. L. Jacobs and Company recommending a full foundation school program, the legislature adopted ch. 364 of the public laws of 1957. This law revised the minimum salary for teachers from \$2,200 to \$3,200 for teachers with a master's degree and introduced annual increments of increase for a period of ten years. The maximum at the end of ten years became \$3,200 for certified teachers and \$4,200 for teachers with a master's degree.

The act defined a foundation school program in terms of authorized expenditures, and required that the minimum salary schedule be observed and that a pupil-teacher ratio of 30 be maintained in the elementary schools, and 25 in the high schools. The cost of the program was measured by the average of the past two years daily membership, multiplied by a specified dollar allowance, plus the 2-year average of expenditures for tuition, pupil transportation and board; and less tuition collections and incidental receipts. The dollar allowance per pupil in average daily membership depended on the size of the school. Nine school sizes were established. The first group with an average daily membership of 1-25 was given a foundation allowance of \$4,000 for elementary schools and \$11,000 for high schools. The largest class, 801 and over, was given a foundation allowance of \$140 per pupil in the elementary schools and \$245 in the secondary schools. The distribution was then determined by 21

classes based on state valuation per resident pupil. In class 1, \$3,000 and less, the state assumed 66 per cent of the foundation program; in class 21, \$12,501 valuation and over, the state assumed 18 per cent. Chapter 353 of the laws of 1959, increased the foundation program allowances. In the smallest administrative unit (1-25 ADM) the allowance was \$3,000 + \$80 per pupil, and in the secondary schools \$6,500 plus \$100 per pupil. In schools of over 800 ADM, the allowance is \$165 per elementary pupil and \$280 per high school pupil.

* * *

PUBLIC SCHOOL COSTS

Current, Projected, Comparative

While it is not the purpose of this statement to prepare a critique of school policy and support, there is a close relation between a distribution formula and an effective tax dollar. The principal interest is, however, on the effect of school policy and support on the property tax. The issue is not how much should be spent for the schools, although this fact must be emphasized: So long as America is an expanding country and Maine is an expanding state, the costs of education will continue to increase — and this, in addition to increases because of price levels and inflationary tendencies. At the local level the expenditure pattern will be affected to a far greater extent than any other service commitment, simply because school costs take by far the largest share of the tax dollar — a state average of 55.5 cents. As shown in Table 20, the past 5 years clearly indicate this trend and these facts are to be noticed:

During the past 3 years, the growth of elementary schools has been at the rate of about 2.2 per cent a year; the high schools, at the rate of about 4.2 per cent a year.

The average elementary costs per pupil, 1956-58, was \$182; 1958-60 it was \$229 — an increase of 26 per cent.

The average high school costs per pupil, 1956-58, was \$363; 1958-60 (estimated), it was \$418 — an increase of 15 per cent.

Total school costs have increased 15.7 per cent each year over the past three years — 1957-60.

Table 21A indicates the effect of state subsidies on local appropriations for education. State subsidies increased 208 per cent between 1940-1950 and 120 per cent between 1950 and 1959. Between 1940 and 1950 the ratio of state subsidies to total education expenditures increased from 19 per cent to 25 per cent.

TABLE 20

PUBLIC SCHOOL COSTS IN MAINE
1946-47, 1956-57 to 1959-60

	Total Cost *	Net Enrollment	Cost per Pupil	2 year Average
Elementary				
1946-47	\$10,625,068	115,978	\$ 92	
1956-57	23,522,957	141,304	166	
1957-58	28,472,643	143,490	198	\$182
1958-59	32,893,008	147,131	224	
1959-60	35,319,028 ¹	150,463 (est.)	235	229
High School				
1946-47	5,376,541	32,993	163	
1956-57	13,174,324	38,119	346	
1957-58	15,466,621	40,736	380	363
1958-59	17,172,454	42,804	401	
1959-60	18,685,603 ¹	42,882 ¹	435	418
TOTAL COSTS* AND ENROLLMENT				
1956-57	36,697,281	179,423	204	
1957-58	43,939,264	184,226	238	221
1958-59	50,065,462	189,935	263	
1959-60	54,064,631 (est.)	193,345 (est.)	279	271

Note: 1956-57 Elementary costs - 64.1% of total High School costs - 35.9% of total
 1957-58 Elementary costs - 64.8% of total High School costs - 35.2% of total
 1958-59 Elementary costs - 65.7% of total High School costs - 34.3% of total
 1959-60 Elementary costs - 65.4% of total High School costs - 34.6% of total

*Excludes capital outlay for new sites and buildings.

¹Estimated

Source: Maine School District Commission, October, 1960.

This was a period of "relief" for property tax support of the schools, but it is significant to note that, although the dollar volume of school expenditures increased 129 per cent from 1950 to 1959, the ratio of state support is less than it was (-3.86 per cent) in 1950.

There is another phase of this matter. In 1940 (Table 21B), 31 cents out of every dollar of local revenue was used for school purposes. This ratio has shown a steady increase over the past nine years until an average of 54 cents of the local revenue dollar now goes for schools. This is a 42 per cent increase in the demand on local revenue for school purposes. It means that other municipal services are being compressed into an increasingly smaller share of the local tax yield.

It is realized that there are extreme ratios in

these averages, which may distort the picture. Tables 22A and 22B develop, therefore, the same comparisons for 19 cities and 22 towns. Table 22A indicates that the ratio of state subsidy to education expenditures in 19 cities in 1950 was 18 per cent, and in 1958, 14 per cent. In 22 towns the state subsidy was 37 per cent in 1950 and 33 per cent in 1958, an indication that state support in these groups (in spite of large dollar increases) is providing a lower ratio of school costs than it did nine years ago. The pressure on the local revenue dollar (Table 22B), showed marked increases - 30 per cent in the cities in 1950 and 44 per cent in 1958; 42 per cent in towns in 1950 and 55 per cent in 1958.

It is not appropriate in this report to make recommendations concerning the distribution of school costs as between state subsidies and local revenues. This

TABLE 21A

CHANGES IN STATE AID FOR EDUCATION
MAINE
1940-1959
(amounts in millions of dollars)

	Education Expenditures			State Subsidy as a Per Cent of Education Expenditures
	Annual State Subsidies ¹	Local Appropriation	Total	
1940	\$ 1.9	\$ 8.5	\$10.4	18.43
1950	5.9	17.9	23.8	24.88
1951	6.3	21.3	27.6	22.82
1952	6.4	21.8	28.2	22.69
1953	6.8	22.1	28.9	23.57
1954	7.6	23.9	31.5	24.01
1955	7.7	25.8	33.5	23.06
1956	8.3	28.6	36.9	22.43
1957	10.7	33.1	43.8	24.39
1958	10.7	37.5	48.2	22.27
1959	13.1	41.5	54.6	23.92
Per Cent Change				
1940-1950	+207.94	+110.06	+128.08	+35.00
1950-1959	+120.15	+131.88	+128.96	-3.86

Source: Unpublished Statistics of the Department of Education.

¹Includes general purpose aid and aid for special programs.

TABLE 21B

CHANGES IN LOCAL SUPPORT FOR EDUCATION
MAINE
1940-1959
(amounts in millions of dollars)

	Local Appropriation for Education	Local tax Levy on Property	Other Local Revenue	Total Local Revenue	Local Appropriation for Education	
					as a % of Local levy on Property	as a % of Total local Revenues
1940	\$ 8.5	\$26.6	\$.9	\$27.5	32.03	31.03
1950	17.9	46.2	.7	46.9	38.73	38.15
1951	21.3	50.1	.7	50.8	42.51	41.93
1952	21.8	48.8	.7	49.5	44.79	44.18
1953	22.1	51.8	.7	52.5	42.71	42.16
1954	23.9	54.2	.7	54.9	44.16	43.63
1955	25.8	57.6	.7	58.3	44.77	44.26
1956	28.6	62.0	.6	62.6	46.19	45.72
1957	33.1	68.4	.6	69.0	48.45	48.01
1958	37.5	71.2	.6	71.8	52.62	52.16
1959	41.5	76.2	.6	76.8	54.49	54.04
Per Cent Change						
1940-1950	+110.06	+73.68	-17.05	+70.84	+20.92	+22.95
1950-1959	+131.88	+64.84	-12.29	+63.67	+40.69	+41.65

Source: Unpublished Statistics of the Department of Education.

TABLE 22A**CHANGES IN STATE AID FOR EDUCATION**

For 19 Cities and 22 Towns Operating High Schools
With Under 50 Pupils

MAINE
1950 - 58

(In thousands of dollars)

	Education Expenditures						State Subsidy as a Per Cent of Education Expenditures		
	State Subsidies		Local Appropriation		Total		Cities	Towns ¹	
	Cities	Towns ¹	Cities	Towns ¹	Cities	Towns ¹			
1950	1,215.9	168.0	5,437.2	292.2	6,653.1	460.2	18.28	36.51	
1958	1,987.6	247.0	12,154.2	500.1	14,141.8	747.1	14.05	33.06	
Per Cent Change									
1950-58	+63.47	+47.0	+123.54	+71.1	+112.6	+62.3			

¹Operating High Schools with less than 50 pupils.

TABLE 22B**CHANGES IN LOCAL SUPPORT FOR EDUCATION**

For 19 Cities and 22 Towns Operating High Schools
With Under 50 Pupils

MAINE
1950 - 58

(In thousands of dollars)

	Local Appropriation for Education		Local Tax Levy on Property		Other Local Revenue		Total Local Revenue		Local Appropriation for Education			
									as a % of Local Levy on Property		as a % of Total Local Revenues	
	Cities	Towns ¹	Cities	Towns ¹	Cities	Towns ¹	Cities	Towns ¹	Cities	Towns ¹	Cities	Towns ¹
1950	5,437.2	292.2	17,623.3	678.8	272.2	12.2	17,896.0	691.0	30.85	43.04	30.38	42.28
1958	12,154.2	500.1	27,395.8	895.4	227.0	10.6	27,622.8	906.0	44.36	55.84	44.00	55.19
Per Cent Change												
1950-58	+123.54	+71.11	+55.45	+31.91	-16.76	-13.11	+54.35	+31.11				

¹Operating High Schools of less than 50 Pupils.

is solely a matter of policy to be determined by the legislature. It is something, however, that the legislature must face:

Are increasing school costs to fall still more heavily on the property tax; or will state subsidies relieve the pressures for school support from the property tax?

The present foundation school program is composed of six cost-factors which will affect school costs each year according to seven major influences: 1) increased student enrollments; 2) improved educational programs that will move schools with expenditures below the minimum foundation program to expenditures equal to the minimum foundation program or above; 3) an accelerated school construction program; 4) the establishment of new school administrative districts with a built-in 10 per cent bonus; 5) increased costs of school transportation; 6) increased costs of legal tuition; and 7) the effects of inflationary trends. In addition, the rise or fall of state valuations will affect the state subsidy.

These costs are spelled out in the statutes. For every additional pupil in average daily membership, there is a "foundation program allowance" varying from \$165 per pupil in elementary schools and \$280 per pupil in high schools, to about \$200 per pupil in elementary schools and \$360 in the high schools (R. S. ch. 41, sec. 237-D). Whenever a school's average net operating cost is less than the foundation program, its state subsidy is decreased proportionally. When the full costs of the foundation program are assumed, the disability is removed and the full allotment granted (R. S. ch. 41, sec. 237-E).

To provide further incentive for the establishment of larger school administrative districts, state

fiscal assistance is provided for construction approved subsequent to the formation of such districts. The district will receive the same percentage of the cost of construction that it is entitled to under state support of the foundation school program (R. S. ch. 41, sec. 237-H). When a school administrative district is organized, it is entitled to a 10 per cent increase in its normal state subsidy, (R. S. ch. 41, sec. 237-G). School transportation is part of the foundation program costs, and contracts vary from year to year. Tuition payments are likewise a charge on the foundation program, and increase as tuition charges increase.

These are increases that are built into the foundation school program, and as long as the costs of the program are defined as at present, and as long as the school system of Maine continues to grow and to improve, school costs will rise.

A request for an appropriation of \$30,721,000 to finance the state education general purpose subsidy for the biennium 1962-1963 has been made by the Department of Education. This is the amount that will be needed to reimburse municipalities and school administrative districts under present legislation for the foundation program, school construction, and bonuses for enriched programs and the formation of consolidated school districts. It was computed for each school district in the State on the basis of 1959 and 1960 pupils; 1959 and 1960 actual expenditures for teachers salaries, tuition, transportation, and other educational expenses; 1960 state assessed valuations; and the foundation program for 1962-1963. This is an increase of \$5,198,000 over the total subsidy of \$25,523,000 payable during the 1960-1961 biennium.

The factors requiring this increase are as follows:

	Increase (Biennium)	Percent Total
1) Community expenditures catching up with the minimum foundation program (R.S., ch. 41, sec. 237-E):	\$1,272,000	24.5

During the present biennium, 243 school districts lost state aid because their net operating costs for 1958 and 1959 were less than the foundation program for 1960-1961. Many of these districts are increasing their expenditures for education and will no longer be penalized for failure to meet the foundation program. In this biennium the penalty amounted to 2.3% of the state subsidy, whereas in the previous biennium it amounted to 7.5%.

	Increase (Biennium)	Percent Total
2) School construction aid (R.S., ch. 41, sec. 237-H):	\$906,000	17.4
<p>During the present biennium, \$262,000 was required. Approximately 15 approved high school buildings and 15 approved elementary school buildings will be completed before December 1962, and it is estimated that a total appropriation to cover all eligible debt service of \$1,168,000 will be needed — an increase of \$906,000.</p>		
3) Bonus of 10% to school administrative districts (R.S., ch. 41, sec. 237-G):	\$270,000	5.2
<p>During the present biennium \$335,000 was required for the eleven school administrative districts that qualified. About eight more districts will qualify for the next biennium, for a total cost of \$605,000 — an increase of \$270,000.</p>		
4) Transportation (R.S., ch. 41, sec. 237-D):	\$216,000	4.2
<p>For the current biennium the amount in the foundation program was \$3,316,229, representing amounts actually expended in 1957 and 1958. Expenditures of \$3,604,076 for transportation made in 1959 and 1960 are included in the foundation program for the 1962-1963 biennium. This annual difference of \$287,847 was multiplied by two for the biennium and by 37.6%, the average school subsidy reimbursement rate (from 18% to 66%).</p>		
5) Tuition to private schools (R.S., ch. 41, sec. 237-D):	\$135,000	2.6
<p>For the current biennium the amount in the foundation program was \$1,643,048, representing amounts actually expended in 1957 and 1958. Payments of \$1,822,970 to private schools made in 1959 and 1960 are included in the foundation program for the 1962-1963 biennium. This annual difference of \$179,922 was multiplied by two (for the biennium) and by 37.6%, the average school subsidy reimbursement rate (from 18% to 66%).</p>		
6) Increased enrollments (R.S., ch. 41, sec. 237-D):	\$2,399,000	46.1
<p>There were 9,800 more pupils in the schools of Maine in 1959 and 1960 than there were in the previous biennium. The additional costs of these pupils to the State of Maine, depends on where they are located. Each child increases the foundation program by an amount that increases as the size of the school he attends decreases. The additional school children in a given town decrease the valuation per pupil in the town, and may, increase the reimbursement percentage. The average increased cost per additional pupil for the ensuing biennium will be \$122.40 per year. The \$2.4 million is a residual figure — \$5.2 million less all other cost items.</p>		
Total increase for the 1962-1963 Biennium	<u>\$5,198,000</u>	<u>100.0</u>
<p>The statutory increases in the Sinclair Law require an additional state subsidy of \$5,198,000 for the biennium 1962-1963, of \$2,599,000 per annum. The Legislature has three choices: it can reduce the cost of the foundation program, permit the increases to fall exclusively on the property tax, or provide for additional revenue to meet the costs of school support.</p>		

In view of these facts, it is important, as far as possible to see where Maine stands in the educational picture, particularly as among the other New England states. Table 23 shows comparative school costs for salaries and current expenditure, among the New England states. As is usual in fiscal statistics for the area, Maine, New Hampshire and Vermont fall in a low group, and Massachusetts, Rhode Island and Connecticut in a high group. In average annual salaries Maine is sixth in New England — a little be-

low both New Hampshire and Vermont. In average elementary classroom teacher salaries, Maine is sixth in New England and likewise a little lower than New Hampshire and Vermont. In average annual secondary school teacher salaries, Maine is fourth in New England and a little higher than New Hampshire and Vermont. In current expenditures per pupils in average daily attendance, Maine is sixth in New England and well below New Hampshire and Vermont.

TABLE 23

COMPARATIVE SCHOOL COSTS
SALARIES AND CURRENT EXPENDITURES
MAINE AND OTHER NEW ENGLAND STATES
(1959-1960)

	Average Annual Salaries									Current Expenditures ² per pupil in A.D.A.		
	Instructional Staff ¹			Classroom Teachers								
	Amount	Rank in		Elementary			Secondary			Amount	Rank in	
		U.S.	N.E.	Amount	U.S.	N.E.	Amount	U.S.	N.E.		U.S.	N.E.
Maine	\$4,265	37	6	\$3,980	38	6	\$4,706	32	4	\$290	38	6
New Hampshire	4,431	34	4	4,192	32	4	4,585	36	6	350	28	5
Vermont	4,315	36	5	4,015	37	5	4,675	33	5	356	26	4
Massachusetts	5,200	19	2	4,950	19	3	5,300	21	2	360	25	3
Rhode Island	5,200	20	3	5,050	18	2	5,225	22	3	390	17	2
Connecticut	5,900	4	1	5,600	5	1	5,900	5	1	430	10	1

¹Estimated average annual salaries of school instructional staff, including classroom teachers, principals, supervisors, librarians, guidance and psychological personnel.

²Estimated expenditures for public elementary and secondary schools, including general control, instruction, operation, maintenance, fixed charges, at all levels of administration — State, intermediate and local; also retirement fund contributions and school services — including attendance, health, transportation and food.

Source: National Education Association, *Estimates of School Statistics 1959-1960* (Washington, D. C.: Dec. 1959), pp. 26, 30.

Table 24 shows the relationship of expenditure on public schools and personal income in New England and the Northeastern states. Although Maine ranks sixth in New England in current expenditures per pupil, it also ranks sixth in personal income per pupil. It is to the income of the community that the schools must look for public support. While personal income per pupil in Maine is only slightly below Vermont, it is substantially below that of the southern tier of New England states and only about half of that of the wealthy states of New York and Delaware. Among the 50 states, Maine ranks 31st in personal income per public school pupil. So low an economic base is one explanation of Maine's position in regard to school expenditures in general and teachers salaries in particular.

To measure the tax effort that Maine is making to support its public schools, its current expenditures for this purpose were compared to personal income. As shown in Table 24, Maine is spending (1959) 2.96% of its income on the public schools. Among the New England states, only Vermont exerted a greater tax effort for this purpose. Heavy expenditures on education do not necessarily mean that every dollar is well spent. The large number of small schools in both Maine and Vermont means that some of the money that is being spent is not producing a satisfactory educational product. Unless Maine is prepared to eliminate the small schools, a better educational program will come only through increasing expenditures.

It may be noted that New Jersey, like Maine, spends 2.96% of its personal income on public schools.

TABLE 24

PERSONAL INCOME AND SCHOOL EXPENDITURES
MAINE AND NORTHEASTERN STATES
(1959-1960)

States	Personal Income 1959				Current Expenditures as a Per Cent of Personal Income		
	Amount (\$'000,000)	Per Pupil ¹	Rank in		Per Cent	Rank in	
			U.S.	Group		U.S.	Group
Total 50 States	380,300	\$11,819			3.12		
Total New England	24,728	15,023			2.47		
MAINE	1,713	9,789	31	6	2.96	35	2
New Hampshire	1,200	12,875	15	4	2.72	43	3
Vermont	694	10,304	25	5	3.46	18	1
Massachusetts	12,380	15,892	7	2	2.26	50	6
Rhode Island	1,837	15,634	8	3	2.50	47	5
Connecticut	6,904	16,676	6	1	2.58	45	4
Total Northeastern	93,686	16,226			2.99		
New York	45,103	18,136	2	2	3.08	31	1
Pennsylvania	24,732	14,022	9	4	2.89	39	4
New Jersey	15,429	16,771	5	3	2.96	34	2
Delaware	1,314	18,691	1	1	2.47	48	5
Maryland	7,108	13,348	11	5	2.93	36	3

¹Pupils in average daily attendance during school year 1959-60.

Sources: National Education Association, *Estimates of School Statistics*, 1959-1960 (Washington, D.C.: Dec. 1959), pp. 20, 30.

U. S. Department of Commerce, Office of Business Economics, *Survey of Current Business*, Vol. 40, No. 8 (August 1960), p. 17.

With its great economic base, however, and its well-organized large schools, it can compete for the best teachers and turn out a good educational product. New York State with slightly more wealth than New Jersey, spends even a greater percentage of its income on public schools, and still only ranks 31st among the 50 states. Massachusetts, which spent 2.26% on pub-

lic school education, ranked last among the states by this measure, but because of its wealth is able to support education reasonably well. While Maine ranks 35th nationally in the percentage of its income devoted to education, and, on a comparative basis, therefore, has some leeway to increase spending in this field, it is not out-of-line with its neighboring states.

THE FOUNDATION SCHOOL PROGRAM

Table 25 presents an analysis of the foundation program (1960-1961) as it applies to all organized school districts of the State. It will be noted that —

☆ 1) There are 470 school districts (column 1), with 182,000 pupils (column 3), supported by a state property valuation of over \$2 billion (column 4).

Of these 470 school districts (column 2), 243 showed school expenditures less than the costs of the foundation program. It should be noted that the school costs are the average for school years 1957 and 1958, whereas the foundation program is based on minimum teachers salaries and other educational expenses payable in 1960 and 1961. Operating costs are below the foundation program because of the time lag and the recurring inflation of costs. If prices were steady, and the number of pupils constant, the time lag would be unimportant. The 243 districts are giving a minimum educational offering — any increase in the foundation program puts them below it. In classes 1 through 10, and also in classes 13, 14, and 18, a majority of the school districts showed operating costs below the foundation program.

☆ 2) The state valuations per pupil (column 5) vary from an average of \$2,508 (Class 1 — under \$3,000) to an average of \$19,025 (Class 21 — over \$12,500).

Over half of the pupils in the state are in districts from Class 16 to Class 21 — that is, they live in districts of over \$10,000 state assessed valuation per pupil. Over 30% of the pupils live in Class 21 districts, the wealthiest districts where an 18% reimbursement percentage prevails.

☆ 3) The foundation school program costs about \$37 million (column 6) an average of \$205 per pupil (column 7). It varies from a low of \$197 per pupil in Class 16 to a high of \$221 in Class 10.

The small variation among classes and the lack of a consistent pattern of variation, indicates that small schools and large schools are spread rather evenly throughout all the classes.

☆ 4) The operating costs of the foundation school program (column 8) totaled \$36.7 million, slightly be-

low the foundation program. The average operating cost per pupil (column 9) was \$202 per pupil, falling to a low of \$166 per pupil in Class 1 and rising to a high of \$220 per pupil in Class 21.

With a few exceptions, Maine shows a clear pattern of greater educational expenditure in the wealthier towns.

☆ 5) State aid of \$12.3 million (column 10) for 1960 (paid in December 1959) amounted to about one-third of the foundation program of \$37.3 million. The variation was from 18% to 66% by Class in accordance with the legislative schedule. Additional aid for school construction, vocational education, evening schools, education of the physically handicapped and mentally retarded children, firemen training, driver education, and school lunches — totaling \$436,743 in 1959 — is not included in Table 25.

The distribution of comparatively larger sums of money to the districts in the lower-numbered classes shows the equalizing effect of the present state school subsidy formula. Class 21 districts with 30% of the pupils receive only 16% of the foundation aid.

☆ 6) On the average it would take a tax effort of 18 mills (both state and local) on State valuation to meet the foundation program. This means a uniform levy of 18 mills on the 1958 State assessed valuation of over \$2 billion, would have produced the \$37.3 million foundation program of 1960 and 1961. In the poorest districts in the State (Class 1) a levy of 81 mills (column 11) would have been necessary to meet the foundation program. At the other extreme in the wealthiest districts (Class 21), a levy of only 11 mills would suffice to cover the foundation program.

If 1960 market values are used, levies of half the rate would be applicable. That is, an average tax effort of 9 mills on full value varying from 41 mills in Class 1 districts to 6 mills in Class 21 districts.

☆ 7) An 18 mill levy would have sufficed, if uniformly applied in the State of Maine, to finance the actual operating costs of the schools in 1957 and 1958. This would have varied from a high of 66 mills (column 12) in Class 1 districts to a low of 12 mills in Class 21 districts. In Classes 16 through 21 (Over \$10,000 valuation per pupil) the same millage will cover the foundation program and actual costs (columns 11 and 12).

TABLE 25
THE FOUNDATION SCHOOL PROGRAM
COSTS AND STATE AID
MAINE

Class of School District	Number		Average Resident Pupils '57 & '58	1958 State Valuation		1960-1961 Foundation Program		1957-58 Average Operating Costs		1960 State Aid	Tax Effort in Mills ¹	
	In Class	Below Foundation Program		Amount (\$000)	Per Pupil	Amount (\$000)	Per Pupil	Amount (\$000)	Per Pupil	Dec. '59 Payment	Foundation Program 1960-1961	Operating Costs 1957-1958
Total	470	243	181,914.0	\$2,019,000	\$11,099	\$37,335	\$205	\$36,748	\$202	\$12,284	18	18
1	32	26	5,937.5	14,890	2,508	1,199	202	988	166	646	81	66
2	19	14	5,075.0	16,440	3,239	1,022	201	872	172	548	62	53
3	19	17	3,912.0	14,900	3,809	829	212	727	186	450	56	49
4	30	20	5,487.0	23,410	4,266	1,121	204	1,004	183	587	48	43
5	31	17	6,386.0	30,330	4,749	1,349	211	1,280	200	741	44	42
6	32	21	8,238.5	43,080	5,229	1,765	214	1,657	201	947	41	38
7	27	20	9,145.5	52,890	5,783	1,864	204	1,825	200	939	35	34
8	33	22	10,508.5	66,270	6,306	2,116	201	1,946	185	929	32	29
9	16	9	4,641.0	31,490	6,785	938	202	880	190	398	30	23
10	14	9	1,950.0	14,230	7,297	430	221	416	213	179	30	29
11	15	7	6,872.0	53,330	7,760	1,423	207	1,235	180	494	27	23
12	19	8	8,064.5	66,350	8,227	1,700	211	1,595	198	591	26	24
13	16	9	5,651.5	49,510	8,760	1,168	207	1,079	191	382	24	22
14	11	6	2,627.0	24,220	9,220	573	218	562	214	186	24	23
15	12	4	4,398.0	42,590	9,684	933	212	929	211	305	22	22
16	10	3	7,994.0	82,250	10,289	1,575	197	1,626	203	484	19	20
17	6	1	2,220.5	23,990	10,804	469	211	484	218	130	20	20
18	13	8	20,233.0	226,400	11,190	4,094	202	4,049	200	1,032	18	18
19	9	4	4,523.5	53,510	11,829	939	208	883	195	209	18	17
20	5	1	2,277.5	27,840	12,224	471	207	459	202	95	17	16
21	101	17	55,771.5	1,061,080	19,025	11,357	204	12,252	220	2,012	11	12

¹The millage represents both the town's share and the state's share.

Source: Department of Education, *Maine Schools, Statistics* (Augusta, Maine: Sept. 1959).

The greater burden on property taxes to meet the foundation program in the less wealthy districts, requires a state school subsidy designed to pay greater amounts to such towns. To meet the foundation program requires a levy in the Class 1 districts more than seven times the levy required in the Class 21 districts. To meet their actual operating costs, Class 1 districts, in the absence of state aid, would have to levy more than five times the millage of Class 21 districts.

There are broad conclusions that grow out of these summaries:

- **First**, the present foundation school program does not “establish a basic educational program guaranteed to every child in the state”. There is evidence that almost every town is doing its utmost to meet foundation program costs. Under such conditions the state might well guarantee its share.
- **Second**, while it does “equalize” as between the “richer” and “poorer” districts, it does not mandate a local school levy sufficient to meet the minimum foundation program – and probably could not require such a levy in the “poorer” districts unless the state guaranteed its full share of the foundation program. Another answer may be in increasing the maximum reimbursement above 66 percent.
- **Third**, the wide differences in actual school levies and the tax effort required to meet operating costs is so great as to produce extreme variations in educational opportunities throughout the state.

Maine faces three pressing problems pertaining to its foundation program: 1) More money to meet present statutory commitments – under the present law this is inevitable, and may rise as high as \$5.2 million for the biennium. 2) This sum makes no allowance for increased operating costs that the school districts must assume in providing their share of school costs. If no provision is made for these costs (by increasing foundation program allowances), they will fall upon the property tax, and the 23.9 percent ratio of state support (Table 21A) will fall still lower. It is estimated by the Department of Education, that, on the basis of per pupil cost increases over the past few

years (Table 20), these costs will amount to some \$2 million. If so –

Additional money to meet statutory costs plus increased per pupil costs may total some \$7.2 million for the biennium.

And there is a third point: the problem of bringing a more uniform opportunity for education to every child in the state – this may mean an adjustment in the local share of the foundation program. At present the average net operating costs fall as low as \$166 per pupil in Class 1 districts and go to a high of \$220 in Class 21. One district spent as little as \$129 per pupil in 1957-1958 while one (where transportation costs were a large factor) spent over \$1,000 per pupil.

This is fundamental to the problem:

If Maine is to develop additional tax bases, everything possible must be done to make its tax and service structure attractive to new industry, to new residents and to seasonal visitors. This is in the nature of a capital investment, from which it is expected substantial future returns will be realized. These investments will probably be in four fields – the systematic search for new industries, the maintenance and improvement of transportation facilities, the expansion and development of recreational opportunities, and schools to which top management and employees of new industries will be glad to send their children.

THE CONCLUSIONS ARE THESE:

- ★ Under present statutory commitments increased appropriations for the support of public schools are inevitable.
- ★ In addition, increased operating costs will compel the raising of additional revenues for school purposes.
- ★ To allow these increased costs to fall on the property tax will further burden the “poor” communities and further restrict available revenues for municipal services.
- ★ The present ratios of 23.9 percent state subsidy support of the total educational costs should at least be maintained.

These conclusions raise serious questions of finance involving economic capacity, increased tax bases and personal sacrifice – the subjects of the Third Report in this series.

CONCLUSION AND RECOMMENDATION

PART I THE GENERAL PROPERTY TAX

General Property

It Is Recommended:

- 1) That the legislature, by joint resolution:
 - Reaffirm the principle and acknowledge the need for the establishment of larger local assessment districts;
 - Declare the approach to more effective assessment areas to be mandatory upon approval of the legislature;
 - Accept the principle of full time qualified assessors for supervisory work, with adequate compensation and working facilities provided by the state;
 - Define "qualified supervisory assessors" as assessors subject to selection by the State Tax Assessor under the usual provisions for professional recruitment;
 - Declare that supervisory assessors shall give counsel, direction, and guidance to local assessors, and have such corrective duties as the statutes may define; and
 - Approve the establishment of experimental assessment districts pending the development of a full program.

It Is Further Recommended:

- 2) That prior to the establishment of such supervisory districts, the State Tax Assessor be authorized to conduct a study in preparation for the program. This study should determine:
 - The size, location and composition of such districts;
 - The procedure for the formation of such districts;
 - The method of selecting supervisory personnel;
 - The selection and authority of local assessing officers;
 - The relation of the supervisory personnel to the local assessors; and
 - The amount and distribution of the costs.

Such study should be presented to the next session of the Legislature with proposed legislation to place the recommendations into effect.

It Is Further Recommended:

- 3) That in preparation for the transition to assessment districts, the present supervisory functions of the Bureau of Taxation be immediately strengthened.

These recommendations do no more than to propose that the legislature take steps to motivate the policies that are already established in the statutes of the state.

Personal Property

It Is Recommended:

- 1) That changes in the assessment of personal property await the improvement of the assessment process, rather than be undertaken as a program of adjustment, that might, at this time, raise more problems than it would solve.
- 2) That intangible personal property be exempted from taxation.
- 3) That the legislature reconsider the exemption policies as applied to literary, scientific, benevolent and charitable institutions with a view to defining more closely their position under the property tax.

Local Non-Property Taxes

Maine has not yet taken seriously to local non-property taxes. The usual pressures for revenue, may, however, bring the issue before the larger cities. In authorizing enabling legislation the legislature can properly consider five things: 1) is the proposal constitutional? 2) does it conflict with state tax policies? 3) does it conform to accepted tax thinking? 4) will it unduly disturb the economic environment of the area? and 5) is it subject to local referendum for approval? Except for these considerations the principle of local self government requires that enabling legislation be provided.

PART II

THE TAXATION OF THE "WILD LANDS"

It Is Recommended:

- 1) That the Legislative Research Committee be authorized to undertake the study of a yield tax as applied to the State of Maine.

That such a study should include the following:

- The extent of forest lands that are on a sustained yield basis;
- The impact of a yield tax as opposed to the present property tax on local revenues;
- Estimated yields from selected rates;
- The competitive implications of a yield tax on the forestry industries;
- Whether the yield tax should be mandatory or optional;
- Forestry conservation programs under a yield tax; and
- Administrative problems and costs.

It Is Further Recommended:

- 2) That a uniform levy for school purposes be applied to the unorganized territory;
 - That a foundation school program defined (in dollars) as the legislative appropriation for school purposes, be applied to the unorganized territory;
 - Under this program, the state will assume 18 percent of the costs; the unorganized territory, 82 per cent of the costs – the same ratio that now prevails in the larger cities of the state;
 - The credit provisions now applicable to school levies to be discontinued – they are not suited to a uniform levy;
 - The 10 mill limitation on the township levies will no longer be applicable – it is significant only when the township is the levy unit.

PART III

THE PROPERTY TAX AND SCHOOL SUPPORT

Maine faces three pressing problems pertaining to school support: 1) more money to meet present statutory commitments – under the present law this is inevitable, and may rise as high as \$5.2 million for the biennium. 2) This sum makes no allowance for increased operating costs that the municipalities and school districts must assume in providing their share of school costs. If no provision is made for these costs (by increasing foundation program allowances), they will fall upon the property tax, and the 23.9 per cent ratio of state support (Table 21A) will fall still lower. It is estimated by the Department of Education, that, on the basis of per pupil cost increases over the past few years (Table 20), these costs will amount to some \$2 million. If so –

Additional money to meet statutory costs plus increased per pupil costs may total some \$7.2 million for the biennium.

And there is a third point: the problem of bringing a more uniform opportunity for education to every child in the state – this may mean an adjustment in the local share of the foundation program. At present the average net operating costs fall as low as \$166 per pupil in Class 1 districts and go to a high of \$220 in Class 21. One district spent as little as \$129 per pupil in 1957-1958 while one (where transportation costs were a large factor) spent over \$1,000 per pupil.

This is fundamental to the problem:

If Maine is to develop additional tax bases, everything possible must be done to make its tax and service structure attractive to new industry, to new residents and seasonal visitors. This is in nature of a capital investment, from which it is expected substantial future returns will be realized. These investments will probably be in four fields – the systematic search for new industries, the maintenance and improvement of transportation facilities, the expansion and development of recreational opportunities, and schools to which top management and employees of new industries will be glad to send their children.

The Conclusions Are These:

Under present statutory commitments increased appropriations for the support of public schools are inevitable.

In addition, increased operating costs will compel the raising of additional revenues for school purposes.

To allow these increased costs to fall on the property tax will further burden the "poor" communities and further restrict available revenues for municipal services.

The present ratios of 23.9 per cent state subsidy support of the total educational costs should at least be maintained.

These conclusions raise serious questions of finance involving economic capacity, increased tax bases and personal sacrifice – the subjects of the Third Report in this series.