

MAINE STATE LEGISLATURE

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Paul R. LePage
Governor

Maine Office of Policy and Management
181 State House Station
Augusta, Maine 04333



Jonathan P. LaBonté
Director

January 17, 2017

Senator Dana L. Dow
Representative Ryan D. Tipping
Members, Joint Standing Committee on Taxation
100 State House Station
Augusta, ME 04333-0100

Dear Senator Dow and Representative Tipping,

I am pleased to provide the annual progress report on Public Law 2005, Chapter 2 (also known as "LD 1") in accordance with 36 MRSA §7302. Attached is a copy of the full report. Previous reports and related materials are available online at: <http://www.maine.gov/economist/state/tax.html>

The goal of LD 1 was to lower Maine's state and local tax burden to the middle one-third of states by 2015. Upon review it will be clear that this legislative measure has not met this admirable goal. Wave after wave of statute changes, bending to a multitude of special interest group pressures and a lack of accountability has resulted in nonfulfillment.

A few highlights that help to illustrate this failure:

- From 2014 to 2015 over 84% of Maine's municipalities saw an increased commitment with an average increase of 6.5%
- There has been an overall 16.3% increase of total municipal appropriations from 2010 to 2015
- In FY 2014, the local and state tax burden at 12.1% was the sixth (6th) highest in the nation
- In FY 2014, the local tax burden was 4.8%, which was the eighth (8th) highest in the nation
- General Purpose Aid (GPA) has increased by 9.5% over the past six years but while these state contributions have increased - local tax burden has *not decreased*

A decrease in Maine's tax burden, something we must have to remain competitive both regionally and nationally, has not been realized. Instead of pretending our state can increase its prospects through legislative gimmicks we should look to institute appropriate spending measures throughout all levels of government. This is the reality of Maine's tax burden.

Sincerely,

Jonathan P. LaBonté
Director
Governor's Office of Policy and Management

cc: Julie Jones, Policy Analyst

2016 Tax Burden Reduction Progress Report

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Introduction

In January 2005, LD 1: An Act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels (Public Law 2005, Chapter 2) was signed into law. The goal of LD 1 was to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015. The Office of Policy and Management (OPM) is required to report annually on the progress made by the state, counties, municipalities, and school administrative units toward reaching the tax burden reduction goal.

Over the eleven years since P.L. 2005, Ch. 2 was signed into law, several changes have been made to the statute. Most recently changes were made as part of An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2015, June 30, 2016 and June 30, 2017 (P.L. 2015, Ch. 267, Part L).

Upon reaching the date specified in the original law's goal, OPM took the opportunity to evaluate both the methods used to collect data and the annual report itself. Given the lack of progress made towards the original goals, the changes to the statute over time, and the data collection challenges posed by the previous reporting method, the report is now in a new and streamlined format.

OPM is required by statute to report on the progress made by the State, municipalities, counties, and school administrative units (SAUs) in achieving the tax burden reduction goals identified in statute. P.L. 2015, Ch. 267, Part L made a change to these goals. The goal is now that additional state funds provided to municipalities through increases in the state share of education funding be made available for statewide property tax reduction to the greatest extent possible. To measure this progress, this report looks at the changes in education-related spending and several different property tax measures. Note that throughout this report, dollar figures have not been adjusted for inflation. The report is also required to include information and analysis on government spending and revenue behavior and trends.

Progress Towards Tax Burden Reduction Goal

One of the challenges with evaluating the progress made towards the goal is the lag in availability of tax burden data. The most recent tax burden data available is from FY2014. In that year, Maine's total state

and local tax burden was 12.1%, earning Maine a ranking of sixth highest nationally. Since property taxes are collected at the local level, it is appropriate to look specifically at the local tax burden. In FY2014, the local tax burden in Maine was 4.8%, making Maine the eighth highest in the nation. The percentage is unchanged from FY2013, but Maine improved one position from the FY2013 rank of seventh. In FY2012, the local tax burden was 4.6%, but Maine ranked sixth in the nation.

From FY2013 to FY2014, General Purpose Aid (GPA) to schools increased 8.1% to \$946 million. This is a greater increase than the change in total General Fund appropriations, which increased 3.8% in FY2014. Looking at a different measure of local property tax burden, in 2015 total municipal commitments increased 3.6% according to data from the Municipal Valuation Return. This is an indication that additional funds from the state for education have not resulted in a reduction in municipal commitments.

State

Table 1 shows the growth in both total General Fund appropriations and appropriations for General Purpose Aid (GPA) to schools. In FY2017, GPA increased 0.4 percent from the year before and total General Fund appropriations increased 1.3 percent from the year before. Over the past six years, from FY2012 to FY2017, GPA has increased 9.5 percent, while total general fund appropriations have increased 7.8 percent.

Table 1

Growth of GPA and General Fund Appropriations				
<i>Note: All dollar figures are in millions</i>				
Fiscal Year	GPA	Annual Change in GPA	Total General Fund Appropriations	Annual Change in Total
2017	\$971	0.4%	\$3,373	1.3%
2016	\$967	4.0%	\$3,331	3.6%
2015	\$930	-1.7%	\$3,216	0.5%
2014	\$946	8.1%	\$3,200	3.8%
2013	\$875	-1.4%	\$3,082	-1.5%
2012	\$887		\$3,130	

Source: Maine State Legislature, Office of Fiscal and Program Review

County

For this year's tax burden reduction report, a brief survey was emailed to counties to collect data on trends in expenditures, revenues, tax assessments, and mill rates. All counties except Hancock responded to the survey. Data for Hancock County was collected from last year's survey and publicly available sources. Table 1 shows the individual results for each county's changes from the prior year to the current year (either calendar year 2015 to calendar year 2016 or fiscal year 2016 to fiscal year 2017). One county saw a decrease in total expenditures: Kennebec. Androscoggin County saw the largest increase in expenditures of 14.4 percent. Two counties saw a decrease in total revenues: Kennebec and Waldo. Androscoggin also had the largest increase in revenues, matching the expenditure increase of 14.4 percent. Only one county reduced the county tax assessment: Sagadahoc. Penobscot County had the largest increase in county tax assessment at 11.7 percent. Four counties saw a decrease in the mill rate: Cumberland, Sagadahoc, Waldo, and York.

Table 2

	Percent Change from Prior to Current Year			
	Total expenditures	Total revenues	County tax assessment	Mill rate change
Androscoggin	14.4%	14.4%	2.4%	increase
Aroostook	9.0%	3.6%	7.2%	increase
Cumberland	0.7%	0.0%	3.3%	decrease
Franklin	5.4%	1.2%	1.9%	increase
Hancock	11.1%	11.1%	1.0%	**
Kennebec	-4.9%	-11.4%	3.6%	increase
Knox	4.8%	2.9%	4.1%	increase
Lincoln	1.9%	2.1%	4.1%	increase
Oxford	2.3%	3.4%	4.2%	increase
Penobscot	5.5%	6.6%	11.7%	increase
Piscataquis	0.5%	2.4%	1.1%	increase
Sagadahoc	5.3%	1.4%	-0.1%	decrease
Somerset	1.0%	4.3%	2.5%	increase
Waldo	2.5%	-0.6%	0.3%	decrease
Washington	2.3%	2.4%	1.5%	increase
York	2.8%	0.0%	1.7%	decrease
** Hancock County did not provide data				

Source: OPM survey

Table 3 shows the results for all counties in total. Total expenditures increased 3.4% from prior year to current year budgets, an increase of around \$6.4 million. Total revenues increased 2.1%, around \$4.0 million. Total county tax assessments increased by 3.4%, around \$5.1 million.

Table 3

	Summary of All Counties		
	Prior Year	Current Year	Percent Change
Total Expenditures	\$ 186,619,279	\$ 193,028,627	3.4%
Total Revenues	\$ 189,886,493	\$ 193,906,077	2.1%
Total County Tax Assessment	\$ 148,179,215	\$ 153,269,734	3.4%

Source: OPM survey

Schools

Data for the schools section in this year’s report came from figures reported to the Maine Department of Education. Due to the way data are aggregated across different years, there are 192 individual School Administrative Units for which data are available for all years from FY2012 – FY2017. Note that dollar figures have not been adjusted for inflation. Of the 192 SAUs, 74 percent saw an increase in their 100% of Essential Programs and Services (EPS) target between FY2012 and FY2017 and just under 50 percent saw an increase from FY2016 to FY2017. State appropriations to individual SAUs increased for 66 percent of SAUs in the last six years and increased for 53 percent of SAUs in the last fiscal year. Local appropriations including local-only debt increased for 84 percent of SAUs between FY2012 and FY2017 and for 61 percent of SAUs between FY2016 and FY2017.

Table 4 shows a summary of all SAUs in total. Between FY2012 and FY2017, the total 100% EPS target increased by 6.7 percent and saw no growth from FY2016 to FY2017. Total State appropriations increased by 10.2 percent in the past six years and 0.5 percent in the last fiscal year. Total local appropriations increased by 19.7 percent from FY2012 to FY 2017 and 2.2 percent from FY2016 to FY2017.

Table 4

	Summary of School Administrative Units Reporting Data for All Years						Percent Change 2012-2017	Percent Change 2016-2017
	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012		
Total 100% EPS Target	\$ 2,001,226,406	\$ 2,000,292,177	\$ 1,962,012,992	\$ 1,937,362,126	\$ 1,897,356,139	\$ 1,876,405,656	6.7%	0.0%
Total State Appropriations	\$ 886,706,057	\$ 882,669,930	\$ 857,386,680	\$ 854,463,982	\$ 822,314,818	\$ 804,895,322	10.2%	0.5%
Total Local Appropriations	\$ 1,447,418,045	\$ 1,416,401,273	\$ 1,361,220,832	\$ 1,319,730,137	\$ 1,258,977,389	\$ 1,209,679,574	19.7%	2.2%

Source: Maine Department of Education

Municipalities

Data for the municipalities were collected from the 2014 and 2015 Municipal Valuation Returns, including the Tax Rate Calculation Form, from Maine Revenue Services. Only those municipalities with data for both years were included in the analysis – a total of 443. Overall, the total valuation for land and buildings (real property) increased 1.0% from 2014 to 2015, while the total valuation for personal property declined -5.0%. Real property makes up a much larger share of the total valuation, so despite the decline in personal property values, the overall total valuation increased 0.8% over the year.

Table 5 shows a summary of data for all municipalities with data for both years. The total commitment for all municipalities increased 3.6% over the year. Exemptions increased slightly, up 0.2%. The combination of increased commitments and exemptions with a smaller valuation increase meant that average tax rates increased as well, up 4.1% from 2014 to 2015. For many, this means an increased property tax burden, especially in municipalities where personal property values declined.

Table 5

	Summary of All Municipalities with Data for Both Years		
	2014	2015	Percent Change
Total Land and Building Valuation	\$ 143,198,365,020	\$ 144,626,547,537	1.0%
Total Personal Property Valuation	\$ 6,202,347,341	\$ 5,894,978,215	-5.0%
Total Valuation, Real and Personal	\$ 149,400,712,361	\$ 150,521,525,752	0.8%
Total Commitment	\$ 2,277,514,462	\$ 2,358,731,918	3.6%
Total All Exemptions	\$ 17,478,625,010	\$ 17,509,877,598	0.2%
Average Tax Rate	0.01532	0.01594	4.1%

Source: Maine Revenue Services, Municipal Valuation Returns

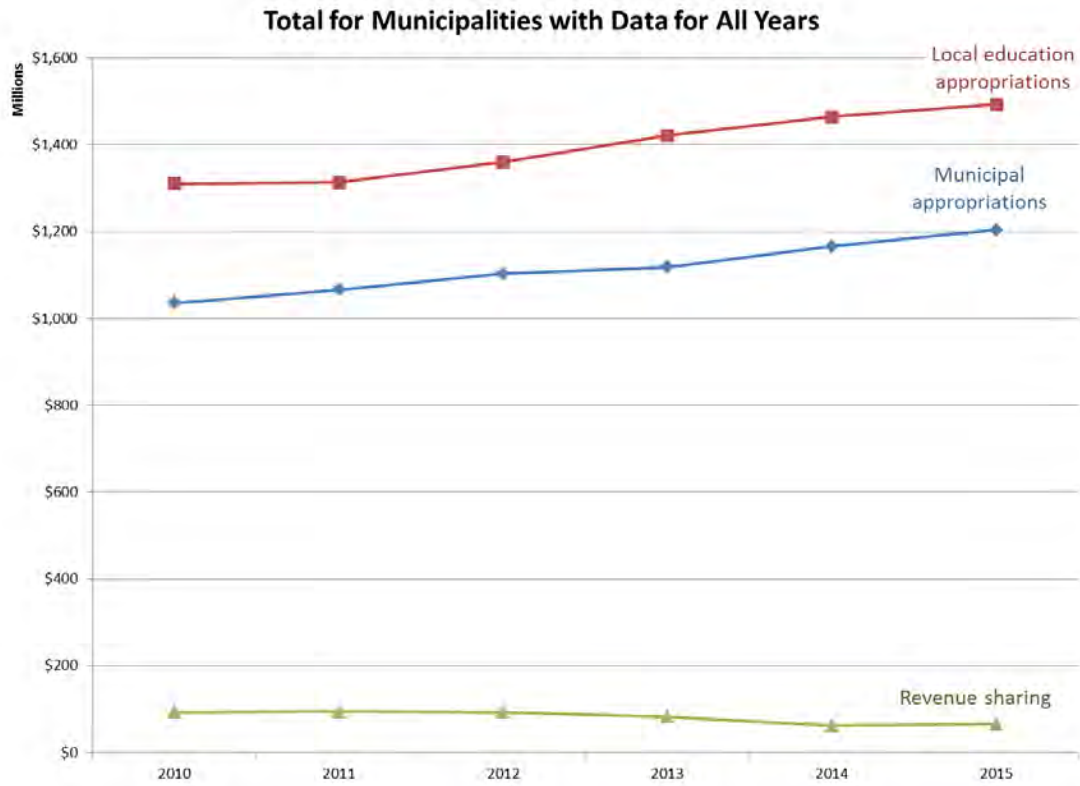
Looking at individual municipalities, nearly 83% of the 443 municipalities with data for all years saw an increase in real property valuation from 2014 to 2015. In these municipalities, real property valuations

increased an average of 2.1%. The municipalities with a decrease or no change saw real property valuations decline an average of -2.2%. Over 57% of municipalities saw an increase in personal property valuations over the year, with 56 municipalities reporting a new personal property valuation in 2015 after reporting zero personal property in 2014. In the municipalities with an increase in personal property, valuations increased an average of 40.4%, but in many cases the dollar values involved are quite small. Declines in personal property valuations averaged -11.4%.

Over 84% of municipalities saw an increased commitment from 2014 to 2015. The average increase was 6.5% while the average decrease was -4.8%. Just over half of municipalities, 52.4%, saw an increase in exemptions from 2014 to 2015. The average increase in exemptions was 11.8% while the average decrease was -7.2%. Nearly 71% of municipalities saw their tax rate increase from 2014 to 2015. The average increase in mill rates was 0.0011 while the average decrease was -0.0006.

Total municipal appropriations increased in each of the past five years, for an overall increase of 16.3% from 2010 to 2015. In the most recent year, appropriations increased 3.3%. Local education appropriations, usually the largest expenditure category for municipalities, also increased in each of the past five years, for an overall increase of 13.9%. Revenue sharing declined nearly 30% over the past five years, with the largest single year over year decline coming in 2014. Chart 1 shows the total amount of appropriations and revenue sharing for 2010-2015. Table 6 shows the annual change for all municipalities in these three categories.

Chart 1



Source: Maine Revenue Services, Municipal Valuation Returns

Table 6

	Percent Change, Municipalities with Data for All Years					2010-2015
	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	
Municipal appropriations	3.0%	3.5%	1.3%	4.2%	3.3%	16.3%
Local education appropriations	0.2%	3.6%	4.5%	3.0%	2.0%	13.9%
Revenue sharing	1.3%	-0.7%	-11.5%	-25.1%	5.6%	-29.6%

Source: Maine Revenue Services, Municipal Valuation Returns