MAINE STATE LEGISLATURE

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Higher cigarette tax to spur crime wave

By Patrick Fleenor

Here's a puzzle for lawmakers: If the same percentage of Texans smoke — 20 percent — as nationwide, why are sales of tax-paid cigarette sales so much lower in Texas?


FLEENOR

The answer: Texans are smoking millions of bootleg cigarettes smuggled into the state to avoid the tax of 41 cents per pack. A tractor-trailer holds 200,000 packs, so the profit margin is awfully tempting.

Now the Legislature has voted to increase the cigarette tax by a buck a pack, adding $200,000 to the profit in that trailer full of bootleg cigarettes. With the biggest cigarette tax increase in Texas history, the smugglers will be all smiles.

Consider the case of Jorge Abraham, not exactly the stereotypical, border-crossing smuggler. A quadriplegic living with his parents in El Paso, he was a man prosecutors called "extremely resourceful" when he was smuggling millions of cigarette cartons from China. He pleaded guilty and went to prison a year ago, but he will probably be replaced by a more dangerous breed as a dramatically higher cigarette tax will make the business so much more profitable.

Texas has a long history of cigarette tax evasion. Serious problems began in the early 1950s, but they got much worse after the state raised the tax to 18.5 cents per pack in 1972 (about 87 cents in today's dollars). Smugglers brought them in by the truckload from low-tax states, Mexico and even oceangoing ships, affixing counterfeit tax stamps and selling them retail.

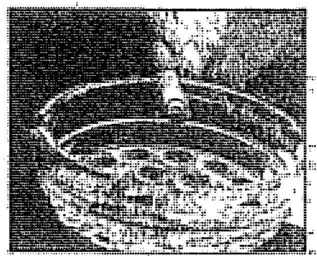
Texas' response was spending more on enforcement. That yielded some spectacularly violent clashes with smugglers but certainly didn't solve the problem. By the mid-1970s, federal authorities estimated Texas' daily influx of bootleg cigarettes was more than 700,000 packs.

This law enforcement nightmare discouraged legislators from additional tax increases during the mid-1970s and early 1980s. This allowed the era's high inflation to effectively reduce the tax and, therefore, the smugglers' profit, by more than half. By 1983, a federal report found cigarette bootlegging in the state had declined dramatically.

Unfortunately, lawmakers' memories are woefully short when it comes to the harmful effects of excessive taxation. Since 1985, tax increases have raised the state's cigarette tax to its current level of 41 cents per pack. Predictably, smuggling has surged and tax-paid sales have declined sharply.

COMMENT

Tax evasion is by no means the only crime that will rise in the wake of a much higher cigarette tax. Cigarettes are often the product of choice for


AGENCIA REFORMA
Bootlegger business may boom.

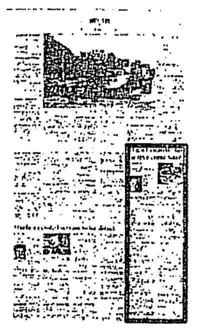
thieves since they're quickly sold for cash on the black market. Other states that have raised their cigarette tax rates by a dollar have endured crime waves that threatened innocent shopkeepers, truck drivers and clerks and even resulted in numerous murders.

Illicit markets are always a threat to public safety, and we've come to expect the involvement of organized crime and street gangs, but even terrorists have caught on to the game, and that raises the stakes.

According to a senior intelligence analyst with the federal bureau of Alcohol, Tobacco and Firearms, "The illicit sale of cigarettes by terrorist groups and their supporters has become a crucial part of their funding activities." Efforts since 9-11 to deprive terrorists of funding will be frustrated as Texas inadvertently triples the profit margin of terrorist smugglers.

Texas legislators may have thought that the big tax reform package would raise necessary revenue while causing the least harm to the state's economy. Unfortunately, by ignoring lessons from both the past and present, they have included a cigarette tax increase that will worsen what has always been one of the state's most troublesome taxes.

Patrick Fleenor is chief economist of the Tax Foundation and author of "Cigarette Taxes, Black Markets, and Crime" published by the Cato Institute.



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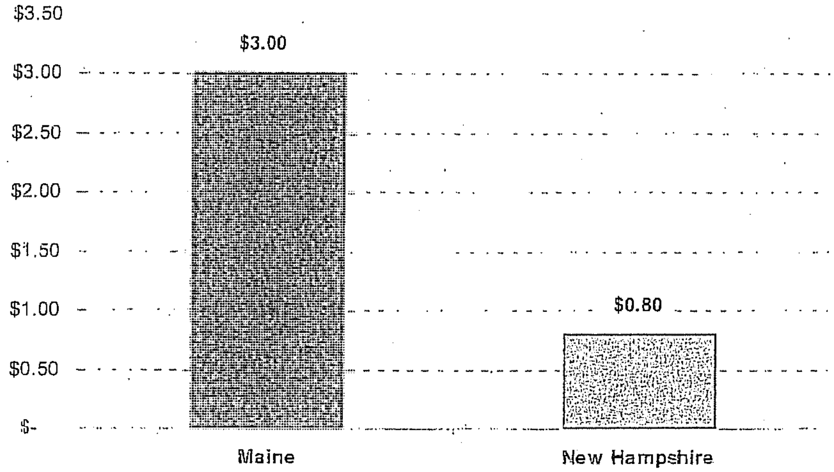
Cross-Border Purchasing in Delaware: An Important Case Study for Maine

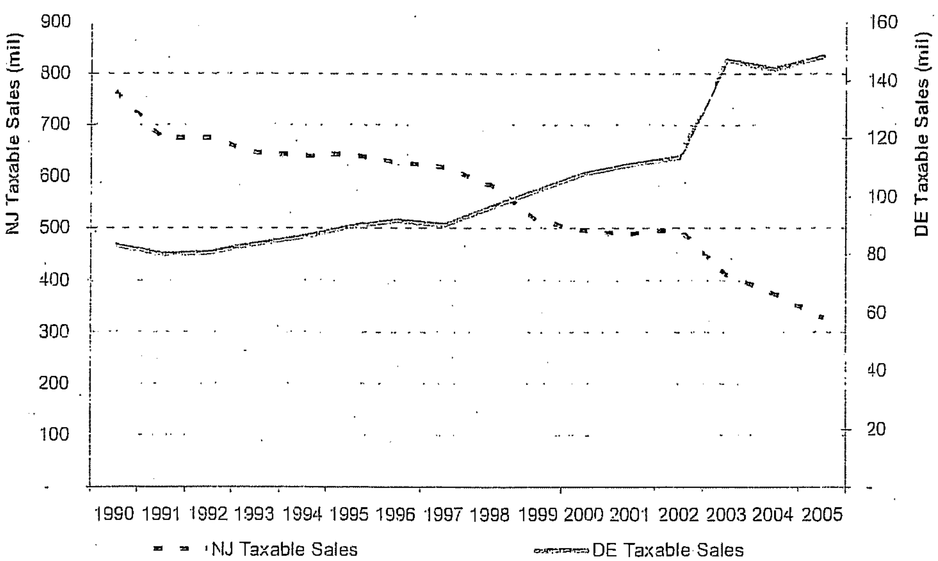
As the Maine legislature considers increasing the cigarette excise tax, the history of tax-paid cigarette sales in New Jersey and Delaware could provide some valuable insight. The $1.00 per pack cigarette excise tax increase would make Maine's cigarettes the most highly taxed in the United States, dramatically higher than New Hampshire. The resulting excise tax rate would become nearly 4 times that of New Hampshire.

Tax Rate Comparison: Maine with $1.00 Tax Increase Compared to New Hampshire



Tax differentials this excessive may lead to significant cross-border purchasing activity. Trends in tax-paid sales volume data from Delaware and New Jersey appear to support this point. Since 1990, New Jersey has increased its cigarette excise tax by $2.305 to the current rate of $2.575. Neighboring Delaware has increased its tax by $0.41 to the current rate of $0.55 per pack.[1] Similar to the Maine proposal, the tax in New Jersey is now more than four times that of Delaware. Below is a chart that shows the trends in tax-paid sales in New Jersey and Delaware during this time period.[2]

Tax-Paid Cigarette Sales (millions of packs): New Jersey and Delaware



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[1] Bill Orzechowski & Rob Walker. *The Tax Burden on Tobacco*, vol. 41 (forthcoming): funded in part by PM USA.
[2] Chart is based on state tax-paid cigarette sales data provided in Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 40 (April 2006); funded in part by PM USA.

In Delaware, tax-paid cigarette sales have grown from nearly 80 million packs in FY 1991 to approximately 148 million packs in FY 2005, or an average increase of 4.5% per year.[3]

To put this in context, the estimated average annual industry decline in cigarette sales is 1-2% per year. In New Jersey, tax-paid cigarette sales have been declining at an accelerated rate of 5.1% per year.[4]

Even considering the average annual industry decline in cigarette sales of 1-2% and assuming that some people quit smoking or reduced their consumption due to price increases, these figures suggest that a number of smokers in New Jersey are purchasing their cigarettes through alternate avenues. These avenues may include Native American territories and the Internet, where excise taxes may be avoided or evaded illegally. Or, adult consumers may be traveling to adjoining states with lower state and local excise tax rates to purchase cigarettes thus depriving a state of expected revenue.

3 Based on state tax-paid cigarette sales data provided in Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 40 (April 2006); funded in part by PM USA.

4 Based on state tax-paid cigarette sales data provided in Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 40 (April 2006); funded in part by PM USA.

CIGARETTE TAX STAMP COMPARATIVE ANALYSIS
BY FISCAL YEAR

	FY 1997 STAMPS SOLD	FY 1997 NET SALES	FY 1998 STAMPS SOLD	FY 1998 NET SALES	FY 1999 STAMPS SOLD	FY 1999 NET SALES	FY 2000 STAMPS SOLD	FY 2000 NET SALES	FY 2001 STAMPS SOLD	FY 2001 NET SALES
JULY	59,561,750	$21,156,618.67	60,256,500	$23,831,486.52	47,543,250	$37,820,679.00	44,606,000	$35,484,075.70	40,383,000	$32,124,699.00
AUGUST	56,931,750	$22,516,533.99	50,314,000	$19,899,222.10	45,665,750	$36,327,024.70	42,652,500	$33,930,068.70	49,717,250	$39,550,098.70
SEPTEMBER	47,606,000	$18,828,213.50	55,624,000	$21,999,326.02	46,148,250	$36,710,956.50	42,063,500	$33,461,413.00	38,533,000	$30,652,990.70
OCTOBER	52,972,750	$20,950,755.88	51,015,500	$20,176,276.60	43,773,500	$34,821,843.10	41,432,500	$32,959,573.10	42,349,500	$33,689,046.60
NOVEMBER	48,228,750	$19,074,502.53	42,549,750	$16,828,465.68	45,496,250	$36,192,295.00	40,137,500	$31,929,397.00	37,666,000	$29,963,307.50
DECEMBER	51,616,000	$20,414,186.95	102,075,250	$40,370,798.50	48,026,000	$38,204,579.50	46,092,750	$36,666,778.80	40,376,750	$32,119,708.00
JANUARY	48,908,250	$19,343,236.50	12,770,000	$10,158,548.50	30,516,750	$24,276,087.00	32,970,000	$26,227,657.50	37,261,000	$29,641,142.60
FEBRUARY	43,149,000	$17,065,458.57	22,891,000	$18,209,696.00	36,129,500	$28,741,033.00	33,098,250	$26,329,643.70	35,390,250	$28,152,958.50
MARCH	50,101,750	$19,815,290.05	43,641,000	$34,716,429.00	43,375,500	$34,505,209.80	46,199,000	$36,751,277.50	39,688,750	$31,572,413.00
APRIL	48,951,500	$19,360,347.50	44,199,750	$35,160,898.20	38,454,500	$30,590,555.20	33,886,250	$26,956,526.50	36,103,750	$28,720,536.50
MAY	52,647,000	$20,821,929.00	41,784,750	$33,239,682.00	40,012,000	$31,829,459.60	43,416,750	$34,538,055.00	45,565,750	$36,247,571.00
JUNE	54,267,750	$21,462,915.42	52,420,750	$41,700,731.60	46,643,250	$37,104,700.20	44,918,250	$35,732,462.70	42,809,000	$34,054,577.50
TOTALS	614,942,250	$240,809,988.56	579,542,250	$316,291,560.72	511,784,500	$407,124,422.60	491,473,250	$390,966,929.20	485,844,000	$386,489,049.60
			January 1, 1998 price increase from $.40 to $.80							

	FY 2002 STAMPS SOLD	FY 2002 NET SALES	FY 2003 STAMPS SOLD	FY 2003 NET SALES	FY 2004 STAMPS SOLD	FY 2004 NET SALES	FY 2005 STAMPS SOLD	FY 2005 NET SALES	FY 2006 STAMPS SOLD	FY 2006 NET SALES
JULY	43,473,500	$34,583,171.50	28,831,000	$43,167,731.10	33,692,000	$68,636,293.85	25,778,000	$61,751,795.00	27,934,250	$66,916,497.00
AUGUST	45,870,000	$36,489,597.60	34,830,250	$52,088,644.50	31,424,500	$64,278,827.00	27,789,250	$66,569,149.50	32,019,000	$76,701,514.50
SEPTEMBER	33,451,750	$26,610,875.00	34,766,250	$51,992,928.00	30,624,250	$62,641,912.50	28,950,500	$69,350,925.00	28,151,000	$67,435,720.50
OCTOBER	45,363,500	$36,086,671.00	35,827,000	$53,579,291.10	31,892,250	$65,235,607.50	28,050,500	$67,194,983.10	26,071,000	$62,453,080.50
NOVEMBER	39,221,500	$31,200,714.50	30,167,500	$45,115,503.00	26,806,750	$54,833,226.50	25,689,000	$61,537,999.50	27,651,000	$66,237,970.50
DECEMBER	39,404,750	$31,346,482.00	36,848,500	$55,106,943.00	32,755,500	$67,001,387.00	30,440,000	$72,919,029.00	30,070,000	$72,032,685.00
JANUARY	38,408,750	$30,554,168.50	31,624,000	$47,293,700.10	26,686,250	$54,586,732.50	23,132,250	$55,413,306.00	25,199,250	$60,364,804.50
FEBRUARY	31,622,000	$25,155,310.00	31,394,500	$46,950,477.00	27,150,000	$55,535,341.00	23,607,000	$56,550,568.50	21,596,250	$51,733,818.00
MARCH	38,569,000	$30,681,644.00	32,171,250	$48,112,119.00	28,741,500	$58,790,746.00	25,104,250	$60,137,232.00		
APRIL	39,312,000	$31,272,717.60	34,528,000	$51,636,628.50	30,728,500	$62,855,157.00	27,495,250	$65,864,872.50		
MAY	47,960,000	$38,152,184.50	36,166,000	$54,086,253.00	32,371,500	$66,215,910.00	27,264,500	$65,312,112.00		
JUNE	52,572,500	$41,821,426.00	40,906,000	$61,174,923.00	38,385,000	$78,516,529.04	31,973,250	$76,591,921.50		
TOTALS	495,229,250	$393,954,962.20	408,060,250	$610,254,183.30	371,258,000	$759,127,869.59	325,273,750	$779,193,297.60	218,691,750	$523,876,090.50
			July 1, 2002 price increase from $.80 to $1.50		July 1, 2003 price increase from $1.50 to $2.05		July 1, 2004 price increase from $2.05 to $2.40			
			-17.60%	54.90%	-9.00%	24.30%	-12.30%	2.60%	2.50%	2.40%

CIGARETTE TAX STAMP COMPARATIVE ANALYSIS
BY CALENDAR YEAR

	CY 1996 STAMPS SOLD	NET SALES	CY 1997 STAMPS SOLD	NET SALES	CY 1998 STAMPS SOLD	NET SALES	CY 1999 STAMPS SOLD	NET SALES	CY 2000 STAMPS SOLD	NET SALES
ARY	47,766,500	$18,891,703.67	48,908,250	$19,343,236.50	12,770,000	$10,158,548.50	30,516,750	$24,276,087.00	32,970,000	$26,227,657.50
UARY	47,724,500	$18,875,097.62	43,149,000	$17,065,458.57	22,891,000	$18,209,696.00	36,129,500	$28,741,033.00	33,098,250	$26,329,643.70
CH	52,100,500	$20,605,787.17	50,101,750	$19,815,290.05	43,641,000	$34,716,429.00	43,375,500	$34,505,209.80	46,199,000	$36,751,277.50
-	50,042,250	$19,791,743.85	48,951,500	$19,360,347.50	44,199,750	$35,160,898.20	38,454,500	$30,590,555.20	33,886,250	$26,956,526.50
	55,317,750	$21,878,212.92	52,647,000	$20,821,929.00	41,784,750	$33,239,682.00	40,012,000	$31,829,459.60	43,416,750	$34,538,055.00
	53,493,250	$23,556,716.00	54,267,750	$21,462,915.42	52,420,750	$41,700,731.60	46,643,250	$37,104,700.20	44,918,250	$35,732,462.70
	59,561,750	$21,156,618.67	60,256,500	$23,831,486.52	47,543,250	$37,820,679.00	44,606,000	$35,484,075.70	40,383,000	$32,124,699.00
IST	56,931,750	$22,516,533.99	50,314,000	$19,899,222.10	45,665,750	$36,327,024.70	42,652,500	$33,930,068.70	49,717,250	$39,550,098.70
EMBER	47,606,000	$18,828,213.50	55,624,000	$21,999,326.02	46,148,250	$36,710,956.50	42,063,500	$33,461,413.00	38,533,000	$30,652,990.70
BER	52,972,750	$20,950,755.88	51,015,500	$20,176,276.60	43,773,500	$34,821,843.10	41,432,500	$32,959,573.10	42,349,500	$33,689,046.60
MBER	48,228,750	$19,074,502.53	42,549,750	$16,828,465.68	45,496,250	$36,192,295.00	40,137,500	$31,929,397.00	37,666,000	$29,963,307.50
MBER	51,616,000	$20,414,186.95	102,075,250	$40,370,798.50	48,026,000	$38,204,579.50	46,092,750	$36,666,778.80	40,376,750	$32,119,708.00
TALS	623,361,750	$246,540,072.75	659,860,250	$260,974,752.46	494,360,250	$393,263,363.10	492,116,250	$391,478,351.10	483,514,000	$384,635,473.40
			xxxxxxxxxxx		1/1/98 price Inc. from $.40 to $.80					

	CY 2001 STAMPS SOLD	NET SALES	CY 2002 STAMPS SOLD	NET SALES	CY 2003 STAMPS SOLD	NET SALES	CY 2004 STAMPS SOLD	NET SALES	CY 2005 STAMPS SOLD	NET SALES
ARY	37,261,000	$29,641,142.60	38,408,750	$30,554,168.50	31,624,000	$47,293,700.10	26,686,250	$54,586,732.50	23,132,250	$55,413,306.00
JARY	35,390,250	$28,152,958.50	31,622,000	$25,155,310.00	31,394,500	$46,950,477.00	27,150,000	$55,535,341.00	23,607,000	$56,550,568.50
H	39,688,750	$31,572,413.00	38,569,000	$30,681,644.00	32,171,250	$48,112,119.00	28,741,500	$58,790,746.00	25,104,250	$60,137,232.00
	36,103,750	$28,720,536.50	39,312,000	$31,272,717.60	34,528,000	$51,636,628.50	30,728,500	$62,855,157.00	27,495,250	$65,864,872.50
	45,565,750	$36,247,571.00	47,960,000	$38,152,184.50	36,166,000	$54,086,253.00	32,371,500	$66,215,910.00	27,264,500	$65,312,112.00
	42,809,000	$34,054,577.50	52,572,500	$41,821,426.00	40,906,000	$61,174,923.00	38,385,000	$78,516,529.04	31,973,250	$76,591,921.50
	43,473,500	$34,583,171.50	28,831,000	$43,116,773.10	33,692,000	$68,636,493.55	25,778,000	$61,751,199.00	27,934,250	$66,916,497.00
ST	45,870,000	$36,489,597.60	34,830,250	$52,088,644.50	31,424,500	$64,278,827.00	27,789,250	$66,569,149.50	32,019,000	$76,701,514.50
MBER	33,451,750	$26,610,875.00	34,766,250	$51,992,928.00	30,624,250	$62,641,912.50	28,950,500	$69,350,925.00	28,151,000	$67,435,720.50
BER	45,363,500	$36,086,671.00	35,827,000	$53,579,291.10	31,892,250	$65,235,607.50	28,050,500	$67,194,983.10	26,071,000	$62,453,080.50
MBER	39,221,500	$31,200,714.50	30,167,500	$45,115,503.00	26,806,750	$54,833,226.50	25,689,000	$61,537,999.50	27,651,000	$66,237,970.50
MBER	39,404,750	$31,346,482.00	36,848,500	$55,106,943.00	32,755,500	$67,001,387.00	30,440,000	$72,919,029.00	30,070,000	$72,032,685.00
ALS	483,603,500	$384,706,710.70	449,714,750	$498,637,533.30	393,985,000	$691,881,554.65	350,760,000	$775,823,700.64	330,472,750	$791,647,480.50
			7/1/02 price Inc. from $.80 to $1.50		7/1/03 price Inc. from $1.50 to $2.05		7/1/04 price Inc. from $2.05 to $.240		xxxxxxxxxxx	

	CY 2006 STAMPS SOLD	NET SALES
RY	25,199,250	$60,364,804.50
ARY	21,596,250	$51,733,818.00
I		
T		
MBER		
ER		
IBER		
BER		
ALS	46,795,500	$112,098,622.50

LOST VOLUME

[1997 adjusted volume for Dec. buying 609,000,000.]
[1997 - 2005 CDC est. consumption decline -11.25%]
[2005 calculated consumption 540,487,000]
[2005 calculated volume 540,487,000 less actual volume 330,472,000 = 210,000,000 lost volume]
[Proof. Average state per capita sales = 66.9. NJ = 37.5 NJ has 56% of state average or 44% shrink]
[If NJ equals average state then 330,472,750/.56 = 590,129,000 minus 330,472,750 = 259,656,000]
[Conclusion. 210,000,000 to 259,656,000 units are purchased out of state. Long Distance.]

TAX EVASION

[Cost to State. 210,000,000 x $2.40 = $504,000,000. Or $42,000,000. Month]
[Add sales tax .34 unit and .50 MSA. 210,000,000 x .84 = $176,400,000. Or $14,700,000. Month]

VICTIM

[Cost to Retailer. Average gp at state min. .45 x 210,000,000. = $94,500,000. Or $7,875,000. Month]

LONG DISTANCE

Individual purchases. Internet, mail order or shopping across state lines. Saves $24.00 carton.
"Dealer'. Small time single operator sells out of trunk of car, dorm room or shop. 100 cartons = $2,400.
"Organized Crime". Truck 800 cases x 60 crtn = 48,000 crtn x 10 pks = 480,000 x $2.40 = $1,252,000.

Prepared by: Division of Revenue, 4/20/2006

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AMERICAN LUNG ASSOCIATION® *of Maine*

March 6, 2007

Re: Cigarette Excise Tax Increase

Senator Rotundo, Senator Perry, Representative Fisher, Representative Piotti and other members of the Appropriations and Taxation Committees, my name is Edward Miller. I am the CEO of the American Lung Association of Maine. I am here to speak in favor of an increase in the cigarette excise tax as a proven method of reducing smoking and its associated death, disability and preventable health care costs. Because the evidence is so overwhelming to demonstrate that significant increases in cigarette taxes result in less smoking, this proposal is more accurately characterized as state health policy than state tax policy.

As a member of the Governor's Advisory Council on Health Systems Development, I have been deeply involved in the creation of Maine's State Health Plan. An increase of $1.50 per pack will significantly contribute to reaching the target 14% youth smoking rate established in the Plan. Based on the last tax increase, thousands of Maine people of all ages will use this as motivation to quit and young people will see it as a barrier to beginning to smoke.

We ask you to be bold and not let the $1.50 proposed immediately cause you to say no. Virtually every proposal over the last 30 years to raise the cigarette excise tax has been met with skepticism. The action of the Legislature a few years ago to raise the tax by one dollar has saved lives, prevented illness and reduced costs. Today you have another opportunity to make a difference.

We are encouraged to see the tobacco industry and their allies mounting a strong effort against this measure. If they didn't think it had a chance of passing, they wouldn't be spending the time and money. Maine is the recognized national leader in tobacco policy and I urge you to continue that tradition by supporting a significant cigarette excise tax increase as part of our state health policy.

MODA
MAINE OIL DEALERS ASSOCIATION
Representing Maine's Petroleum Industry and Associated Businesses Since 1954

CONTACT:
Chris Jackson
207-729-5298

TESTIMONY REGARDING

"Part T" of the Governor's Budget – Tobacco Tax Increases

March 6, 2007

Senator Rotundo, Representative Fischer and members of the Appropriations Committee, my name is Chris Jackson. I am the Vice President of the Maine Oil Dealers Association (MODA) and also represent our subsidiary, the Convenience Store Council of Maine. MODA is a trade association composed of approximately 500 member companies in the heating oil, motor fuels, propane and kerosene industry. In addition, our members own and operate many convenience stores in Maine, and employ approximately 12,100 hardworking people statewide.

Our members are small business owners, and they are concerned about any policy that raises taxes in Maine. They compete in a tough business, where the profit margins are very small and the risks very large. Convenience stores, especially those along the New Hampshire border, stand to lose customers as a result of this proposal. In New Hampshire the gas tax is 8.9 cents less per gallon than in Maine. The diesel tax is 10 cents less per gallon. New Hampshire has no sales tax. You can see why it is becoming more difficult for these employers to compete for business each and every day.

State and federal taxes ($2.39) account for nearly half the cost of a pack of cigarettes. The discrepancy between the cigarette taxes in Maine and New Hampshire is already $1.20, which of course equals $12 per carton. Any tax increase on tobacco products would exacerbate our members' already distinctly disadvantaged position.

On average, tobacco sales represent approximately 30 percent of the total sales in convenience stores in Maine. Customers who go into our stores to buy tobacco products also buy snacks, soft drinks and other items that help Maine's small businesses remain profitable.

Raising the tax on cigarettes would ultimately result in fewer customers in our stores. I respectfully urge the Committee to oppose this tax increase. Thank you, and I look forward to working with you on this issue.

###

American Cancer Society®

The American Cancer Society Supports the Governor's Plan to Increase the Tax on Tobacco Products as Part of the Budget

Joint Standing Committee on Appropriations and Financial Affairs
February 14, 2007

Senator Rotundo, Representative Fischer, ladies and gentlemen of the Committee on Appropriations and Financial Affairs, my name is Megan Hannan, and I represent the American Cancer Society in Maine.

As you probably know, cancer is the number one killer of Maine people. Many of those cancers are preventable, and tobacco use, as you know, is the leading cause of preventable cancer and death in Maine. Maine has been building a comprehensive system to prevent children from beginning to smoke, helping those who want to quit, and changing the environmental norm around smoking for many years now, and we have been doing well. However, the tobacco industry is still winning.

Governor Baldacci's budget proposal includes continuing those programs, and it includes a key provision which is another piece of the comprehensive approach: pricing policy. The budget includes a $1 increase in the tax on cigarettes, a 117% increase for smokeless tobacco, and also a 30% increase on all other tobacco products. At the American Cancer Society, we strongly endorse these proposals, and, indeed, in the case of smokeless and "other" tobacco products, suggest the number could be even higher.

We hear often about the toll of lung cancer, most of which is from smoking. In Maine this year, lung cancer accounts for 1,360 new cancer cases, and 970 deaths. We hear less about the results of smokeless tobaccos, yet where it is often used, oral cancer rates are very high, accounting for over 7,500 deaths in the US every year. Maine is not known for high use of smokeless or chewing tobacco, but as the cost of cigarettes goes up, some smokers choose to get their nicotine in other ways: rolling their own with loose tobacco, switching to so-called "little cigars," or using chew. The Governor's addition of increasing the taxes on these other products is therefore very wise, and perhaps necessary, to continue our trend of attracting fewer new smokers, and making it easier for those who are ready to quit.

The budget also wisely includes a little bit of extra money for the Maine HelpLine, which, although not addressed in this line item, is a key addition. When the cigarette tax was increased two years ago, the HelpLine was overwhelmed with people wanting help to quit. There is no reason to think the same will not happen again, and so I wanted to point out that one without the other is not an ideal situation.

Thank you very much for your time and consideration.

Megan Hannan
Director of Government Relations
1 Bowdoin Mill Island
Topsham, Maine 04086
207.373.3707
megan.hannan@cancer.org

Ron's Market
144 Franklin Ave
Farmington, Me. 04938
207-778-3344

I represent a small Agency store located in Farmington, Maine.

We are sole proprietors of a single store setting better known as your typical Mom and pop store.

I am here today to voice my opposition to the proposed 1.00 per pack cigarette tax introduced by our governor as well as legislation now being proposed by Rep Peter Mills and others to add new taxes on all types of tobacco products with in the state.

Although these new tax increases appear to be a novel solution to help curb the smoking habit of Mainers it dose not solve the health issues Maine faces regarding tobacco use.

This is a guise to convince the public that if you raise taxes on a certain product that it will somehow prevent its use.
The bottom line is just that: the bottom line!!!!!!

The proposed increase in tax for tobacco products is only a measure or ploy to raise revenue for the state and to try to balance the current budget on the backs of small business.

Let me clarify this: the consumer will ultimately absorb this tax as they did when you raised the tax a 1.00 14 or so months ago. I saw my sales decline some and then rebound to where they where before the tax. The small businesses of Maine bore the cost of this tax out of what little cash we have to operate on.

The real tragedy in this is that increase and the proposed increase in taxes where paid on inventory---- Meaning I had to count all my inventory and pay you 1.00 per pack this money came right out of my cash flow, or my pocket if you will.
For my small store this amounted to about 10,000.00

I'll never see this money again so to speak---- it is now tied up in our inventory.
I could have hired another employee, improved my building, or increased my other inventory with this money.

You are hurting small businesses in Maine by pursuing this increase in taxes.

In closing I would like to say again I am strongly opposed to your approach to balance our budget on the back of small businesses.
It is time to look at other revenue sources or better yet restrict your spending in other areas.
Jon L. Bubier Owner/ Ron's Market

OP ED
Dervilla McCann MD

Cigarette taxes, my patients, and the tobacco industry.

I had a busy Saturday last week, as I made my weekend hospital rounds. I started the long on-call weekend on Friday with a referral from an emergency room physician in Rumford. I was told of a truck driver who I'll call Ron, who had become very sick, with severe chest pain. Unfortunately, Ron had not sought medical attention until several days had passed; he finally came to the hospital after he realized that he didn't have the strength to get out of bed. The emergency room physician took one look at Ron's EKG and knew that serious damage had been done, and Ron was soon one of my weekend charges.

Ron was alone when I walked into his room. He was pale and a little short of breath, but he stuck out his hand and seemed very glad to be in a hospital with cardiac specialists. He told me he knew he'd been foolish, and he regretted his decision to smoke cigarettes. He knew he should have quit, but as a truck driver, boredom got the better of him. We talked seriously about his addiction to cigarettes. Before I left, I joked with him a little, and asked how it felt to be an ex-smoker.

I started Ron's evaluation with an echocardiogram to give me an idea of the amount of damage to his heart. I found myself looking in shocked silence at a heart that barely moved. I noted that there were large blood clots present, inside the heart. Worse yet, three of the four valves inside the heart were leaking badly. I knew that I was looking at a heart that had almost died. I found myself wondering how on earth Ron had survived.

Two days later, after additional testing, Ron was in an ambulance being transferred to Boston to a hospital with the capability to perform heart transplants. Ironically, he was the second patient I had sent there in a week. Both transferred patients were smokers.

I moved to Maine ten years ago, when the state had one of the highest percentages of teen smokers in the nation. Since then many states, including Maine, won a class action lawsuit and received millions of dollars from the tobacco industry. Our elected officials decided to use that money to improve the health of the people of our state and to develop a campaign to prevent smoking. The results have been dramatic; the number of new of teen smokers has decreased to one of the lowest in the nation. There has also been a reduction in the number of adult smokers, reducing the burden of health care costs, saving millions in taxes.

Along with a doctor's advice to stop smoking, the most effective way to reduce smoking is to increase the cost of cigarettes. My patients have told me that they expect the cigarette tax to go into effect, and are planning to quit smoking on the day the tax is enacted!

I recently heard that there are well-meaning members of our state senate and congress who feel that a cigarette tax penalizes the poor. I feel compelled to point out that the poor citizens of this state are penalized by the scourge of disease spread by tobacco addiction. Heart attacks and strokes, high rates of lung cancer, asthma in children, increased rates of sudden infant death syndrome, even the tragedy of home fires are the penalties they pay because of smoking.

Some members of Maine's Congress feel there is no room for additional taxes, but I know that my tax dollars are supporting the one in seven Maine citizens that receive state subsidized health care. When these individuals require intensive care, surgeries and prolonged hospitalizations, my tax dollars help pay for it. I also know that the least expensive approach to this problem is through prevention. Less disease means lower health care costs and fewer tax dollars spent.

In medicine, we strive to provide "evidence based" treatments that we know work well and that are safe. I would ask our current law makers to use "evidence based legislation," employing laws that are proven to be safe and effective, such as the increased tax on cigarettes.

Legislators, please pass the governors suggested $1.00 per pack cigarette tax. I need your help, and so do my patients.

Thankyou,
Dervilla M. McCann MD, FACC

PretiFlaherty

DANIEL W. WALKER
dwalker@preti.com
Direct Dial: (207) 791-3281

March 6, 2007

Hon. Peggy Rotundo, Senate Chair
Hon. Jeremy Fischer, House Chair
Joint Standing Committee on Appropriations
Augusta, Maine 04333-0100

Hon. Joseph Perry, Senate Chair
Hon. John Piotti, House Chair
Joint Standing Committee on Taxation
Augusta, Maine 04333-0100

RE: Cigar Association of America's Opposition to Part T of LD 499, An Act Making Unified Appropriations and Allocations 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, 2008 and June 30, 2009.

Dear Sen. Rotundo, Rep. Fischer, Sen. Perry, & Rep. Woodbury:

I am writing on behalf of my client, the Cigar Association of America (CAA), to express opposition to Part T of LD 499, An Act Making Unified Appropriations and Allocations 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, 2008 and June 30, 2009. Specifically, section 4403 of Part T seeks to increase the tax on cigars and pipe tobacco from its current rate of 20% of the wholesale sales price to 30% of the wholesale sales price.

There are a number of reasons to keep the proposed hike in the cigar and pipe tobacco taxes out of the budget:

1. **Lost Revenue to Cross-Border / Internet Sales.** Higher taxes on cigars and pipe tobacco will drive consumers across the border into New Hampshire, which does not have an excise tax on those products (except smoking tobacco) - nor a state sales tax. And a consumer going to New Hampshire is likely to purchase more than just cigars and pipe tobacco. Therefore, increasing the cigar and pipe tobacco taxes in Maine will result in lost tax revenue not only from those tobacco products, but also from consumer purchases of other items.

2. **Hardship on Maine Retailers.** Increasing the tax on cigars will impose a severe hardship on Maine retailers, especially specialty tobacco shops specializing in sales of premium, hand-made cigars. The current 20% tax on cigars enables Maine retailers to be somewhat competitive with cross-border and internet vendors. However, any increase in the tax will be punitive and turn these stores into sampling parlors where the consumer may purchase one or two cigars and then turn to cross border or other out-of-state sources for the bulk of their purchases.

3. No Significant Revenue Gain. Given the relatively low number of cigar and pipe smokers in Maine, any increase in the State's revenues as a result of hiking these taxes would, in the grand scheme, be negligible. Pipe tobacco sales in the U.S., in particular, are in steep decline. In 1970, 52 million lbs. of pipe tobacco were sold nationwide. In 2006, 4.7 million pounds were sold—a decline of 91%. Increasing the tax as proposed in the budget, will only help speed the eradication of pipe smoking in Maine completely and, at best, will generate only marginal amounts of new revenue for the State. Likewise, according to Maine Revenue Services' estimates, cigars and other tobacco products account for only about $1.8 million in tax revenues in 2006. Thus, even increasing the tax by 1/3 in the budget will yield only an additional $594,000 to the State-assuming that consumers are willing to pay the higher prices.

4. Cigar Tax Already Increases Each Year with Inflation. The tax on cigars and other tobacco products is an ad valorem tax. This tax is based on the wholesale price of cigars and other tobacco products. Because the wholesale price on these products rises each year, the tax also rises each year. Therefore, every year since the ad valorem tax was placed on cigars and other tobacco products has seen an increase in tax for these products, and the State has received more revenues. Cigarette taxes, on the other hand, are based on a specific fee per pack and only increase by an act of the Legislature. Therefore, the Legislature should not raise the tax again on cigars and other tobacco products, as the consumers and Maine businesses have endured tax increases every year since the ad valorem tax was enacted.

5. Less Incentive to Deter Cigar/Pipe Usage for Public Health Reasons. Unlike cigarettes, which traditionally have been linked to significant youth usage and which have been identified as one potential cause of the State's increasing health care costs, cigars and pipe tobacco are niche products that appeal largely to adult consumers in relative small numbers who consume them far less frequently (on average, less than 3 cigars per week) than cigarette smokers consume cigarettes (multiple cigarettes per day). Therefore, while the State and this Committee may have the added incentive to increase the tax on cigarettes as a means of discouraging cigarette smoking particularly among youth, it has no similar incentive when it comes to cigars and pipe tobacco.

Thank you for the opportunity to submit these comments, and I look forward to working with the Committee on this issue during the work session process.

Sincerely,

Daniel W. Walker

cc: Appropriations Committee members
Taxation Committee members

Maine Grocers Association

Serving the retail grocers of Maine

P. O. Box 190 • 77 Water Street • Hallowell, Maine 04347
Telephone (207) 622-4461 • Facsimile (207) 621-8377
email: mga@mainegrocers.org

Testimony of Amie Joseph

Maine Grocers Association

Presented to the Joint Standing Committee on

Appropriations and Financial Affairs

March 6, 2007

Senator Rotundo, Representative Fischer, members of the Joint Standing Committee on Appropriations and Financial Affairs; and members of the Joint Standing Committee on Taxation, my name is Amie Joseph and I am the Executive Director of the Maine Grocers Association. The Maine Grocer Association is a statewide business trade association that represents the retail grocery industry. Our membership currently includes over 200 retail locations.

I am here today to testify in opposition to Part T of LD 499, 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, 2008 and June 30, 2009.

The Maine Grocers Association opposes Part T of LD 499, which proposes to increase the tax on tobacco products in Maine to an unprecedented level. The Maine Grocers Association believes that Maine raises too much money through taxation and we cannot support further tax increases in a state that already carries the highest tax burden in the country.

We strongly oppose placing Maine's tobacco tax rate at a substantially higher rate than the surrounding states, specifically New Hampshire. By creating such a variance, business activity will move across the border; and Maine will not only lose tax revenue, but also lose commerce and jobs. Maine retailers will also be put at a disadvantage when consumers who cross the border to purchase tobacco products purchase other items there as well.

Thank you for your consideration of these comments with respect to Part T of LD 499.

TESTIMONY of
Associated Grocers of Maine, Inc.
Cathy Callahan, VP Administration/Hr

IN OPPOSITION to L.D. 499

"An Act to Making Unified Appropriations and Allocations for the Expenditures of State of Government, General Fund and Other Funds, ...
Part T – Increases the Tax on Cigarettes and Tobacco Products.

March 6, 2007

Members of the Appropriations and Financial Affairs and members of the Joint Standing Committee on Taxation. I am Cathy Callahan and I am the Vice President of Administration/HR of Associated Grocers of Maine, located in Gardiner, Maine. Associated Grocers of Maine, Inc. is a "Maine based" grocery wholesale distributor serving 300 independent retailers, primarily in Maine but also in New Hampshire, Massachusetts and Rhode Island.

We are opposed to Part T due the following reasons:

- **Capital Expense** – The increase in taxes will increase the cost of our inventory, thus increasing our financing line of credit and causing additional interest costs to our business. Our business has very low profit margin and it is difficult to continue adding cost without increasing sales and remain a viable business in the State of Maine.

- **We have serious concerns about the effect this tax increase will have on Maine stores on the New Hampshire border.** Consumers will travel to New Hampshire to make their cigarette purchases (lower cost) and also pickup other items while they are shopping, thereby reducing sales of Maine retailers along the border. Maine retailers will be put at a competitive disadvantage, seriously hindering their ability to run a profitable small business in their community.

For these reasons, I urge you to oppose L.D. 499, Part T and vote "ought not to pass".

Thank You,
Cathy Callahan, VP Administration/HR
Association Grocers of Maine, Inc.
PO Box 1000, Gardiner, Maine 04345
(207) 588-3201

County of Aroostook

COMMISSIONERS' OFFICE

UNTY ADMINISTRATOR

DOUGLAS F. BEAULIEU

COUNTY COMMISSIONERS

PAUL J. ADAMS
HOULTON

NORMAN L. FOURNIER
WALLAGRASS

PAUL J. UNDERWOOD
PRESQUE ISLE

February 8, 2007

Sen. Margaret Rotundo, Chair
Appropriations and Financial Affairs Committee
5 State House Station
Augusta, Maine 04333-0005

Rep. Jeremy R. Fischer, Chair
Appropriations and Financial Affairs Committee
5 State House Station
Augusta, Maine 04333-0005

Re: Maine Revenue Services Resolution

Dear Senator Rotundo and ~~Representative Fischer~~ Jeremy:

Enclosed please find the Resolution signed by the Aroostook County Board of County Commissions at their regular board meeting February 7, 2007.

The Board of County Commissioners strongly urge the Joint Standing Committee on Appropriations and Financial Affairs to leave the Houlton Maine Revenue Services Office open, recognizing the importance of each and every job in Aroostook County and maximizing revenue and collections for all Maine taxpayers.

Thank you.

Sincerely,

Doug

Douglas F. Beaulieu
County Administrator

Pc: County Commissioners
Aroostook County Legislative Delegation
File

Enc.

County of Aroostook

COMMISSIONERS' OFFICE

UNTY ADMINISTRATOR

DOUGLAS F. BEAULIEU

COUNTY COMMISSIONERS

PAUL J. ADAMS
HOULTON

NORMAN L. FOURNIER
WALLAGRASS

PAUL J. UNDERWOOD
PRESQUE ISLE

RESOLUTION

WHEREAS, *the State of Maine Revenue Services Office in Houlton employs 14 people, with an annual payroll of $800,000;*

WHEREAS, *the Houlton Office has assessed $52.8 million in revenue for the State of Maine since 1999, and has averaged $2.6 million per year in collections;*

WHEREAS, *the State General Fund budget identifies an average salary cost increase of $5,319 in the first year of the biennium and $6,585 in the second year of the biennium, by folding the Houlton Office into Augusta operations;*

WHEREAS, *this consolidation will result in a 15% increase in the number of non-income producing jobs;*

WHEREAS, *the cost of refurbishing a facility in Augusta will add $5.50 per square foot for lease costs versus staying in Houlton:*

WHEREAS, *the 7.3% unemployment rate in the Houlton labor market versus the 4.3% rate in Augusta indicates a need for good quality jobs in the County of Aroostook;*

WHEREAS, *every dollar of savings due to the closure of the Houlton Office will result in a loss of $16.25 in assessed revenue and $5.30 in collections; and*

NOW, THEREFORE, *We, the Aroostook Board of County Commissioners, strongly encourage the Joint Standing Committee on Appropriations & Financial Affairs, the Maine State Legislature and Governor Baldacci to leave the Houlton Maine Revenue Services Office open, recognizing the importance of each and every job in Aroostook County, and maximizing revenue and collections for all Maine taxpayers.*

In witness therefore, given under our hands this seventh day of February, 2007

Paul J. Adams, Chairperson

Norman L. Fournier

Paul J. Underwood
Aroostook County Commissioners

ATTEST: A True Copy

Douglas F. Beaulieu
County Administrator

COURTHOUSE, 144 SWEDEN STREET, SUITE 1, CARIBOU, MAINE 04736
Tel: (207) 493-3318 Fax: (207) 493-3491 e-mail: doug@aroostook.me.us

HOUSE OF REPRESENTATIVES

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Lawrence Bliss
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South Portland, ME 04106
Residence: (207) 799-8229
Business: (207) 780-4199
Fax: (207) 780-4534
E-Mail: Lawrence.Bliss@legislature.maine.gov

2007 MAR 13 PM 12: 20
O.F.P.R.

March 5, 2007

To: Sen. Peggy Rotondo, Senate Chair, Joint Legislative Committee on Appropriations and Financial Affairs
Rep. Jeremy Fischer, House Chair, Joint Legislative Committee on Appropriations and Financial Affairs

From: Rep. Lawrence Bliss

Subj: Proposed Budget Cut – Maine Revenue Service, Houlton Office

---

I am writing, at the behest of several of my constituents in South Portland, to express my dismay at the planned elimination of the Maine Revenue Service office in Houlton, Maine. The Governor's Budget proposes elimination of the Houlton office and fourteen personnel positions, and establishing eight new positions in the Augusta office.

The Houlton office was opened in October 1999, having been established to serve as a "quick response team" that could shift gears and refocus easily on a variety of tasks and projects. Early in 2000, the entire office was shifted to the Compliance Division. The staff is trained to handle Income Tax, Payroll Tax, Use Tax, Sales Tax, and the Tax and Rent Program. In addition, they are trained in processing, auditing, and collections. They provide significant outreach to the Houlton/Millinocket/Presque Isle area of the State.

The Houlton Office has become a significant source of revenue for the state, bringing millions of dollars into the Revenue Service annually. The new positions scheduled for the Augusta office are not all Examiner positions, and the workload will never be able to account for the revenue lost from closing the Houlton Office.

In addition, there are currently vacancies in the Augusta office which cannot be filled. There is no reason to believe that, once the Houlton positions are eliminated, the Augusta office will be able to offset the loss with additional personnel.

I do not believe that the elimination of a revenue-producing office in Houlton makes good financial sense at this time, and would encourage the committee to eliminate this part of the Maine Revenue Service proposal in the Governor's Budget document.

I would be happy to provide additional information if that would be helpful to the committee. As always, I thank you for your attention.

Cc: Members, Joint Legislative Committee on Appropriations and Financial Affairs

Printed on recycled paper

Municipal Revenue Sharing
014-28A-0020-01

5.1% Tax Transfers *(based on July 2006 Maine Revenue Services Estimates)*

Revenue Type	FY 2007 (actual)	FY 2008	FY 2009
Individual Income Tax		68,238,183	70,354,609
Corporate Income Tax		8,569,258	8,623,065
Sales Tax		53,142,756	55,476,870
Service Provider Tax		2,661,459	2,779,542
Total	121,003,203	132,611,656	137,234,086
Expenditures:			
Original Placeholders	121,003,203	121,003,203	121,003,203
Actual Revl Budget (7/06 estimates)		132,611,656	137,234,086
RevII Placeholder	(18,986,000)	(25,000,000)	(30,000,000)
Efficient Delivery of Services (EDS) Placeholder		(2,652,233)	(2,744,682)
Revl Pool (remaining)	102,017,203	**104,959,423**	**104,489,404**
Total Change from Placeholder		**(16,043,780)**	**(16,513,799)**
Receiving Accounts:			
RevII Pool (separate account)	18,986,000	25,000,000	30,000,000
EDS Pool (separate account)		2,652,233	2,744,682
Total Revenue Sharing Dollars	121,003,203	132,611,656	137,234,086

LD 499

Dave Ledew
4/13/07

TREE GROWTH REIMBURSEMENT (PT 101)

6/1/2005

MUNICIPALITY **BROWNFIELD**

	Ingredients			
STEP A Education Cost Savings				
1. Number of Tree Growth Acres X 2004 SV Undeveloped Acreage Rate =	8,222	$530		$4,357,660
2. TG valuation (@ 100%)	$977,962			$977,962
3. Number (1) minus (2)				$3,379,698
4. Number (3) X Education Subsidy Index Number = Computed Education Cost Savi	$3,379,698	8.26		$27,916
5. Actual Education Subsidy received				$1,213,838
6. Lesser of computed ed cost saving and actual ed subsidy				$27,916
STEP B Tax Assessed if No Tree Growth				
1. **Adj. Commitment** =Add Education Expense back into commitment	$27,916	$1,548,954		$1,576,870
2. **Adjusted non TG value** = # of Tree Growth Acres X Local Undev. Acre Rate =	8,222	$530		$4,357,660
3. **Adj. Muni Value** = Municipal Value minus TG Value + Adj non TG Value (2) =	$91,114,922	$977,962	$4,357,660	$94,494,620
4. **Adj. tax rate** = Adjusted Commitment (1) divided by Adjusted Mun Value (3) =	$1,576,870	$94,494,620		0.01669
5. Adjusted Rate (4) X Adj TG Value (2) = **Tax if Not in Tree Growth**	0.01669	$4,357,660		$72,729.35
STEP C Tax Loss (90%)				
1. **Tree Growth Tax** =Tree Growth Value X Municipal Tax Rate	$977,962	0.01700		$16,625.36
2. Tax if no Tree Growth (STEP B-5) minus Tree Growth Tax (1) =	$72,729.35	$16,625.36		$56,103.99
3. Tax Loss (2) X 90% = **Tax Loss (90%)**	$56,103.99	90%		$50,493.59
STEP D Gross Reimbursement				
1. 90 % Tax Loss (STEP C-3) =				$50,493.59
2. CAP = Tax if no TG - TG Tax - Ed Cost Savings	$72,729.35	-$16,625.36	-$27,916	$28,187.68
3. Lesser of 1. and 2.				$28,187.68
STEP E Net Reimbursement with adjustment				
1. Assessment Standards Ratio (reduction in reimbursement if below 70%)	77%			$0.00
2. Failure to file MVR timely				$840.00
3. Reimbursement less adjustments				$27,348.00

TREE GROWTH REIMBURSEMENT (PT 101)

MUNICIPALITY BROWNFIELD

6/1/2005

STEP A Education Cost Savings	***Ingredients***			
1. Number of Tree Growth Acres X 2004 SV Undeveloped Acreage Rate =	*8,222*	*$530*		$4,357,660
2. TG valuation (@ 100%)	*$977,962*			$977,962
3. Number (1) minus (2)				$3,379,698
4. Number (3) X Education Subsidy Index Number = Computed Education Cost Savi	*$3,379,698*	*7.60*		$25,686
5. Actual Education Subsidy received				$1,213,838
6. Lesser of computed ed cost saving and actual ed subsidy				$25,686
STEP B Tax Assessed if No Tree Growth				
1. **Adj. Commitment** =Add Education Expense back into commitment	*$25,686*	*$1,548,954*		$1,574,640
2. **Adjusted non TG value** = # of Tree Growth Acres X Local Undev. Acre Rate =	*8,222*	*$530*		$4,357,660
3. **Adj. Muni Value** = Municipal Value minus TG Value + Adj non TG Value (2) =	*$91,114,922*	$977,962	$4,357,660	$94,494,620
4. **Adj. tax rate** = Adjusted Commitment (1) divided by Adjusted Mun Value (3) =	*$1,574,640*	*$94,494,620*		0.01666
5. Adjusted Rate (4) X Adj TG Value (2) = **Tax if Not in Tree Growth**	*0.01666*	*$4,357,660*		$72,598.62
STEP C Tax Loss (90%)				
1. **Tree Growth Tax** =Tree Growth Value X Municipal Tax Rate	*$977,962*	*0.01700*		$16,625.36
2. Tax if no Tree Growth (STEP B-5) minus Tree Growth Tax (1) =	*$72,598.62*	*$16,625.36*		$55,973.26
3. Tax Loss (2) X 90% = **Tax Loss (90%)**	*$55,973.26*	*90%*		$50,375.93
STEP D Gross Reimbursement				
1. 90 % Tax Loss (STEP C-3) =				$50,375.93
2. CAP = Tax if no TG - TG Tax - Ed Cost Savings	*$72,598.62*	*-$16,625.36*	-$25,686	$30,287.55
3. Lesser of 1. and 2.				$30,287.55
STEP E Net Reimbursement with adjustment				
1. Assessment Standards Ratio (reduction in reimbursement if below 70%)	*77%*			$0.00
2. Failure to file MVR timely				$840.00
3. Reimbursement less adjustments				$29,448.00

GENERAL FUND

		2007	2008	2009
Beginning Balance		*14,516,599*	*334,680*	*4,133,256*
Appropriations ~ *(Increase)/Decrease Fund Balance*				
PL 2007 c. 1		75,930,111		
Other Laws		2,917,678,445		
LD 499 Part A	Baseline		3,047,259,682	3,062,096,178
LD 499 Part A	Initiatives		110,359,820	212,749,363
	Change Package		10,012,095	(10,933,941)
		$ 2,993,608,556	$ 3,167,631,597	$ 3,263,911,600
Undedicated Revenue ~ *Increase/(Decrease) Fund Balance*				
PL 2007 c. 1		340,205		
Other Laws		3,020,607,710		
LD 499 Part A	Baseline		3,077,674,115	3,159,461,176
LD 499 Part E	Repeals Fund for Efficient Delivery of Educational Services in DOE		14,907,337	21,473,917
LD 499 Part S	Delays the increase from 5.1% to 5.2% in Municipal Revenue Sharing to July 1, 2009.		2,646,366	2,737,527
LD 499 Part T	Increases the tax on cigarettes and tobacco products effective as of July 1, 2007.		68,296,528	68,056,331
LD 499 Part U	Delays implementation of the education tax credit from donations made on or after Jan. 1, 2007 to Jan. 1, 2009.		1,515,835	3,087,625
LD 499 Part V	Amends the three-factor corporate income apportionment formula to a single factor, based upon sales, effective for tax years beginning on or after January 1, 2007.		6,195,641	5,403,404
	Change Package	(223,708)	(989,132)	(460,502)
	RFC - *Not in BFMS until final RFC report issued*	(4,400,000)		
		$ 3,016,324,207	$ 3,170,246,690	$ 3,259,759,478
Adjustments to Fund Balance ~ *Increase/(Decrease) Fund Balance*				
PL 2007 c. 1		865,037		
PL 2007 c. 1		(11,052,830)		
Other Laws - Sources		126,226,955		
Other Laws - Uses		(157,236,732)		
LD 499 Part M	(VEIP): Lapses $350,000 each year from the General Fund Compensation and Benefit Plan to the General Fund.		350,000	350,000
	Change Package		833,483	-
	Lapse DEL - *Not in 2008 FN need to add manually*	4,300,000		
		$ (36,897,570)	$ 1,183,483	$ 350,000
Ending Balance		**$ 334,680**	**$ 4,133,256**	**$ 331,134**

O.F.P.R.

2007 MAY 25 AM 11: 11

necsa
New England Convenience Store Association

Cumberland Farms

The Big Apple Food Stores

Lampron Energy

Xtramart Convenience Stores

J&S Oil Inc.

Pine State

CROSSROADS MARKET GENERAL STORE

*** INDEPENDENT C-STORES LISTED ***

May 21, 2007

Senator Margaret Rotundo
Appropriations & Financial Affairs Committee
5 State House Station
Augusta, ME 04333-0005

Dear Chairwoman Rotundo,

We are Maine convenience storeowners and operators. Many of us are members of the Maine Chapter of the New England Convenience Store Association (NECSA). We are writing to convey our serious concerns about the proposal to again increase the cigarette tax. We are asking that you vote against this proposal.

If you decide to raise the cigarette tax again, we will lose a lot of business and the state will lose too, probably more than you have anticipated.

The state portion of the cigarette tax is currently at $2.00 per pack. Our state has the second highest cigarette tax in the Nation with Washington being the highest at $2.025, and Maine's cigarette tax is much higher than neighboring New Hampshire which has a tax of merely 80-cents per pack, and nearby Massachusetts which has a tax of $1.51.

Because of the savings to be had, it's easy to imagine the scenario where our customers cross the border and begin to purchase cigarettes by the multi cartons and drive back to Maine with a long-term supply. Not only will this scenario cost our stores sales revenue, it would also negatively affect tax revenue and it would make criminals out of persons who might not otherwise do these kinds of activities. That is, unless these cross border buyers report their purchases to the state and pay the taxes due.

These are tough economic times and we simply cannot afford to lose business and this state cannot afford to lose sales revenues, but by adding to this tax, we will lose sales and revenues.

The state is facing a budget deficit this year. It was in 2005 as well. As a result of the 2005 cigarette tax increase, cigarette sales volume has dropped 25 percent across the state. We understand that hard decisions will have to be made. We are so concerned about any cigarette tax increases that we are writing to ask for your vote against this tax. We are your constituents and we are sounding the alarm that this tax increase will cause more harm than any possible benefit.

We understand you are examining many other possible tax increases including snack and beverage taxes and alcohol taxes. Each of these proposals would negatively impact us as well, but cigarette sales constitute on average thirty-four percent of our in store sales. That is according to the National Association of Convenience Stores 2006 State of the Industry Report.

Increasing the tobacco tax will place a disproportionate burden on convenience stores and on our customers who smoke. Additionally, cigarette taxes are regressive taxes which means more taxes will be needed later if this passes.

Please note, we have not written you before as a group. That is how important stopping the cigarette tax from increasing is to us.

<u>For these reasons, we ask that you oppose any attempts to increase the cigarette and tobacco taxes in our state.</u>

Thank you for your consideration of our concerns.

Sincerely,

John L. Babb John L. Babb, President J & S Oil Company, Manchester Chairman, NECSA's Maine Chapter	Calvin M. Bradbury Calvin M. Bradbury, Owner Bradbury Market & Diner
Diana O'Donoghue Diana O'Donoghue, Executive Director New England Convenience Store Association	Daniel A. Fortin, Owner Danny's Variety, Lewiston
Gary J. Chicoine President Gary J. Chicoine, President Bowdoin Town Store, Bowdoin	Michael St. Hilaine, Owner Buckfield Mall

DEBRA LAJOIE Debra Lajoie, Owner Troops Variety Pittston	Colleen A. Allard, Owner Village Variety Parsonsfield
Karel L. Knox, Owner Hill Billy's Country Convenience Augusta	Barbara Everett, Owner Elizabeth Ann General Store Lewiston
Luis Morales, Owner Crossroads Market General Store Auburn	Stephen Lawrence C.N. Brown Co. South Paris
Jeffrey Cutting Cumberland Farms, Inc. Portland	Darrell Clark Lampron Energy Standish
Gena Canning Pine State Trading Co. Gardiner	Robert Lary, Owner Terronis Country Store Waterboro
Gene Ellis, Owner Ellis Variety Dixfield	Steven Borstelmann, Owner Litchfield's General Store Sumner

Leslie Orutt, Owner Orutt's Variety	Charles W Barker Heidi Barker Charles and Heidi Barker Pike's Corner Oasis Livermore Falls
Cliff Martin District Manager Xtra Mart	necsa New England Convenience Store Association

Nonconformity with respect to Section 101

of the federal

Tax Increase Prevention and Reconciliation Act of 2006

√ Gerard 3/23

Sec.__. 36 M.R.S.A. § 5122, sub-§ 1, ¶ N as amended by PL 2005, c. 218, §51, is further amended to read.

N. With respect to property placed in service during the taxable year, an amount equal to the net increase in depreciation or expensing attributable to:

(1) For taxable years beginning on or after January 1, 2002 but prior to January 1, 2006, a 30% bonus depreciation deduction claimed by the taxpayer pursuant to Section 101 of the federal Job Creation and Worker Assistance Act of 2002, Public Law 107-147 with respect to property placed in service during the taxable year;

(2) For taxable years beginning on or after January 1, 2002 but prior to January 1, 2006, a 50% bonus depreciation deduction claimed by the taxpayer pursuant to Section 201 of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, Public Law 108-27 with respect to property placed in service during the taxable year; and

(3) For taxable years beginning on or after January 1, 2003 ~~but prior to January 1, 2008~~, the increase in aggregate cost ~~used~~ under Section 179 of the Code <u>arising from amendments applicable to tax years beginning on or after January 1, 2003</u>~~pursuant to Section 202 of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, Public Law 108-27, or pursuant to Section 201 of the federal American Jobs Creation Act of 2004, Public Law 108-357~~;

Sec.__. 36 M.R.S.A. § 5200-A, sub-§ 1, ¶ N as amended by PL 2005, c. 218, §54, is further amended to read.

N. With respect to property placed in service during the taxable year, an amount equal to the net increase in depreciation or expensing attributable to:

(1) For taxable years beginning on or after January 1, 2002 but prior to January 1, 2006, a 30% bonus depreciation deduction claimed by the taxpayer pursuant to Section 101 of the federal Job Creation and Worker Assistance Act of 2002, Public Law 107-147 with respect to property placed in service during the taxable year;

(2) For taxable years beginning on or after January 1, 2002 but prior to January 1, 2006, a 50% bonus depreciation deduction claimed by the taxpayer pursuant to Section 201 of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, Public Law 108-27 with respect to property placed in service during the taxable year; and

(3) For taxable years beginning on or after January 1, 2003 ~~but prior to January 1, 2008~~, the increase in aggregate cost ~~used~~ under Section 179 of the Code arising from amendments applicable to tax years beginning on or after January 1, 2003~~pursuant to Section 202 of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, Public Law 108-27, or pursuant to Section 201 of the federal American Jobs Creation Act of 2004, Public Law 108-357~~;

SUMMARY

These provisions continue Maine's nonconformity with the federal temporary increases in Internal Revenue Code Section 179 business expense deductions. In May 2006, the Internal Revenue Code was amended to extend the federal increases in Internal Revenue Code Section 179 business expense deductions to tax years beginning in 2008 and 2009. Under prior federal law, the increases in Section 179 business expense deductions were set to expire for tax years beginning after December 31, 2007. Current Maine law does not conform to the temporary federal increases to Section 179 expense deductions through tax year 2007. There are no administrative costs and no fiscal impact associated with these provisions. Failure to extend nonconformity, however, would result in a negative revenue impact to the State of over $6 million annually for fiscal years 2007-08 and 2008-09.

1) Captive Insurance Companies

Captive insurance companies are formed by large corporations for purposes of self-insurance. Traditionally, a corporation will set up a captive insurance company as a subsidiary company to provide insurance needs for the parent or a group of related companies. For federal tax purposes, captive insurance companies are subject to income tax. Beginning in 1997, the Maine legislature exempted captive insurance companies from Maine income tax and in its place enacted a special, low insurance premiums tax rate with the goal of attracting the captive insurance industry to locate in Maine. The lower insurance premiums tax, however, has not been effective at attracting any captive insurance companies to Maine. Vermont is the U.S. based captive insurance haven and has been for over 20 years.

Captive insurance companies located in other states are not subject to Maine premiums tax, even if they insure property located in Maine. The state loses revenue from this arrangement because income is shifted from the parent corporation doing business in Maine to the captive insurance subsidiary. This shifted income is not subject to either the Maine corporate income tax or the insurance premiums tax.

The proposed amendment would repeal the premiums tax on captive insurance companies and instead subject them to the corporate income tax.

2) Cost of Performance

The amendment proposes to repeal the "cost of performance" method for assigning sales of services to states for purposes of calculating the multistate apportionment factor. The cost of performance method assigns sales of services not to the states where the customer of the service is located, but to the state where the primary cost of producing the service was incurred. In addition, the proposal for the first time clearly assigns receipts from certain types of financial transactions; the sourcing rules used for these transactions are the same rules used in the franchise tax statute.

Maine income tax is imposed on all Maine-source income earned by businesses. With businesses that only operate in this state, the tax is simply calculated on all of the business's income. However, in the case of a business that operates both in and outside Maine, Maine uses an apportionment formula to assign income to Maine and other states.

The current apportionment formula has three components: the sales factor, the property factor, and the payroll factor. The apportionment factor calculates the ratio of sales, property and payroll in Maine to the total sales, property and payroll everywhere in the country. This ratio is then applied against total business income to determine Maine-source income.

The Governor, in the 08 and 09 budget bill, proposed changing the apportionment factor to ignore property and payroll and to focus on sales only. That approach not only will increase revenues to Maine at the expense of businesses that primarily sell products into Maine, but it will promote economic development in Maine because businesses will not be subject to higher income taxes by investing in Maine or increasing employment in this state. Although the single-sales factor approach proposed in the budget accomplishes this goal for sales or receipts from tangible property and transactions related to real property, it does not work as well for the sales of services. This is so because Maine applies the cost of performance method relating to sales of services. With the general economy of the United States shifting from production-dominated industries to service-oriented industries, the cost of performance method is becoming increasingly obsolete. The budget proposes to eliminate the cost of performance method in favor of a destination or market state method, which assigns sales to the state where the purchaser of the service is located. This method is fully consistent with the use of the single sales factor for sales of tangible personal property, and, in fact, is used by other states that have gone to a single-sales factor for apportioning multistate business income.

TO: Appropriations and Financial Affairs Committee
FROM: Pamela L. Beal
58 Sylvan Road - South Portland, Maine 04106
(207) 767-2737
RE: Houlton Office - Maine Revenue Services - Tabled Item
DATE: Thursday - May 24, 2007

You may recall that last March I testified at the joint hearing of Appropriations and Taxation. As a Maine taxpayer and resident of South Portland I expressed my opposition to the proposal to close the Maine Revenue Services Houlton office.

I have followed this issue and the budget process with great interest these past months as you have grappled with some very difficult and complicated issues. I respect and have high praise for the committee's hard work, long hours, thoughtful discussions, and concern for the fiscal health of Maine. Members of the Appropriations Committee have long held the reputation for being fiscally responsible and vigilant in keeping spending under control.

The job is not finished and a vote to keep the Houlton office open has been tabled again. So once more I am writing to ask you to vote to not only to keep the Houlton office open, but to retain the full staff of 14 positions. The rationale for doing this is clear and the facts below speak for themselves.

- "The proof is in the pudding!" The fiscal year has not yet ended, two months are still left and assessed revenue has already reached 8.8 million.
- As of the end of April, collections had exceeded previous annual totals by 1.4 million.
- Retaining 8 employees and eliminating 6 employees would have a direct impact on the work this office does. Clerical staff (3 positions) allows examiners to be fully functional and to do what they are trained and best equipped to do - generate revenue. A loss of 3 examiners would seriously affect the amount of revenue assessed and subsequently collected.
- Clerical staff play an important role in any operation. Their elimination would seriously affect productivity. Imagine running your committee without any clerks.
- The facility is there and those expenses remain static regardless of how many employees work there. The variable is 6 employees' salaries and benefits - 3 professional positions and 3 clerical. Any initial minimal savings realized by cutting these positions would be more than paid for by the monies this office generates. Just do the math - examiners are assessing about 1 million dollars each per year!
- Not only has the routine work continued, but these professional employees have been asked to work overtime (since March 5) to help get the current income tax returns caught up. During these overtime hours employees are specifically tasked with fixing problem returns so that revenue will not be lost if delays in returns result in loss of revenue or the state's obligation to pay interest if returns are not completed in a timely manner.
- On overtime days, examiners work 10 hour days with a one-half hour lunch. This speaks to the loyalty, expertise, and work ethic of this office. Not only have the employees done an exemplary job, as the figures clearly show, but they have not slacked off and simply waited to see what would happen to their jobs.

Time is of the essence. In light of the facts presented here, when the Houlton office issue comes before you again I would implore you to vote to maintain the status quo and not only keep this exemplary office open, but keep it fully staffed with all 14 employees. It is important to recall that when Taxation unanimously voted to keep the office open with 8 examiner positions they also made a strong recommendation to keep the remaining 6 positions in place and urged your committee to find the funding to accomplish this. I would respectfully say that - to quibble over 6 jobs whose cost is minuscule seems counterproductive. This is not a partisan issue nor is it a case of reckless spending, but rather a prudent use of both qualified people and resources to generate revenue. Revenue generated vs. expenses = making money. The Houlton office is certainly making money! I understand you are under great pressure to be both responsible and accountable to Maine citizens. I believe informed taxpayers who knew the facts would applaud your good judgment to keep the office open and fully staffed. They would recognize the fiscal responsibility shown by conscientious legislators who were protecting the financial health of our state.

Thank you for all your hard work and your time and attention given to this matter.

Maine Revenue Services

Effective July 1, 2007

	FY'08	FY'09	Biennium	FY'10	FY'11	Biennium
Cigarette tax to $2.75 per pack	$48,120,000	$47,880,000	$96,000,000	$47,580,000	$47,290,000	$94,870,000
Change discount rate to 0.88%	$563,272	$558,819	$1,122,091	$553,712	$548,768	$1,102,480
General Fund - 0511	$48,683,272	$48,438,819	$97,122,091	$48,133,712	$47,838,768	$95,972,480
Sales tax - Total	$1,230,000	$1,220,000	$2,450,000	$1,200,000	$1,180,000	$2,380,000
General Fund - 0621	$1,167,270	$1,157,780	$2,325,050	$1,137,600	$1,118,640	$2,256,240
Local Government Fund - 2404	$62,730	$62,220	$124,950	$62,400	$61,360	$123,760
	94.9%	94.9%	94.9%	94.8%	94.8%	94.8%
	5.1%	5.1%	5.1%	5.2%	5.2%	5.2%
Tobacco products tax						
Smoking - 20% to 30%						
Smokeless - 78% to 117%						
General Fund - 0512	$2,260,445	$2,305,653	$4,566,098	$2,351,766	$2,398,802	$4,750,568
Sales tax - Total	$113,022	$115,283	$228,305	$117,588	$119,940	$237,528
General Fund - 0621	$107,258	$109,403	$216,661	$111,474	$113,703	$225,177
Local Government Fund - 2404	$5,764	$5,879	$11,644	$6,115	$6,237	$12,351
	94.9%	94.9%	94.9%	94.8%	94.8%	94.8%
	5.1%	5.1%	5.1%	5.2%	5.2%	5.2%
Tax little cigars as cigarettes						
(As defined in LD 1181) - GF	$3,590,000	$3,660,000	$7,250,000	$3,740,000	$3,800,000	$7,540,000
Sales tax - Total	$179,500	$183,000	$362,500	$187,000	$190,000	$377,000
General Fund - 0621	$170,346	$173,667	$344,013	$177,276	$180,120	$357,396
Local Government Fund - 2404	$9,155	$9,333	$18,488	$9,724	$9,880	$19,604
	94.9%	94.9%	94.9%	94.8%	94.8%	94.8%
	5.1%	5.1%	5.1%	5.2%	5.2%	5.2%
Total General Fund	$55,978,591	$55,845,322	$111,823,913	$55,651,828	$55,450,033	$111,101,861
Total Local Government Fund	$77,649	$77,432	$155,081	$78,239	$77,477	$155,715
Total revenue	$56,056,239	$55,922,755	$111,978,994	$55,730,066	$55,527,510	$111,257,576

HATHAWAY CREATIVE CENTER

Project Description: Largest Federal Historic Tax Credit development in the State of Maine. Property will be listed on the Federal Register of Historic Places and rehab will adhere to the Department of the Interior's Standards for rehabilitation and be overseen by the National Park Service and the State Historic Preservation Office.

The 236,000 SF five story granite and brick building is one of several cotton mills constructed along the Kennebec River by the Lockwood Company in late 1800's. However, it is best known as the manufacturing headquarters for the Hathaway Shirt Company. The Company operated out of Waterville for 165 years; it was one of the nation's largest shirt manufacturers and was nationally recognized for its unique style.

The development plan includes 66 loft style apartments on floors 4 & 5, class A office space on floors 2 & 3, and a mixture of business, retail, and other amenities on the first floor. Maine General's HealthReach Program has signed a 15 year lease for 40,000 SF and several other expanding businesses are in negotiations with the developer for space. A desperately needed Child Care Facility with an autism component is also planned. Residents and Employees will have access to a fitness center, business center, restaurant, coffee shop.

Project Budget: Total budget is $32.7 million. SOURCES: 1st Mortgage $17.4M, Federal Historic Tax Credit Equity $6.3M, ME State Historic Tax Credit Equity $3.2M, New Market Tax Credit Equity $4.3M, and Developer Equity of $1.5M. USES: Construction Costs $22.9M, Professional fees $2M, Financing Costs $1.7M, Other Soft Costs $2.2M, Acquisition Costs and Development Fees $3.9M.

Redevelopment Goals: 1) Historic Preservation, 2) Quality of Life/Neighborhood, 3) Environmental Sustainability, 4) Economic Development, 5) Workforce Development, 6) Strategic Community Goals.

Reasons for State support:

1) Waterville and Maine need this investment and Model Historic Preservation and Economic Development project (PILOT for LD262) to improve quality of life,
2) Prime example of Smart Growth and Brooking Report supported,
3) 194 jobs during 18 month construction period (104 direct, 90 indirect) estimated payroll $7.1million consumption expenditures of $3.7 million (more sales tax).
4) Estimated $8 million in local building supplies purchases resulting in $499,234 in state sales taxes during construction,
5) The State should receive enough in sales taxes, payroll taxes and income taxes that will more than offset the $1.5 million credit to paid in early 2009,
6) Upon build-out 583 direct jobs on site and 647 indirect or spin-off jobs with total payroll of $45 million. Developer estimates that 1/3 will be growth to the area,
7) ~100 residents will move into the neighborhood and the downtown area,
8) Acts as a catalyst for rehabilitation of adjacent two mill buildings – CMP and Mardens which total 212,000 SF, another potential >$25million investment,
9) $>$30 million investment in one of Maine's most depressed Communities - >28% poverty rate. Developer has drawn national attention to Maine's downtowns by recruiting a National New Market Tax Credit Equity Investor interested in the project's impact on the entire area,
10) Experienced development company looking to invest more into Maine's downtowns and New Market eligible areas,

[redacted]

From: Gerard, Jerome D.
Sent: Friday, May 04, 2007 11:51 AM
To: Hamel, Kathleen C.
Subject: FW: Accounts Receivable, Individual Income Tax

-----Original Message-----
From: Dearborn, Errol E.
Sent: Friday, May 04, 2007 11:48 AM
To: Gerard, Jerome D.
Subject: FW: Accounts Receivable, Individual Income Tax

Attached is the receivable spreadsheet that goes back to July 2001.

From: Dearborn, Errol E.
Sent: Friday, March 16, 2007 1:33 PM
To: Gerard, Jerome D.
Cc: Campbell, Stanley D.
Subject: Accounts Receivable, Individual Income Tax

Over the last 5 years we have experienced a significant rise in receivables for individual income tax.

12/31/2006	$131,684,697
12/31/2005	$114,272,840
12/31/2004	$ 97,814,240
12/31/2003	$ 91,773,318
12/31/2002	$ 92,584,577

Revenue for the Individual Income Tax line continues to grow also:

FY 2006 $1,368,926,759
FY 2005 $1,299,252,215
FY 2004 $1,160,028,060
FY 2003 $1,074,826,159
FY 2002 $1,072,810,107

And the percentage of receivables compared to revenue has started to rise.

12/31/2006	$131,684,697/$1,368,926,759=	9.6%
12/31/2005	$114,272,840/$1,299,252,215=	8.8%
12/31/2004	$ 97,814,240/$1,160,028,060=	8.4%
12/31/2003	$ 91,773,318/$1,074,826,159=	8.5%
12/31/2002	$ 92,584,577/$1,072,810,107=	8.6%

After a low in 2003, the amnesty year, liabilities for timely voluntarily filed returns are rising about $1 million per year.

12/31/2006	(2005 tax returns)	$8,411,208
12/31/2005	(2004 tax returns)	$7,118,395
12/31/2004	(2003 tax returns)	$6,575,433
12/31/2003	(2002 tax returns)	$4,955,464
12/31/2002	(2001 tax returns)	$6,686,690
12/31/2001	(2000 tax returns)	$6,225,320

There are many factors that have contributed to the rise in receivables in addition to the rise in non-payment.

- Increased assessments from the Tax Compliance Unit for non-filed returns
- Increased desk audits from the Income Tax Division, the Tax Compliance Unit and the Compliance Review Unit
- Holding off on some charge offs hoping to get additional payments from outside collection agencies, and the Federal income tax refund offset program (TOP).

Some steps/guidelines we have already initiated to address the increased receivables

- Outsourcing Solutions, Inc. (OSI) hired two additional collectors in February 2007. OSI collections continue to increase every year
- First two mail contacts with the taxpayers through the automated case flow have been changed to include the estimated tax due instead of just asking for a return
- Debtors who file additional unpaid returns must pay the new return in full or on a short payment plan
- We will look at the withholding of debtors who file additional unpaid returns and change their W-4 to 'single 1' if appropriate; increasing their withholding.
- Two deputies are being employed to find high-dollar tax debtors against whom other collection actions have been ineffective. If the debtor claims an inability to pay, he is subpoenaed to appear in Augusta with financial records. The intent is to determine collectibility and collect, adjust assessments downward or charge off the debt.
- Some new cases that will be high dollar assessments have had subpoenas, for records, served by the deputy
- Review of OSI cases over $50,000 to insure appropriate actions are taken

Proposed new initiatives/guidelines to address the increase in income tax receivables

- Increase review of accounts for charge off- Current year income tax charge off will be $8.8 million. We will continue this review and <u>may</u> have a supplement charge off, for income tax, to present to the administration by the beginning of FY 08.
- Review W-4 status of most repeat income tax non-filers
- Send certain high dollar non-filer assessments directly to the Special Enforcement Unit (SEU) for immediate collections
- Accelerate levy procedures so that any account will be immediately levied after 6 months unless they are on an acceptable payment plan. Collections on broken payment plans after that period will be immediately enforced
- Non-filer assessments will be enforced 3 months after assigned to collections if not participating in an acceptable payment plan or have provided some information that the assessment should be adjusted.
- Continue to work with Systems to rewrite the non-filer system to improve assessment quality

Goal

To reduce the income tax receivable by 10% by December 31, 2007

MAJOR GENERAL FUND TAX TYPES ACCOUNTS RECEIVABLE

Month End	Total	1040	Corp.	W/H	Sales	All Other	Tot: Cor/WH/Sal/Oth	Total
2001-6	159,529,366.00	81,246,320.00	4,829,353.00	15,522,377.00	57,931,316.00		78,283,046.00	159,529,366.00
2001-7	160,320,613.00	82,098,311.00	5,598,916.00	15,689,701.00	54,471,272.00	2,462,412.00	78,222,301.00	160,320,612.00
2001-8	162,042,541.00	84,274,217.00	6,043,079.00	16,008,564.00	53,529,958.00	2,186,823.00	77,768,424.00	162,042,641.00
2001-9	162,160,440.00	84,544,615.00	6,003,296.00	15,229,032.00	54,134,001.00	2,249,496.00	77,615,825.00	162,160,440.00
2001-10	165,132,247.00	85,545,464.00	6,687,955.00	16,857,097.00	54,221,162.00	1,820,569.00	79,586,783.00	165,132,247.00
2001-11	163,413,592.00	84,953,704.00	7,683,911.00	15,036,625.00	53,287,849.00	2,451,503.00	78,459,888.00	163,413,592.00
2001-12	165,976,977.00	85,705,429.00	8,349,830.00	14,732,680.00	55,164,404.00	2,024,634.00	80,271,548.00	165,976,977.00
2002-1	169,700,368.00	86,433,584.00	7,002,353.00	18,649,007.00	55,270,125.00	2,345,299.00	83,266,784.00	169,700,368.00
2002-2	167,282,209.00	86,035,405.00	6,955,118.00	16,983,729.00	55,096,286.00	2,211,671.00	81,246,804.00	167,282,209.00
2002-3	167,720,477.00	88,247,080.00	6,327,613.00	16,998,761.00	53,731,007.00	2,416,016.00	79,473,397.00	167,720,477.00
2002-4	175,480,930.00	92,699,870.00	6,377,969.00	16,669,068.00	57,132,855.00	2,601,168.00	82,781,060.00	175,480,930.00
2002-5	169,384,468.00	93,073,295.00	5,393,179.00	14,994,749.00	53,558,384.00	2,364,861.00	76,311,173.00	169,384,468.00
2002-6	162,852,029.00	89,134,369.00	5,978,361.00	13,839,494.00	51,715,568.00	2,184,237.00	73,717,660.00	162,852,029.00
2002-7	165,854,702.00	89,605,484.00	5,865,280.00	16,615,877.00	51,548,621.00	2,219,440.00	76,249,218.00	165,854,702.00
2002-8	165,248,391.00	90,340,092.00	6,214,685.00	14,375,492.00	51,257,782.00	3,060,340.00	74,908,299.00	165,248,391.00
2002-9	163,960,425.00	89,573,662.00	6,535,921.00	13,571,331.00	51,745,548.00	2,533,963.00	74,386,763.00	163,960,425.00
2002-10	171,744,679.00	91,413,251.00	6,885,924.00	15,364,862.00	53,407,690.00	4,672,952.00	80,331,428.00	171,744,679.00
2002-11	168,412,478.00	91,584,577.00	5,815,819.00	13,269,074.00	53,052,209.00	4,690,799.00	76,827,901.00	168,412,478.00
2002-12	172,844,224.00	92,557,400.00	6,269,440.00	12,996,324.00	53,662,469.00	7,358,591.00	80,286,824.00	172,844,224.00
2003-1	178,920,619.00	94,711,831.00	5,633,673.00	14,578,813.00	54,403,630.00	9,592,672.00	84,208,788.00	178,920,619.00
2003-2	177,859,075.00	94,281,682.00	5,894,005.00	15,497,557.00	52,922,471.00	9,263,360.00	83,577,393.00	177,859,075.00
2003-3	189,688,773.00	96,499,485.00	6,138,721.00	14,943,111.00	52,896,559.00	19,210,897.00	93,189,288.00	189,688,773.00
2003-4	194,416,690.00	101,152,477.00	4,812,981.00	14,855,421.00	53,128,517.00	20,467,294.00	93,264,213.00	194,416,690.00
2003-5	195,302,629.00	101,136,027.00	3,372,484.00	13,751,243.00	54,268,531.00	22,774,344.00	94,166,602.00	195,302,629.00
2003-6	199,690,399.00	101,923,078.00	3,532,055.00	15,444,828.00	53,512,625.00	25,277,813.00	97,767,321.00	199,690,399.00
2003-7	197,982,723.00	102,186,183.00	3,523,670.00	16,122,730.00	53,021,329.00	23,128,811.00	95,796,540.00	197,982,723.00
2003-8	197,485,330.00	101,874,518.00	4,791,030.00	14,245,931.00	52,273,718.00	24,300,133.00	95,610,812.00	197,485,330.00
2003-9	205,241,510.00	101,366,185.00	5,594,327.00	13,304,990.00	51,141,139.00	33,834,869.00	103,875,325.00	205,241,510.00
2003-10	218,214,881.00	103,142,642.00	7,709,006.00	14,688,446.00	50,281,942.00	42,392,845.00	115,072,239.00	218,214,881.00
2003-11	209,735,975.00	98,687,528.00	7,641,736.00	13,850,917.00	50,068,764.00	39,487,030.00	111,048,447.00	209,735,975.00
2003-12	167,818,926.00	91,773,318.00	5,823,489.00	14,169,418.00	46,731,029.00	9,321,672.00	76,045,608.00	167,818,926.00
2004-1	166,857,485.00	90,523,991.00	5,887,318.00	14,938,821.00	46,179,215.00	9,328,140.00	76,333,494.00	166,857,485.00
2004-2	164,947,753.25	91,325,626.89	5,343,764.76	13,449,423.04	45,500,223.29	9,328,715.27	73,622,126.36	164,947,753.25
2004-3	163,610,189.00	90,756,795.00	9,311,388.00	12,199,134.00	42,910,326.00	8,432,546.00	72,853,394.00	163,610,189.00
2004-4	165,627,317.00	93,826,033.00	8,373,461.00	13,263,825.00	42,061,675.00	8,102,323.00	71,801,284.00	165,627,317.00
2004-5	180,468,152.00	92,206,676.00	9,919,510.00	12,452,377.00	57,103,894.00	8,785,695.00	88,261,476.00	180,468,152.00
2004-6	179,154,140.00	90,922,451.00	9,546,124.00	11,880,631.00	57,752,673.00	9,052,261.00	88,231,689.00	179,154,140.00
2004-7	178,055,080.00	90,048,642.00	9,678,189.00	14,637,443.00	55,893,430.00	7,797,376.00	88,006,438.00	178,055,080.00
2004-8	181,183,879.00	92,010,520.00	9,789,189.00	13,189,248.00	56,538,440.00	9,656,482.00	89,173,359.00	181,183,879.00
2004-9	182,152,357.00	94,934,932.00	9,957,232.00	12,045,475.00	56,728,123.00	8,486,595.00	87,217,425.00	182,152,357.00
2004-10	186,605,081.00	96,668,767.00	11,452,701.00	13,254,922.00	56,391,351.00	8,837,340.00	89,936,314.00	186,605,081.00
2004-11	188,762,237.00	96,938,066.00	11,164,302.00	14,094,414.00	58,146,874.00	8,418,581.00	91,824,171.00	188,762,237.00
2004-12	186,672,587.00	97,814,240.00	9,947,557.00	12,908,525.00	58,527,283.00	7,474,982.00	88,858,347.00	186,672,587.00
2005-1	193,313,570.00	104,316,782.00	10,235,629.00	13,846,324.00	57,719,070.00	7,195,765.00	88,996,788.00	193,313,570.00
2005-2	197,826,017.00	107,902,613.00	10,991,152.00	13,850,167.00	57,723,769.00	7,358,316.00	89,923,404.00	197,826,017.00

2005-3	202,061,224.00	109,509,867.00	13,938,552.00	13,027,421.00	57,725,136.00	7,860,248.00	92,551,357.00	202,061,224.00
2005-4	202,938,972.00	110,089,334.00	13,716,552.00	13,691,495.00	57,621,653.00	7,819,938.00	92,849,638.00	202,938,972.00
2005-5	200,879,952.00	110,247,715.00	14,223,868.00	11,604,405.00	56,308,788.00	8,495,176.00	90,632,237.00	200,879,952.00
2005-6	200,738,408.00	110,885,360.00	13,910,733.00	12,097,651.00	55,717,728.00	8,126,936.00	89,853,048.00	200,738,408.00
2005-7	198,502,113.00	111,205,809.00	12,293,734.00	12,613,840.00	53,775,881.00	8,612,849.00	87,296,304.00	198,502,113.00
2005-8	199,282,677.00	112,525,533.00	13,567,729.00	11,322,689.00	53,960,125.00	7,906,601.00	86,757,144.00	199,282,677.00
2005-9	199,576,018.00	112,351,102.00	15,250,359.00	10,702,563.00	53,532,379.00	7,739,615.00	87,224,916.00	199,576,018.00
2005-10	214,416,411.00	114,542,190.00	24,195,142.00	13,816,731.00	53,665,183.00	8,197,165.00	99,874,221.00	214,416,411.00
2005-11	213,180,890.00	116,226,553.00	23,287,519.00	11,837,353.00	53,677,734.00	8,151,731.00	96,954,337.00	213,180,890.00
2005-12	201,375,213.00	114,272,840.00	23,678,537.00	12,344,226.00	38,920,919.00	12,158,691.00	87,102,373.00	201,375,213.00
2006-1	204,229,649.00	116,741,555.00	23,512,484.00	12,918,840.00	39,257,503.00	11,799,267.00	87,488,094.00	204,229,649.00
2006-2	206,292,074.00	120,010,315.00	23,573,842.00	11,431,516.00	39,904,423.00	11,371,978.00	86,281,759.00	206,292,074.00
2006-3	211,507,954.00	125,040,913.00	22,862,585.00	11,030,408.00	41,070,076.00	11,503,972.00	86,467,041.00	211,507,954.00
2006-4	218,477,222.00	128,479,817.00	24,549,447.00	13,785,804.00	40,609,055.00	11,053,098.00	89,997,404.00	218,477,221.00
2006-5	218,835,097.00	130,871,331.00	24,905,941.00	11,886,509.00	39,979,964.00	11,191,352.00	87,963,766.00	218,835,097.00
2006-6	222,873,881.00	130,582,555.00	26,035,552.00	11,274,987.00	42,025,740.00	12,955,047.00	92,291,326.00	222,873,881.00
2006-7	223,999,486.00	128,307,248.00	24,177,544.00	16,842,728.00	42,664,537.00	12,007,429.00	95,692,238.00	223,999,486.00
2006-8	217,058,229.00	128,062,390.00	22,957,177.00	11,404,261.00	42,853,966.00	11,780,435.00	88,995,839.00	217,058,229.00
2006-9	211,629,587.00	123,790,031.00	22,894,943.00	10,897,262.00	42,360,100.00	11,677,251.00	87,829,556.00	211,619,587.00
2006-10	219,703,054.00	128,328,398.00	22,814,284.00	14,937,315.00	41,792,370.00	11,830,687.00	91,374,656.00	219,703,054.00
2006-11	216,353,797.00	128,523,013.00	22,658,209.00	11,952,619.00	41,634,423.00	11,585,533.00	87,830,784.00	216,353,797.00
2006-12	214,874,666.00	131,684,697.00	21,084,700.00	11,527,905.00	39,690,205.00	10,887,159.00	83,189,969.00	214,874,666.00
2007-1	224,153,662.00	134,907,550.00	16,745,088.00	18,307,724.00	40,223,708.00	13,969,591.00	89,246,111.00	224,153,661.00
2007-2	214,435,290.00	134,624,970.00	15,332,530.00	12,230,128.00	40,173,430.00	12,074,232.00	79,810,320.00	214,435,290.00
2007-3	219,415,863.00	137,496,771.00	15,404,782.00	13,691,096.00	41,322,715.00	11,500,499.00	81,919,092.00	219,415,863.00

ESTATE

Sec. ___. The following appropriations and allocations are made to carry out the purposes of this [Part].

Administrative and Financial Services, Department of
Maine Revenue Services, Bureau of 0002

Initiative: Create a Revenue Agent/Senior Revenue Agent position to assist in the audit of estate tax returns, as well as expand the audit function of fiduciary income tax returns and to review related tax issues associated with decedents and beneficiaries. The position is expected to generate approximately $600,000 in additional Maine tax revenue annually.

GENERAL FUND	2007-08	2008-09	2009-10	2010-11
Legislative Count	(1.000)	(1.000)	(1.000)	(1.000)
Personal Services	$65,877	$69,549	$73,026	$76,678
All Other	$16,881	$12,181	$12,790	$13,430
General Fund Total	$82,758	$81,730	$85,816	$90,108

FISCAL NOTE

REVENUE	2007-08	2008-09	2009-10	2010-11
General Fund	$299,220	$598,440	$623,375	$649,557
Local Government Fund	$ 780	$ 1,560	$ 1,625	$ 1,693
Total	$300,000	$600,000	$625,000	$651,250

Fiscal Note assumptions: Revenue from fiduciary income tax audits is estimated to represent 5% of total and LGF is calculated at 5.2%.

QUESTIONS:

1) In the initiative above, it says that MRS would "expand the audit function for fiduciary income tax returns and...review related tax issues associated with decedents and beneficiaries." What are the related tax issues?

A: Generally, there is a relationship between estates and trusts. For example, audit leads are gained from comparing income and deductions claimed for fiduciary income tax purposes with the assets claimed for Maine estate tax purposes. Marital and charitable deductions also provide clues to the tax situation of trusts and estates, and distributions to beneficiaries provide leads regarding income and deductions reportable on individual income tax returns. This type of review occasionally results in adjustments to the fiduciary, estate or individual income tax liability. The proposed position would allow

MRS to expand its audit efforts with respect to fiduciary and related beneficiary income tax returns. Resources are not currently available to do this work.

2) In the initiative above, it says that "[t]he position is expected to generate approximately $600,000" in additional revenue. What is the basis for this estimate? What assumptions were used to develop this estimate?

A: The current estate audit position raises approximately $1,000,000 annually in estate tax revenue. It is estimated that a new audit position would raise an additional 60% in revenue based on experience with the types of errors or misrepresentations generally made in filing estate and fiduciary income tax returns. The individual currently performing estate tax audits is aware of additional audit leads they are unable to pursue due to lack of resource. Considering a learning curve, MRS is comfortable that the new position will be able to raise another $600,000.

3) Is the $600,000 estimated annual revenue net of the administrative costs (approximately $200,000 per biennium)?

A: No. The projected revenue is $900,000 for the biennium with an approximate administrative cost of $165,000. It should be noted that in the first year of the biennium, the projected revenue is $300,000 and thereafter the revenue projection is $600,000 or more.

4) What is "Local Government Fund"? (See Fiscal Note table)

A: Under current law, 5.1% of all income, sales and service provider tax receipts are transferred to the Local Government Fund for distribution by the State Treasurer to the municipalities for revenue sharing.

5) The fiscal note assumption indicates "[r]evenue from fiduciary income tax audits." What would MRS audit – non-resident beneficiaries, something else? Why doesn't K-1 matching and p. 2 of 1041ME take care of this?

A: Yes, resident and non-resident beneficiaries for Maine income tax will be audited, including a search for non-filers. As to the second question, MRS does not currently have K-1 matching functionality.

6) It is onerous to complete a pro-forma gap estate return. Is this necessary? Why?

A: It is no more onerous, and probably easier, than to complete a non-gap estate return. The pro forma gap-estate tax return is similar to filing a federal estate tax return that is necessary for estates subject to the federal estate tax. The pro forma federal return is necessary for gap estates to calculate the state death credit applicable as if a federal estate tax liability had been incurred under Maine law. The Maine estate tax is based on this pro forma federal state death credit. In addition, the pro forma reflects asset values and deductions for purposes of calculating the Maine estate tax when no federal estate tax applies.

7) What is the annual estate tax revenue (Form 706ME)?

A: In FY07 the forecast is $52.5 million.

8) What is the annual admin costs associated with generating estate tax revenue?

A: Total cost estimate = $269,395; includes printing of forms, processing returns and staffing costs.

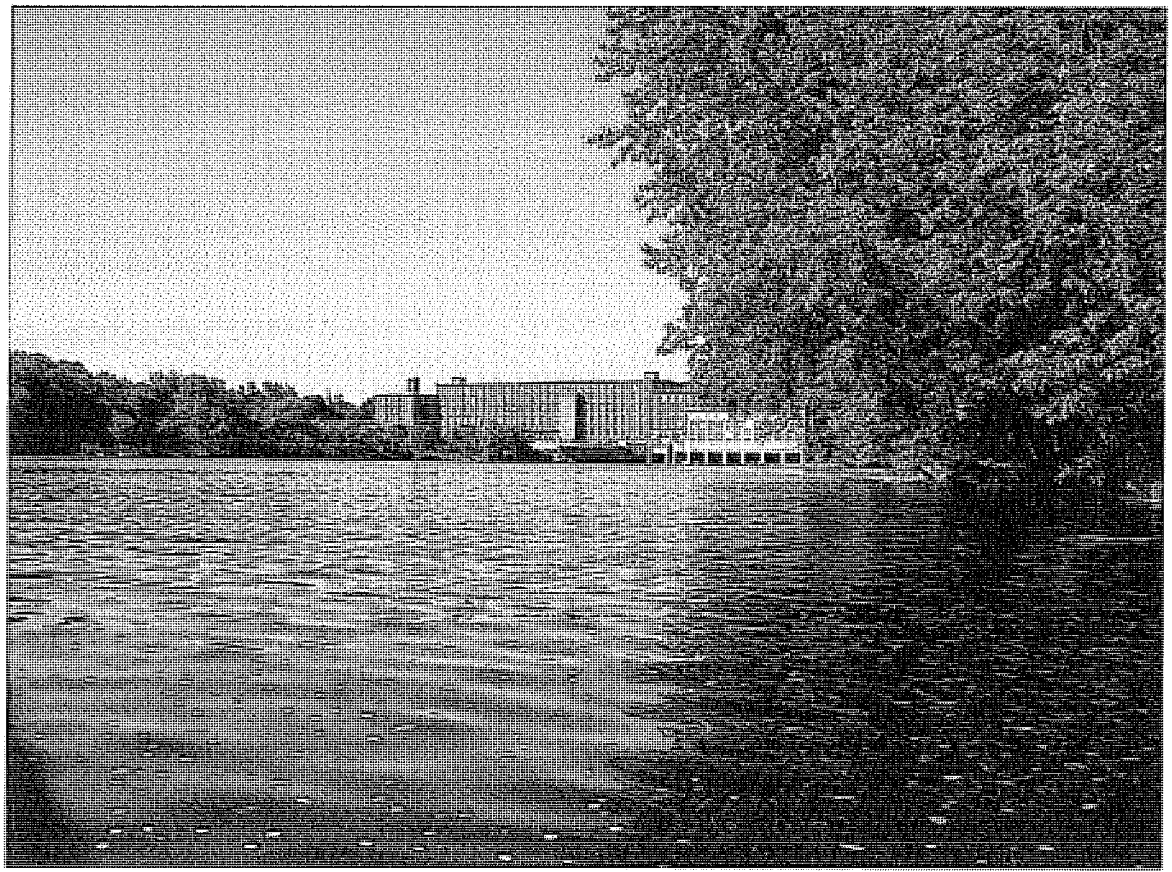
9) If we recoupled with the federal estate tax, how much revenue would the state lose?

A: If the state conformed to the federal estate tax exemption beginning with deaths occurring on or after January 1, 2008, the estimated revenue loss in FY09 is $21.6 million and in FY10 $32.9 million.

Phase I of the Lockwood Mills Campus

Hathaway Creative Center
Waterville, Maine

A Hathaway Holdings, LLC and Niemann Capital, LLC Project



Maine State Legislature
Republican Caucus
May 2, 2007

5/2/2007

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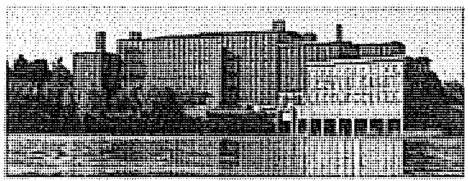
Site History

The brick and granite building is one of several cotton mills constructed along the river by the Lockwood Company in the late 1800s. However, it is best known as the manufacturing headquarters for the Hathaway Shirt Company. The company operated out of Waterville for 165 years, it was one of the nation's largest shirt manufacturers and was nationally recognized for its unique style.

Development Description

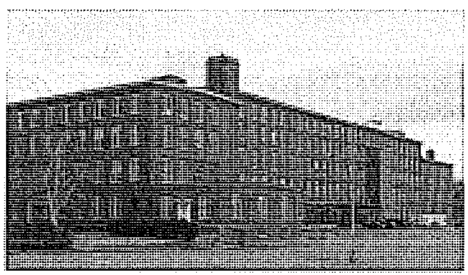


Hathaway Holdings and Niemann Capital have partnered on the redevelopment of the former Hathaway Shirt Factory, a 5-story, 236,000 square foot industrial building was built 150 years ago. The subject building is located on five acres of land in downtown Waterville, Maine, with frontage on the Kennebec River. The development plan includes: loft apartments on the top two floors, office space on the third floor, business incubator and office space on the second floor, and office, retail, and space restaurant on the ground floor.

Sixty-six loft-style units ranging in size from 540 square feet to 1,520 square feet are planned for the fourth and fifth floors. The developers have set aside 4 affordable units with rents at about $560 a month and will work with the city of Waterville to assure the units go to lower income families. Each of the units will be equipped with a stove, refrigerator, dishwasher, disposal, and baseboard heat. The developer will work out a heating package to allow reasonable utility costs.

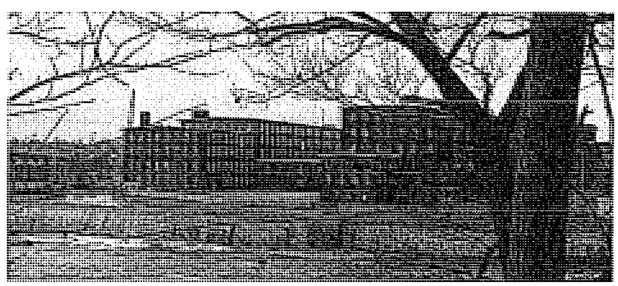
The tenants will have access to a community room, fitness center, and a business center. Secured basement storage will be available. There will be ample parking at no charge in a parking lot, and some garage parking may be available across the street for an additional charge. The building will have elevator service on the East and West ends. Security will be provided through key-card access to elevators going to the top residential floors, as well as doors going to the top residential floors. The subject units will have many desirable features: 14-foot ceilings with wood beams; hardwood floors throughout the units; exposed brick walls and large windows. Many of the units will have views of the city and the Kennebec River.

Financing Overview



The Development team will approach the project with several available financing tools. Niemann Capital has successfully worked with members of the Maine State Legislature and Governor John Baldacci to modify the state historic rehabilitation tax credit so that it is useable for the a similar project and able to pair with the federal credit. The developer has negotiated a Tax Increment Financing District with the City of Waterville for 20 years. Additionally, the developer will prepare a financing package that utilizes New Markets Tax Credits. The developer is planning on working with Banks in the State of Maine.

Future Phases



The developer has optioned two adjacent structures know as the CMP building and the Marden's building that make up the Lockwood Mills Complex. Plans include additional phases to add more residential, a conference center, and commercial space to the area. These buildings will be renovated based on market demand after the Hathaway Mill is completed.

Hathaway Creative Center Redevelopment Goals

Preservation

- Expand the Governor and Legislators' Historic Preservation Pilot Program
- Register building for listing on the National Register of Historic Places
- To restore through adaptive reuse the Hathaway Shirt Factory
- Develop a National Park Service project with the State Historic Preservation Officer's oversight
- To enhance the historic quality of Waterville, Maine
- To restore one of the most important historic, economic, and cultural facilities of Waterville into a 21st century creative class environment
- Catalyst for an act to improve the Maine State Historic Preservation Program

Quality of Life/Neighborhood

- To encourage and promote physical activity along the waterfront and in downtown
- To create a walk able urban neighborhood that allows residents and visitors to utilize the river front area for as much of the year as possible
- To foster a distinct and attractive district with a strong sense of place

Environmental Sustainability

- To use practices in design and building generally accepted by the U.S. Green Building Council http://www.usgbc
- To incorporate such features where possible for energy efficiency and long term savings
- To mange the Hathaway Creative Center in an environmentally sensitive manner and encourage residents and employees to participate in sustainability programs
- To serve as model for sustainable environmental developments in the State of Maine

Economic Development

- To grow the Waterville, Maine tax base
- To create a diverse and imaginative environment near the city center thereby retaining and recruiting the creative class as vibrant part of Maine's economy
- To contribute to visitor related economic development by making the property, waterfront and retail available to visitors
- Model for mixed-use development in a New Markets census tract

Workforce Development

- To encourage and promote employment opportunities during and post construction

Strategic Community Goals

- Coordinate with the Maine Department of Economic Development and the City of Waterville to realize broad base goals in housing, economic development, arts and culture, tourism, and environmentally sustainable development.

Economic and Fiscal Impact Evaluation (Internal Study Developed by Niemann Capital)

Section 1 Introduction

1.1 Study Purpose

Hathaway Holdings and Niemann Capital have partnered on the redevelopment of the former Hathaway Shirt Factory, a 5-story, 236,000 square foot industrial building built 150 years ago. The subject building is located on five acres of land in downtown Waterville, Maine, with frontage on the Kennebec River. The development plan includes: loft apartments on the top two floors, office space on the third floor, business incubator and office space on the second floor, and office, retail, and restaurant space on the ground floor.

Sixty-six loft-style units ranging in size from 540 square feet to 1,520 square feet are planned for the fourth and fifth floors. The developers aside has set aside 4 of affordable units with rents at about $560 a month. Each of the units will be equipped with a stove, refrigerator, dishwasher, disposal, and baseboard heat.

The tenants will have access to a community room and a business center. Secured basement storage will be available. There will be ample parking at no charge in a parking lot, and some garage parking will also be available across the street for an additional charge. The building will have elevator service on the East and West ends. Security will be provided through key-card access to elevators going to the top residential floors, as well as doors going to the top residential floors. The subject units will have many desirable features: 14-foot ceilings with wood beams; hardwood floors throughout the units; exposed brick walls; and large windows. Many of the units will have views of the city and the Kennebec River.

The developers of the project have requested TIF incentives from the City of Waterville and are working with the Maine legislature to adopt legislation that mirrors the federal historic tax credit. The purpose of this analysis is to ascertain the economic impact of this project on tax revenues such as property, personal and sales as well as the total economic impact of direct and indirect investment, jobs and spending in the City of Waterville at the project's full build out.

1.2 Report Organization

This report is organized into three sections plus an appendix. The first section is the Introduction and outlines the study purpose and work completed for this evaluation. Section 2 provides a summary of the economic and fiscal impact of the proposed Hathaway project. The third section provides a qualitative summary of the other public and economic benefits of the mixed-use development to the City of Waterville.

Section 2 Economic and Fiscal Impact Evaluation

2.1 Development Program

The Hathaway project is located at 10 Water Street, Waterville, Maine. The development plan includes: 66 loft apartments on the top two floors, office space on the third floor, business incubator, and office space on the second floor, and office, retail, and restaurant space on the ground floor. The total space of 328,536 square feet will consist of 66 loft apartments, 56,291 square feet of office space, 91,071 square feet of retail space and 278 parking spaces. There will be additional parking spaces in the parking deck which will be built at a later date. The project will also have a marina. The following table summarizes the development assumptions for the Hathaway project used in this evaluation.

Hathaway Mill
Development Assumptions

	Total Square Feet	**Number of Apartments**
	61,174	66
Office	56,291	
Retail	91,071	
Total	**208,536**	

2.2 Operating Period Economic and Fiscal Impacts (Constant 2006 Dollars)

Once construction is complete market impacts related to the Hathaway Mill project operations will continue on a sustained annual basis. The Hathaway project will provide on-site a total of approximately 583 jobs with an aggregate annual payroll of about $23 million. In addition, this project will be the home to approximately 66 households whom will have total aggregate annual earnings of more than $2.3 million.

Furthermore, the project will create more than 647 additional indirect, or spin-off, jobs off-site primarily as a result of expenditures made by the project's employees and residents. These indirect jobs will have an aggregate annual payroll of approximately $22 million. The wages and salaries of project employees and residents will annually generate an estimated $21.7 million in consumer expenditures. The related fiscal impact will be approximately $1.1 million in direct sustainable tax revenue to the State.

Build Out Impact

Economic Impact	**Direct Jobs**	**Indirect Jobs**	**Total**
Jobs FTE	583	647	1,230
Annual Payroll	$23 Million	$22 Million	$45.0 Million
Consumer Expenditure			$21.7 Million
Annual State Tax Revenue			$ 1.1 Million

Net New Versus Transfer Demand

It is understood that a portion of the estimated tax revenue generated will represent transfer from other Waterville locations and a portion will represent new revenue to Waterville. In other words, some tax revenue at the Hathaway Mill site would have occurred at other Waterville businesses or residences. To estimate the percentage of the tax revenue collected from this project that is likely to be collected in Waterville even if the Hathaway site project is never constructed has not been fully examined at this time, however, given the market analyses anticipated demand for Loft style residential housing within the market area (on-site employees, university student housing demand); projected employment among office- and retail-occupying sectors of the development; unique design aspect of the project and historic atmosphere, integration into the development with easy access to downtown Waterville, we would estimates that some amount of the economic and fiscal impacts of the project would represent a transfer of impacts.

Section 3 Other Benefits

The Hathaway Mill project will provide significant benefits to the city of Waterville as well as to the Kennebec County and the region as a whole. The unique nature of the project, an adaptive reuse of existing vacant and underutilized Historic building, will provide enhanced quality of life and economic opportunities beyond those quantified in the previous sections. This development will set the stage for development of the remaining properties in this location. The investment will further reinforce and strengthen the market for high quality housing and commercial space in downtown Waterville.

The project provides Waterville an opportunity to retain and attract new jobs and new permanent residents who would pay State and local taxes and generate relatively little service requirements. This project will also provide housing for the stressed student housing market in the area. With the success of the first phase of Hathaway Mill this project would continue the vision to convert the buildings, as stated earlier, into a desirable place to live, work and shop. Furthermore, this project will further enhance the vision of adaptive reuse of historic buildings and mill space into attractive housing and employment opportunities in the State of Maine.

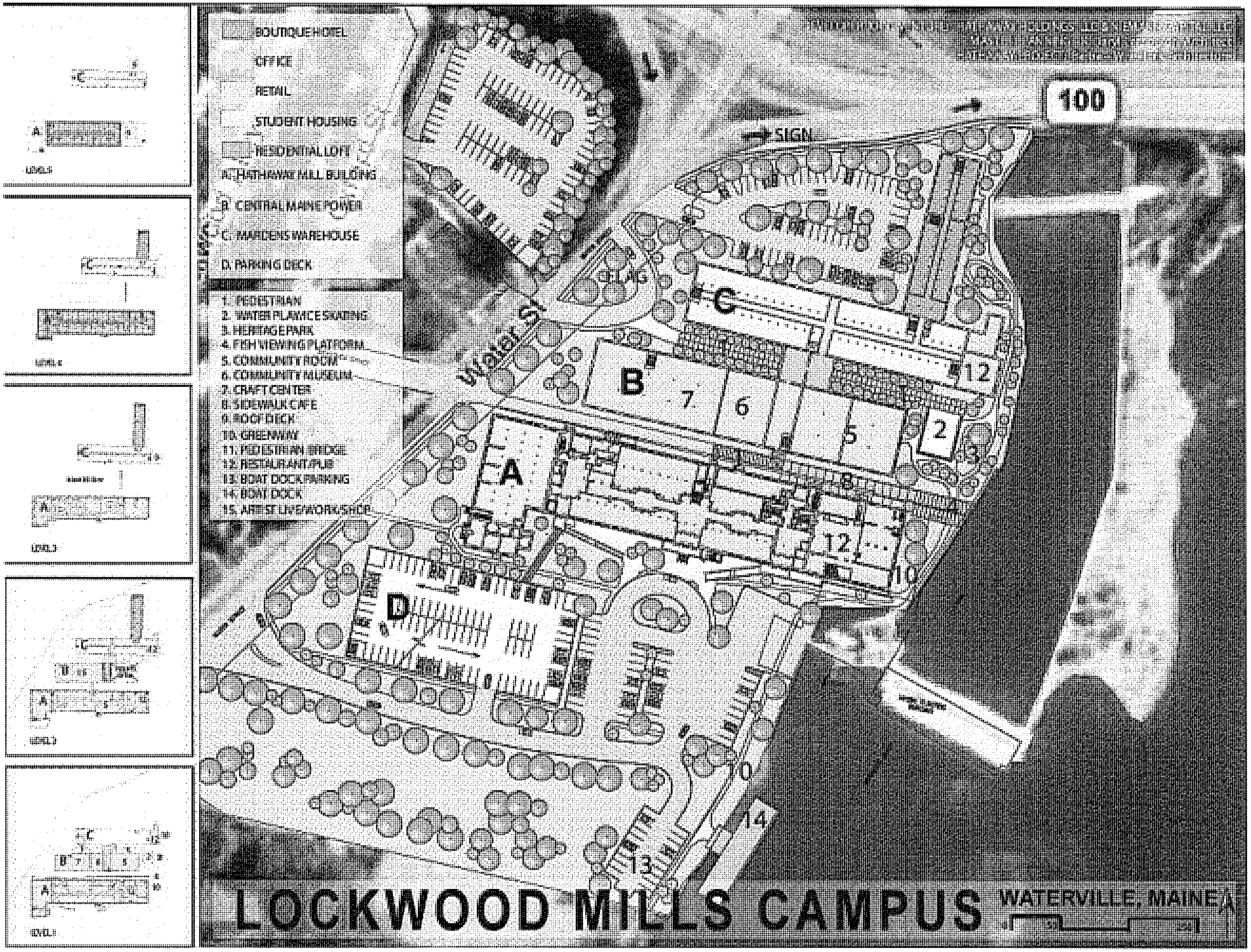
The project also facilitates the ability and availability to provide housing to meet the needs of current and future residents. The project provides unique loft-style housing and provides services and amenities to help support existing and future residents in Waterville. The project will also provide needed retail amenities to serve the existing and future residents and businesses in the neighborhood in an area with limited retail, such as a coffee shop, specialty retail and restaurants. Furthermore, these retail opportunities will provide additional tax revenues to the State and Waterville by those visiting the area for boat launching from the Marina. The project will also provide opportunities for entrepreneurial companies seeking to locate small "office lofts" helping to make the site attractive to Waterville's growing population of the creative class workers.

Methodology

The economic and fiscal impact analyses utilized the following as outline in the bullet points below:

- We utilized information from our development plan, financial reports and internal market study
- Specific sources and assumptions are detailed in the Development Plan
- Employment estimates (by use) were made by applying industry standards to the baseline information where applicable
- Average estimation of retail sales per square foot per applicable category (e.g. specialty retail, restaurant) based on ULI standards for the New England States
- Employee totals and wages per job classification for each use (office, commercial/retail, R&D) were based on industry standards and comparable projects in the area. FTE indicates "full-time equivalent", working 2,080 hours annually

In calculating expenditure impacts, disposable income was 89.2 percent of personal income and consumption expenditures were 95.8 percent of disposable income as of August 2005 (Bureau of Economic Analysis).


BOUTIQUE HOTEL
OFFICE
RETAIL
STUDENT HOUSING
RESIDENTIAL LOFT
A. HATHAWAY MILL BUILDING
B. CENTRAL MAINE POWER
C. MARDENS WAREHOUSE
D. PARKING DECK
1. PEDESTRIAN
2. WATER PLAY/ICE SKATING
3. HERITAGE PARK
4. FISH VIEWING PLATFORM
5. COMMUNITY ROOM
6. COMMUNITY MUSEUM
7. CRAFT CENTER
8. SIDEWALK CAFE
9. ROOF DECK
10. GREENWAY
11. PEDESTRIAN BRIDGE
12. RESTAURANT/PUB
13. BOAT DOCK PARKING
14. BOAT DOCK
15. ARTIST LIVE/WORK/SHOP
SIGN
100
Water St
A
B
C
D
LOCKWOOD MILLS CAMPUS
WATERVILLE, MAINE

5/2/2007

Developer Background: Niemann Capital, LLC and Hathaway Holdings, LLC

Niemann Capital was formed in 1994 and is a Durham, NC based real estate and Community Development Company specializing in the adaptive reuse of historic urban properties. Tom Niemann is president of Niemann Capital and has a strong vision for improving the quality of life in urban communities through mixed-use, primarily residential, development that will serve as a catalyst for urban revitalization and creation of a "24-hour city or town."

Niemann Capital uses historic preservation as a tool for economic development in urban areas and small to medium size communities with recent economic downturn. Niemann Capital is committed to working with the communities it serves to ensure that landmark structures are restored in a way that preserves and enhances the aesthetic and historic character of the area while breathing new life into the community through pedestrian oriented residential and mixed-use neighborhoods.

Niemann Capital offers experience with large historic properties that have the potential for major economic development in the area they are located in. By working with communities it serves, Niemann Capital has developed properties that fit in to the existing fabric of the community while offering a new engine for economic development. Niemann Capital works extensively with Federal and State Historic Preservation tax credits and New Markets Tax Credits in addition to public private partnerships including Tax Increment Financing. Niemann Capital partners with some of the largest institutional investors in the nation to bring significant private capital to the markets that need it.

In 1995 Tom Niemann joined with Brian Davis and Christian Laettner to form Blue Devil Ventures, LLC. Blue Devil Ventures is based in Durham and is working on the development of West Village; the largest certified historic rehabilitation project in the state of North Carolina. Tom serves as a Managing Partner of Blue Devil Ventures.

Niemann Capital partnering with Paul Boghossian a principal with Hathaway Holdings, LLC is the development group working on the Hathaway Creative Center in Waterville, Maine. Mr. Boghossian is a longtime resident of Maine and is involved in civic activities around the Waterville area.

Since attending Colby College Paul Boghossian has been working on real estate development and commercial brokerage throughout Maine and Rhode Island. He was intimately involved with the redevelopment and sale of three commercial buildings near the Portland Public Market. Paul has extensive experience with commercial brokerage and leasing in Maine and has successfully recruited credit tenants to pre-lease portions of each project he has worked on. Niemann Capital maintains offices in Durham, North Carolina and Waterville, Maine.

Staff and Consultants
Thomas M. Niemann, President
Paul Boghossian, Principal in Hathaway Holdings, LLC
Shannon Bain, Development Analyst
Cecil Brown, Chief Operations Officer
Dr. Daryl Carrington, Design Architect - Master Planning
Presley Gardner, Owner's Representative - Construction Management
Darden Jenkins, Development Associate
Joshua M. Parker, Director of Development
Kathryn Gettings Smith, Architectural Historian, History Matters
Robin Stanfield, Controller
Kent Waters, Office Assistant

Development Goals and Community Impact

- Preservation
- Quality of Life/Neighborhood
- Environmental Sustainability
- Economic Development
- Workforce Development

The Triple Bottom Line – Historic Preservation, Environmental Sustainability, Community Equity

Niemann Capital is driven by a triple bottom line approach to real estate and community development. By using historic preservation as a tool for economic development our firm can not only take an abandoned building and turn it into a new engine for economic growth, but in doing so preserve the sense of place of a community's most important assets.

Niemann Capital is committed to green building and environmental sustainability. It is incumbent upon developers, especially in urban areas, to lower the net impact on the environment and design projects in such a way, that the long term impacts will continue to be low.

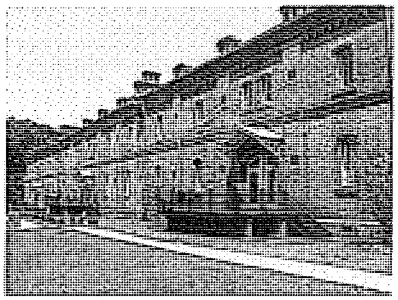
By undertaking a significant community input process and working with the public sector where possible, Niemann Capital is able to not only build support but create a development that grows organically with the community. It is important for members of the community to feel like they have ownership in the downtown area and of landmark projects. Not only do we build support for the development, but we learn what is best for the neighborhoods we work in.

Current Projects

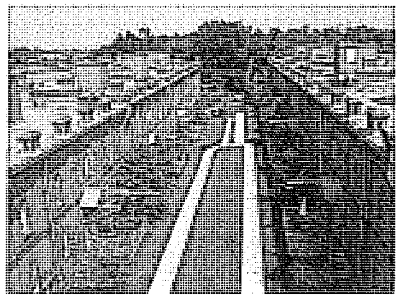
Kennebec Arsenal	Augusta, ME	70,000 SF
Lockwood Mills*	Waterville, ME	450,000 SF
White Furniture Company	Mebane, NC	230,000 SF
Florence Mill	Forest City, NC	140,000 SF
Eastern Fine Paper Mill*	Brewer, ME	500,000 SF
West Village Expansion*	Durham, NC	900,000 SF
Anthony Mill	Coventry, RI	176,000 SF

*-partnership

Niemann Capital's development policy includes an annual capacity of three project sizes. Project sizes include small (50,000-200,000 SF), medium (200,000-600,000 SF) and large (600,000 SF or greater). Large projects often take longer than smaller projects. Therefore, Niemann Capital may be able to produce 1-2 small projects and 1 medium size project on an annual basis, while under development with one large project that may require multiple years to complete.

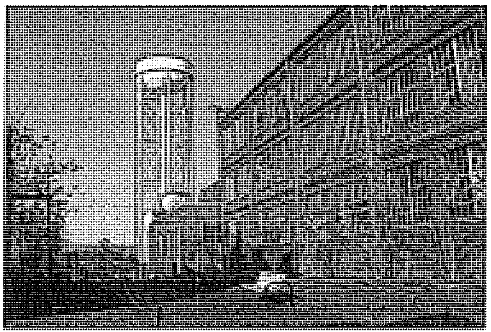


Hicks Warehouse
West Village Durham, NC



Toms and Hicks courtyard
West Village Durham, NC

West Village is a mixed-use, upscale community located in five historic tobacco warehouse buildings in downtown Durham, North Carolina. (http://www.westvillageapts.com/overview.asp) The turn-of-the-century, ornate brick buildings were once used by the Liggett & Myers Tobacco Company to warehouse and process tobacco as well as manufacture cigarettes. The first phase of the West Village development was completed in 2000 and consists of 241 luxury loft apartments and approximately 36,000 square feet of Class A office/retail space. Apartments are characterized by high ceilings, exposed brick walls, timber columns, wood floors and large industrial windows. Commercial tenants are mostly located in the 1926-built Powerhouse and include an architectural design firm, a landscape architect and site planning firm, a software design company, an environmental consulting business, and both the Duke University Capital Assets Management Office and Office of the University Architect. An upscale Italian restaurant is also located within the development's Cooper Garage, built in 1899. All told, there are approximately 400 residents living at West Village and 100 employees of businesses located there. West Village was developed by Blue Devil™ Ventures, LLC of Durham, North Carolina.

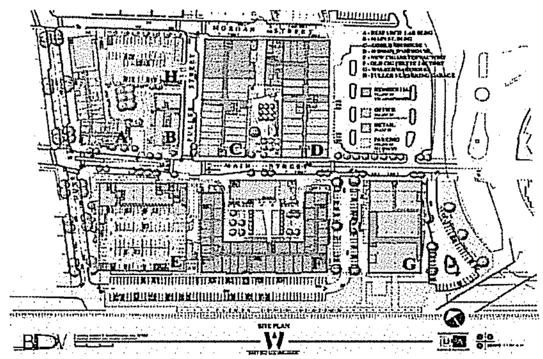


West Village Expansion

In 2006, West Village began a major expansion. Plans include the adaptive reuse of the seven remaining adjacent buildings of the Liggett & Myers complex, built between 1884 and 1949. Totaling over 992,000 square feet, the project will consist of an additional 375 loft-style apartments, 164,000 square feet of class A office/lab space and 58,000 square feet of retail space on downtown's Main Street. With street level storefronts, improved sidewalks, attractive landscaping and new lighting, the expansion will enhance West Village's pedestrian friendly environment. The village will also become transit-oriented in design. A new train station for Amtrak will be located on site and the Triangle Transit Authority (TTA) is planning to build downtown Durham's regional rail station directly adjacent to West Village. Furthermore, the City of Durham's new bus station will be located just a few blocks away. A new 462-space garage, as well as improvements to existing surface lots and the addition of on-street parallel parking, will be sufficient to accommodate vehicles at West Village.

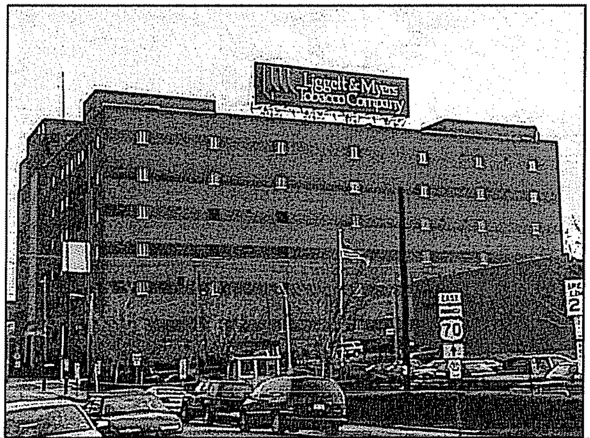
Extra efforts are being made to make West Village attractive to Durham's growing population of creative class workers. Small "office lofts" for entrepreneurial companies will be clustered together around an attractive outdoor commons to encourage informal gatherings. Cafes, coffee shops and a deli are being targeted for the retail space, offering additional places for the creative exchange of ideas. Other tenants may include a jazz bar, a live performance music hall, a convenience/grocery store and a packaging/shipping center. Public art and sculpture are planned. Two-story live work lofts designed for artists as well as a soundproof room for musicians to practice will also be developed.

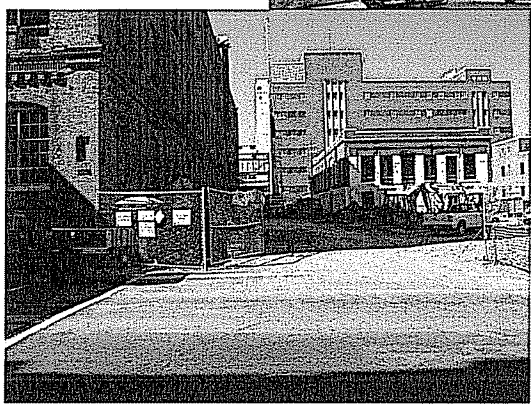
When the project is complete, approximately 1,000 residents and 750 employees will live and work at West Village. At approximately 1.2 million square feet, it is to be the largest certified historic rehabilitation project ever completed in the State of North Carolina. The expansion will give West Village *the* premiere location in Durham's historic center – the intersection of Duke and Main Streets. It will also connect to Durham's vibrant Brightleaf Square, already home to several of the city's most popular restaurants and shops. To the east of West Village is the civic and arts district as well as the newly redeveloped American Tobacco Historic District. (http://www.americantobaccohistoricdistrict.com/)



The West Village expansion promises to be a major catalyst for even more growth in and around the creative urban core of downtown Durham. With its pedestrian and transit-oriented design, as well as sensitive environmental planning, West Village will serve as a model for sustainable development for the region to emulate for years to come.

Economic Impact: West Village





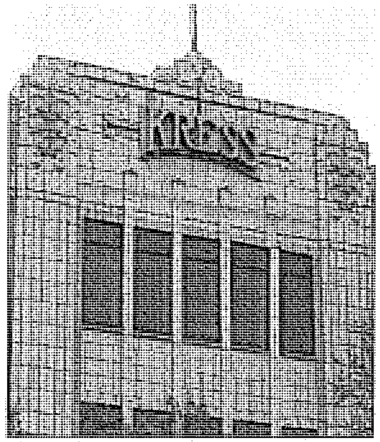
April 2007

The impact that West Village and the West Village expansion have had and are having on the City of Durham can best be understood by providing the following informational charts sharing the data of 1995 in comparison to 2006 (7).

The first chart includes development activities that have occurred after West Village, which we feel is the partial results of the West Village success of providing downtown housing:

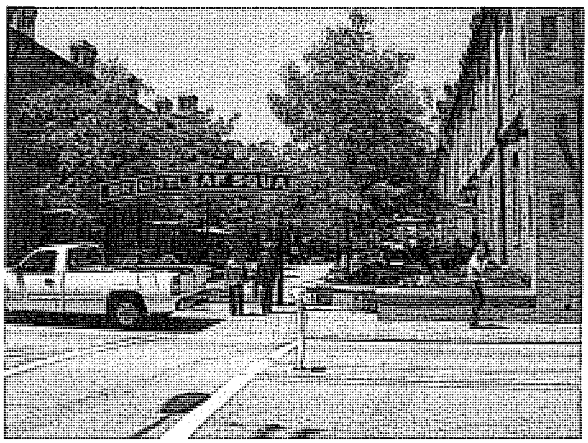
Public & Private Investment on Durham, 1998-2007			
Private Investment		*Public Investment*	
Brightleaf Square	$3 million	Durham Central Park	$850,000
Measurement Inc Warehouse	$16.5 million	Downtown Police Substation	$1.5 million
Alliance Architecture Projects	$10 million	Center for Senior Life	$5 million
Self Help Projects	$12.3 million	American Tobacco Parking Deck	$43 million
Venerable Warehouse	$12 million	Durham Transportation Station	$15 million
American Tobacco I	$100 million	Performing Art Center	$44 million
American Tobacco II	$65 million	Historic Durham Athletic Park	$ 4 million
Greenfire Development Projects	$150 million		
West Village Phase I - '98-'99	$40 million		
West Village Phase II	$160 million		
Total	$588 million	**Total**	**$114.35 million**

As stated West Village and its residential success have demonstrated that downtown living is acceptable in Durham. As a result the following residential properties have developed in downtown all within two miles of West Village.

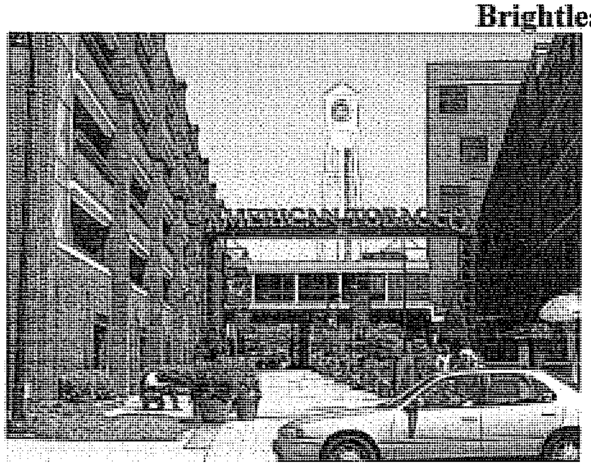


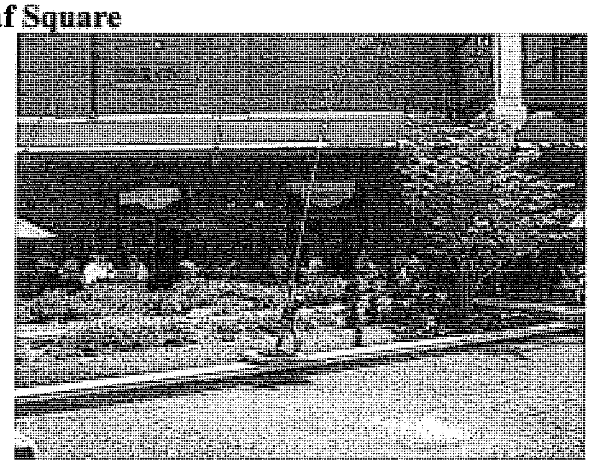
Baldwin Lofts **The Durham Kress**

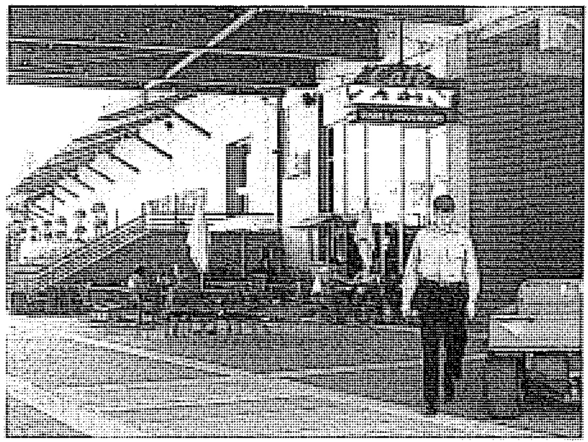
The following commercial real estate sites have continued to develop as well.



Brightleaf Square

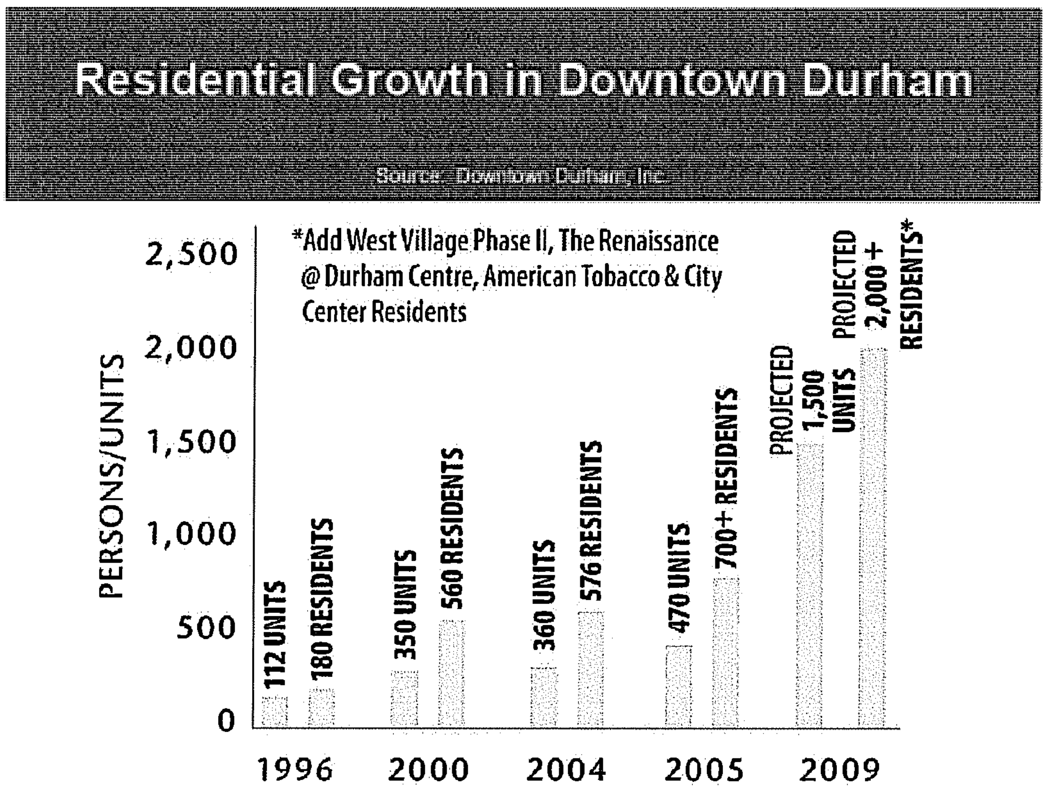






American Tobacco Campus

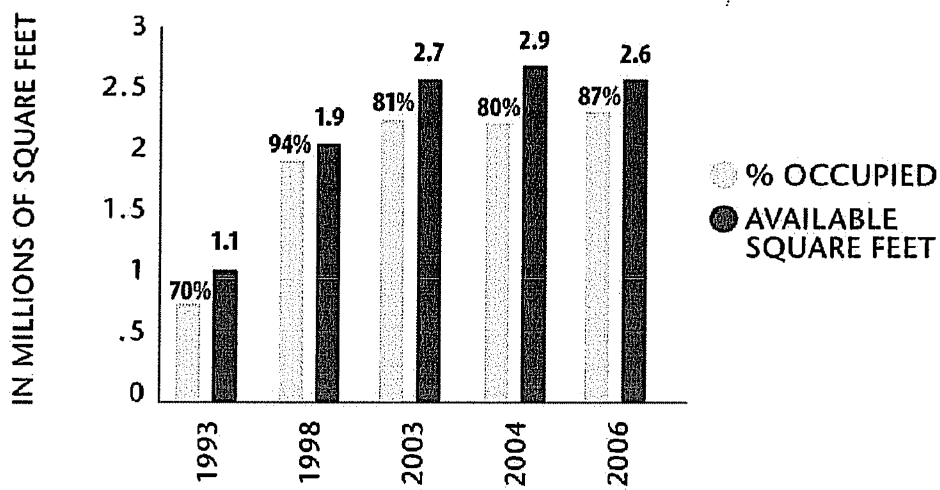
Residential and Commercial Growth Figures



*** Approx. 1,000 of 1,500 residents will reside at West Village**
*** 50% of 2009 projected residents (1,000) will reside at West Village**

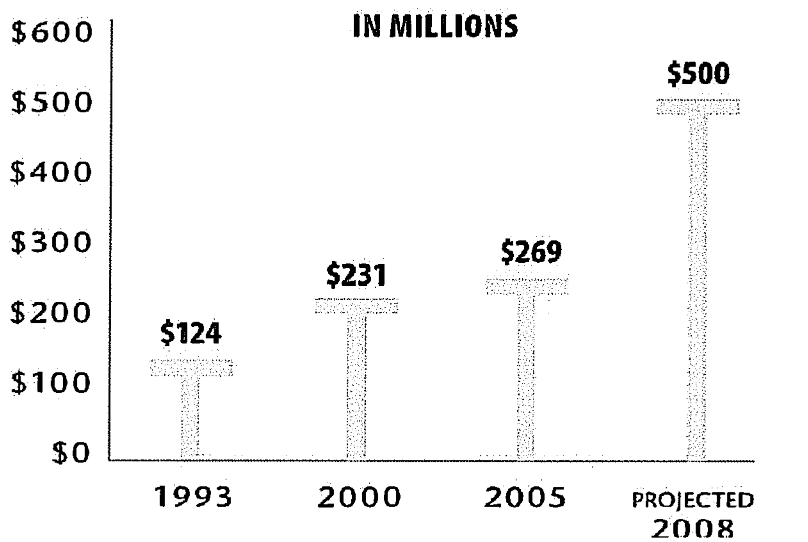
Leasable Office Space & Occupancy Rates in Downtown Durham

Source: Downtown Durham, Inc.



Tax Base Growth in Downtown Durham

Source: Downtown Durham, Inc.



WV Phase I

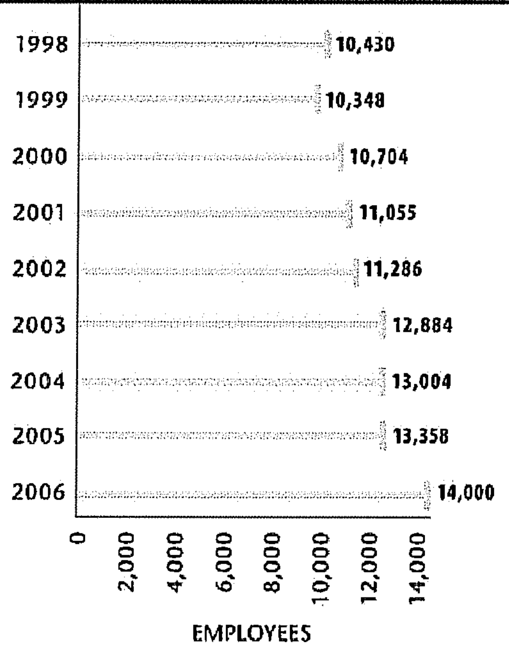
WV Phase II On-Line

*West Village is 25% of Tax Base

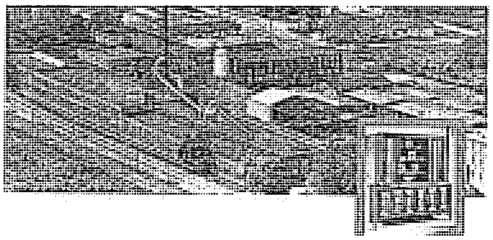
**Current projection is $600 million for 2008

Employee Growth in Downtown Durham

Source: Downtown Durham, Inc



Development Description



The White Furniture Mill is located on a 9.9-acre tract fronting east Center Street in Mebane North Carolina. The project site consists of five building sections that were used for manufacturing high quality furniture beginning in 1881. Redevelopment of White Furniture is planned as a mixed-use community located in the heart of downtown Mebane. The facility was originally constructed in the late 1800's. Fire and changes in technology over the years have left structures that were built between 1920 and 1966. After the furniture company closed down the property was converted for use as warehouse space. The adaptive reuse of White Furniture's 240,000 SF will bring apartments, retail and office space to downtown Mebane in a move to create a vibrant new city center. The development is designed to be a major expansion of downtown housing.

Project Overview

The development will create a mixed-use village in downtown Mebane. The historic preservation of 240,000 will bring a number of needed opportunities and amenities to the area. The development will consist of approximately 40,000 SF of retail/office, roughly 132 market rate apartments (mix of sizes to fit different income levels), a market driven 76,000 SF storage facility that will continue to operate in a separate building on the site.

Completion of White Furniture's revitalization will create a diverse and live downtown area. Downtown Mebane will become a 24-to hour town with more people living and working than ever before. In addition to the jobs created by companies recruited in to the project; the ongoing need to support more people in the downtown area will create opportunities for entrepreneurs to make Mebane a place for growth and expansion of the creative class.

Master Planning with City and County Leaders

In addition to developing this property, Niemann Capital is working with the Mayor, City Council, County Commission and City and County Managers on a downtown revitalization and economic development master plan. The goal of Niemann Capital is to solidify the investment potential in White Furniture by guiding a public process with the community to determine how the rest of downtown Mebane will grow.

Niemann Capital will also use its role at White Furniture to develop a public/partnership possibly in the form of a tax increment financing district which will enable the White Furniture investment to become economically feasible while creating the infrastructure to promote smart growth and economic development in Mebane.

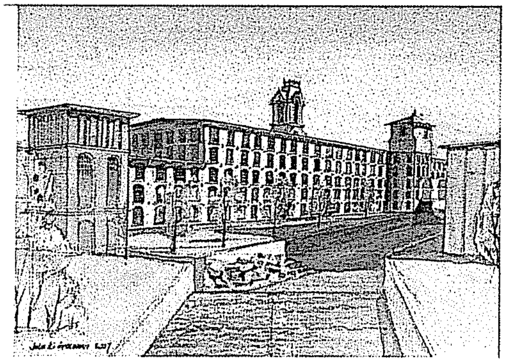
Financing Overview

The Development team will approach the project with several available financing tools. The developer will utilize the 20% Federal Historic Tax Credit and the 30% North Carolina Mill Credit. Niemann Capital has been in negotiation with city officials about the use of Landmark Status and a tax increment financing district for this project and surrounding infrastructure and is planning on seeking any available grants that may enhance the redevelopment.

Development Summary

When the development is complete approximately 230 residents and 120 employees will live and work at White Furniture Mill in a mixed-use project that is 30% commercial – 70% residential. This project offers the town of Mebane an opportunity to be a best practices example for the much needed redevelopment of rural and small North Carolina towns as well as a catalyst for future development in the town's core. Residents, employees, and visitors will once again be able to see the vibrancy created by White Furniture and its importance in the City of Mebane, the State of North Carolina and the future of rural redevelopment in the South.

Development Description



The Anthony Mill development is one of the premier mills in Rhode Island on a riverside four acre tract three miles from I-95 in Coventry, RI. The mill was originally home to a textile manufacturing company. Redevelopment of the building will include a primarily residential mixed-use program. The property has most recently been used as warehouse space and an annex for the adjacent Concordia Yarn facility. The adaptive reuse of Anthony Mill's 170,000 SF will bring apartments, retail and office space to the former village of Anthony in a move to help revitalize this area of the town of Coventry.

Project Overview

The development will create a mixed-use village with opportunities for expansion. The historic preservation of 170,000 square feet will bring a number of needed opportunities and amenities to the area. The development will consist of approximately 17,000 SF of retail/office and roughly 125 market rate apartments (mix of sizes to fit different income levels.)

The Anthony Mill redevelopment sets the stage for development of the adjacent Concordia Yarn building. This property is home to a biotech yarn manufacturer with plans to move over the next 2-3 years.

Master Planning with City and County Leaders

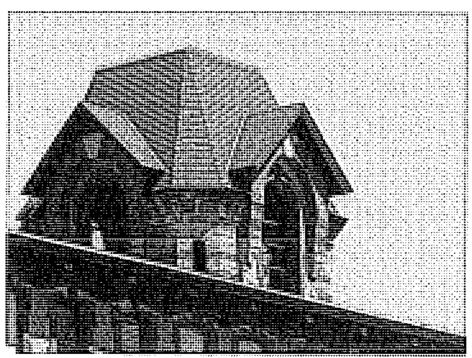
In addition to developing this property, Niemann Capital will work with the local municipal government officials on a revitalization and economic development master plan. The goal of Niemann Capital is to solidify the investment potential in Anthony Mill by guiding a process with the community to determine how the rest of the former mill village will grow. The property is near a shopping center that is a prime candidate for redevelopment as well as a small lake that could provide a variety of recreation opportunities. The site also fronts on the Coventry Greenway bike path which extends northeast to the Providence/Cranston line and West to Connecticut.

Financing Overview

The Development team will approach the project with several available financing tools. Niemann Capital works extensively with The NPS Federal Historic Rehabilitation and New Markets Tax Credits in addition to public private partnerships. Niemann Capital partners with some of the largest institutional investors in the nation to bring significant private capital to the markets that need it. The developer will utilize a 20% Federal Historic Tax Credit and a 30% Rhode Island State Historic Tax Credit. The project will use HUD/FHA mortgage insurance under the 221(d)(4) program with Collateral Mortgage Capital acting as lender.

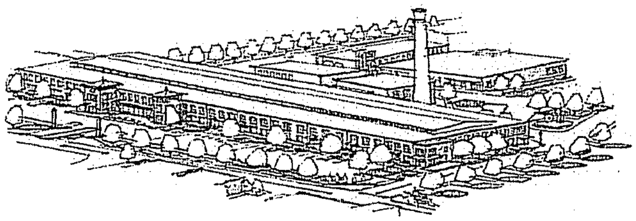
Development Summary

When the development is complete approximately 190 residents and 60 employees will live and work at Anthony Mill in a mixed-use project that is 10% commercial – 90% residential. Residents, employees, and visitors will once again be able to see the vibrancy created by Anthony Mill and its importance in the Town of Coventry.



Development Description

The Florence Mill is a new project in Niemann Capital's portfolio. This mill was targeted because Niemann Capital is working on a program that will apply the techniques honed in larger markets to a small rural community. North Carolina has many small towns that have been economically devastated with the closure of the main job center - usually in textiles or furniture. Tom was active in the process of getting the North Carolina Mill Credit passed in 2006. When Tom was approached about the project he thought this was an ideal opportunity to show the Governor and the Legislature a model redevelopment in a depressed tier 1 county by utilizing the North Carolina Mill Credit.



Project Description

Niemann Capital is conducting due diligence on the Florence Mill project. The Florence Mill development is comprised of buildings covering approximately seven acres, dating from 1896 through the early 1940s. The site, is located approximately one block south of Main Street, is bordered by Mill Street on the East, Florence Street on the South, Depot Street on the West and the Property boundary on the North. The group of buildings relating to the mill is located just south of the main commercial core of Forest City which has recently been designated as a National Register Historic District. The adaptive reuse of Florence Mills 113,249 square feet on 2 1/2 Floors and the 1941 buildings 24,300 square feet will bring apartments, retail, a boutique hotel, and office space to downtown Forest City.

Project Overview

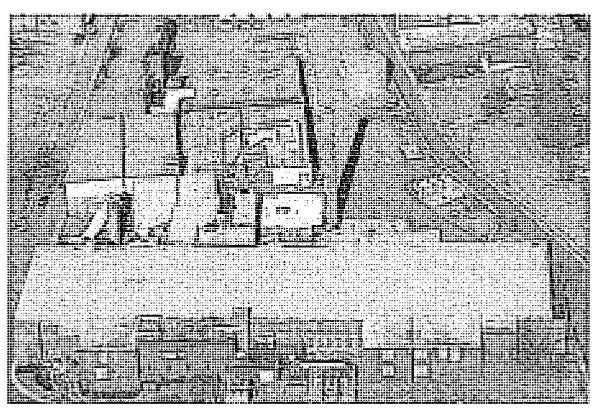
The development will create a mixed-use village in Forest City by preserving 137,549 square feet of historic space. The development will consist of approximately 33,975 square feet of commercial/retail space, a 24,300 square foot boutique hotel, and 75 apartments of various sizes in order to meet different income levels.

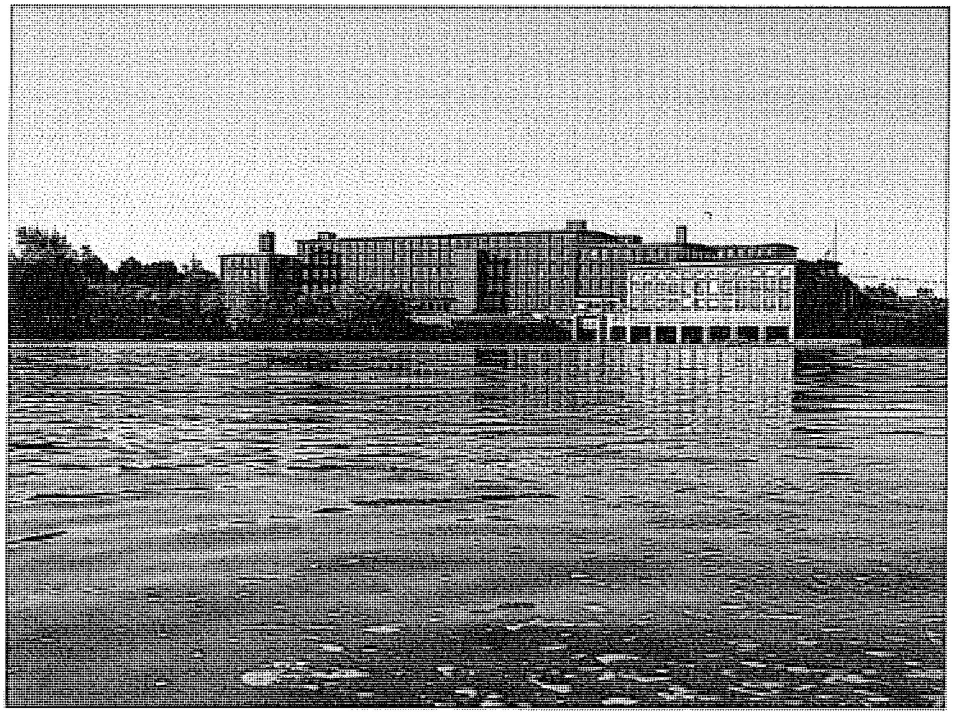
Financing Overview

The Development team will approach the project with several available financing tools. Niemann Capital partners with some of the largest institutional investors in the nation to bring significant private capital to the markets that need it. The developer will utilize a 20% Federal Historic Tax Credit and a 40% North Carolina Mill Credit. Niemann Capital has been in negotiation with city officials about the use of Landmark Status. Niemann Capital will also utilize HUD/FHA Mortgage insurance under the 220 program.

Development Summary

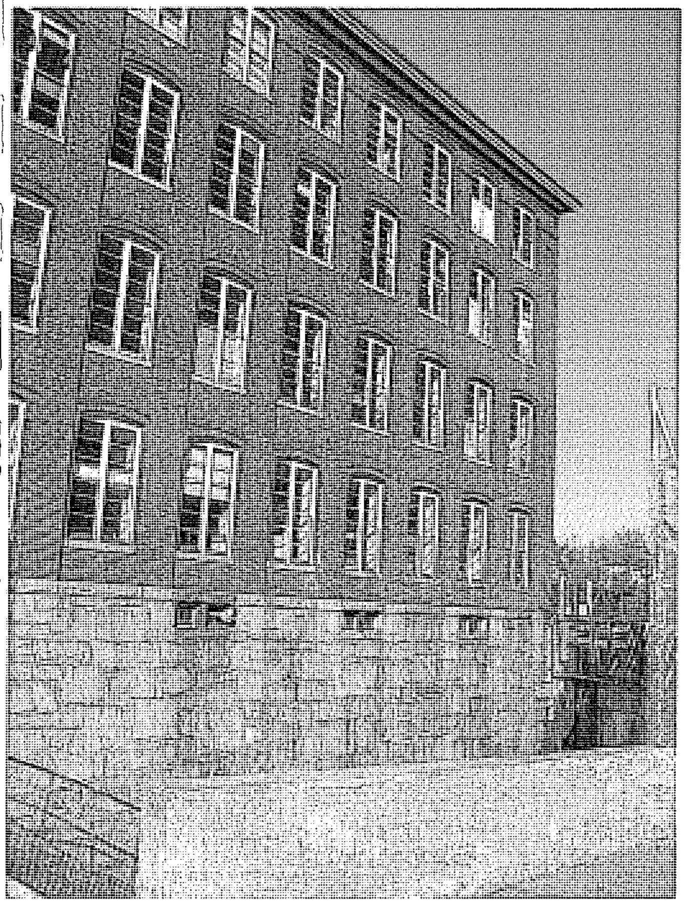
When the development is complete approximately 180 residents and 60 employees will call downtown Forest City Home. Residents, employees, and visitors will once again be able to see the vibrancy created by Florence Mill in Forest City, the State of North Carolina and the future of rural redevelopment in the South.

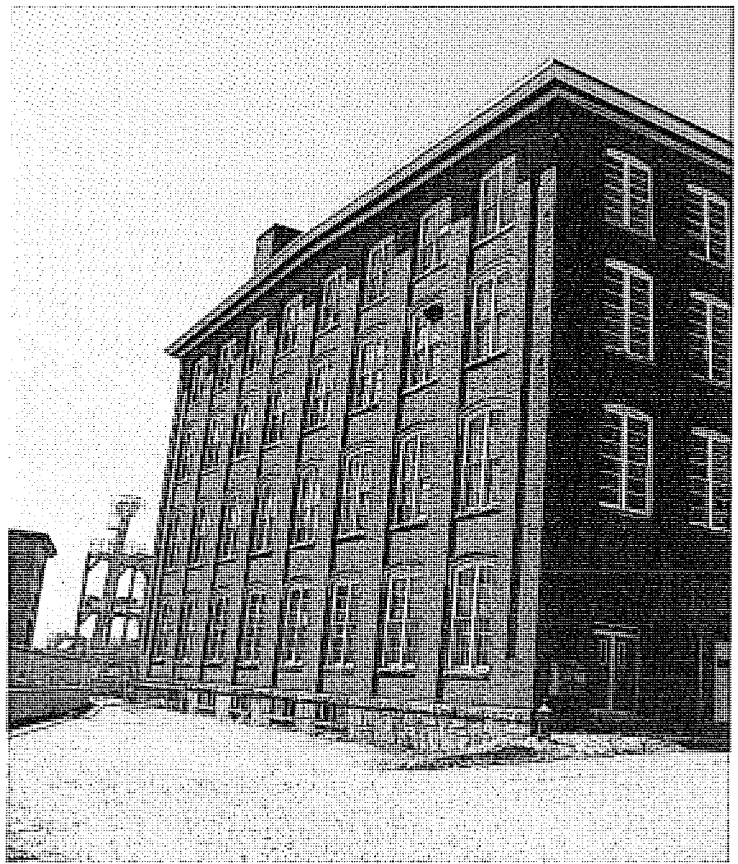




View of the Hathaway Creative Center from across the Kennebec River

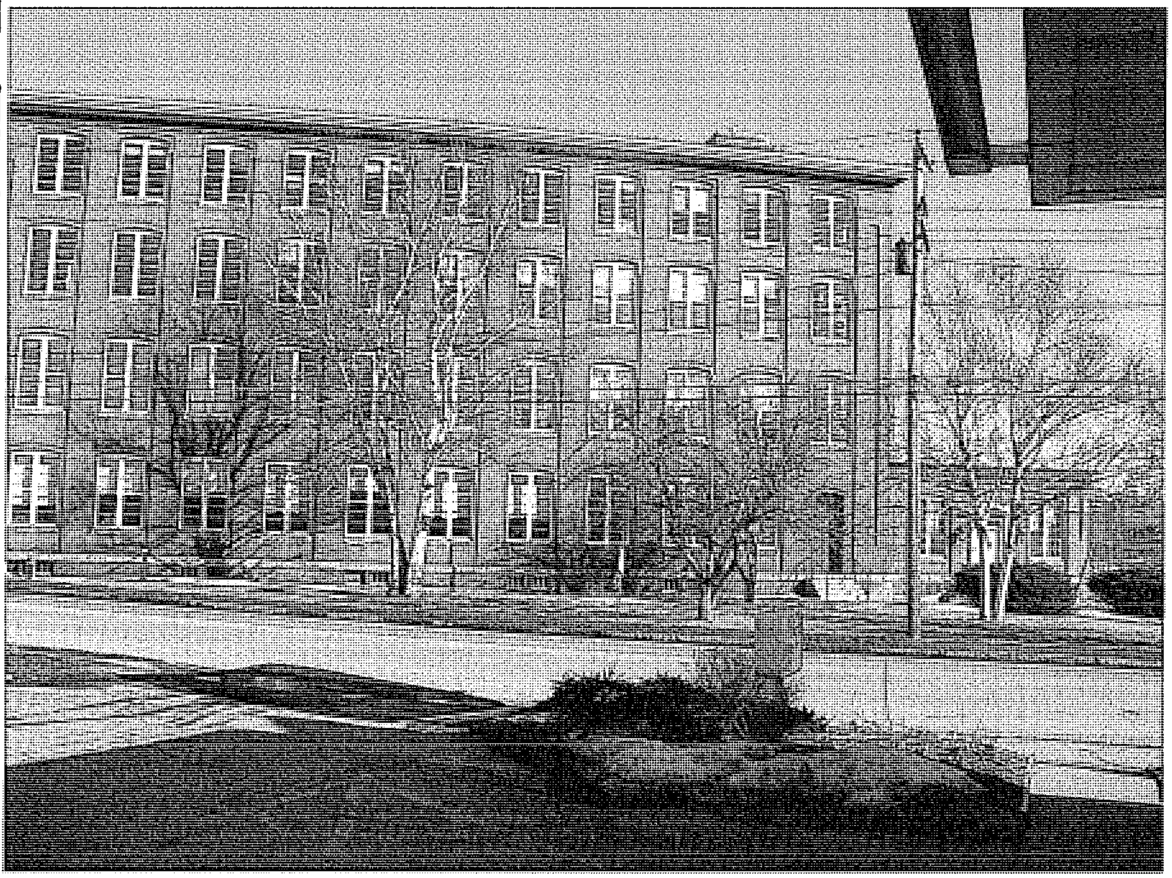
An aerial view of the Hathaway Creative Center, downtown Waterville, and the Kennebec River.





Hathaway East elevation from the Northeast

Hathaway tailrace elevation



Picture of Hathaway from the West side