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An Act to Establish a System of Tax Revenue Targeting.

Received by the Secretary of the Senate on April 17, 1997. Referred to the Committee on Taxation pursuant to Joint Rule 308.2 and ordered printed pursuant to Joint Rule 401.

Joy J O'Brien

JOY J. O'BRIEN
Secretary of the Senate

Presented by Senator RUHLIN of Penobscot. (GOVERNOR'S BILL).
Cosponsored by Representative DONNELLY of Presque Isle and
Senator BENNETT of Oxford, Representatives: CIANCHETTE of South Portland, DAVIDSON of Brunswick, DEXTER of Kingfield, GAGNON of Waterville, KERR of Old Orchard Beach, SPEAR of Nobleboro.

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

Sec. 1. 5 MRSA §1710-A, sub-§2, as enacted by PL 1995, c. 368, Pt. J, §1, is amended to read:

2. Biennial economic assumptions. The commission shall submit recommendations for state economic assumptions for the next fiscal biennium and analyze economic assumptions for the current fiscal biennium, which must be approved by a majority of the commission members. No later than ~~November~~ October 1st of each even-numbered year, the commission shall submit to the Governor, the Legislative Council and the Revenue Forecasting Committee a report that presents the analyses, findings and recommendations for economic assumptions related to revenue forecasting for the next fiscal biennium, including projections of growth in total annual personal income for each fiscal year of the biennium. In its report, the commission shall fully describe the methodology employed in reaching its recommendations.

Sec. 2. 5 MRSA §1710-F, sub-§2, as enacted by PL 1995, c. 368, Pt. J, §1, is amended to read:

2. Biennial state revenue projections. The committee shall submit recommendations for state revenue projections for the next fiscal biennium and analyze revenue projections for the current fiscal biennium, which must be approved by a majority of the committee members. No later than ~~December~~ November 1st of each even-numbered year, the committee shall submit to the Governor, the Legislative Council, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the State Budget Officer a report that presents the analyses, findings and recommendations for General Fund and Highway Fund revenue projections for the next fiscal biennium. In addition, the report must present projections of revenue derived from all state taxes listed in section 1710-R, for the General Fund, Highway Fund and Other Special Revenue funds. In its report the committee shall fully describe the methodology employed in reaching its recommendations. ~~Revenue projections~~ Projections of nontax ~~for other funds of the State~~ Other Special Revenue funds may be included in the report at the discretion of the committee.

Sec. 3. 5 MRSA §1710-F, sub-§4 is enacted to read:

4. Biennial local tax revenue projections. No later than November 1st of each year, the committee shall submit to the Governor, the Legislative Council, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the State Budget Officer a forecast of local tax revenues for municipalities and counties as a group.

The forecast of tax revenues must assume the continuation of current laws and reasonable estimates of projected growth in the national, regional and state economies and affected populations. Forecasts prepared and submitted by November 1st of even-numbered years must cover each year of the next 2 biennia. Forecasts prepared and submitted by November 1st of odd-numbered years must cover the remainder of the current biennium and each year of the subsequent biennium.

Sec. 4. 5 MRSA c. 151-D is enacted to read:

CHAPTER 151-D

TAX REVENUE TARGETING

§1710-R. Definitions

As used in this chapter, unless the context otherwise indicates, the following terms have the following meanings.

1. Taxes. "Taxes" means taxes used to calculate revenue budgets and includes the following taxes, whether collected at the state, county or municipal level:

A. Sales and use tax, Title 36, Part 3;

B. Gross receipts tax, Title 36, chapter 370;

C. Income tax, both personal and corporate, Title 36, Part 8;

D. Property tax, Title 36, Part 2;

E. Franchise tax on financial institutions, Title 36, chapter 819;

F. Liquor taxes, Title 28-A, Part 4;

G. Cigarette tax, Title 36, chapter 703;

H. Tobacco products tax, Title 36, chapter 704;

I. Pari-mutuel taxes, Title 8, chapter 11;

J. Inheritance and estate tax, Title 36, Part 6;

K. Real estate transfer tax, Title 36, chapter 711-A;

L. Railroad company tax, Title 36, chapter 361;

M. Telecommunications personal property tax, Title 36, section 457;

N. Hospital assessment tax, Title 36, chapter 369;

O. Insurance company tax, Title 36, chapter 357;

P. Assessment on workers' compensation insurers and self-insured employers, Title 39-A, section 154;

Q. Fire investigation and prevention tax, Title 25, chapter 315;

R. Fuel taxes, Title 36, Part 5;

S. Motor vehicle fees and driver's license fees, Title 29-A;

T. Motor vehicle excise taxes, Title 36, chapter 111;

U. Watercraft fees and excise taxes, Title 36, chapter 112;

V. Inland fisheries and wildlife license fees, Title 12, Part 10;

W. Spruce budworm management tax, Title 12, chapter 803, subchapter IV-A;

X. Sardine tax, Title 36, chapter 713;

Y. Blueberry tax, Title 36, chapter 701;

Z. Mahogany quahog tax, Title 36, chapter 714;

AA. Potato tax, Title 36, chapter 710;

BB. Milk handling tax, Title 36, chapter 716;

CC. Maine milk pool, Title 7, chapter 611;

DD. Commercial forestry excise tax, Title 36, chapter 367;

EE. Mining excise tax, Title 36, chapter 371; and

FF. Unorganized territory educational and services tax, Title 36, chapter 115.

2. Total annual personal income. "Total annual personal income" means the total personal income of the State's residents as reported by the United States Bureau of Economic Analysis for the fiscal year that coincides with the State's fiscal year.

§1710-S. Budgeting revenues relative to total personal income

1. Governor's recommendation. By the 2nd Monday in December 1998 for fiscal years 1999-2000, 2000-01, 2001-02 and 2002-03, and by the 2nd Monday in December of the even-numbered years thereafter, the Governor shall submit to the joint standing committee of the Legislature having jurisdiction over taxation matters recommended revenue targets for each year of the next 2 biennia. The recommended revenue targets must specify:

A. The maximum share of total annual personal income in the State to be collected in taxes by State Government and, in the aggregate, local governments in their respective tax years;

B. The division of the share between State Government and local governments; and

C. The appropriate shares of revenue to be raised by:

(1) Income tax;

(2) Sales tax;

(3) Property tax; and

(4) Other state and local taxes.

2. Consultations and forecasts. Prior to making the recommendations, the Governor shall consult with the State-Local Advisory Committee. The recommendations must be based on the projections of total personal income prepared by the Consensus Economic Forecasting Commission pursuant to section 1710-A and on the projections of revenue prepared by the Revenue Forecasting Committee pursuant to section 1710-F.

3. Budget's consistency with recommended revenue targets. The Governor's proposed biennial budget must be consistent with the recommended revenue targets.

4. Legislative resolution. By the first Monday in February 1999 for fiscal years 1999-2000, 2000-01, 2001-02 and 2002-03, and by the first Monday in February of each odd-numbered year thereafter, the Legislature, after considering the report of the joint standing committee of the Legislature having jurisdiction over taxation matters, shall by resolution adopt revenue targets for each year of the next 2 biennia. The resolution must take into consideration the revenue targets recommended by the Governor and must specify:

A. The maximum share of total annual personal income in the State to be collected in taxes by State Government and, in the aggregate, local governments in their respective tax years;

B. The division of the share between State Government and local governments; and

C. The appropriate shares of revenue to be raised by:

(1) Income tax;

(2) Sales tax;

(3) Property tax; and

(4) Other state and local taxes.

5. Budget's consistency with adopted targets. The biennial budget enacted by the Legislature must be consistent with the adopted revenue targets.

6. Modification of revenue targets. The Governor, after consultation with the State-Local Advisory Committee, may propose and the Legislature, in response to the Governor's recommendation or on its own, may modify the revenue targets.

7. Sum of taxes collected. For purposes of this chapter, the sum of taxes collected must be reduced by:

A. Funds that are returned directly to taxpayers in tax relief programs;

B. Funds used to fund development programs in an approved tax increment financing district as described in Title 30-A, section 5254; and

C. Funds used for employment tax increment financing, as described in Title 36, chapter 917.

8. Tax years. When making determinations under this section of taxes collected, the following time periods must be used:

A. Taxes collected by the State must be for the State's fiscal year; and

B. Taxes assessed by local governments must be as indicated by the municipal valuation returns reported by municipalities to the Bureau of Taxation as of April 1st for that tax year that includes the beginning of the State's fiscal year, plus motor vehicle and watercraft excise taxes collected in the previous calendar year.

§1710-T. State-Local Advisory Committee

The Governor shall appoint a State-Local Advisory Committee for the purpose of advising the Governor about recommended revenue targets. The committee consists of 4 elected municipal officials, one elected county commissioner and 4 members of the Governor's cabinet, one of whom must be the Commissioner of Administrative and Financial Services who serves as chair. Each member is appointed for a 4-year term, as long as the member holds the office that qualified the member for the appointment. Members serve at the pleasure of the Governor.

§1710-U. Revenues collected in excess of tax revenue targets

1. Excess state tax revenues. If over the course of a biennium, beginning with the 2000-2001 biennium, state and local tax revenues together exceed by .05% the maximum share of total personal income in the State specified by the adopted revenue targets, and if state tax revenues have contributed to this surplus by exceeding by at least .05% their assigned target, the first 50% of the excess of state tax revenues must be placed in the Maine Rainy Day Fund. The remainder of the excess of state tax revenues must be used to fund during the next biennium state aid and reimbursement programs listed in subsection 3, paragraphs A to G. Any balance remaining after the full funding of these programs must be placed into a tax reduction fund for distribution in relief of income, sales or property taxes, or a combination thereof, as determined by the Legislature. The distribution of the tax reduction fund must be made during the biennium following the biennium in which the excess collection of revenues occurred, by means to be determined by the Legislature. The determination of whether the adopted revenue target has been exceeded must be made by the Bureau of Taxation based on actual tax revenues collected and comparing such revenues to the most recent report of total statewide personal income available from the United States Bureau of Economic Analysis covering the fiscal year.

2. Excess local tax revenues. If over the course of a biennium, beginning with the 2000-2001 biennium, state and local tax revenues together exceed by .05% or more the maximum share of total personal income in the State specified by the adopted revenue targets, and if local tax revenues in the aggregate have contributed to this surplus by exceeding by at least .05% their assigned target, the Bureau of Taxation in consultation with the

Department of Education shall determine the part of the excess that was due to expenditures for education and the part that was due to expenditures for purposes other than education. To the extent that the excess in revenues was raised for purposes other than education, the Local Government Fund established in Title 30-A, chapter 223, subchapter II for the purpose of state-municipal revenue sharing must be reduced by the amount of the excess and, in the biennium immediately following the biennium during which the excess collections occurred, at least 1/2 of this amount must be distributed to municipalities that did not increase total local tax revenues at a rate above the average necessary for local tax revenues, in the aggregate, to have stayed within the target adopted for local tax revenues. The distribution must use the formula employed in the state-municipal revenue sharing program, using the qualifying municipalities as the base. The remainder of the excess revenues must be placed into a property tax reduction fund for distribution by means to be determined by the Legislature, directly to property taxpayers. The distribution must be made during the biennium following the biennium in which the excess collection of revenues occurred. To the extent that the excess in revenues was raised for education, the credit allowed in subsection 3, paragraph E must be reduced by that amount in the following biennium. The determination of whether the adopted revenue target has been exceeded must be made by the Bureau of Taxation based on actual tax revenues collected and comparing such revenues to the most recent report of total statewide personal income from the United States Bureau of Economic Analysis covering the fiscal year, except that any excess attributable to growth in total personal income at a rate below the projection used by the State to establish the target for tax burden may not be counted against local tax revenues.

3. Crediting local tax revenues for unfulfilled state obligations. In determining whether and the extent to which local governments in the aggregate have exceeded their adopted target for a biennium, the Bureau of Taxation shall reduce the amount of local tax revenues considered to have been collected during the biennium by the following amounts:

A. If the appropriation by the State under the Maine Tree Growth Tax Law, as described in Title 36, section 578, for the biennium was less than required by statute, the difference between the funds appropriated for this purpose and the amount required to be provided under the law;

B. If the appropriation by the State under the municipal general assistance program, as described in Title 22, section 4311, for the biennium was less than required by statute, the difference between the funds appropriated for this purpose and the amount required to be provided under this law;

C. If the appropriation by the State under the Local Road Assistance Program, as described in Title 23, section 1803-B, for the biennium was less than required by statute, the difference between the funds appropriated for this purpose and the amount required to be provided under the law;

D. If the appropriation by the State under community corrections programs to reimburse counties for housing certain prisoners, as described in Title 34-A, section 1210, for the biennium was less than required by statute, the difference between the funds appropriated for this purpose and the amount required to be provided under that law;

E. If the appropriation by the State under the School Finance Act of 1985 for general purpose aid, as described in Title 20-A, section 15605, for the biennium was less than the rate of inflation, as measured by the Consumer Price Index published by the United States Bureau of Labor Statistics for the immediately previous biennium, the difference between the funds appropriated for this purpose and the amount that would have been provided had it equaled the rate of inflation, less any deduction as a result of excess revenues raised for education in the previous biennium, as described in subsection 2;

F. If the appropriation by the State from the Local Government Fund under the state-municipal revenue sharing program, as described in Title 30-A, chapter 223, subchapter II, for the biennium was less than that prescribed by statute, the difference between the funds appropriated for this purpose and the amount required to be provided under the law. Any reduction in the Local Government Fund as a result of local governments in the aggregate failing to stay within the tax revenue targets described in this chapter may not be considered in this calculation; and

G. If the Legislature enacts new property tax exemptions subject to the Constitution of Maine, Article IV, Part Third, Section 23 or enacts new mandates necessitating local expenditures subject to the Constitution of Maine, Article IX, Section 21 and if the appropriation by the State for reimbursements to municipalities was less than that prescribed by the Constitution of Maine, notwithstanding a 2/3 vote to reduce the reimbursement, the difference between the funds appropriated for the reimbursement and the amount required to be provided by the Constitution of Maine.

SUMMARY

This bill establishes a system of tax revenue targets by which the Legislature upon the recommendation of the Governor with the advice of the State-Local Advisory Committee biennially will set the maximum share of total annual personal income in the State to be collected in taxes by State Government and local governments; the division of the share between State Government and local governments; and the appropriate shares of revenue to be raised by income tax, sales tax, property tax and other state and local taxes. If tax revenues from State Government and local governments together exceed the overall maximum share of total annual income over a biennium, the excess will be returned as follows: Starting with the 2000-2001 biennium, the first 50% of state revenues collected in a biennium in excess of the designated maximum share of total personal income will be placed in the Maine Rainy Day Fund. The remainder of the excess of state tax revenues will be used to fund statutory obligations for state aid and reimbursement programs for municipalities during the next biennium. Any balance after such programs are fully funded will be placed in a tax reduction fund for distribution to taxpayers by means determined by the Legislature. Local tax revenues collected in the aggregate in a biennium in excess of the designated share of total personal income will be divided between revenues collected for education purposes and revenues collected for purposes other than education. to the extent that the excess in revenues was raised for purposes other than education, this amount will be deducted from the local government fund for state-local revenue sharing. At least 1/2 of this amount will be distributed to municipalities that did not increase total local tax revenues at a rate above the average necessary for local tax revenues, in the aggregate, to have stayed within the target adopted for local tax revenues. The remainder of the excess revenues will be placed into a property tax reduction fund for distribution, by means to be determined by the Legislature, directly to property taxpayers. To the extent that the excess in revenues was raised for education, the credit allowed to local governments as a result of the State underfunding its obligations will be reduced by that amount in the next biennium. Local governments are not required to count local tax revenues that are raised in response to the State failing to appropriate sufficient funds under a variety of grants-in-aid and other local financial assistance programs.