

MAINE STATE LEGISLATURE

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M
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L.D. 1141

DATE: 4-13-04

(Filing No. H-901)

MINORITY
TAXATION

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STATE OF MAINE
HOUSE OF REPRESENTATIVES
121ST LEGISLATURE
SECOND SPECIAL SESSION

COMMITTEE AMENDMENT "A" to H.P. 844, L.D. 1141, Bill, "An Act To Provide Property Tax Relief for Maine Residents and Businesses and Implement Comprehensive Tax Reform"

Amend the bill by striking out everything after the enacting clause and before the summary and inserting in its place the following:

Sec. 1. 5 MRSA §1513, sub-§1, as amended by PL 2003, c. 451, Pt. X, §2, is further amended to read:

1. **Maine Budget Stabilization Fund.** As the first priority before any other transfer, the State Controller shall at the close of each fiscal year transfer 32% 16% of the unappropriated surplus of the General Fund to the Maine Budget Stabilization Fund at the beginning of the next fiscal year. The fund may not exceed 10% of the total General Fund revenues received in the immediately preceding fiscal year and may not lapse, but remains in a continuing carrying account to carry out the purposes of this section. A reduction in the fund is not necessary in the event the total General Fund revenues received in the immediately preceding fiscal year are less than the total General Fund revenues received in the fiscal year 2 years previous and if the fund is at its 10% limit. The limit at the close of a fiscal year is based on the total General Fund revenues received in the fiscal year being closed.

Sec. 2. 5 MRSA §1514-A is enacted to read:

§1514-A. Income Tax Rate Management Fund

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1. Fund established. For the purposes of reducing the volatility of state tax revenues, improving the predictability of state and local budgeting efforts and managing the State's overall tax burden, there is established the Income Tax Rate Management Fund, referred to in this section as "the fund." The fund may be used only to alleviate the characteristics of the State's income tax rate structure that concentrate the individual income tax rates within a narrow range of taxable incomes and apply the highest marginal rate to a relatively low level of taxable income. Money in the fund does not lapse, but is carried forward for the purposes of this section.

2. Revenues reserved. Beginning with fiscal year 2005-06, and notwithstanding section 1513, if the tax revenues generated by the individual income tax for any fiscal year, as determined by the State Controller at the close of the fiscal year, exceed those of the previous fiscal year by more than the maximum tax growth target as described in section 1710-A, subsection 4, the State Controller shall at the close of each fiscal year reserve from the unappropriated surplus of the General Fund an amount equal to the identified excess individual income tax revenues and transfer that amount to the fund.

3. Changes to rate structure. The State Tax Assessor shall adopt by rule changes to the income tax rate structure in accordance with this section and within the financial limits of the money available in the fund. Specifically, the assessor shall reduce the individual income tax rates for the highest income bracket to the nearest 1/10th of 1% without exceeding the amount of money available in the fund. Rules adopted under this section are routine technical rules as defined in Title 5, chapter 375, subchapter 2-A.

4. Transfer to General Fund. The State Controller shall transfer from the fund to the General Fund an amount certified by the State Tax Assessor as the adjustment necessary to offset any individual income tax revenue reduction implemented by the assessor pursuant to subsection 3.

Sec. 3. 5 MRSA §1521 is enacted to read:

§1521. Education Funding Stabilization Fund

1. Education Funding Stabilization Fund. The Education Funding Stabilization Fund, referred to in this section as "the fund," is established to be used solely for meeting the State's share of the cost of funding public education from kindergarten to grade 12.

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2 2. Definition. For the purposes of this section, unless
3 the context otherwise indicates, "funding public education from
4 kindergarten to grade 12" has the same meaning as provided in
5 Title 20-A, section 15671-A.

6 3. Transfers to the fund. As an equal priority with the
7 transfer required under section 1513, the State Controller at the
8 close of each fiscal year, beginning with fiscal year 2004-05,
9 shall reserve from the unappropriated surplus of the General Fund
10 an amount equal to 16% of the excess of total General Fund
11 revenues received over accepted estimates in that fiscal year and
12 transfer that amount to the fund at the beginning of the next
13 fiscal year. Accepted revenue estimates may not be increased
14 after adjournment of any first regular session of the Legislature
15 except as provided. For the first year of the legislative
16 biennium, revenue estimates for the 2nd year of the biennium may
17 be adjusted once during the second regular session of the
18 Legislature. Accepted revenue estimates may be increased for
19 other fiscal periods only if an amount not to exceed 25% of the
20 increase is transferred by the State Controller to the fund at
21 the same time the revenue estimates are increased from the
22 unappropriated surplus of the General Fund.

24 4. Transfers from fund. Money in the fund may be allocated
25 only for the purpose of meeting the State's share of the cost of
26 funding public education from kindergarten to grade 12 and only
27 upon a 2/3 vote of all the members elected to each House of the
28 Legislature.

30 5. Nonlapsing fund. Any unexpended balance in the fund may
31 not lapse, but must be carried forward.

34 6. Investment of fund. The money in the fund may be
35 invested as provided by law with the earnings credited to the
36 fund.

38 **Sec. 4. 5 MRSA §1710-A, sub-§§2 and 3, as amended by PL 1997,**
39 **c. 643, Pt. W, §1, are further amended to read:**

40 **2. Biennial economic assumptions.** The commission shall
41 submit recommendations for state economic assumptions for the
42 next fiscal biennium and analyze economic assumptions for the
43 current fiscal biennium, which must be approved by a majority of
44 the commission members. No later than November 1st of each
45 even-numbered year, the commission shall submit to the Governor,
46 the Legislative Council, the Revenue Forecasting Committee, the
47 State Tax Assessor, the Commissioner of Education and the joint
48 standing committee of the Legislature having jurisdiction over
49 appropriations and financial affairs a report that presents the
50 analyses, findings and recommendations for economic assumptions

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2 related to revenue forecasting for the next fiscal biennium. The
3 report must identify the actual growth in total annual personal
4 income for the 2 years preceding the current fiscal year and
5 include an estimate of the projected growth in total annual
6 personal income for the current fiscal year and for each fiscal
7 year of the next biennium. For purposes of this subsection,
8 "total annual personal income" means the total personal income of
9 the State's residents as reported by the United States Department
10 of Commerce, Bureau of Economic Analysis for the fiscal year that
11 coincides with the State's fiscal year. In its report, the
12 commission shall fully describe the methodology employed in
13 reaching its recommendations.

14 **3. Current biennium adjustments.** No later than February
15 1st and November 1st annually the commission shall submit to the
16 Governor, the Legislative Council, the Revenue Forecasting
17 Committee, the State Tax Assessor, the Commissioner of Education
18 and the joint standing committee of the Legislature having
19 jurisdiction over appropriations and financial affairs a report
20 that presents the commission's findings and recommendations for
21 adjustments to the economic assumptions for the current fiscal
22 biennium, including any adjustments to the actual growth in total
23 annual personal income for the 2 fiscal years preceding the
24 current fiscal year, and the projected growth in total annual
25 personal income for each fiscal year of the biennium. For
26 purposes of this subsection, "total annual personal income" means
27 the total personal income of the State's residents as reported by
28 the United States Department of Commerce, Bureau of Economic
29 Analysis for the fiscal year that coincides with the State's
30 fiscal year. In each report the commission shall fully describe
31 the methodology employed in reaching its recommendations.

32 **Sec. 5. 5 MRS §1710-A, sub-§4 is enacted to read:**

34 **4. Maximum tax growth target.** The maximum tax growth
35 target for a state fiscal year is the growth in total annual
36 personal income, measured as the percent of change between the
37 actual total annual personal income for 2 consecutive fiscal
38 years, the last of which ended on June 30th of the year preceding
39 the calendar year, as that information is presented in the
40 commission's report no later than February 1st pursuant to
41 subsection 3.

44 **Sec. 6. 20-A MRS §15617, sub-§1, ¶B, as amended by PL 1993,**
45 **c. 435, §6, is further amended to read:**

46 **B.** A summary of anticipated revenues and estimated school
47 expenditures for the fiscal year; and
48

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2 **Sec. 7. 20-A MRSA §15617, sub-§1, ¶C**, as enacted by PL 1993,
c. 435, §7, is amended to read:

4 C. The following statement, including the estimated dollar
6 amount of state retirement payments: "This budget does not
8 include the estimated amount of \$..... in employer share
of teacher retirement costs that is paid directly by the
State-"; and

10 **Sec. 8. 20-A MRSA §15617, sub-§1, ¶D** is enacted to read:

12 D. A statement indicating the estimated impact of the
14 budget document, if approved, on property tax mill rates for
16 education within the municipalities that are part of the
unit.

18 **Sec. 9. 20-A MRSA §15671, sub-§7, ¶A**, as enacted by PL 2003,
c. 504, Pt. A, §5, is repealed and the following enacted in its
place:

20 A. The annual target for the essential programs and
22 services transition percentage, excluding program cost
24 allocation, debt service allocation and adjustments,
beginning in fiscal year 2005-06 is 100%.

26 **Sec. 10. 20-A MRSA §15671, sub-§7, ¶B**, as enacted by PL 2003,
c. 504, Pt. A, §5, is amended to read:

28 B. The annual targets for the state share percentage are as
30 follows.

32 (1) For fiscal year 2005-06, the target is 49% 48%.

34 (2) For fiscal year 2006-07, the target is 49-25%
51.5%.

36 (3) For fiscal year 2007-08 and succeeding years, the
38 target is 49-50% 55%.

40 ~~(4) For fiscal year 2008-09, the target is 49.75%.~~

42 ~~(5) For fiscal year 2009-10 and succeeding years, the~~
44 ~~target is 50%.~~

46 **Sec. 11. 20-A MRSA §15671-A** is enacted to read:

48 **§15671-A. Property tax contribution to public education**

1. Definitions. For the purposes of this section, unless

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2 the context otherwise indicates, the following terms have the
3 following meanings.

4 A. "Funding public education from kindergarten to grade 12"
5 means the cost of funding essential programs and services as
6 described in this chapter plus the total allocations for
7 program cost, debt service costs and adjustments.

8 B. "Local cost share expectation" means the maximum amount
9 of money needed for the purpose of funding public education
10 from kindergarten to grade 12 that may be derived from
11 property tax.

12 2. Local cost share expectation established. The local cost
13 share expectation is established as follows.

14 A. This paragraph applies to the local cost share
15 expectation. Notwithstanding any other provision of law,
16 with respect to the assessment of any property taxes for
17 property tax years beginning on or after April 1, 2005, this
18 subsection establishes the local cost share expectation that
19 may be assessed on the value of property for the purpose of
20 funding public education from kindergarten to grade 12. The
21 commissioner shall annually by February 1st notify each
22 school administrative unit of its local cost share
23 expectation. A superintendent of a school administrative
24 unit shall report to the municipal officers of the
25 municipalities within the school administrative unit
26 whenever the school administrative unit is notified of the
27 local cost share expectation or a change is made in the
28 local cost share expectation resulting from an adjustment.

29 B. This paragraph applies to the calculation of the
30 full-value education mill rate. For property tax years
31 beginning on or after April 1, 2005, the commissioner shall
32 calculate the full-value education mill rate that is
33 required to raise the total of the local cost share
34 expectation for funding public education from kindergarten
35 to grade 12. The full-value education mill rate is derived
36 by dividing the applicable tax year percentage of the
37 projected cost of funding public education from kindergarten
38 to grade 12 by the certified total state valuation for the
39 year prior to the most recently certified total state
40 valuation for all municipalities. The full-value education
41 mill rate must decline over the period described in
42 subparagraphs (1) to (3). The full-value education mill
43 rate must be applied according to section 15688, subsection
44 3, paragraph A to determine a municipality's local cost
45 share expectation. Full-value education mill rates must be
46 derived according to the following schedule:

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(1) For the 2005 property tax year, the full-value education mill rate is the amount necessary to result in a 52% local share in fiscal year 2005-06;

(2) For the 2006 property tax year, the full-value education mill rate is the amount necessary to result in a 48.5% local share in fiscal year 2006-07; and

(3) For the 2007 property tax year, the full-value education mill rate is the amount necessary to result in a 45% local share in fiscal year 2007-08.

3. Exceeding maximum local cost share expectation; separate article. Beginning with the 2007-2008 school budget, the legislative body of a school administrative unit may adopt property tax rates that exceed the local cost share expectation if that action is approved in a separate article by a vote of the school administrative unit's legislative body through the same process that the school budget is approved in that school administrative unit.

Sec. 12. 20-A MRS §15684, sub-§3 is enacted to read:

3. Repeal. This section is repealed July 1, 2005.

Sec. 13. 20-A MRS §15686, as enacted by PL 2003, c. 504, Pt. A, §6, is amended to read:

§15686. Transition adjustment

For each of the fiscal years described in section 15671, subsection 7, the commissioner shall establish a transition adjustment calculated to minimize the adverse fiscal impact ~~directly---related---to~~ that may be experienced by some municipalities as a result of the phase-in of this Act. The transition adjustment for a municipality must be directly related to the phase-in of essential programs and services and the local cost share expectation method of determining the local contribution to the cost of funding essential programs and services. The amount of this adjustment is established at \$10,000,000 for fiscal year 2005-06 and must decline with each successive fiscal year, ~~and the.~~ The adjustments must end no later than fiscal year 2009-10 2007-08.

Sec. 14. 20-A MRS §15688 is enacted to read:

§15688. School administrative unit contribution to total cost of funding public education from kindergarten to grade 12

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1. School administrative unit; total cost. For each school administrative unit, the commissioner shall annually determine the school administrative unit's total cost of education. A school administrative unit's total cost of education must include:

A. The school administrative unit's total cost of funding essential programs and services subject to the transition percentages described in section 15671, subsection 7, paragraph A;

B. The program cost allocation as used in chapter 606; and

C. The debt service allocation as used in chapter 606.

2. Member municipalities in school administrative districts or community school districts; total costs. For each municipality that is a member of a school administrative district or community school district, the commissioner shall annually determine each municipality's total cost of education. A municipality's total cost of education is the school administrative district's or community school district's total cost of funding multiplied by the percentage that the municipality's most recent calendar year average pupil count is to the school administrative district's or community school district's most recent calendar year average pupil count.

3. School administrative unit; contribution. For each school administrative unit, the commissioner shall annually determine the school administrative unit's contribution in accordance with the following.

A. The school administrative unit's contribution to the total cost of education is the lesser of:

(1) The total cost for each municipality as described in subsection 1 or 2; and

(2) The total of the full-value education mill rate derived in section 15671-A, subsection 2 multiplied by the certified state valuation for the year prior to the most recently certified state valuation for each municipality in the school administrative unit.

B. The school administrative unit's state contribution to the total cost of education is the total cost of education calculated pursuant to subsection 1 less the school administrative unit's contribution calculated pursuant to paragraph A.

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2 4. Effective date. This section takes effect July 1, 2005.

4 Sec. 15. 30-A MRSA §2523, sub-§6 is enacted to read:

6 6. Budgetary articles. With respect to any town meeting
warrant that contains one or more budgetary articles that, if
8 enacted, would have an impact on municipal expenditures for
public education from kindergarten to grade 12, a statement must
10 be printed on the article indicating the estimated impact of the
budget document, if approved, on property tax mill rates for
12 education for all classes of property within the municipality.

14 Sec. 16. 30-A MRSA §5731 is enacted to read:

16 §5731. Budget statement

18 A statement must be printed at the beginning of the
municipal budget document that is prepared for public hearing
20 indicating the estimated impact of the budget document, if
approved, on property tax mill rates for education for all
22 classes of property within the municipalities that are part of
the unit.

24 Sec. 17. 36 MRSA §507, as amended by PL 1997, c. 643, Pt.
26 HHH, §2 and affected by §10, is further amended to read:

28 §507. Taxpayer information

30 When a municipality issues a property tax bill to each
taxpayer, each bill must contain a statement or calculation that
32 demonstrates the amount or percentage by which the taxpayer's tax
has been reduced by the distribution of state-municipal revenue
34 sharing, ~~state reimbursement for the Maine resident homestead~~
property tax exemption and state aid for education. The property
36 tax bill must contain a statement of the assessed value of a
homestead, ~~before and after the calculation of a Maine resident~~
38 homestead property tax exemption, and the amount of the exemption
applied to the homestead. The State Tax Assessor shall annually
40 provide each municipality with the amount of state-municipal
revenue sharing and state aid for education subject to
42 identification under this section.

44 Each property tax bill issued by a municipality shall must
clearly state the amount of the tax bill that is attributable to
46 the cost of education, the amount attributable to county taxes,
the amount attributable to the remainder of the municipal budget
48 and the date interest will begin to accrue on delinquent taxes.

50 Sec. 18. 36 MRSA §508 is enacted to read:

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§508. Exceeding education mill rate limits; referendum process

The legislative body of a school administrative unit, as defined in Title 20-A, section 1, subsection 26, may act by voting to adopt a school budget, undertake a school construction project or otherwise obligate itself to educational expenditures in such a manner and to such a degree so as to require the application of property tax rates that exceed the limit established by Title 20-A, section 15671-A, subsection 2, paragraph B if that action is approved by the voters of the school administrative unit by referendum or the referendum validation process authorized by Title 20-A, sections 1305-B and 1701-B and the voters are properly notified as required by Title 20-A, section 15617 or Title 30-A, section 2523 or 2551, as applicable.

Sec. 19. 36 MRSA §655, sub-§1, ¶P, as amended by PL 1997, c. 24, Pt. U, §1, is further amended to read:

P. All items of individually owned personal property with a just value of less than \$1,000, except:

(1) Items used for industrial or commercial purposes; and

(2) Vehicles and eamp camper trailers as defined in section 1481 not subject to an excise tax; and

Sec. 20. 36 MRSA §655, sub-§1, ¶S, as enacted by PL 1983, c. 555, §1, is amended to read:

S. Mining property as provided in section 2854.; and

Sec. 21. 36 MRSA §655, sub-§1, ¶T is enacted to read:

T. All personal property not otherwise exempt under this section except vehicles and camper trailers as defined in section 1481 not subject to an excise tax.

Sec. 20. 36 MRSA §683, sub-§1, as repealed and replaced by PL 2003, c. 20, Pt. BB, §1 and affected by §3, is amended to read:

1. Exemption amount; 2003 and 2004. Except for assessments for special benefits, the following values of the homestead of a permanent resident of this State who has owned a homestead in this State for the preceding 12 months are exempt from taxation for the property tax years beginning on April 1, 2003 and April 1, 2004:

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- 2 A. The estate up to the just value of \$7,000 for homesteads with a just value of less than \$125,000;
- 4 B. The estate up to the just value of \$5,000 for homesteads with a just value of at least \$125,000 but less than \$250,000; and
- 6
- 8 C. The estate up to the just value of \$2,500 for homesteads with a just value of \$250,000 or greater.

10 **Sec. 23. 36 MRSA §683, sub-§1-A**, as enacted by PL 2003, c. 20, Pt. BB, §2 and affected by §3, is amended to read:

14 **1-A. Local assessed value of the exemption.** In determining the local assessed value of the exemption for purposes of subsection 1, the assessor shall multiply the amount of the exemption by the ratio of current just value upon which the assessment is based as furnished in the assessor's annual return pursuant to section 383. In determining the amount of just value exemption applicable to each estate for purposes of subsection 1, the assessor shall divide the local assessed value of each estate by the ratio of current just value upon which the assessment is based. If the title to a homestead is held by the applicant jointly or in common with others, the exemption may not exceed ~~\$7,000 of the just value of the homestead with a just value of less than \$125,000, or \$5,000 of the just value of the homestead with a just value of at least \$125,000 but less than \$250,000, or \$2,500 of the just value of the homestead with a just value of \$250,000 or greater~~ the exemption amounts specified in subsection 1, 1-B, 1-C or 1-D, but may be apportioned among the owners who reside on the property to the extent of their respective interests. A municipality responsible for administering the homestead exemption has no obligation to create separate accounts for each partial interest in a homestead owned jointly or in common.

36 **Sec. 24. 36 MRSA §683, sub-§§1-B to 1-D** are enacted to read:

38 **1-B. Exemption amount: 2005.** Except for assessments for special benefits, the following values of the homestead of a permanent resident of this State who has owned a homestead in this State for the preceding 12 months are exempt from taxation for the property tax year beginning on April 1, 2005:

- 44 A. The estate up to the just value of \$5,000 for homesteads with a just value of less than \$125,000;
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- 48 B. The estate up to the just value of \$3,000 for homesteads with a just value of at least \$125,000 but less than \$250,000; and
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C. The estate up to the just value of \$1,700 for homesteads with a just value of \$250,000 or greater.

1-C. Exemption amount; 2006. Except for assessments for special benefits, the following values of the homestead of a permanent resident of this State who has owned a homestead in this State for the preceding 12 months are exempt from taxation for the property tax year beginning on April 1, 2006:

A. The estate up to the just value of \$2,500 for homesteads with a just value of less than \$125,000;

B. The estate up to the just value of \$1,500 for homesteads with a just value of at least \$125,000 but less than \$250,000; and

C. The estate up to the just value of \$800 for homesteads with a just value of \$250,000 or greater.

1-D. Exemption amount; 2007 and after. For property tax years beginning on or after April 1, 2007, the exempt value of a homestead of a permanent resident of this State who has owned a homestead in this State for the preceding 12 months is \$0.

Sec. 25. 36 MRSA §6201, sub-§11-A, as amended by PL 1999, c. 401, Pt. R, §1 and affected by §2, is further amended to read:

11-A. Rent constituting property taxes accrued for nonelderly household. "Rent constituting property taxes accrued for nonelderly household" means 18% 25% of the gross rent actually paid in cash or its equivalent in any tax year by a claimant and the claimant's household solely for the right of occupancy of their Maine homestead in the tax year and which rent constitutes the basis, in the succeeding calendar year, of a claim for relief under this chapter by the claimant.

Sec. 26. Legislation. During the First Regular Session of the 122nd Legislature, the joint standing committee of the Legislature having jurisdiction over taxation matters shall report out revenue-neutral legislation designed to generate the additional revenue necessary to implement the provisions of this Act. This committee shall consider increasing the sales tax rate, expanding the sales tax base or some combination of these options.

Sec. 27. Application. That section of this Act that amends the Maine Revised Statutes, Title 5, section 1513 and that section of this Act that enacts Title 5, section 1521 apply beginning with state fiscal year 2004-05.

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Sec. 28. Appropriations and allocations. The following appropriations and allocations are made.

ADMINISTRATIVE AND FINANCIAL SERVICES, DEPARTMENT OF

Education Funding Stabilization Fund

Initiative: Provides for a base allocation for the Education Funding Stabilization Fund beginning in fiscal year 2004-05.

Other Special Revenue Funds	2003-04	2004-05
All Other	\$0	\$500
	<hr/>	<hr/>
Other Special Revenue Funds Total	\$0	\$500

Maine Residents Property Tax Program 0648

Initiative: Provides additional funds for the Maine Residents Property Tax Program.

General Fund	2003-04	2004-05
All Other	\$0	\$5,755,517
	<hr/>	<hr/>
General Fund Total	\$0	\$5,755,517

ADMINISTRATIVE AND FINANCIAL SERVICES, DEPARTMENT OF DEPARTMENT TOTALS

	2003-04	2004-05
GENERAL FUND	\$0	\$5,755,517
OTHER SPECIAL REVENUE FUNDS	0	500
	<hr/>	<hr/>
DEPARTMENT TOTAL - ALL FUNDS	\$0	\$5,756,017'

SUMMARY

This amendment institutes comprehensive tax reform by reducing the burden on the property tax by shifting a greater portion of the responsibility for funding public education from municipalities to State Government and by providing other changes to state tax laws to provide a more balanced tax system. Specifically, the amendment contains the following provisions.

1. The amendment provides for the transition to the essential programs and services model of funding public education from kindergarten to grade 12 by increasing the State's share of funding from 48% of the full costs in fiscal year 2005-06 to 55% of the full costs in fiscal year 2007-08. The amendment

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2 establishes an Education Funding Stabilization Fund funded each
year by a portion of unappropriated surplus revenues. The fund
4 may be used only to meet the State's share of education funding
and only by a 2/3 vote of each House of the Legislature.

6 2. The amendment phases out the homestead tax exemption
over 3 years as the increased state share of education funding is
8 phased in.

10 3. The amendment exempts all industrial, commercial,
individually owned and other personal property from property
12 tax. Municipalities would be reimbursed under existing law for
50% of the revenue loss from newly exempt property.

14 4. The amendment provides that income tax revenue that
16 exceeds the level of growth in total annual personal income must
be set aside in the Income Tax Rate Management Fund and used to
18 flatten the income tax structure by reducing the tax rate on the
highest income bracket.

20 5. The amendment provides property tax relief for renters
22 by increasing the factor for rent constituting property taxes for
nonelderly households under the Maine Residents Property Tax
24 Program from 18% of rent to 25% of rent.

26 6. The amendment requires the joint standing committee of
the Legislature having jurisdiction over taxation matters of the
28 First Regular Session of the 122nd Legislature to report out
revenue-neutral legislation to increase the sales tax rate or
30 expand the base or some combination of those 2 options to
generate revenue necessary to implement the Act.

FISCAL NOTE REQUIRED
(See attached)

COMMITTEE AMENDMENT



**121st Maine Legislature
Office of Fiscal and Program Review**

LD 1141

**An Act to Provide Property Tax Relief for Maine Residents and
Businesses and Implement Comprehensive Tax Reform**

LR 0392(04)

Fiscal Note for Bill as Amended by Committee Amendment " "

Committee: Taxation

Fiscal Note Required: Yes

Minority Report

Fiscal Note

	2003-04	2004-05	Projections 2005-06	Projections 2006-07
Net Cost (Savings)				
General Fund	\$0	\$ 5,755,517	\$ 89,001,988	\$ 149,880,942
Appropriations/Allocations				
General Fund	\$0	\$ 5,755,517	\$ 89,001,988	\$ 149,880,942
Other Special Revenue Funds	\$0	\$ 500	\$ 500	\$ 500

Fiscal Detail and Notes

General Fund Summary	2003-04	2004-05	2005-06	2006-07
Additional approp needed to fund EPS in bill	\$ -	\$ -	\$ 82,173,651	\$ 115,881,956
Maine Revenue Services	\$ -	\$ 5,755,517	\$ 6,828,337	\$ 33,998,986
Net General Fund Cost (Savings)	\$ -	\$ 5,755,517	\$ 89,001,988	\$ 149,880,942

This bill includes the Essential Programs and Services model approved in Public Law 2003, c. 504, as the basis for determining the total cost of K-12 public education. However, this bill differs from PL 2003, c. 504 in that it requires the State to fund 48% of the 100% of the total state and local operating cost allocation based on essential programs and services in fiscal year 2005-06 with the State's share increasing to 55% of the full cost by fiscal year 2007-08 versus the 50% currently required. This bill also provides for the calculation of a full-value education mill rate that is required to raise the total maximum local share of the cost of funding K-12 education and requires that this rate decline over the 2005 through 2007 property tax years. The Department of Education estimates the mill rate expectation to be 9.98 mills in fiscal year 2005-06.

This bill also provides for a transition adjustment through fiscal year 2007-08 for municipalities that experience an adverse fiscal impact as a result of the phase-in of the essential programs and services model and the maximum local

share mill rate expectation method of determining the local contribution of funding K-12 education. This bill proposes a transition adjustment amount of \$10,000,000 in fiscal year 2005-06 with the amount declining in each successive year through fiscal year 2007-08. Since this legislation does not specify the transition amounts for fiscal year 2006-07 and fiscal year 2007-08, this fiscal note assumes that the transition adjustment declines evenly over the 3-year period. This fiscal note also assumes that the transition adjustment amounts are included in the estimated General Fund appropriation amounts needed to fund K-12 education based on the Essential Programs and Services model in this measure, thereby affecting the distribution among individual school units. The impact to each local school unit can not be determined at this time.

This bill establishes an Education Funding Stabilization Fund as a nonlapsing fund within the Department of Administrative and Financial Services to be used to meet the State's share of the cost of funding K-12 public education. This legislation requires the Fund to receive 16% of the unappropriated surplus of the General Fund in each fiscal year beginning in fiscal year 2004-05. The amount of funds to be transferred to the Education Funding Stabilization Fund in each fiscal year can not be determined at this time and will depend on the amount that actual General Fund revenues exceed projected levels in each fiscal year. This bill includes a \$500 Other Special Revenue Funds allocation in fiscal year 2004-05 to establish a base allocation for the fund.

The following table provides estimates for the total State and Local Operating Cost of funding education based on the Essential Programs and Services model and provides a comparison of the General Fund appropriations that are estimated to be needed to fund the state's share of the cost of funding K-12 education based on the State's contribution reaching 50% in fiscal year 2009-10, as approved in Public Law 2003, c. 504, versus the 55% State contribution by fiscal year 2007-08 proposed in this legislation.

**State and Local Cost to Fund K-12 Public Education
Utilizing the Essential Programs and Services Model
Comparison of 50% State Contribution vs. 55% by FY 2007-08**

	<u>Base Year</u> <u>2003-04*</u>	<u>2004-05*</u>	<u>Projections</u> <u>2005-06</u>	<u>Projections</u> <u>2006-07</u>
Total State & Local Operating Cost allocation based on EPS model (100%)	1,256,951,694	1,260,260,954	1,270,125,664	1,285,714,652
EPS Transition Percentage	80.82%	82.00%	84.00%	88.00%
Adjusted Total Operating Allocation based on EPS model approved in P.L. 2003, c. 504	1,015,819,375	1,033,413,982	1,066,905,558	1,131,428,894
Total State & Local cost based on EPS funding model (100%) (includes program costs, debt service and adjustments) based on LD 1141	1,708,540,751	1,745,020,078	1,740,420,076	1,773,165,347

Total State & Local cost based on EPS funding model approved in P.L. 2003, c. 504 (includes program costs, debt service and adjustments)	1,467,408,432	1,518,173,106	1,537,199,970	1,618,879,589
State Share Targets to fund K-12 education based on EPS model approved in P.L. 2003, c. 504	49.89%	47.81%	49.00%	49.25%
State Share Targets to fund K-12 education based on EPS model in LD 1141	49.89%	47.81%	48.00%	51.50%
Estimated General Fund appropriation needed to fund K-12 education based on EPS model approved in P.L. 2003, c. 504			753,227,985	797,298,197
Estimated General Fund appropriation needed to fund K-12 education based on LD 1141			835,401,636	913,180,154
Additional General Fund Appropriation required to fund EPS model in LD 1141 vs. P.L. 2003, c. 504			82,173,651	115,881,956

* No adjustment in fiscal year 2003-04 and fiscal year 2004-05

This bill increases the Maine Residents Property Tax Reimbursement program and phases out the homestead exemption over time. The net increase in the General Fund cost due to these changes is estimated to be \$5,760,000 in fiscal year 2004-05. It also requires certain changes to the income tax structure and the sales tax rate or sales tax base. The impact of those provisions can not be estimated at this time. The state will also have to reimburse municipalities for 50% of the revenue loss due to the personal property tax exemption beginning in fiscal year 2006-07. Maine Revenue Services will also begin to experience business equipment tax reimbursement (BETR) program savings in the same fiscal year. The net General Fund cost of those two changes is estimated to be \$27,000,000 in fiscal year 2006-07. The state will also be required to reimburse 90% of the local costs attributable to the change in the homestead exemption. These costs, and other related administrative costs, are expected to be in excess of \$150,000 per year in fiscal year 2005-06 and 2006-07.