

MAINE STATE LEGISLATURE

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R.S.

L.D. 1629

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DATE: 8-19-03

(Filing No. H-602)

REPORT B
TAXATION

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

COMMITTEE AMENDMENT "D" to H.P. 1209, L.D. 1629,
"RESOLUTION, Proposing a Competing Measure under the Constitution of Maine To Create Municipal Service Districts To Reduce the Cost of Local Government, To Provide Property Tax Relief and To Increase Economic Competitiveness"

Amend the resolution by striking out the title and substituting the following:

'RESOLUTION, Proposing a Competing Measure under the Constitution of Maine To Reduce Property Taxes by Increasing State Funding for Education, Providing a Local Option Municipal Sales Tax and Increasing the Maine Residents Property Tax Rebate'

Further amend the resolution in the first indented paragraph after the title in the last 2 lines (page 1, lines 5 and 6 in L.D.) by striking out the following: "to Enact the School Finance" and inserting in its place the following: 'To Enact the School Finance and Tax Reform'

Further amend the resolution by striking out all of Parts A to D and inserting in their place the following:

COMMITTEE AMENDMENT

PART A

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Sec. A-1. 20-A MRSA §15671, sub-§7, ¶¶A and B, as enacted by PL 2003, c. 504, Pt. A, §5, are amended to read:

A. The annual targets for the essential programs and services transition percentage, excluding program cost allocation, debt service allocation and adjustments, are as follows.

(1) For fiscal year 2005-06, the target is 84% 86.25%.

(2) For fiscal year 2006-07, the target is 88% 93%.

(3) For fiscal year 2007-08, the target is 92% 100%.

~~(4) For fiscal year 2008-09, the target is 96%.~~

~~(5) For fiscal year 2009-10 and succeeding years, the target is 100%.~~

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

(1) For fiscal year 2005-06, the target is 49% 50%.

(2) For fiscal year 2006-07, the target is 49.25% 52.5%.

(3) For fiscal year 2007-08, the target is 49.50% 55%.

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

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

Sec. A-2. 20-A MRSA §15671, sub-§8 is enacted to read:

8. Alternative calculation of state contribution to education. The Commissioner of Education shall annually calculate the percentage for the state share of funding the costs of public education by including the cost of teacher pensions and health insurance for retired teachers as part of total costs and attributing the appropriate state and local shares and report that calculation to the Legislature.

Sec. A-3. 20-A MRSA §15671-A is enacted to read:

§15671-A. Property tax contribution to public education

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2 1. Definitions. For the purposes of this section, unless
the context otherwise indicates, the following terms have the
following meanings.

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

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

14
16 2. Local cost share expectation established. The local
cost share expectation is established as follows.

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

32
34 B. This paragraph applies to the calculation of the
full-value education mill rate. For property tax years
beginning on or after April 1, 2005, the commissioner shall
36 calculate the full-value education mill rate that is
required to raise the total of the local cost share
38 expectation for funding public education from kindergarten
to grade 12. The full-value education mill rate is derived
40 by dividing the applicable tax year percentage of the
projected cost of funding public education from kindergarten
42 to grade 12 by the certified total state valuation for the
year prior to the most recently certified total state
44 valuation for all municipalities. The full-value education
mill rate must decline over the period described in
46 subparagraphs (1) to (3) and may not exceed 8.55 mills. The
full-value education mill rate must be applied according to
48 section 15688, subsection 3, paragraph A to determine a
municipality's local cost share expectation. Full-value

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COMMITTEE AMENDMENT "D" to H.P. 1209, L.D. 1629

2 education mill rates must be derived according to the
3 following schedule:

4 (1) For the 2005 property tax year, the full-value
5 education mill rate is the amount necessary to result
6 in a 50% local share in fiscal year 2005-06;

8 (2) For the 2006 property tax year, the full-value
9 education mill rate is the amount necessary to result
10 in a 47.5% local share in fiscal year 2006-07; and

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

16 3. Exceeding local cost share expectation; referendum
17 process. Beginning with the 2007-08 school budget, the
18 legislative body of a school administrative unit may adopt
19 property tax rates that exceed the local cost share expectation
20 calculated under section 15688, subsection 3, paragraph A if that
21 action is approved by the voters of the school administrative
22 unit by referendum or the referendum validation processes
23 authorized by sections 1305-B and 1701-B and the voters are
24 properly notified as required by section 15617 or Title 30-A,
25 section 2523 or 2551, as applicable.

26 **Sec. A-4. 20-A MRSA §15684, sub-§3** is enacted to read:

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

30 **Sec. A-5. 20-A MRSA §15686**, as enacted by PL 2003, c. 504,
32 Pt. A, §6, is amended to read:

34 **§15686. Transition adjustment**

36 For each of the fiscal years described in section 15671,
37 subsection 7, the commissioner shall establish a transition
38 adjustment calculated to minimize the adverse fiscal impact
39 directly---related---to that may be experienced by some
40 municipalities as a result of the phase-in of this Act. The
41 transition adjustment for a municipality must be directly related
42 to the phase-in of essential programs and services and the local
43 cost share expectation method of determining the local
44 contribution to the cost of funding essential programs and
45 services. The amount of this adjustment is established at
46 \$10,000,000 for fiscal year 2005-06 and must decline with each
47 successive fiscal year,--and--the. The adjustments must end no
48 later than fiscal year 2009-10 2007-08.

50 **Sec. A-6. 20-A MRSA §15688** is enacted to read:

2 §15688. School administrative unit contribution to total
3 cost of funding public education from kindergarten
4 to grade 12

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

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

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

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

16 2. Member municipalities in school administrative districts
17 or community school districts; total costs. For each
18 municipality that is a member of a school administrative district
19 or community school district, the commissioner shall annually
20 determine each municipality's total cost of education. A
21 municipality's total cost of education is the school
22 administrative district's or community school district's total
23 cost of funding times the percentage that the municipality's most
24 recent calendar year average pupils is to the school
25 administrative district's or community school district's most
26 recent calendar year average pupils.

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

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

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

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

40 B. The school administrative unit's state contribution to
41 the total cost of education is the total cost of education
42

NOIS

2 calculated pursuant to subsection 1 less the school
3 administrative unit's contribution calculated pursuant to
4 paragraph A.

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

8 **Sec. A-7. Basis for funding costs of education from kindergarten to**
9 **grade 12.** Notwithstanding any other provision of law, beginning
10 in fiscal year 2005-06, funding of the costs of education from
11 kindergarten to grade 12 must be based on the cost of providing
12 essential programs and services as described in the Maine Revised
Statutes, Title 20-A, chapter 606-B.

14 **Sec. A-8. Appropriations and allocations.** The following
15 appropriations and allocations are made.

16 **EDUCATION, DEPARTMENT OF**

18 **General Purpose Aid for Local Schools**

20 Initiative: Provides funds to increase the State's share of
21 education funding costs.

24 General Fund	2004-05
All Other	\$30,000,000
26	
General Fund Total	<u>\$30,000,000</u>

28 **PART B**

30 **Sec. B-1. 36 MRSA §6201, sub-§1,** as amended by PL 1993, c.
31 670, §9, is repealed and the following enacted in its place:

32 1. Benefit base. "Benefit base" means property taxes
33 accrued on the first \$200,000 of taxable just value of the
34 homestead or rent constituting property taxes accrued. In the
35 case of property taxes accrued, the benefit base is determined by
36 multiplying \$200,000 by the ratio of current just value upon
37 which the assessment is based as furnished in the assessor's
38 annual return to the State Tax Assessor filed in accordance with
39 section 383 times the municipal tax rate. If the benefit base as
40 calculated in the previous sentence exceeds property taxes
41 accrued, the property taxes accrued become the benefit base. In
42 the case of a claimant paying both rent and property taxes for a
43 homestead, "benefit base" means both property taxes accrued as
44 limited by this subsection and rent constituting property taxes
45 accrued.

48 **Sec. B-2. 36 MRSA §6207, first ¶,** as amended by PL 1997, c.
49 557, Pt. A, §3 and affected by Pt. G, §1, is further amended to
50 read:

2 A claimant representing a nonelderly household qualifies for
3 the following benefits subject---to---the---following---income
4 limitations.

6 **Sec. B-3. 36 MRSA §6207, sub-§1, ¶A-1**, as amended by PL 1997,
7 c. 557, Pt. A, §3 and affected by Pt. G, §1, is further amended
8 to read:

10 ~~A-1. Fifty-percent-of-that~~ The portion of the benefit base
11 that exceeds 4% ~~-but-does-not-exceed-8%~~ 5% of income plus
12 ~~100%-of-that-portion-of-the-benefit-base-that-exceeds-8%-of~~
13 ~~income-to-a-maximum-payment-of-\$1,000.~~

14 **Sec. B-4. 36 MRSA §6207, sub-§2**, as amended by PL 1997, c.
15 557, Pt. A, §3 and affected by Pt. G, §1, is repealed.

18 **Sec. B-5. 36 MRSA §6209**, as amended by PL 1989, c. 508, §25,
19 is further amended to read:

20 **§6209. Annual adjustment**

22 **1. Household limitation adjustment.** Beginning March 1,
23 1989, and annually thereafter, the State Tax Assessor shall
24 determine the household income eligibility adjustment factor.
25 That factor shall must be multiplied by the income limitations in
26 section 6206, applicable for the year prior to that for which
27 relief is requested. The result shall must be rounded to the
28 nearest \$100 and shall must apply to the year for which relief is
29 requested corresponding to the year on which the annualized cost
30 of living adjustments were based. ~~Beginning-March-1,-1991,-the~~
31 ~~same-procedure-shall-be-employed-to-adjust-the-income-limitation~~
32 ~~in-section-6207,-subsection-2.~~

34
35 **PART C**

38 **Sec. C-1. 36 MRSA §1817** is enacted to read:

40 **§1817. Municipal local option sales and use tax**

42 **1. Definitions.** As used in this section, unless the
43 context otherwise indicates, the following terms have the
44 following meanings.

46 A. "Adjusted property tax rate" means a municipality's
47 property tax rate per \$1,000 of assessed valuation, adjusted
48 for inflation using the Consumer Price Index and any
neighborhood or municipality revaluations.

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COMMITTEE AMENDMENT "D" to H.P. 1209, L.D. 1629

2 B. "Eligible municipality" means a municipality or
3 organized municipal township. "Eligible municipality" does
4 not include a county or a subsidiary unit of government such
5 as an unorganized township, village, special district or
6 school district.

8 C. "Local option sales and use tax" means the sales and use
9 tax imposed by an eligible municipality pursuant to
10 subsection 2.

12 D. "Participating county" means a county in which there is
13 at least one participating municipality.

14 E. "Participating municipality" means an eligible
15 municipality that has imposed a local option sales and use
16 tax pursuant to this section.

18 F. "Sales tax base" means those items subject to sales
19 taxation under this Part.

22 G. "Single transaction limitation" means a dollar limit
23 that a participating municipality may place on the amount of
24 tax the municipality collects from a single item transaction
25 subject to the local option sales and use tax.

26 2. Authorization to impose local option sales and use tax.
27 An eligible municipality may impose a local option sales and use
28 tax of 1% on those items that are part of the sales tax base. An
29 eligible municipality that adopts a local option sales and use
30 tax pursuant to this section may not alter the range of items
31 subject to sales taxation. A municipality that adopts a local
32 option sales and use tax also may adopt a single transaction
33 limitation. The single transaction limitation may not exceed
34 \$100.

36 3. Administration. Retailers in a participating
37 municipality shall transfer the revenue from the local option
38 sales and use tax at the time of and in the manner provided in
39 section 1951-A for the transfer of state sales
40 and use tax revenue. The tax is subject to the same interest,
41 penalties and administrative actions as other taxes assessed
42 under this Part.

44 4. Transfer of revenue. Each month, the assessor shall
45 identify the amount of revenue attributable to each municipality
46 under this section, subtract the costs of administering this
47 section and certify the net amount due each municipality to the
48 Treasurer of State. Of the net amount certified under this
49 subsection, the Treasurer of State shall make monthly payments to:
50

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COMMITTEE AMENDMENT "D" to H.P. 1209, L.D. 1629

2 A. The treasurer of a participating municipality in the
3 amount of 75% of the net amount collected from that
4 participating municipality; and

6 B. The treasurer of a participating county in the amount of
7 25% of the net amount collected from participating
8 municipalities within that county.

10 For purposes of this subsection, "costs of administering this
11 section" means the lesser of the actual cost to the assessor and
12 2% of the total revenue generated by local option sales and use
13 taxes.

14 5. Disposition of participating county share. Each
15 participating county shall deposit the revenue received pursuant
16 to subsection 4, paragraph B in a segregated account. A county
17 shall determine its annual budget and assessment without
18 consideration of the amount received pursuant to subsection 4,
19 paragraph B. Funds within the segregated account may only be
20 used by the county to reduce on a pro rata basis the property tax
21 assessment required from each participating municipality within
22 the participating county.

24 6. Disposition of participating municipality share. Each
25 participating municipality shall deposit the revenue received
26 pursuant to subsection 4, paragraph A in a segregated account. A
27 municipality shall determine its annual budget and assessment
28 without consideration of the amount received pursuant to
29 subsection 4, paragraph A. Funds within the segregated account
30 may be used only as provided in this subsection.

32 A. As the first priority, the participating municipality
33 shall use at least 50% of the funds annually deposited in
34 the segregated account to stabilize or lower that
35 municipality's projected property tax rate. If, despite the
36 application of at least 50% of the funds, the combined
37 effect of changes in the municipality's appropriations and
38 revenue streams results in a projected adjusted property tax
39 rate that exceeds the previous tax year's actual tax rate by
40 more than 1%, then whatever portion of the remaining amount
41 of segregated funds must be applied to maintain the adjusted
42 property tax rate at or below 101% of the previous year's
43 property tax rate. Notwithstanding any provision to the
44 contrary, if a municipality uses all of the funds in the
45 segregated account and the adjusted property tax rate is
46 more than 1% above the previous year's property tax rate,
47 the final municipal budget containing the higher adjusted
48 property tax may be adopted only by a 2/3 vote of the
49 governing body of that municipality.

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B. As the 2nd priority, after compliance with paragraph A, the municipality may use any funds remaining in the segregated account for economic development purposes; to augment school budgets; to improve local roads, sewers and other infrastructure of the municipality; or for any other permissible spending or budgetary needs of the municipality. Funds may also be committed to meet annual budgetary or long-term capital investment needs of the municipality.

7. Effect on revenue sharing and other state-aid programs. Revenue received pursuant to subsection 4 may not be considered to be receipts from the taxes imposed under this Part for the purpose of transfers to the Local Government Fund under Title 30-A, section 5681. Revenue received pursuant to subsection 4 may not be used to reduce or eliminate any funding otherwise due the participating county or participating municipality under any provision of law providing aid to the participating county or participating municipality, including, but not limited to, aid to schools, roads, public assistance or jails.

8. Referendum. The question of whether to impose a local option sales and use tax must be submitted to the legal voters of a municipality that seeks to impose the local option sales and use tax.

The petition process and the voting at elections held in cities, towns and plantations must be held and conducted in accordance with Title 30-A, sections 2528, 2529 and 2532 even if the municipality has not accepted the provisions of section 2528. The voting at elections held in municipalities must be held and conducted in accordance with Title 21-A.

The municipal clerk shall make a return of the results, certify the results and send them to the Secretary of State. The Secretary of State shall forward the results to the assessor.

The local option sales and use tax may be discontinued by referendum conducted in the same manner as the referendum adopting the tax under this section was conducted.

9. Effective date of tax. The tax authorized by this section takes effect 120 days after the municipal referendum vote under subsection 8 if it is accepted by a majority of the local voters voting at the election and the total number of votes cast equals or exceeds 20% of the total number of votes cast in that municipality in the most recent gubernatorial election.

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PART D

2

Sec. D-1. Appropriations and allocations. The following appropriations and allocations are made.

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ADMINISTRATIVE AND FINANCIAL SERVICES, DEPARTMENT OF

8

Maine Residents Property Tax Program 0648

10

Initiative: Appropriates funds required due to the expansion of the Maine Residents Property Tax Program.

12

General Fund	2003-04	2004-05
All Other	\$0	\$34,350,000
General Fund Total	\$0	\$34,350,000

14

16

18

Revenue Services - Bureau of 0002

20

Initiative: Provides funds for one Tax Examiner position effective July 1, 2004 and other related costs associated with an increase in the number of applications for the Maine Residents Property Tax Program.

22

24

General Fund	2003-04	2004-05
Positions - Legislative Count	(0.000)	(1.000)
Personal Services	\$0	\$46,135
All Other	0	51,028
General Fund Total	\$0	\$97,163

26

28

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32

Revenue Services - Bureau of 0002

34

Initiative: Appropriates one-time funds to be deposited in Maine Revenue Services' Other Special Revenue program to support the start-up costs associated with a limited local option sales and use tax.

36

38

General Fund	2003-04	2004-05
All Other	\$0	\$956,561
General Fund Total	\$0	\$956,561

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44

Revenue Services - Bureau of 0002

46

Initiative: Allocates funds for the additional costs associated with administering a limited local option sales and use tax, including funds for computer programming and software development. Position count is authorized to establish one

48

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COMMITTEE AMENDMENT "D" to H.P. 1209, L.D. 1629

2 Senior Tax Examiner position, one Taxpayer Assistance Specialist position and one Clerk II position.

4	Other Special Revenue Funds	2003-04	2004-05
	Positions - Legislative Count	(0.000)	(3.000)
6	Personal Services	\$0	\$134,696
	All Other	0	821,865
8		<hr/>	<hr/>
	Other Special Revenue Funds Total	\$0	\$956,561

10	ADMINISTRATIVE AND FINANCIAL SERVICES,		
12	DEPARTMENT OF		
14	DEPARTMENT TOTALS	2003-04	2004-05
	GENERAL FUND	\$0	\$35,403,724
16	OTHER SPECIAL REVENUE FUNDS	0	956,561
18		<hr/>	<hr/>
	DEPARTMENT TOTAL - ALL FUNDS	\$0	\$36,360,285

20	EDUCATION, DEPARTMENT OF		
22	General Purpose Aid for Local Schools 0308		
24	Initiative: Appropriates funds for general purpose aid for local schools.		
26			
	General Fund	2003-04	2004-05
28	All Other	\$0	\$30,000,000
30		<hr/>	<hr/>
	General Fund Total	\$0	\$30,000,000

32	EDUCATION, DEPARTMENT OF		
34	DEPARTMENT TOTALS		
	GENERAL FUND	\$0	\$30,000,000
36		<hr/>	<hr/>
	DEPARTMENT TOTAL - ALL FUNDS	\$0	\$30,000,000

38	SECTION TOTALS		
40		2003-04	2004-05
	GENERAL FUND	\$0	\$65,403,724
42	OTHER SPECIAL REVENUE FUNDS	0	956,561
44		<hr/>	<hr/>
	SECTION TOTAL - ALL FUNDS	\$0	\$66,360,285'

46 Further amend the resolution in Part E in section 2 by
48 striking out the question and inserting in its place the following:

COMMITTEE AMENDMENT

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COMMITTEE AMENDMENT "D" to H.P. 1209, L.D. 1629

2 "Do you want the State to relieve the burden on the
property tax by increasing the state contribution to the
4 cost of essential education programs and services, relieving
municipalities from having to pay more than 8.55 mills in
6 property tax toward the cost of essential education programs
and services, providing property tax rebates for homeowners
8 whose property taxes exceed 4% of their income and
permitting municipalities to adopt a local sales and use tax
if approved by local referendum?"

10
12 Further amend the resolution by relettering or renumbering
any nonconsecutive Part letter or section number to read
consecutively.

16 **SUMMARY**

18 This amendment is a minority report of the committee. It
replaces Parts A to D of the resolution. Part A of this
20 amendment provides \$30,000,000 of additional state funding for
education in fiscal year 2004-05 and speeds up the implementation
22 of the essential programs and services funding model by phasing
in recognition of 100% of essential programs and services and a
24 55% state share by fiscal year 2007-08 rather than by fiscal year
2009-10.

26
28 Part B expands the Maine Residents Property Tax Program,
commonly referred to as "the circuitbreaker program," by removing
the income eligibility requirements and providing for a rebate
30 equal to the amount by which the property taxes on the first
\$200,000 of the value of a homestead, or rent constituting
32 property taxes, exceed 5% of a household's income.

34 Part C of the amendment allows municipalities to impose a 1%
local option sales and use tax. Revenue from the tax, after the
36 deduction of administrative costs, is divided between the
municipality and the county in which the municipality is located
38 on a 75/25 basis, respectively. A municipality must use the
revenue generated by the local option sales and use tax to reduce
40 the property tax rate. If, despite the use of all the revenue
generated by the local option sales and use tax, the property tax
42 rate, after adjustment for inflation, can not be decreased below
a level that is 1% higher than the previous year's property tax
44 rate, then this amendment requires a 2/3 vote of the governing
body of the municipality to pass the budget containing the higher
46 tax rate.

48 Part D provides appropriations and allocations to implement
the provisions of the resolution, as amended.

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COMMITTEE AMENDMENT

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COMMITTEE AMENDMENT "D" to H.P. 1209, L.D. 1629

2 The amendment also changes the question proposed for the
competing measure.

4

FISCAL NOTE REQUIRED
(See attached)

6

COMMITTEE AMENDMENT

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

LD 1629

**RESOLUTION, Proposing a Competing Measure under the Constitution
of Maine to Reduce Property Taxes by Increasing State Funding for
Education, Providing a Local Option Municipal Sales Tax and
Increasing the Maine Residents Property Tax Rebate**



LR 2165(05)

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	\$65,403,724	\$65,473,461	\$123,610,417
Appropriations/Allocations				
General Fund	\$0	\$65,403,724	\$65,473,461	\$123,610,417
Other Special Revenue Funds	\$0	\$956,561	\$0	\$0
Referendum Costs	Month/Year	Election Type	Question	Length
	Nov-03	General	Referendum	Lengthy

The Secretary of State's budget includes sufficient funds to accommodate one ballot of average length for the general election in November 2003. If the number or size of the referendum questions increases the ballot length, an additional appropriation of \$8,000 or more may be required.

Fiscal Detail and Notes

The implementation of this bill is contingent upon approval by the voters. If approved by the voters, this bill has the following impact.

	2003-04	2004-05	Projections 2005-06	Projections 2006-07
General Fund Summary				
Additional Appropriation for the General Purpose Aid for Local Schools program	\$0	\$30,000,000	\$0	\$0
Additional Appropriation needed to fund EPS in LD 1629	\$0	\$0	\$29,660,913	\$86,363,596

Additional appropriations associated with the expansion of the Maine Residents Property Tax	\$0	\$34,447,163	\$35,812,548	\$37,246,821
PROGRAM One-time appropriation for a local option sales and use tax.	\$0	\$956,561	\$0	\$0
Net General Fund Cost (Savings)	\$0	\$65,403,724	\$65,473,461	\$123,610,417

This bill includes a General Fund appropriation of \$30,000,000 in fiscal year 2004-05 for the General Purpose Aid for Local Schools program within the Department of Education. This bill provides for a new method of determining the state and local share of funding the cost of K-12 public education beginning in fiscal year 2005-06. This bill includes the Essential Programs and Services model, as approved by the Legislature in Public Law 2003, c. 504, An Act to Implement School Funding Based on Essential Programs and Services, 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's share to increase to 55% by fiscal year 2007-08 versus the 50% by fiscal year 2009-10 requirement in PL 2003, c. 504. 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 establishes a 8.55 mill cap on the full value education mill rate.

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 years 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.

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 in FY 2009-10 vs. 55% by FY 2007-08**

	Base Year		Projections	Projections
	<u>2003-04*</u>	<u>2004-05*</u>	<u>2005-06</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 based on EPA model approved in PL 2003, c. 504	80.82%	82.00%	84.00%	88.00%
EPS Transition Percentage based on EPA model in LD 1629	80.82%	82.00%	86.25%	93.00%
Adjusted Total Operating Allocation based on EPS model approved in PL 2003, c. 504	1,015,819,375	1,033,413,982	1,066,905,558	1,131,428,894
Adjusted Total Operating Allocation based on EPS model in LD 1629	1,015,819,375	1,033,413,982	1,095,483,385	1,195,714,626
Total State & Local cost based on EPS funding model (includes program costs, debt service and adjustments) approved in PL 2003, c. 504	1,467,408,432	1,518,173,106	1,537,199,970	1,618,879,589
Total State & Local cost based on EPS funding model (includes program costs, debt service and adjustments) in LD 1629	1,467,408,432	1,518,173,106	1,565,777,797	1,683,165,321
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 1629	49.89%	47.81%	50.00%	52.50%
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 1629			782,888,899	883,661,794
Additional General Fund Appropriation required to fund EPS model in LD 1629 vs. P.L. 2003, c. 504			29,660,913	86,363,596

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

This bill includes a General Fund appropriation of \$34,350,000 in fiscal year 2005-06 to support the additional costs of the expansion of the Maine Residents Property Tax program. It also includes \$97,163 for the administrative costs associated with this expansion.

This bill also provides for a limited local option sales and use tax. The revenue associated with this provision can not be estimated at this time and will depend on the number and size of the municipalities that elect to impose this tax. This bill also includes a one-time General Fund appropriation of \$956,561 in fiscal year 2005-06 for Maine Revenue Services for certain costs associated with establishing a municipal local option sales and use tax.