

# MAINE STATE LEGISLATURE

The following document is provided by the  
**LAW AND LEGISLATIVE DIGITAL LIBRARY**  
at the Maine State Law and Legislative Reference Library  
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied  
(searchable text may contain some errors and/or omissions)

---

---

**REPORT**

of the

**CITIZENS TASK FORCE**

**ON MUNICIPAL AND STATE REVENUES**

to

**THE HONORABLE KENNETH M. CURTIS**

**GOVERNOR OF THE STATE OF MAINE**

**November 1968**

---

---



**REPORT**

of the

**CITIZENS TASK FORCE**

**ON MUNICIPAL AND STATE REVENUES**

to

**THE HONORABLE KENNETH M. CURTIS**

**GOVERNOR OF THE STATE OF MAINE**

**November 1968**



The preparation of this report was financially aided by the State Planning Office, Executive Department, State of Maine, and through a Federal Grant from the Department of Housing and Urban Development, under the Urban Planning Assistance Program authorized by Section 701 of the Housing Act of 1954, as amended.





# ***CITIZENS TASK FORCE ON MUNICIPAL AND STATE REVENUES***

November 15, 1968

The Honorable Kenneth M. Curtis  
Governor of Maine  
Augusta, Maine

Dear Governor Curtis:

On behalf of the Citizens Task Force on Municipal and State Revenues I take pleasure in transmitting this report on the fiscal needs of both the local and State governments, together with our analysis of potential revenue sources, and our conclusions and recommendations.

In accordance with your request of October 23, 1967, as expanded by your address of December 11, 1967, the Task Force, assisted by Esco Research, Inc., of Portland and the Public Affairs Research Center of Bowdoin College, is submitting these findings and recommendations to assist you and the members of the State Legislature in your deliberations during the 104th Legislative Session and subsequent sessions.

The Task Force has reviewed many of the recent tax studies published by other state governments and by semi-public and private institutes, foundations, and other organizations. Besides studying secondary source material, members of the Task Force and the Esco Research team interviewed a number of State and local officials, interested citizens, and representatives of several interested organizations and associations. Subcommittees were assigned to work on material for specific chapters of this report. Individual committee members contributed valuable information in their particular areas of interest.

The findings and recommendations of the Task Force and research teams were organized into preliminary versions of the various chapters of this report during the summer of 1968, and preliminary drafts were mailed to all members prior to each of the Task Force meetings held at Augusta during the late summer and early fall. This completed draft is the result of our final meeting in October.

The Task Force has specifically requested me to recommend that this report be considered as the first step of on-going fiscal plan-

ning in the State of Maine. The Task Force is now disbanded, but it has suggested that fiscal planning become an important part of the professional activities of the State Planning Office.

On behalf of the Task Force, I thank you for the opportunity of serving the State of Maine.

Respectfully submitted,

Harry J. Waters, Ph.D.

Chairman, Citizens Task Force  
on State and Municipal Revenues

## ***Citizens Task Force on Municipal and State Revenues***



November 1967 to November 1968

**Harry J. Waters, Ph.D., Chairman**

Portland, Maine

**Robert L. Adam**

Portland

**Dana Baggett**

Portland

**Albert L. Bernier**

Waterville

**Mrs. Sumner T. Bernstein**

Portland

**Senator Richard N. Berry**

Cape Elizabeth

**David H. Clark, Ph.D.**

Orono

**Charles L. Cosgrove, Jr.**

Lewiston

**Raynor I. Crosman**

Corinna

**Paul Dunham**

Orono

**Mrs. Caroline Glassman**

Portland

**John Jabar**

Waterville

**Philip W. Kendall, Ph.D.**

Portland

**Dana A. Little**

Brunswick

**Murrough H. O'Brien**

Quincy House

Harvard University

**Clyde Russell**

Waterville

**Walter Schoenberger, Ph.D.**

Orono

**Kenneth Shade**

Skowhegan

**Harry G. Shulman**

Brunswick

**Deane S. Stevens**

Portland

### **STAFF ASSISTANTS**

**Ernest Johnson**, State Tax Assessor  
Bureau of Taxation, State of Maine

**Norman Ledew**, Director, Property  
Tax Division, Bureau of Taxation  
and Administration

**Richard Sawyer**, Planning  
Coordinator, State of Maine

**Rodney L. Scribner**, Deputy  
Commissioner of Finance





# **ESCO RESEARCH, INCORPORATED**

**Portland, Maine**

## **Project Research Staff**

**John W. Bay**

Portland

**Joseph Chandler**

Portland

**Laurier Beaulieu**

Portland

**Alvin D. Rogers**

Portland

**Mark Bramson**

Portland

**Paul C. Rogers**

Portland

## **Clerical Staff**

**Mrs. Marion Clewley**

Portland

**Miss Peggy Harnois**

Westbrook

## **Editor of the Report**

**Alvin D. Rogers**

Portland



## TABLE OF CONTENTS

Letter of Transmittal to the Governor of Maine .....	iii
Task Force Members and Staff Assistants .....	v
Esco Research, Incorporated, Staff for the Project .....	vii
Table of Contents .....	ix
Tables and Charts .....	xv

### Chapter 1

<b>Conclusions and Recommendations of the Citizen's Task Force on Municipal and State Revenues .....</b>	<b>1</b>
--	----------

### Chapter 2

<b>Projection of Needed Expenditures and Probable Revenue of State and Local Governments in Maine .....</b>	<b>13</b>
The projected need for added sources of State revenues .....	14
The problem of allowing for inflation in projections .....	15
Assumptions used in making the Esco projection .....	16
State projections of revenues and expenditures .....	21
General Funds versus dedicated and other restricted funds ....	21
Emphasis upon General Funds expenditures in Figure 2 and Tables VII, VIII and IX .....	22
Details of the Bowdoin College PARC report and its projections .....	28
1. Local Government Revenues .....	28
Licenses, charges, and miscellaneous revenues ....	29
2. Local Government Expenditures .....	29
Utility expenditures .....	29
3. State Government Revenue .....	29
Charges and miscellaneous revenues .....	30
4. State Government Expenditures .....	30
Liquor stores expenditures and insurance trust expenditures .....	30
5. The Revenue Gap .....	30
Conclusion .....	33

## **Contents, continued**

### **Chapter 3**

<b>Trends in Local Government Expenditures .....</b>	<b>34</b>
Some types of local expenditures will increase more rapidly than others .....	34
Wages and salaries at the local level are the greatest problem .....	35
Federal regulations to meet minimum requirements for financial assistance are creating financial pressures at the local level .....	36
Inflation is a problem, especially for local governmental units .....	36
Increased personal income of state residents results in a demand for increased services .....	36
Low income, advanced age, poverty and related factors also increase the demand for increased local services .....	37
Pressure to upgrade services and personnel in the police and fire departments .....	37
Pollution and sewage disposal present an increasingly acute problem for local governments .....	37
Federally sponsored redevelopment projects and other planning projects require the expenditure of local matching funds .....	38
Conclusions .....	38

### **Chapter 4**

<b>Trends in Local Government Revenue .....</b>	<b>40</b>
The Property Tax Is Currently the Major Source of Local Revenue .....	40
Maine's average effective property tax rates are still among the lowest in the Northeast .....	41
Some form of property tax redistribution should be adopted .....	42
Taxation of non-business personal property should be eliminated .....	44

## Contents, continued

Municipalities should be reimbursed by the State for all exemptions granted by the State to certain classes of persons and organizations and to railroad and telephone utilities .....	44
Local tax relief should be available for persons on small fixed incomes .....	45
The establishment of a Uniform School Fund merits consideration .....	45
Municipalities with good assessment practices and excessively high effective tax rates should be helped .....	46
One important problem, then, is that of professional assessment .....	47
Intergovernmental Transfers Now Produce Only	
20 Percent of Local Governmental Revenues .....	47
Local government now receives a relatively low proportion of its revenue from sources other than property tax and transfers .....	47
An increase in taxes is not the only income alternative available to local communities .....	48
More Immediate Income Possibilities .....	48
Develop minor taxes and fees .....	48
Maximize the use of bonding .....	49
Obtain additional federal support .....	49
Obtain additional state support .....	50
Increase local efficiency .....	51
Establish metropolitan districts for police, fire protection, sanitation, and similar desirable services .....	52
Long Range Sources of Income for Maine Communities ....	52
Establish a practice of monthly billing for property taxes .....	54
Local governmental units should be consolidated into units of more nearly optimum efficiency .....	54
Initiate new major taxes .....	55
Conclusion: the State Must Provide the Answer .....	57

## Contents, continued

### Chapter 5

<b>Trends in State Government Expenditures .....</b>	<b>58</b>
Trends in State-Local Intergovernmental Relations and Their Effect on Expenditures .....	58
Policies Advocated in State-Local Intergovernmental Relations .....	60
1. Increase State support of general education on a basis equitable to all the citizens of Maine ....	60
2. Increase State involvement in health and welfare activities .....	61
Expenditures for health services should be tripled during the next decade .....	61
State supervision and control of all public welfare could mean increased social welfare services while slowing down cost increases .....	62
3. Establish ways and means to improve the administration of property tax assessment .....	63
A Tax Assessor Appeals Board would be established .....	63
4. Coordinate local activities by providing advisory services of a municipal coordinator in the state planning office .....	64
5. Supply certain services to local communities on a contract basis .....	65
6. Motivate local governmental units by various incentives to form administrative districts or to establish metropolitan service organizations ....	65
Trends in State Expenditures for Promoting Future Prosperity .....	66
Higher education is a prerequisite to all future development in Maine .....	66
Transportation is a major key to economic development ....	67
Highway development must progress and not go backwards	68
Air transportation is of major importance to the State ....	68
The Maine Port Authority's efforts at port development should receive legislative support .....	69

## **Contents continued**

Pollution control and sewage disposal problems will require funds .....	69
The demand for administrative services will increase .....	69
Salary and labor costs will increase .....	70

## **Chapter 6**

<b>Alternative Sources of State Revenues, Yields, and Implications .....</b>	<b>71</b>
--	-----------

### **I — Long Range Considerations**

A. Increase Support of Economic Development Effort .....	71
B. Improve Departmental and Interdepartmental Organiza- tional Structure and Procedures, with Particular Emphasis upon Making the Most Efficient Use of the Computer .....	72
1. Standardized accounting practices and procedures with uniform reporting .....	72
2. Monthly billing and centralized payment of all accounts between levels of government .....	73
C. Increase the Use of Bonding as a Fiscal Practice .....	73

### **II — Immediate Opportunities for**

#### **Increasing State Revenues**

A. Additional Funds Granted by the National Government and/or the More Complete Use of Existing National Funds ..	74
1. Arts and Humanities .....	74
2. Civil Defense .....	74
3. Education .....	74
4. Health and Welfare .....	75
5. Indian Affairs .....	75
6. Library .....	75
7. Mental Health and Correction .....	75
8. Sea and Shore Fisheries .....	75
B. Changed or Increased Rates on Existing Sources of Taxation, Together with the Removal of Certain Current Exemptions ..	76
1. The Sales and Use Tax .....	76
(a) Potential revenues at varying rates .....	76
(b) Broadening the tax to include certain services ..	77
(c) Broadening the tax to include trade-in values ..	77



## Contents continued

(d) The exemption of food .....	78
(e) Exemption of feed, seed, and fertilizer .....	78
(f) Exemption of raw materials used in manufacturing .....	79
2. The Gasoline and Diesel Fuel Tax .....	79
(a) The case for a higher motor vehicle fuel tax ....	79
(b) The case for repealing tax rebates on aviation fuel .....	80
3. Other Current Revenue Sources Which Might Yield Greater Revenues .....	81
(a) Liquor and beer .....	81
(b) Cigarette tax .....	82
(c) Pari-mutual tax .....	82
(d) Hunting and fishing licenses .....	82
(e) The wildlands tax .....	82
(f) Public utilities .....	82
(g) Inheritance taxes .....	83
(h) Insurance taxes .....	84
(i) Removal of dedicated funds .....	84
(j) Fines for motor vehicle violations .....	84
C. Minor Sources of New Types of Revenue .....	84
1. A Soft Drink Tax .....	85
2. An Annual Excise and Registration Tax for Pleasure Boats .....	85
3. A Head Tax on All Adults Between the Ages of 21 and 70 .....	85
4. A Severance Tax, Including a Stumpage Tax .....	85
D. Major Sources of New Revenue .....	86
1. Corporate Income Tax .....	87
2. A Personal Income Tax .....	88
(a) Personal income tax revenues in comparable states .....	89
(b) Effect of a State personal income tax on economic growth in the State .....	91
E. Final Comments .....	92

## TABLES AND CHARTS

### Chapter 2

Table I: Bowdoin College PARC Projections of Local Government Expenditures and Revenue, 1969-70 and 1974-75, with Revenue Gap .....	13
Table II: Bowdoin College PARC Projections of State Government Expenditures and Revenue, 1969-70 and 1974-75, with Revenue Gap .....	14
Table III: PARC Extrapolations of GNP Implicit Price Deflators for Purchases of Goods and Services by State and Local Government .....	15
Table IV: PARC Extrapolations of the Consumer Price Index Used to Adjust State and Local Revenue Estimates .....	15
Table V: Local Government Expenditures in Maine for Which Revenues Must Be Raised (1967-69) .....	19
Figure 1: Projection of Expenditure Needs of Local Governments in Maine as Compared to Current and Projected Local Revenues and Revenue Deficits .....	20
Table VI: Local Government Expenditures in Maine for Which Revenue Must Be Raised (1969-71, 1971-73, 1973-75) .....	21
Figure 2: Needs for State Expenditures from the General Fund by Biennia, 1963-65 to 1973-75 .....	23
Table VII: Maine State Governmental Revenues and Expenditures .....	24
Table VIII: Projection of General Fund Revenues Needed to Improve State Services at a Rate Consistent with Historic Trends .....	25
Table IX: Projection of General Fund Appropriations If Requests for Highly Desirable Expanded or Added Services Are Filled .....	26
Table X: Local Government Revenue and Expenditure in Maine	31
Table XI: State Government Revenue and Expenditure in Maine	32

## Chapter 4

Table XII: Average Effective Property Tax Rates, 1965 .....	41
---	----

Table XIII: Selected Per Capita Property Tax Revenue of Local Governments, 1965-66 .....	42
---	----

## Chapter 6

Table XIV: A Comparison of Maine with the Two States Most Similar in Population and Distribution of Family Income .....	89
--	----

Table XV: A Comparison of the Distribution of Family Income in Maine and Vermont in 1965 .....	90
---	----

*Note: Many incidental tables of projected yields  
at varying rates for specific taxes are untitled  
but included in the discussion of various taxes.*

**Chapter 1**  
**CONCLUSIONS AND RECOMMENDATIONS**  
**OF**

**THE CITIZENS TASK FORCE ON**  
**MUNICIPAL AND STATE REVENUES**

**Harry J. Waters, Ph.D., Chairman**  
**Augusta, Maine — November 1968**

**OUTLINE**

	<b>Major Points</b>	<b>Page References for Details</b>
<b>Findings.</b>		
	Municipal and State expenditures to double, or more, during next decade.	4, 14, 20-27
	For the 1969-71 biennium, municipalities need \$80 million or more added revenues.	4, 14, 20-21
	The State government will have to help meet much of this revenue gap.	4, 14, 23, 26
	The State will need from \$125 million to \$177 million more revenue next biennium.	5, 14, 23, 26
<b>Major New Tax Is Needed.</b>		
	Recommendation 1: A combination of personal and corporate State income tax.	5-6, 87-92
<b>Local Government Units Need More Fiscal Assistance from the State.</b>		
	Recommendation 2: State educational subsidies should be raised.	6, 60-61
	Recommendation 3: The State should assume fiscal and administrative responsibility for all public health and welfare services now provided by local government.	6-7, 61-63
	Recommendation 4: The State should reimburse municipalities for all exemptions from local property taxation granted by the State to certain classes of persons or organizations and to railroad and telephone utilities.	7, 44-45
	Recommendation 5: The State should provide certain unrestricted grants-in-aid to municipalities.	7, 46-47

<b>Major Points</b>	<b>Page References for Details</b>
Recommendation 6: The State should raise municipal debt limits.	7, 49, 73
Recommendation 7: The State should encourage increased use of bonding for capital improvements.	7, 49, 73
<b>Reforms in Property Tax Administration Advocated.</b>	
Recommendation 8: The State should insure equitable and uniform assessment practices throughout the State.	7-8, 47, 53, 63
Recommendation 9: The State should establish conveniently located district property tax appeals courts or boards.	8, 63
Recommendation 10: The State should provide reasonable homestead property tax relief in cases of need, but reimburse municipalities accordingly.	8, 44-45
Recommendation 11: The State should adopt some form of property tax redistribution.	8, 42-46
Recommendation 12: The State should establish an excise tax and registration system for pleasure boats, similar to the system now in use for motor vehicles.	8-9, 44, 85
Recommendation 13: The State should eliminate non-business personal property taxation.	9, 44
<b>Reforms in Reporting and Fiscal Procedure Advocated.</b>	
Recommendation 14: The State should require all local governmental units to operate and report on a common fiscal year to coincide with the State and federal fiscal year.	9, 72-73
Recommendation 15: The State should require uniform standards for each class of reports from local governments, based on a common fiscal year, and submitted on or before a set date annually.	9, 72-73
Recommendation 16: Local governmental data should be preprogramed for State computer storage and consolidated reporting.	9-10, 72-73

**Page References  
for Details**

**Major Points**

Recommendation 17: The State should make regular monthly payments to local governments, even if a State bond issue should be required to inaugurate this practice. 10, 73

Recommendation 18: Municipalities should be encouraged to bill property owners on a monthly, rather than an annual, basis for property taxes. 10, 54

**Coordination and Consolidation of Appropriate Municipal Functions Advocated.**

Recommendation 19: Small municipalities should be encouraged to work together as districts to provide certain services. 10-11, 54-55, 65-66

Recommendation 20: Communities should be encouraged to cooperate in taking advantage of federal programs. 11, 49-50

Recommendation 21: The State should provide through the State Planning Office the services of one or more municipal coordinators to assist municipalities to work with neighboring municipalities toward coordinated efforts. 11, 49, 64

Recommendation 22: The State should provide financial incentives toward the development of district organizations of various types. 11, 53, 65-66

Recommendation 23: The State should encourage greater use of State accounting services, purchasing services, etc., by municipalities. 11, 52, 65

Recommendation 24: Without destroying the values of local responsibility and reasonable autonomy, the State should encourage the consolidation of municipalities whose individual populations are too small to provide reasonably efficient administration of municipal services. 11-12, 54-55

<b>Major Points</b>	<b>Page References for Details</b>
<b>Certain increases in established tax rates and removal of certain tax exemptions advocated.</b>	
Recommendation 25: Gasoline and diesel fuel taxes should be increased to provide more highway maintenance funds and to supplement further bonding for highway improvements.	12, 79-80
Recommendation 26: Various tax increases and removals of exemptions in the current tax structure, together with new taxes, should be considered.	12, 76-86

### **Brief Explanations of Conclusions and Recommendations**

Needed expenditures by the State and local governments in the State of Maine can be expected to double, or more than double, during the next decade. This conclusion, which was originally based upon studies made by members of the Task Force, was confirmed by two groups of analysts, one group from Esco Research, Inc., of Portland, and the other from the Bowdoin College Public Affairs Research Center. They worked independently, using statistical projections based on U.S. Census data, and they came to the same general conclusions.

### **Findings**

The first stage of the critical need for new sources of revenue will be faced during the next two years, the 1969-71 biennium, which is the fiscal period from July 1, 1969, to June 30, 1971.

During this period our municipal governments will be faced with the task of collectively finding from 80 million dollars to 90 million dollars in added revenues over the current level, unless the State assumes the fiscal and administrative responsibility of some of the services which have been traditionally considered municipal responsibility. State assistance of this type, together with other benefits provided through various types of State legislation, appears to be essential.

The Task Force has investigated a number of suggested sources for additional municipal revenues, but it finds that most of these sources can provide very little additional net revenue. Projections of the amounts which might be raised under the current tax structure, if certain exemptions were removed or if rates were increased, are tabulated in some detail in the final chapter of this report.

To meet local needs, especially for education, health, and welfare, local government units will need a very substantial increase in financial assistance from the State and federal governments. Such assistance will enable the municipalities to keep their property tax rates from rising too rapidly, particularly if equitable and uniform assessment practices are introduced throughout the State; but no promises of reduction in the amounts collected from the property tax are recommended or implied by this report.

If the State government provides what the Task Force considers a reasonable amount of added local assistance and also continues to improve State services so that they will not fall behind those offered by other states of similar economic status, the Task Force estimates the State government will need an additional 125 million dollars to meet the anticipated increase in expenditures during the next biennium of 1969-71.

The 125 million dollar increase over the current State biennial expenditure of 588 million dollars is a conservative projection. A higher projection, calling for a total of 765 million dollars, or an increase of 177 million dollars over current biennial State expenditures, has also been made for the 1969-71 biennium, if some highly desirable State services are to be added.

### **A Major New Tax Is Needed.**

**Recommendation 1: A combination of personal and corporate State income tax.** A careful analysis of the various sources of revenue investigated in this report has led the Task Force to recommend a combination of the corporate and personal income tax to supplement the existing tax structure. The current tax structure may yield somewhat greater revenues through the removal of certain exemptions and the increase in certain rates, as explained in the final chapter of this report. But such changes will not provide sufficient revenue within practical limits. The most equitable and flexible new tax to meet State needs is the combined personal and corporate income tax.

The State of Vermont has a very slightly greater proportion of families with low income than the State of Maine, but otherwise its proportion of families at each of the major income levels is almost identical to the situation in Maine. Vermont has a successful State personal and corporate income tax, using the Federal tax structure as a base. On a comparable basis, provided the balance between personal and corporate income is similar in Maine and Vermont, a Maine income tax on personal and corporate income, using the same rates and structures as Vermont's, would have brought in a revenue in excess of \$62,600,000



during fiscal 1967. For the 1967-69 biennium which is now ending, such a tax would have yielded more than \$125,000,000 in additional revenue for the State of Maine, if such a tax had been in effect during this biennium.

The Task Force has made a careful study of the effect of the corporate income tax and also the combined corporate and personal income tax upon the economies of other states, most of which have now adopted such taxation. So long as such taxes are administered equitably, without exception, throughout a state, there is no indication of adverse effects on the total economy of any given state.

#### **Local Government Units Need More Fiscal Assistance from the State.**

Concurrent with the adoption of a new major tax, a program of expanded financial aid to local governments should be initiated to slow the increase in the property tax rate and assist all communities in attaining an acceptable level of local services. As explained more in detail in the following recommendations, the State should provide more financial assistance in the matters of education and health and welfare. It should also reimburse municipalities for property taxes lost through various exemptions on real property or on the business property of certain types of utilities. It should also help municipalities to make needed capital improvements by raising municipal debt limits and encouraging the use of bonding.

**Recommendation 2: State educational subsidies should be raised.** A major method of financially helping the municipalities is through increased State educational subsidies for public education, including both the primary and secondary levels. The Task Force recommends that State subsidies be increased. The proposal of the State Board of Education that the subsidy be increased from \$290 per pupil to \$450 per pupil, with no distinction between elementary and secondary levels of education, and the proposal submitted by the State Educational Council should both be given careful consideration as a basis for legislative action.

**Recommendation 3: The State should assume fiscal and administrative responsibility for all public health and welfare services now provided by local government.** The increased mobility of population in Maine and the need for greater uniformity in available welfare services and public health services indicate the need for State assumption of fiscal and administrative responsibility. In regard to welfare, it would appear that the labor and money now expended in attempts to define local residency of welfare cases would be better used in direct welfare assist-

ance of the needy. In regard to health services, State-supported district centers are needed to provide the kinds of public health services available in urban communities at locations available to rural inhabitants, particularly the elderly and infirm. The Task Force recommends that the State assume such responsibilities.

**Recommendation 4: The State should reimburse municipalities for all exemptions from local property taxation granted by the state to certain classes of persons and organizations and to railroad and telephone utilities.** The Task Force recommends that property tax exemptions be carefully reviewed in an effort to reverse the current erosion of the property tax base, and that in cases where the State grants exemptions for certain classes of citizens and certain organizations, or for the business property of railroad and telephone utilities, it should reimburse the local governments for the income that is lost.

**Recommendation 5: The State should provide certain unrestricted grants-in-aid to municipalities.** Municipalities with good assessment practices and effective property tax rates above the national average often are forced to defer items which rank high on the list of local priorities because essential operational expenditures, coupled with the need of providing matching funds for federal and State projects of lower priority, leave no funds for the high-ranking local priority items. Such projects could be financed on a block grant basis, which should be provided by the State under the circumstances mentioned.

**Recommendation 6: The State should raise municipal debt limits.** The Task Force recommends that the debt limit on Maine municipalities be raised.

**Recommendation 7: The State should encourage increased use of bonding for capital improvements.** The Task Force recommends that both the State and local government be encouraged to use bonding as a method of financing whenever possible under current economic conditions. Under current conditions, the total cost of bond interest appears to be less than the increased cost of labor and materials if desirable capital improvements are postponed for several years. Capital improvements which will continue to be of benefit to the population for many years should be financed through bonding and not out of current income.

#### **Reforms in Property Tax Administration Advocated**

**Recommendation 8: The State should insure equitable and uniform assessment practices throughout the State.** Various reports cited in the body of the following discussion indicate that the effective property tax rate in the State of Maine is, on the average, lower than that of any

other New England or northeastern state, with the sole exception of Vermont, and that the average effective property tax rate in Maine is at or slightly below the national average. Other sources indicate that property taxation in Maine is far from uniform, and that there is a marked need for equitable and uniform assessment without variation, one municipality from another. There appears to be a need for a relatively extensive State program leading to certification standards for all assessors and providing sufficient numbers of trained personnel so that all property assessment in the State will be ultimately done under the supervision of certified assessors. The Task Force recommends that the State move toward uniform and equitable assessment practices throughout the State as rapidly as possible, within practical limits.

**Recommendation 9: The State should establish conveniently located district property tax appeals courts or boards.** The State should establish a procedure for appeals so that both the assessing municipality and the assessed tax payer will be assured of a full hearing and equitable treatment.

**Recommendation 10: The State should provide reasonable homestead property tax relief in cases of need, but reimburse municipalities accordingly.** A number of Maine citizens, particularly elderly and infirm persons, are unable to work or otherwise supplement a very meagre fixed income from the interest on a small amount of savings, possibly supplemented by social security or a small pension. In many cases, however, they do not need to become welfare recipients if they are relieved of the burden, or part of the burden, of real property taxes. Such persons should have reasonable homestead property tax relief, but the State should reimburse the municipalities accordingly.

**Recommendation 11: The State should adopt some form of property tax redistribution.** There is a current trend, particularly in rural areas, for small localized industries to disappear and for the working population of several adjacent towns to find employment in a large industrial plant or commercial establishment which pays taxes in only the municipality in which it is located. The municipality where the plant is located has an adequate property tax base to provide good services at low rates, while the adjacent towns without local industry suffer from an inadequate tax base. Some form of equalization is needed now, and the need will probably increase in the future.

**Recommendation 12: The State should establish an excise tax and registration system for pleasure boats, similar to the system now in use for motor vehicles.** Many municipalities have attempted to tax boats as personal property, but the problems of jurisdiction, evasion, and proper

assessment appear to make taxation on this basis impractical and inequitable. Boats large enough to make some form of non-manual propulsion advisable should be assessed for excise taxation according to some type of schedule similar to that now used for motor vehicles, the tax administered in the same fashion and by the same officials who handle motor vehicle excise taxes, and registration fees paid to the State for annual registration tags. In this way, proper control could be exercised.

**Recommendation 13: The State should eliminate non-business personal property taxation.** Taxation which costs more for administration than the revenue derived is unsound. From a practical viewpoint it would appear impossible to locate and assess fairly such domestic property as radios, television sets, pianos, power lawn mowers, snow blowers, and the like. An increasing tendency is to abandon such taxation. Accordingly, in the interests of uniform and equitable taxation practices throughout the State, such taxation of non-business personal property should be stopped by legislative action.

#### **Reforms in Reporting and Fiscal Procedure Advocated**

**Recommendation 14: The State should require all local governmental units to operate and report on a common fiscal year to coincide with the State and federal fiscal year.** The lack of uniformity of current reporting makes the interpretation of consolidated local data very confusing. Municipalities end fiscal years at the discretion of municipal officials, some fiscal years having eleven months, and others having thirteen or more months on occasion. If the State is to be of maximum help to the municipalities, it must have consolidated data covering uniform twelve-month periods coinciding with the fiscal year under which the State operates.

**Recommendation 15: The State should require uniform standards for each class of reports, based on a common fiscal year, and submitted on or before a set date annually.** The State cannot offer maximum assistance to the municipalities unless it possesses firm and complete data by which comparisons from one year to another may be made.

**Recommendation 16: Local government data should be preprogrammed for state computer storage and consolidated reporting.** The experience of the Task Force in attempting to obtain data strongly suggests the need for complete and factual centralized local data in addition to data internally compiled by State departments. It is the opinion of the Task Force that the savings to the State through the availability of complete data, together with the savings introduced by the avoidance

of unnecessarily duplicated effort, would compensate for the cost of establishing a consolidated computer storage bank of data and statistical information.

**Recommendation 17: The State should make regular monthly payments to local governments, even if a State bond issue should be required to inaugurate this practice.** The State Department of Finance and Administration should be empowered to make regular monthly payments to municipalities in order to reduce the amount of short-term borrowing and consequent interest payments at the local level. It is believed that the total short-term interest now paid by local governments would be more than the interest on a State bond issue, if such bonding were required to inaugurate such a practice. After the initial bonding were retired, the total savings to the various levels of Maine government should be substantial over a period of years.

**Recommendation 18: Municipalities should be encouraged to bill property owners on a monthly, rather than an annual, basis for property taxes.** A relatively small monthly tax bill would make the property tax much easier for the typical property owner and also provide a steadier flow of revenue for municipal needs. Most citizens today are accustomed to monthly billing for all utilities and monthly budget payments for major purchases. Property tax billing should also be on a monthly basis if economically practical. If monthly billing were too difficult for a given municipality to administer, quarterly billing or a tax club plan administered by a local bank might achieve the same general purpose in some communities.

### **Coordination and Consolidation of Appropriate Municipal Functions Advocated**

**Recommendation 19: Small municipalities should be encouraged to work together as districts to provide certain services.** A major finding of this study is that a majority of Maine's municipalities have too small a population and too little property tax income to operate effectively under modern conditions in many areas of responsibility. Accordingly, the Task Force recommends that the State encourage the creation of a climate whereby local governmental units will develop greater coordination, through the consolidation of certain services and the contracting of certain local functions. A central business office could maintain bookkeeping and other business records for a group of cooperating small municipalities. Certain occasionally used equipment might be shared. A police patrol might serve two or three adjacent municipalities. Snow removal and highway maintenance might be improved through cooperative effort between municipalities, or possibly one municipality

might contract with another for such service. Many other cooperative or coordinated functions might be developed.

**Recommendation 20: Communities should be encouraged to cooperate in taking advantage of federal programs.** The detailed paper work required to prepare applications, complete reports, and attend to the other details involved in federal projects would require clerical and office expense that would exceed the normal budget of an individual municipality, but it could be provided through a coordinated central office serving several towns.

**Recommendation 21: The State should provide through the State Planning Office the services of one or more municipal coordinators to assist municipalities to work with neighboring municipalities toward coordinated efforts.** Professional help will be needed to assist municipalities to coordinate their services in the ways previously mentioned. Probably the most helpful immediate service the State could provide local municipalities would be that of a municipal coordinator working out of the State Planning Office.

**Recommendation 22: The State should provide financial incentives toward the development of district organizations of various types.** Just as the development of School Administrative Districts has been accelerated by financial incentives, other types of districts should be similarly encouraged. In addition to municipal coordination of the types mentioned above, other types of cooperative efforts, as in the development of area health clinics, might be encouraged.

**Recommendation 23: The State should encourage greater use of State accounting services, purchasing services, etc., by municipalities.** There appear to be several State services which are available for municipal use but which are rarely utilized. It would be helpful if leaflets were prepared and distributed, explaining the types of services available and the situations under which their use might be particularly helpful. If a municipal coordinator were added to the staff of the State Planning Office, he might also help bring available State services to the attention of municipal officials who might benefit by their use.

**Recommendation 24: Without destroying the values of local responsibility and reasonable autonomy, the State should encourage the consolidation of municipalities whose individual populations are too small to provide reasonably efficient administration of municipal services.** Provided there are good and reasonably direct highway links between adjacent towns of very small population, it appears reasonable that groups of such towns could be encouraged to federate their govern-

mental functions without loss of the democratic values of town government, but with the added value of a sufficient population and tax base to provide municipal services that meet modern standards.

### **Certain Increases in Established Tax Rates and Removal of Certain Tax Exemptions Advocated**

**Recommendation 25:** Gasoline and diesel fuel taxes should be increased to provide more highway maintenance funds and to supplement further bonding for highway improvements. Vermont and several other states now have higher gasoline and diesel fuel taxes than Maine, and there is no indication that these higher taxes have hurt the sale of motor fuel. Maine Highway Commission estimates indicate that more revenue is needed to keep present roads in repair and to make highway improvements. The Task Force recommends that the operations of the State Highway Commission should be financed through a combination of bond issues and increased motor fuel taxes.

**Recommendation 26:** Various tax increases and removals of exemptions in the current tax structure, together with new taxes, should be considered. A number of possible changes, with tabulations of potential revenue, are listed in the final chapter of this report. The Task Force makes no specific recommendations, except the general caution that any tax revisions which would particularly reduce the purchasing power of low-income families should be avoided.

## Chapter 2

### PROJECTIONS OF NEEDED EXPENDITURES AND PROBABLE REVENUES OF STATE AND LOCAL GOVERNMENT IN MAINE

Maine municipalities are going to be in serious financial trouble unless substantial new sources of funds are found. If past trends continue—and there is every reason to think that they will continue—and if the State government does not assume a larger proportion of support for certain services now considered primarily the responsibility of local government, Maine municipalities in the 1973-75 biennium will need to spend approximately twice as many dollars as they are spending during the current biennium.

According to a report, together with projections, submitted to the Task Force by the Bowdoin College Public Affairs Research Center, Maine municipalities expended approximately \$348 million in the 1965-67 biennium. The Bowdoin PARC projection anticipates that local sources of revenue will increase to not more than \$360 million for the biennium beginning in 1969, during which period local governments will be faced with the need of meeting expenditures which will surpass local sources of revenue by at least \$102 million and possibly as much as \$195 million.

**TABLE I**  
**Bowdoin College PARC Projections of Local Government Expenditures and Revenue, 1969-70 and 1974-75, with Revenue Gap**  
**(Millions of Projected Dollars)**

Item	Fiscal Biennium 1969-70		Fiscal Biennium 1974-75	
	Low	High	Low	High
Local Gov. Expenditures	462	555	610	859
Local Sources of Revenue	360	360	457	457
<b>LOCAL GOV. REVENUE GAP</b>	<b>102</b>	<b>195</b>	<b>153</b>	<b>402</b>

Another projection, prepared independently, by Esco Research, Inc., of Portland, for the Task Force produces the same general findings as these submitted by the Bowdoin PARC group. The Esco projection anticipates that, after Maine municipalities have made what Esco considers a maximum effort to increase local revenue, there will still be a probable municipal need of \$96 million in assistance from State and federal funds for the 1969-71 biennium.

Esco also assumes, however, that State and federal government sources will continue to provide about 20 percent of total municipal



revenues, as has been the case for several biennia in the past. If this assumption is true, then the municipalities should be able to count on receiving a total of some \$62 million from State and federal sources in the 1969-71 biennium. In that case only about \$34.4 million in additional state and federal assistance will be needed to bridge the gap in that biennium.

The Esco projection indicates that the \$34.4 municipal revenue gap of the 1969-71 biennium will increase to \$59.9 million in the 1971-73 biennium, and then to \$93.1 million in the 1973-75 biennium, provided that State and federal inter-governmental transfers continue at their present rate to make up about 20 percent of municipal revenues.

The State government, however, will probably assume a much larger share of support for certain services now considered primarily municipal responsibility. The Task Force believes, after careful investigation, this is the only way the gap can be closed between municipal needs and the maximum revenues which municipalities may reasonably be expected to obtain from local revenues.

**The projected need for added sources of State revenues.** If the State provides the minimal added assistance needed to help its local governments to meet their anticipated revenue gap, it will be faced with the problem of increasing its expenditures, from the \$588 million anticipated for the present biennium, to a total ranging between \$876 million to somewhat more than one billion dollars in the 1973-75 biennium. The Esco projection of the probable amount as explained later in this chapter, is approximately \$961 million.

**TABLE II**  
**Bowdoin College PARC Projection of State Government Expenditures**  
**and Revenue, 1969-70 and 1974-75, with Revenue Gap**  
**(Millions of Projected Dollars)**

Item	Fiscal Biennium 1969-70		Fiscal Biennium 1974-75	
	Low	High	Low	High
State Gov. Expenditures	675	737	876	1057
State Sources of Revenue	556	540	703	740
<b>REVENUE GAP</b>	<b>119</b>	<b>197</b>	<b>173</b>	<b>317</b>

Of immediate concern are the projections for the 1969-71 biennium. Projections of State expenditures for this biennium range from PARC's low projection of \$675 million and Esco's low projection of \$697 million, to high projections of \$737 million and \$765 million, respectively.

It is probable, then, that the incoming 104th Legislature will need to provide revenue sources to raise at least \$125 million more than was raised by the previous legislature, or a total of approximately \$723 million for the 1969-71 biennium.

**The problem of allowing for inflation in projections.** Recent economic reports indicate that the projections in this report may not allow enough for inflationary trends unless the recent federal income tax surcharge slows the growing inflationary momentum.

The Bowdoin PARC projection was adjusted in the following manner. State and local government revenues and expenditures for 1969 and 1974 were interpolated from previous PARC projections and added to previous figures for 1970 and 1975, respectively, to form biennial totals in constant dollars, 1966 dollars being used in the local government figures and 1967 dollars in the State data. The biennial expenditure projections were then converted into projected dollars by multiplying them by the following index numbers, which are extrapolations of the GNP Implicit Price Deflators for State and local government purchases of goods and services:

**TABLE III**  
**PARC Extrapolations of GNP Implicit Price Deflators**  
**for Purchases of Goods and Services**  
**by State and Local Government**

<u>Years</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
1966	—	100
1967	100	—
1969-1970	111	116
1974-1975	126	131

In a similar manner the original PARC projections for single years, expressed in 1966 and 1967 dollars, were converted to biennial projections in projected dollars by the use of the following index numbers, extrapolated from the Consumer Price Index for all items:

**TABLE IV**  
**PARC Extrapolations of the Consumer Price Index**  
**Used to Adjust State and Local Revenue Estimates**

<u>Years</u>	<u>State Revenues</u>	<u>Local Revenues</u>
1966	—	100
1967	100	—
1969-1970	108	111
1974-1975	118	121

It should be noted that the price indexes for government purchases appear to be increasing much faster than those for consumer purchases. For the typical family in the United States it cost \$114 to buy in 1967 what it cost the same family \$100 in 1958, according to the Survey of Current Business GNP deflators. According to the same report, it cost state and local government \$133 in 1967 to purchase the same things that cost \$100 in 1957. The difference is explained by the fact that state and local governments buy a much larger proportion of services and consequently spend a larger part of their dollar on wages and salaries which have been going up more rapidly than the cost of food or other common consumer items.

Since no one, at the time of the writing of this report, knows the duration or future costs of the Vietnam conflict, nor the possibilities that the United States may not avoid other expensive conflicts, nor the attitude of the next Congress toward federal budgets or federal revenues, it is impossible to forecast how much the projections should be revised upward on account of a possible increase in the rate of inflation. Both the Esco and PARC projections assume merely a continuation of current trends as projected in Tables III and IV on the previous pages.

**Assumptions used in making the Esco projections.** The assumptions in regard to inflation have been explained above, and several other assumptions have been stated in previous paragraphs in this chapter. Other assumptions or pertinent explanations are as follows:

Although many Maine municipalities will be faced with a revenue gap before the end of June 1969, local governments will tend to avoid the initial revenue shortage by postponing advisable but deferrable expenditures for maintenance and repairs. The revenue gap may, therefore, not become fully apparent until the 1969-71 biennium.

Historically, local governments have relied heavily upon the property tax. During recent years they have derived approximately 72 percent of their total revenues from property taxation. The Esco revenue projection assumes that the combination of newly constructed property, increased valuation of existing property, and somewhat higher taxes can allow increased revenues from property taxes amounting to 14.5 percent a biennium during the period covered, ending in 1975.

Fines, fees, licenses, and non-property taxation have made up 8 percent of municipal revenues, on an average, for a number of years. Although most of them might be raised sharply at the onset, further sharp increases could not be piled on for several years in succession. Accordingly, revenues from these sources are not projected to increase quite so rapidly as revenues from property taxation.

Intergovernmental transfers of funds from State and federal sources are projected to rise as shown in the local government tables V and VI and in Figure 1, according to the trends of the past ten years, supplying 20 percent of municipal revenues. It must be emphasized that local governmental projections are constructed on the assumption of the probable situation if State and federal government do not assume a larger proportion of what has been traditionally considered local governmental responsibility in the State of Maine. Later, in the State projections, the "low" amounts follow this assumption, whereas the "historic trend" projections assume the state will take over a part of the municipal revenue gap, and the "desirable" amounts provide for the State's taking over all of the local revenue gap.

Based on the assumption that intergovernmental transfers will provide only 20 percent of municipal revenues, the total biennial increase in local revenue from all sources is portrayed as 14.06 percent.

The component elements of the municipal expenditure projection of Figure 1 are shown in Tables V and VI on the following pages. In general, it may be said that these projections are based upon national experience and projections as they seem to apply to Maine. In all cases the amounts were computed from relevant U.S. Census data. Each major category of revenues and expenditures was analysed, projected separately, and then aggregated.

Concerning the reason why U.S. Census statistics were used rather than statistics compiled by the State from municipal reports, investigation indicated that Maine municipalities have no uniform fiscal year, the selectmen of small towns being empowered by law to terminate a fiscal year at any date they desire (resulting in occasional 11 month years, or 13 month years, or even greater aberrations), and that reporting is not done in a uniform fashion.

A mathematician, the disciplinary representative of the mathematics faculty of the University of Maine, Portland, made a thorough survey of data available at Augusta and then spent two days at Washington, D.C., checking the statistical methods used in compiling Maine statistics at the Bureau of the U.S. Census. He reported that the U.S. Census figures were statistically accurate, with 95 percent reliability, and that they were much to be preferred to any consolidated municipal statistics on file at the State House Office Building. One member of the Task Force felt that local school expenditure statistics provided by the State Department of Education were superior because they excluded federal projects totaling approximately \$3,250,000 in 1965-67. The State Department statistics, however, had a note that the expenditures

for 1966-67 covered the period July 1, 1966, through June 30, 1967, "which explains the excessive increase," and that previous annual totals covered fiscal years which varied on local reports from December 31 to March 31. All in all, the majority of the Task Force preferred U.S. Census statistics to those provided by State departments which collected them in turn from local municipalities of varying fiscal years.

The cost of local government throughout the nation increased 122 percent between 1955 and 1965, according to the Tax Foundation, Inc., in its publication of December 1965, entitled *Fiscal Outlook for State and Local Government to 1975*. The Tax Foundation, a very conservative source, estimates the national increase in local government expenditures from 1965 to 1975 will be about 89 percent.

According to the report, incorporated in this chapter, of the Bowdoin College Public Affairs Research Center, annual local government revenue in Maine, expressed in constant dollars, rose from \$115 million to only \$174 million during the ten-year period between 1957 and 1966. This is an increase of only 51 percent.

Although the 122 percent increase in the cost of local government throughout the United States includes the effects of inflation, whereas the Bowdoin College PARC estimate of a 51 percent increase in Maine local government revenues does not, and although one ten-year period begins and ends one year later than the other, it is obvious that municipal expenditures in Maine have increased much more slowly than the national average.

The expenditure projection in Figure 1 and Tables V and VI therefore, show an increase of slightly more than 100 percent during the next decade. This assumption is that the increase in municipal expenditures in Maine will continue to lag behind the rest of the nation, but the factors which have caused the costs of local government in the rest of the nation to rise so acutely during the past ten years will start to affect Maine more and more during the coming decade. This matter is discussed in detail in the next chapter of this report.

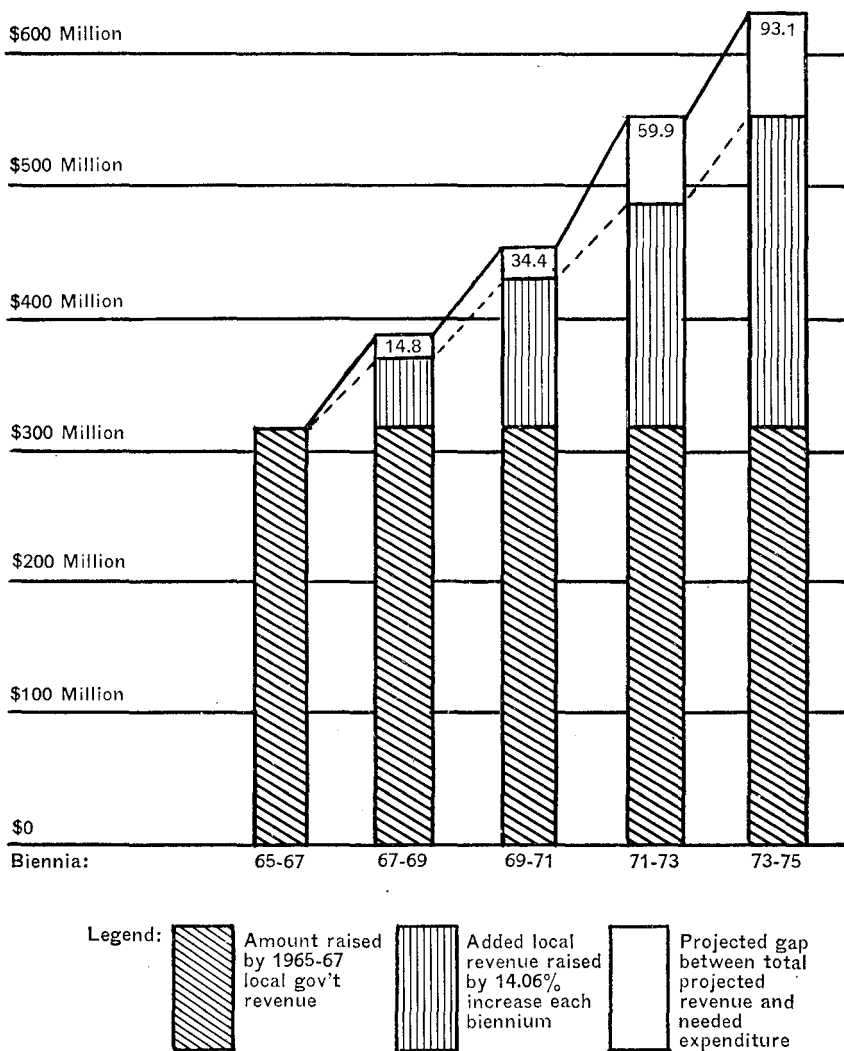
**TABLE V**  
**Local Government Expenditures in Maine for which Revenues**  
**Must be Raised**  
**(In Millions)**

Local Biennial Expenditures for	Amount Actually Spent 1965-67 Biennium	Increase Needed for 1967-69	Total Needed for 1967-69
Education	\$164.9	\$31.0	\$195.9
Highways	42.3	8.0	50.3
Police and Fire Protection	26.7	5.0	31.7
Sanitation, Waste Disposal, Sewers	10.3	2.0	12.3
Welfare, Health and Hospitals	11.3	2.1	13.4
All Other Items	54.6	10.3	64.9
<b>TOTAL EXPENDITURES</b>	<b>\$310.1</b>	<b>\$58.4*</b>	<b>\$368.5</b>
Added Revenue to be Raised by 14.06% per biennium			
Local Increase .....		\$43.6	
<b>REVENUE GAP LEFT UNFILLED</b> (except by deferring to next biennium many needed local repairs and replacements) .....		\$14.8	

\* Note: Expenditures projected to increase at a rate of 18.8% per biennium.

FIGURE 1

PROJECTION OF EXPENDITURES NEEDS OF LOCAL  
GOVERNMENTS IN MAINE AS COMPARED TO CURRENT  
AND PROJECTED LOCAL REVENUES AND REVENUE DEFICITS  
In Millions of Dollars, by Biennia, 1965-67 to 1973-75



**TABLE VI**  
**Local Government Expenditures in Maine**  
**for Which Revenue Must Be Raised**  
**(By Biennia, in Millions of Dollars)**

<u>Local Biennial Expenditures</u>	<u>1969-71 Biennium</u>	<u>1971-73 Biennium</u>	<u>1973-75 Biennium</u>
Education	\$232.7	\$276.4	\$328.4
Highways	59.8	71.0	84.4
Police and Fire Protection	37.7	44.8	53.2
Sanitation, Waste Disposal	14.6	17.3	20.6
Welfare, Health, Hospitals	15.9	18.9	22.5
All Other Items	77.1	91.6	108.8
<b>TOTAL</b>	<b>\$437.8</b>	<b>\$520.0</b>	<b>\$617.9</b>
Added Revenue to Be Raised by Local Increase of 14.06% per Biennium	\$403.4	\$460.1	\$524.8
<b>UNFILLED REVENUE GAP</b>	<b>\$ 34.4</b>	<b>\$ 59.9</b>	<b>\$ 93.1</b>

Note: Expenditures are projected to increase at the average rate of 18.8 percent each biennium. These are Esco Research, Inc., projections, based on historic data.

**State projections of revenues and expenditures.** On the third page of this chapter the PARC projections of State government expenditures and revenues were presented, together with the comment that the Esco projections, independently computed, are entirely consistent with the PARC findings. The next few pages of this chapter will deal with the Esco projections in more detail.

The Esco projections present anticipated State revenues, projected according to current tax structure and rates, in Table VII, but the emphasis of the discussion, including the graphic presentation in Figure 2 and the tabular summaries in Tables VII and IX, is limited to General Fund expenditures, with indications of the additional General Fund revenues needed if such expenditures are to be met.

**General Funds versus dedicated and other restricted funds.** A Substantial portion of State revenues is legally dedicated or otherwise restricted in such a way that the legislature has no further control over how such items are spent. For instance, motor vehicles fuel revenue cannot be diverted to anything outside of Highway Department expenditures. The legislature may increase these revenues, as, for instance, by increasing the tax on gasoline and diesel fuel to meet the added



revenue needs of the Highway Department, but it cannot use any of these revenues for general purposes.

The gap between projected revenues and projected needed expenditures is, therefore, primarily a matter of shortage of General Fund revenues.

Of the revenues which need to be expended in the 1969-71 bien-nium, some \$382.5 million will be dedicated funds, or other funds which must be spent for previously stipulated purposes not under the control of the 104th Legislature. To determine what the legislature can use for general purpose, one must set aside the \$382.5 million from the total revenues and consider only the \$265 million in anticipated General Fund revenues expected if present tax laws and rates remain unchanged in 1969-71.

General Fund expenditures are expected to total at least \$277 Million even if current services are not improved in any way and if the legislature does nothing to assist the municipalities to close the municipal revenue gap. Under these extremely unrealistic conditions there will be a shortage of \$12 million in anticipated General Fund revenues during 1969-71.

If the municipalities are able to increase their local revenues by about 14 percent, and if the State takes over the \$34.4 million in added municipal needs not covered by the increased local revenues, then with this added to the previously mentioned \$12 million shortage, the State must find an added \$46.4 million to \$49.5 million in new sources of General Fund revenues during the 1969-71 biennium.

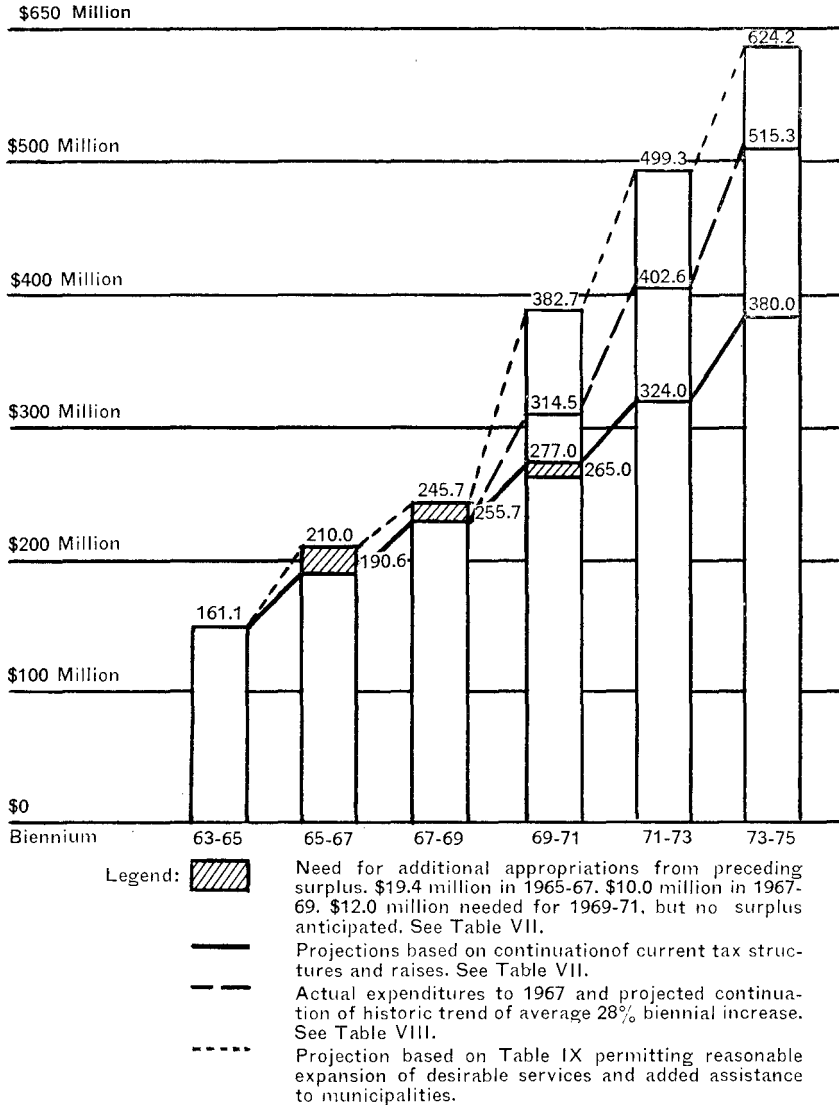
If the State also provides some needed additional State services, then the general fund revenue gap will increase to a total of approximately \$129 million according to Esco projections, or almost \$368 million according to the higher PARC projections adjusted for the 1969-71 biennium.

Under the assumption that the 104th Legislature will desire to appropriate enough more for public school education and welfare to enable the municipalities to close their revenue gap, and that the legisla-ture will also want to provide certain improvements in State services, the estimated need for at least \$125 million in additional General Fund revenues appears conservative.

**Emphasis upon General Fund expenditures in Figure 2 and Tables VII, VIII and IX.** As previously stated, the Esco projections for total State expenditures are found only in Table VII, which lists projected totals of State revenues anticipated under current tax structure and

FIGURE 2

NEEDS FOR STATE EXPENDITURES FROM THE GENERAL FUND  
By Biennia, 1963-65 to 1973-75  
In Millions of Projected Dollars



rates, and then provides other tabulations, including the estimated amounts to be appropriated from General Funds. Figure 2 and Tables VIII and IX are concerned only with the General Fund portion of the total anticipated projections.

**TABLE VII**  
**Maine State Governmental Revenues and Expenditures**  
**In Millions of Dollars, by Biennium**

Revenues projected according to current tax structure and rates.  
Expenditures projected according to current scope of services provided.

	Total State Revenue (\$ Millions)	Total State Expendi- ture	Dedicated or NOT Subject to Appropriation Decisions	Appropriated from General Fund (\$ Million)	Revenue Gap Explained Below
<b>ACTUAL</b>					
1963-65	\$448.7	\$435.5	\$284.4	\$151.1	—
<b>ACTUAL</b>					
1965-67	534.4	482.5	291.9	210.0	19.4
<b>CURRENT</b>					
1967-69	617.3	587.9	352.2	245.7	10.0
<b>PROJECTED</b>					
1969-71	712.3	659.5	382.5	265.0	12.0
<b>PROJECTED</b>					
1971-73	786.7	736.3	412.3	324.0	?
<b>PROJECTED</b>					
1973-75	861.4	826.1	446.1	380.0	?

NOTES: It will be noted that revenue always exceeds expenditures by a small margin, usually about 4% or 5%. There are many reasons why this is necessary in the operation of State government under Maine law.

REVENUE GAP: In 1965-67 a total of \$210.0 was appropriated for General Fund items, of which \$190.6 million came from current General Fund revenue and \$19.4 million came from previously accumulated surplus.

In 1967-69 a total of \$245.7 million was appropriated for General Fund items, of which \$235.7 is budgeted from current General Fund Revenue and \$10 million from previously accumulated surplus.

For 1969-71 it is estimated there will be no surplus available and that the revenue available for General Fund appropriation will not exceed \$265.0 million under current tax structure and rates. If General Fund services are merely continued at their present level and if the

proportion of state assistance to municipalities for education and welfare is not increased, there will still be a state revenue gap of at least \$12 million.

**TABLE VIII**  
**Projection of General Fund Revenues Needed**  
**To Improve State Services**  
**At a Rate Consistent with Historic Trends**  
**In Millions of Dollars, by Biennium**

	General Fund Revenues Needed	Percent Increase per Biennium	\$ Millions Increase per Biennium	Revenue at Present Rates	Added Revenue Needed
CURRENT					\$10 from
1967-69	\$245.7	—	—	\$235.7	surplus
PROJECTED					
1969-71	314.5	28%	\$ 68.8	265.0	49.5
PROJECTED					
1971-73	402.6	28%	88.1	324.0	78.6
PROJECTED					
1973-75	515.3	28%	112.7	380.0	135.3

NOTE: The historic trend of recent biennia has been to increase state General Fund expenditures by 28% each biennium on an average. It might also be noted that the \$245.7 million revenue of the 1967-69 biennium represents an increase of almost 63 percent over the \$151 million revenue of the 1963-65 biennium. The projection above is merely the continuation of the historical trend and it does not allow a sufficient amount for the state to meet the complete needs of the municipal revenue gap.

It must be emphasized that the problem of the municipal revenue gap cannot be solved unless the state raises more General Fund revenues than indicated in the above table.

**TABLE IX**

**Projection of General Fund Appropriations if Requests for Highly  
Desirable Expanded or Added Services are Filled by the State  
of Maine and if Sufficient State Revenues are Raised  
In Millions of Dollars, 1967-71 Biennium**

<b>Part I Appropriations for the continuation of the previous scope of services:</b>	
1967-69 Part I plus 1967-69 continuation	\$235.7 Million
14% Normal allowance for increased salary costs and inflation of costs of goods, etc.	33.0 Million
<hr/>	
<b>TOTAL OF PART I APPROPRIATION .....</b>	<b>\$268.7 Million</b>
 <b>Part II: New or Expanded Services</b>	
Added educational subsidy to ease public school burden of municipalities: \$35 Million	
Added for higher education to bring university salaries up to regional levels, to provide funds for educational pro- grams for training for professional property tax assessors, take more stu- dents, get all campuses to accredited standards, and for development of vo- cational institutes:	35 Million
State assumption of all welfare to re- lieve municipal governments of the burden and minimum medicaid program: 16 Million	
To bring program of mental health and correction up to approved stand- ards, with adequate personnel, better working conditions and hours of work: 11 Million	
To provide more adequate salaries for state employees:	6 Million
Other needed items:	11 Million
<b>TOTAL OF PART II NEW OR EXPANDED SERVICES .....</b>	<b>\$114.0 Million</b>
<hr/>	
<b>TOTALS OF PARTS I AND II GENERAL FUND APPROPRIATIONS .....</b>	<b>\$382.7 Million</b>

**Continuation of Expanded General Fund Appropriations for Two  
Successive Biennia**

**In Millions of Dollars, 1971-73 Biennium**

**Part I Appropriations for Continuation of Services**

Total from Parts I and II of 1969-71 Biennium:	\$382.7 Million
Normal 14% Increase in Costs	53.6 Million

<b>TOTAL PART I APPROPRIATIONS FOR 1971-73</b>	<b>\$436.3 Million</b>
--	------------------------

**Part II: Expansion of Certain Needed Services**

Added local school subsidy	\$20 Million
Added higher education programs	20 Million
Added mental services	5 Million
Added other health programs and services	8 Million
All other supplemental items	10 Million

<b>TOTAL PART II SUPPLEMENTAL APPROPRIATION</b>	<b>\$ 63.0 Million</b>
---	------------------------

<b>TOTAL GENERAL FUND APPROPRIATIONS FOR 1971-73 BIENNIUM .....</b>	<b>\$499.3 Million</b>
---	------------------------

**In Millions of Dollars, 1973-75 Biennium**

**Part I Appropriations for Continuation of Services**

Total from Parts I and II above	\$499.3 Million
Normal 14% Increase in Costs	69.9 Million

<b>TOTAL PART I APPROPRIATIONS, 1973-75</b>	<b>\$569.2 Million</b>
---	------------------------

**Part II: Expansion of Certain Needed Services**

Added local school subsidy	\$20 Million
Added higher education programs	20 Million
Added mental health services	5 Million
All other supplemental items	10 Million

<b>TOTAL PART II FOR 1973-75 BIENNIUM</b>	<b>\$ 55.0 Million</b>
---	------------------------

<b>TOTAL GENERAL FUND APPROPRIATIONS FOR 1973-75 BIENNIUM .....</b>	<b>\$624.2 Million</b>
---	------------------------

**Estimated General Funds Available under Current Structure and Rates**

For 1971-73 Biennium: \$324 million or \$175.3 million less than required

For 1973-75 Biennium: \$380 million or \$244.2 million less than required

### **Details of the Bowdoin College PARC report and its projections.**

At the request of the Citizens Task Force on State and Municipal Revenue, the Bowdoin College Public Affairs Research Center prepared several alternative projections of State and local government revenue and expenditures in Maine.

The first set of projections, including descriptive and explanatory material, is reproduced on the following sheets. These projections are reported in terms of 1966 dollars and for the single years of 1970 and 1975.

At the request of the Task Force, PARC prepared a second set of summary projections to cover the appropriate biennia centering about 1970 and 1975, with the dollar amounts converted, respectively, into 1970 and 1975 projected dollar values. These summary projections and the extrapolation tables used for converting the 1966 and 1967 dollars into projected 1970 and 1975 dollars have been presented in the opening pages of this chapter, under Tables I, II, III and IV.

The first set of projections shows the trends in actual revenue and expenditure between 1957 and the latest available year. They were computed from relevant U.S. Census figures projected to 1970 and 1975 in constant dollars (i.e. with inflationary effects eliminated). Each major component of revenues and expenditures was analyzed and projected separately then aggregated. The difference between projections of total expenditures and revenues derived from State or local sources, respectively, (the "revenue gap") was then allocated to some higher level of government.

**1. Local Government Revenue.** As shown in Table X local government revenue in Maine rose from a total of \$115 million in 1967 to \$174 million in 1966 (in constant dollars, derived by using the Consumer Price Index for shelter of the U.S. Bureau of Labor Statistics). By far the largest share of these revenues was derived from **property tax** receipts, which increased concurrently from \$80 million to \$120 million.

Total property taxes were projected in three different ways, which yielded similar results: (1) Based on projections of valuation and tax rates, the 1970 figure totalled \$137,500,000 (full equalized valuation of \$5.0 billion @ 27.5 mills) and the 1975 level equalled \$156 million (valuation of \$5.2 billion @ 30 mills), (2) Per capita projections of \$137 and \$155 yielded total property taxes of \$138,918,000 and \$162,905,000 in 1970 and 1975, respectively (The per capita figures were multiplied by PARC's population projections of 1,014,000 and 1,051,000 persons, respectively.); (3) When projected on the basis of 5% of total personal income (using PARC's projections of \$2,789,000,000 and

\$3,258,000,000, respectively), property taxes yielded total receipts of \$139,450,000 in 1970 and \$162,900,000 in 1975.

**Licenses, charges, and miscellaneous revenues** were computed in two ways: (1) At \$15 per capita in 1970 and \$17 in 1975, these revenues amounted to \$15,210,000 and \$17,867,000, respectively; (2) On the basis of 0.6% of total personal income, these revenues totalled \$16,734,000 in 1970 and \$19,548,000 in 1975.

The "revenue gap" was computed by subtracting the projected revenues shown above from low and high projections of local government expenditures. This revenue gap of \$40-\$86 million in 1970 and \$44-144 in 1975 was then allocated to federal and State governments on the basis of past trends in their shares of total intergovernmental receipts by local governments. It was assumed that the State's proportionate assistance in helping municipalities to overcome the revenue gap would decline from 85% in 1970 to 80% in 1975.

**2. Local Government Expenditures.** Data shown in Table X reveal that total local government expenditures in Maine rose from \$136 million in 1957 to \$173 million in 1966 (in constant dollars computed by employing the U.S. Department of Commerce Implicit Price Deflators for state and local purchases of goods and services). The largest share of these expenditures was for **current operation** of schools, highways, and other local functions, which increased from \$106 million in 1957 to \$143 million in 1966. Two separate series of projections were computed on the basis of trends in (1) per capita expenditures (the "low" projections), and (2) expenditures per \$1,000 of personal income (the "high" projections).

**Utility expenditures** also were projected on per capita and per \$1,000 income basis. Because of the absence of better information, **capital outlays** for education, highways, utilities, and other facilities were computed in a similar manner. It is recognized, however, that valid projections of capital outlay should be based on detailed studies of current and future needs, rather than actual expenditures in a few widely-spaced years.

**Note:** The above derivation of projections of aggregate revenues and expenditures of local governments in Maine is no substitute for analysis of the finances of each town or a sample of towns, whose needs and deficiencies vary widely from place to place.

**3. State Government Revenue.** As shown in Table XI, State government revenues in Maine rose from \$172 million in 1957 to \$295 million in 1967 expressed in constant dollars (derived by utilization of the U.S. Bureau of Labor Statistics Consumer Price Index for all items).



Most of these revenues were composed of **tax receipts** which increased concurrently from \$84 million to \$133 million in the same time period. Where available, the tax bases for relevant years were computed and projected (as per capita figures). This was done in the case of taxes on property (in the unorganized territories), general sales, motor fuel, alcoholic beverages, tobacco products (cigarettes), public utilities (telephone), insurance, pari-mutual, and motor vehicle licenses (automobiles). These taxes also were projected as shares of personal income (the "high" projections).

**Charges and miscellaneous revenues** for education, hospitals, natural resources, water transport and terminals, and other facilities, as well as interest earnings and other revenues, were analyzed and projected in a similar manner, for lack of better bases. **Liquor stores revenue** and **insurance trust revenue** were projected on the same two bases: (1) per capita trends and (2) trends in share of personal income.

4. **State Government Expenditures.** Data shown in more detail in Table XI indicate that state government expenditures rose from \$190 million in 1957 to \$288 million in 1967 (in constant dollars computed by employing U.S. Department of Commerce Implicit Price Deflators for State and local government purchases of goods and services). Expenditure for **current operation** of education, highways, public welfare, health and hospitals, natural resources, and other functions represented the bulk of the total increasing from \$93 million to \$147 million during the same period. These functions were analyzed and projected separately on two bases: (1) per capita trends (the "low" projections) and (2) trends in shares of personal income (the "high" projections).

**Liquor stores expenditures and insurance trust expenditure** projections were derived in a similar manner, for lack of better information. **Capital outlays** for education, highways, natural resources, and other facilities also were projected on trends in the same two bases: (1) per capita and (2) as shares of personal income. It is obvious, however, that detailed studies of present deficiencies and future needs for each type of facility are needed before any meaningful long-range capital programming can be carried out.

5. **The Revenue Gap.** The revenue gap was computed by subtracting the two sets of projected State revenues from comparable projections of expenditures. In the case of the PARC projection it was assumed that the federal government would supply funds to fill the revenue gap, although State revenues could, at least in theory, be expanded by raising existing tax rates, removing exemptions, and instituting new taxes, such as the personal or corporate income tax.

**TABLE X**  
**LOCAL GOVERNMENT REVENUE AND EXPENDITURE IN MAINE, 1957-1975**  
(Millions of 1966 Dollars)

	1957	1962	1966	1970		1975	
				Low	High	Low	High
<b>TOTAL REVENUE:</b>	<u>115</u>	<u>157</u>	<u>174</u>	<u>205</u>	<u>251</u>	<u>236</u>	<u>336</u>
From Federal Government	1	3	4	7*	13*	9*	29*
From State Government	17	24	27	33*	73*	35*	115*
Property Tax	80	110	120	140	140	163	163
Licenses, Charges, & Misc.	10	12	13	17	17	20	20
Utility Revenue	7	8	9	8	8	9	9
<b>TOTAL EXPENDITURE:</b>	<u>136</u>	<u>174</u>	<u>173</u>	<u>205</u>	<u>251</u>	<u>236</u>	<u>336</u>
Intergovernmental Expenditure	2	1	1	1	3	1	3
Current Operation:	<u>106</u>	<u>138</u>	<u>143</u>	<u>161</u>	<u>195</u>	<u>184</u>	<u>254</u>
Education	54	77	79	91	103	105	130
Highways	17	18	18	19	22	21	26
All others	35	43	46	51	70	58	98
Utility Expenditure:	6	6	7	8	11	9	16
Capital Outlay:	<u>21</u>	<u>30</u>	<u>21</u>	<u>34</u>	<u>42</u>	<u>42</u>	<u>62</u>
Education	7	14	4	16	17	21	23
Highways	5	4	4	4	6	4	10
Other	6	8	8	9	14	11	20
Utilities	3	4	5	5	6	6	10

\*Revenue gap

Sources: Data for 1957 and 1962 derived from U.S. Census of Governments;  
1966 data derived from U.S. Census ("Governmental Finances in 1965-66");  
1970 and 1975 projections by PARC.

To convert 1970 local revenue figures to projected 1970 dollars, multiply by 1,110,000.

To convert 1970 local expenditure figures to projected 1970 dollars, multiply by 1,150,000.

For projected 1975 dollars, multiply local revenue figures by 1,210,000 and expenditure figures by 1,310,000.

**TABLE XI**  
**STATE GOVERNMENT REVENUE AND EXPENDITURE IN MAINE 1957-1975**  
(Millions of 1967 Dollars)

	1957	1962	1967	1970		1975	
				Low	High	Low	High
<b>TOTAL REVENUE:</b>	<u>172</u>	<u>222</u>	<u>295</u>	<u>307</u>	<u>341</u>	<u>352</u>	<u>428</u>
From Federal Government	25	43	65	44*	87*	50*	108*
From Local Government	4	4	4	4	3	4	3
Taxes	84	103	133	149	151	165	189
Charges & Miscellaneous	15	21	34	42	39	53	59
Liquor Stores Revenue	27	30	33	38	33	43	36
Insurance Trust Revenue	17	21	26	30	28	37	33
<b>TOTAL EXPENDITURE:</b>	<u>190</u>	<u>236</u>	<u>288</u>	<u>307</u>	<u>341</u>	<u>352</u>	<u>428</u>
To Local Government:	19	26	40	33	73	35	115
Current Operation:	93	114	147	164	162	193	195
Education	19	18	36	41	42	53	55
Highways	19	20	22	25	22	32	23
Public Welfare	4	28	31	35	33	42	36
Health & Hospitals	13	14	16	17	17	19	20
Natural Resources	9	11	14	15	17	17	23
All others	29	23	28	30	31	32	39
Liquor Stores Expenditure:	24	23	24	25	22	26	23
Insurance Trust Expenditure:	14	21	20	20	20	21	20
Capital Outlay:	40	52	58	65	64	77	75
Education	2	9	13	15	17	21	23
Highways	31	39	41	44	42	47	46
Natural Resources	1	1	1	2	3	3	3
All others	6	3	3	4	3	5	3

\*Revenue gap

Sources: Data for 1957 and 1962 derived from U.S. Census of Governments;  
1967 data derived from U.S. Census ("State Government Finances in 1967");  
1970 and 1975 projections by PARC.

To convert 1970 State revenue figures to projected 1970 dollars, multiply by 1,080,000.

To convert 1970 State expenditure figures to projected 1970 dollars, multiply by 1,110,000.

For projected 1975 dollars, multiply State revenue figures by 1,180,000 and State expenditure figures by 1,260,000.

**Conclusion.** It must be remembered that Tables X and XI are presented in terms of constant 1966 dollars and that they deal with single years, rather than biennial periods. The PARC summary projections, presented in the opening pages of this chapter, convert the total expenditures and revenue figures of Tables X and XI into biennial amounts in the projected dollars of 1970 and 1975. These PARC projections indicate that the local government revenue gap for the 1969-70 biennium period will range somewhere between \$102 million and \$195 million. During the same biennium the State revenue gap is projected to range between \$119 million and \$197 million.

For the biennium covering the fiscal years of 1974 and 1975, the local government revenue gap is projected to range between \$153 million and \$402 million, while the State revenue gap is projected to range between \$173 million and \$317 million.

The Esco projections resemble the PARC projections quite closely, although they were computed independently and in a somewhat different manner. The only point of disagreement between Esco assumptions and PARC assumptions has to do with the amount of federal aid which may be projected. The political uncertainty at the time of the writing of this report, together with the expressed desire of so many congressmen to economize on domestic expenditures in order to pay for the Vietnam conflict, makes extensive increase in federal aid a rather dubious possibility for the 1969-71 biennium. Accordingly, the Esco projection indicates that the incoming 104th Legislature will probably need to provide revenue sources to raise at least \$125 million more than was raised by the previous legislature, or a total of approximately \$723 million for the 1969-71 biennium.

### Chapter 3

#### TRENDS IN LOCAL GOVERNMENT EXPENDITURES

The expenditures of local government units in the State of Maine have been rising rapidly since World War II. Until 1965, as documented in the previous chapter, the proportionate annual increase in the cost of local government in Maine lagged somewhat behind the rate of increase reported by most local governments in other parts of the nation. Since 1965, there has been a rapidly increasing pressure for higher wages, shorter working hours, overtime pay, and fringe benefits for the various groups of employees of local governments in Maine. Coupled with this pressure, which appears to be increasing rapidly, is the demand for a better quality of municipal services, particularly in the urbanized areas into which an ever-increasing proportion of the State's population is moving.

**Some types of local expenditures will increase more rapidly than others.** It is reasonable to assume that policy decisions at the State or federal level, as distinct from automatic or built-in forces, tend to control spending rates for some functions such as public welfare or sewage disposal. In the expenditure projections (Figure 1 and Tables V-VI) allowance was made for an increasing proportion of local expenditures for operating costs connected with better sanitary control, including sewage treatment. Even though some rural communities may not incur such expense, the cost to most urbanized communities will cause the total annual spending to rise at an accelerated rate.

Consonant with national trends and the recommendations of the Task Force on Relationship of Governmental Welfare Programs, the expenditure projections assume the state will contribute an increasing share of the costs of health and welfare expenditures. It is also assumed that the higher social security payments which have been established, together with the benefits of medicare and medicaid, will attenuate the rise of local expenditures. If the federal and State governments assume these increasing financial responsibilities, local governments will be able to keep up with the demands for improved health and hospital services within the total amounts projected in this category. If these assumptions prove to be false, then the increasing costs of welfare, health, and hospitals will force local governments to a much higher level of expenditures than has been projected above.

Educational costs now account for a little more than half the total expenditures of local units, according to a report by the Committee on Economic Development. It is assumed that education costs will continue to hold this relative position until after 1975. (This assumption is,

of course contingent upon a rapid rise in State subsidies to education.) Local education costs will probably rise at a slightly slower rate after 1970 because of the falling birthrate. Although there will be fewer children in the public schools, the per pupil cost will rise disproportionately.

Costs of police and fire protection will increase at a faster rate than the percentage increase for local costs of roads and highways or general administrative expenses of local government. Although police and fire protection have only a minor effect upon a rural community's budget, these items call for rapidly increasing expenditures in urban communities. The cost per man-hour has been rising rapidly for this category of municipal employee, and there is every indication that the trend will continue.

**Wages and salaries at the local level are the greatest problem.** Municipal wages and salaries have been lagging behind the wages and salaries paid by the private sector. It is reasonable to assume that local governments will have to increase their wage scales if they are to compete for qualified employees. Since wages and salaries account for nearly 75 percent of the expenditures of local governmental units in Maine, the necessary effort to bring pay scales up to the levels of the private sector will bring about a marked increase in the expenditures of local government.

Teachers' salaries are a good example of the problem. Since teacher's salaries in Maine are below the national average, we have been losing many highly qualified teachers to other states. As a result of this shortage of qualified teachers, together with increasingly effective efforts of the Maine Teacher's Association, local communities are raising their salary budgets. According to the State Department of Education, the salaries of Maine's teachers are now rising at the average rate of \$500 per year.

Municipal employees, particularly policemen and firemen, are organizing into unions and thereby increasing the levels of wage settlements. Moreover, their demands for a short week are forcing the employment of more men to cover the essential jobs. Hospital employees have recently gained a 40-hour work week. These trends are reshaping wage levels and staffing requirements throughout the State of Maine.

As has been mentioned before, an increasing proportion of the total population of the state is moving within commuting distance of the urbanized areas. This movement creates a demand for more urban services in communities which have been essentially rural in the past. At the same time, the local municipal wage scales have to be raised to compete with the wages paid by private industry in the area. An increasing

proportion of the newer industries in urbanized Maine are manufacturing plants owned by industrial giants. Their wage scales are usually above those of the older local manufacturing plants. This has the effect of increasing the wage scales of other employers who have to compete for the labor supply. Another factor contributing to increased wages is a scarcity of labor. This, in turn, has tended to accelerate the rural to urban population movement noted above. The effect of rising wages in the private sector will be to force local government agencies to increase their own wage scales.

**Federal regulations to meet minimum requirements for financial assistance are creating financial pressures at the local level.** The Federal Government is constantly creating new programs, usually in cooperation with the State government, to assist local communities in doing a better job. To receive the financial assistance, however, the local communities must meet certain minimum specifications which require additional expenditures on the part of the local governmental units. Not only do the local governmental units have to meet relatively stringent code requirements, but also they frequently have to raise matching funds if they are to participate in the programs they desire.

**Inflation is a problem, especially for local government units.** Although inflation is a problem to everyone, it is a lesser problem to those governmental units whose revenues tend to keep pace with inflationary trends. Revenues from both the income tax and the sales tax tend to increase whenever inflation drives up the cost of goods or services. Assessments upon which the property tax is based are rarely adjusted rapidly enough to parallel inflationary trends. These matters will be discussed more fully in the section of this report dealing with revenue, but they are mentioned here to point out that increased expenditures due to inflation cause major financial difficulties for local governmental units. State governments, with their more flexible revenue structure, can make adjustments for inflation more easily.

It is assumed that the expected average rate of inflation for municipal expenditures during the next 10 years will be almost 4 percent a year. If this assumption is correct, from one quarter to one third of the projected increases in expenditures of local government units over the period ending in 1975 can be directly attributed to inflationary trends.

**Increased personal income of state residents results in a demand for increased services.** Personal income taxes paid the federal government by Maine residents in 1965 totaled \$177,123,000. In 1966 they rose to \$192,848,000, with a slight increase in the number of persons earning between \$5,000 and \$9,999, but a marked increase in returns on incomes

of \$10,000 and more. In spite of extensive areas of rural poverty, the urban, industrial areas are rapidly gaining in prosperity. As Maine gains new industries, executives and other professional people move into Maine. These new Maine citizens are used to a broader range of urban services provided in their former places of residence. They will add their influence to that of their neighbors in a growing demand for more and better urban services such as higher quality educational systems, improved recreational facilities, frequent trash collection, street cleaning during the night time, better care of shade trees along residential streets, and other services which cost substantial amounts of money.

**Low income, advanced age, poverty and related factors also increase the demand for increased local services.** In both urban and semi-rural areas, the individual who does not have access to a private automobile will also contribute to future increased local service costs. It will cost money to provide transportation between home and work for persons who are otherwise employable but who cannot provide their own transportation and who do not live near established public transportation routes. The Medicare and Medicaid group of older people includes individuals who cannot visit out-patient hospital facilities or doctor's offices unless municipal transportation is provided, as for example, by the town's paying the taxi fare.

Another very important future cost may be the provision of day and night care centers for children to aid not merely those affected by recent national welfare legislation, but also to aid those families where both parents work.

**Pressure to upgrade service and personnel in the police and fire departments.** As has been mentioned before, Maine cities and larger towns are faced with the interrelated problems of reducing the work week of policemen and firemen to competitive standards, of raising the base pay so that competent applicants may be attracted, and enlarging the work force to compensate for the shorter work week. There is also increasing pressure to upgrade the personnel to meet the complexities introduced by modern society. In addition to the higher pay and fringe benefits which must be offered to attract the right men in the first place, local training must be provided and, in the case of specialists, funds must be appropriated to send selected men to attend training courses. Although the multitude of small communities in Maine do not employ full time policemen or firemen, this need for increased training will eventually affect them and have to be met.

**Pollution and sewage disposal present an increasingly acute problem for local governments.** The larger communities in Maine are already



confronted with severe problems of how to meet the costs of disposing of dry trash and liquid sewage in a sanitary way. Similar problems are threatening the peace of mind of many smaller communities, especially those villages which have been draining their raw sewage into streams which are supposed to have a relatively high classification, or a relatively high degree of purity of water.

The solutions to such problems not only require capital outlay for construction but also need expenditures of funds from the general budgets of local governmental units in order to obtain matching Federal support to make the preliminary studies. The enforcement of codes also incurs additional expense.

**Federally sponsored redevelopment projects and other planning projects require the expenditure of local matching funds.** The matching funds are frequently 50%, but sometimes less. Many communities in Maine are under pressure from within and without to engage in redevelopment projects of various types. Such projects, whether they involve welfare or special demonstration grants, or whether they form part of a larger redevelopment or urban plan, require the local community to furnish funds in cash or in services in order to receive Federal funds to undertake the projects. In some instances, community funds must be spent on a risk basis before Federal funds are allocated. While any one project might require a very small amount of local money, the many opportunities facing local communities, together with the relatively large number of communities interested in participating in such projects, combine to make the total annual expenditures on the part of the various local governments a surprisingly expensive item.

**Conclusions:** Rising costs in State and local government are not peculiar to Maine. We may be feeling the impact of these expenditure trends a little more slowly than the citizens of most other states, but these general trends are experienced in all 50 states. The Tax Foundation, Inc., has projected a rise in general expenditures at the State and local level from the \$75 billion spent in fiscal 1965 to \$142 billion in 1975. In terms of percentage of increase in annual expenditures over the 10 year period, this amounts to 89 percent. The previous 10-year period, ending in 1965, had accounted for a 122 percent increase in expenditure. Because Maine has tended to lag somewhat behind national trends towards higher expenditures, the projected increase for local government units in Maine from 1965 to 1975 amounts to slightly more than 100 percent. This increase in expenditure, about 10 percent higher than the national average forecast, reflects the effort required to bring wages and

levels of municipal service in Maine more nearly up to the levels of comparable states.

Expenditures of local government units in the State of Maine will rise on an average of 9 percent a year during the period between 1965 and 1975. Between one quarter and one third of this rise in expenditure will be the direct effect of inflation. Much of the remainder of the rise will be the result of pressure to bring the wages of governmental employees and the levels of local governmental services closer to those in surrounding states. The steady growth of Maine's urbanized industrial centers and their surrounding suburban towns also contributes to the increased rate of local governmental expenditure. The governments of Maine's cities and larger towns are under pressure to increase municipal services, improve sewage and sanitary waste disposal, provide more adequate welfare and health services, improve hospitalization, and increase the salaries of municipal employees, especially teachers, policemen, and firemen. Furthermore, local communities must be financially able to participate in Federal matching programs, particularly in the fields of health and welfare, and in pollution control and sewage disposal.

## Chapter 4

### TRENDS IN LOCAL GOVERNMENT REVENUE

The costs of local government in Maine are expected to double before 1975. Either the State government must take over certain functions which have traditionally been the responsibility of local government units, or else local governments must increase their revenues by at least 18.8 percent a biennium. The Tax Foundation, Inc., has projected an annual increase range of total general revenue amounting to 7.1 percent, but it is doubtful that the local government units in Maine, which depend on the property tax for 72 percent of their revenue, can match so great an annual increase.

If further viable sources of revenue could be found by local governments so that an 18.8 percent biennium increase in revenue could be reached or exceeded, then Maine's communities would approach the national average of public services.

#### **The Property Tax Is Currently the Major Source of Local Revenue.**

Intergovernmental transfers now account for only 20 percent of the revenue of Maine communities, well below the national average of almost 30 percent, as reported by the Tax Foundation, Inc. This means that Maine communities on the average have to raise 80 percent of their revenue from local sources, whereas typical communities in other parts of the nation need to raise only 70 percent of their total revenue from local sources.

According to Bureau of Census sampling, the property tax accounts for approximately 72 percent of all revenues received by local governments in the State of Maine. It is a difficult tax to administer equitably unless trained assessors are employed. Newspaper reports, such as those published during October and November 1967 by the *Portland Sunday Telegram* indicate that the personal property tax has not been successfully administered in many communities, and that gross inequities exist in real property tax assessment in most Maine communities. According to a rating scale published in the *Portland Sunday Telegram*, only a very few Maine communities rated as even satisfactory in assessment practices. There is no college or university nearer than New Brunswick where degree courses for professional real estate assessors are provided. Since there is no local source of supply of professionally educated assessors, inequities are bound to occur.

Property taxation, if equitably administered, provides a reasonable and effective tax. It forms a stable base of revenue, especially in times of mild recession, and it helps a governmental unit balance cash flow

with somewhat more dependability than is possible with a sales tax. The property tax requires the services of professional assessors if it is to be equitable. Moreover, it does not touch those whose wealth is invested in intangibles rather than real estate or other property.

The property tax will and should continue to provide a large proportion of the revenue for local government. The projections at the beginning of this report anticipate an increase in property tax income of at least 7 percent a year, or 14 percent a biennium. A part of this increase will come from the construction of new homes, offices, stores, and industrial buildings. Another part, however, will depend in most communities on a constantly rising tax rate, or a frequent reassessment to reflect the inflation of real estate values.

**Maine's average effective property tax rates are still among the lowest in the Northeast.** While there is no question that the property tax poses a considerable burden in many communities, because of inequitable assessment practices or an inadequate local tax base, a statewide examination gives a different picture. According to a 1967 tax study conducted for the Vermont Legislative Council, Maine has a slightly lower effective property tax rate than either Vermont or Rhode Island, and a much lower rate than Massachusetts, New Jersey, New York, or New Hampshire. The average effective property tax rate is computed by dividing the property tax billings by the equalized fair market valuation.

**TABLE XII**  
**Average Effective Property Tax Rates, 1965**

State	Effective Tax Rate
Massachusetts	3.3%
New Jersey	3.2%
New York	3.0%
New Hampshire	2.8%
Rhode Island	2.7%
Vermont	2.7%
<b>Maine</b>	<b>2.6%</b>

Source: "Tax Policy for Vermont, 1967,"  
Report of the Tax Study Committee to the  
Vermont Legislature Council, Part II, p. 4-8.

The same conclusion can be drawn from a comparison of property tax revenues among the northeastern states on the basis of population. The per capita property tax revenue of local governments in Maine is no greater than the national average, and only Vermont collects less per inhabitant among the northeastern states.

**TABLE XIII**  
**Selected Per Capita Property Tax Revenue**  
**of Local Governments, 1965-66**

<u>State</u>	<u>Tax</u>	<u>Rank</u>
Massachusetts	\$190	1st
New Jersey	186	3rd
New York	166	4th
Connecticut	161	5th
New Hampshire	148	12th
Rhode Island	128	20th
U.S. Average	122	Aver.
<b>Maine</b>	<b>122</b>	<b>23rd</b>
Vermont	115	25th

Source: U.S. Education Commission of the  
States, *Compact*, Feb. 1968, p. 28.

If the property tax assessments in Maine were equitable and if the property tax revenues could be distributed in some equitable fashion throughout districts composed of groups of geographically and economically related communities, there would be no reason to consider the property tax more of a burden in the State of Maine than in the "average" state in the nation. The U.S. average in 1965-66 was \$122 per capita, the same amount as in the State of Maine. The effective property tax rate in Maine in 1965 was lower than that of any other northeastern state, as shown in Table XII. The difficulty, therefore, is not that the property tax rate in Maine is too high, but that the municipalities in Maine suffer from too many exemptions for which they are not reimbursed, that too many of them need to find ways to provide equitable assessment, and that all too many need to find ways to obtain an equitable redistribution of tax revenue collected in other municipalities.

**Some form of property tax redistribution should be adopted.** There is a current trend, particularly in rural areas, for small localized industries to disappear and for the working population of several adjacent towns to find employment in a large industrial plant or commercial establishment which pays taxes in only the municipality in which it is located. The municipality where the plant is located has an adequate property tax base to provide good services at low tax rates, while the adjacent towns without local industry suffer from an inadequate tax base.

A huge new paper mill, newly erected in a town of only a few hundred resident population, may have sufficient property valuation at fair market price or construction cost so that it could serve as an in-

dustrial property tax base for twenty small towns in the vicinity, but under present conditions only one town will benefit. An enormous atomic power plant may cost untold millions to construct and equip, but the inhabitants of neighboring towns gain no tax support for their local needs, even though many of them may be employed by the plant. Some form of property tax redistribution is needed.

A number of illustrations of this problem may be found by a study of the Maine Bureau of Taxation reports. The effective property tax rate of a municipality can be derived, if the full equalized valuation can be estimated with any degree of accuracy, by dividing the property tax collections of that municipality for any given year by the full equalized valuation and then pointing the division off to express the number of dollars per thousand.

For 1966, according to this computation, the paper mill municipality of Rumford had an effective property tax rate of only \$17.70 per thousand, whereas the adjacent municipality of Mexico, where many of the mill workers live, had to charge a rate of \$38.20 per thousand, more than double the Rumford rate.

A study of the effective tax rates, as derived in the way explained, of 56 Maine municipalities revealed 1966 rates that ranged from a low of \$11.70 per thousand at Bucksport to \$47.30 per thousand at Garland. Only four of the 56 municipalities had effective rates above \$40 per thousand, whereas six had effective rates in the very low range between \$11.70 and \$19.20 per thousand. The median rate, however, was approximately \$27.30 per thousand. The most common range of rates, accounting for one third of the 56 municipalities studied, ran from \$25.50 to \$28.50 per thousand. The unfortunate thing is that one-third the towns had higher rates, whereas another third of the towns had much lower rates. Some taxpayers have to pay four times as high taxes as others do on comparable property in another town, or almost twice as much as the average. Some form of equalization or redistribution is badly needed.

Some states, like California, have adopted a formula for intra-county tax equalization, but the county unit, particularly in southwestern Maine, no longer seems to bear much relation to the economic groupings of population in the State today. Coastal Maine counties were originally logical district organizations of municipalities but modern conditions have caused changes which are discussed in some detail in the opening section of the following chapter of this report under the heading, "Trends in State-Local Intergovernmental Relations." It is obvious to any person who observes the location of new shopping centers that

county boundaries, particularly in the coastal area of Maine, bear little relationship to the current economic groupings of municipalities.

Accordingly, any plan to make the effective property tax rate reasonably consistent throughout the state would require major legislative action and some form of State administration. Preliminary legislative action should be taken to eliminate non-business personal property taxation (concurrently transferring pleasure boats from personal property taxation to excise taxation and annual registration, following the same general method used for motor vehicles).

**Taxation of non-business personal property should be eliminated.** Many communities have already abandoned this form of taxation, because it is practically impossible to locate and assess fairly such items as domestic radios, television sets without outside antennae, musical instruments, power lawn mowers, snow blowers, and similar domestic possessions. If a municipality were to administer such taxation in a reasonably equitable manner, the cost of administration and assessment would be greater than the tax revenue gained. The national trend is to abandon such generalized local taxation. In the interests of uniform and equitable taxation practices throughout the State, the Task Force recommends that such taxation of non-business personal property should be eliminated by legislative action.

**Municipalities should be reimbursed by the State for all exemptions granted by the State to certain classes of persons and organizations and to railroad and telephone utilities.** The Task Force recommends that the legislature carefully review all property tax exemptions to determine the equity of each class of exemption under modern economic and cultural conditions. Property serving the general public's need for religious worship, educational and cultural services, or charitable and health services may be justly exempt from taxation, but property used for the social enjoyment of exclusive groups which do not offer substantial benefits to the general public might well be subject to taxation.

In addition to the advisability of removal of certain types of property tax exemption is the problem of property tax erosion through the exemption of railroad and telephone utilities from business property taxation. Some municipalities in Maine are forced to raise domestic property tax rates substantially because of their legal inability to transfer a fair share of the property tax load to telephone and telegraph utilities, to railroad property, to national bank property, and to insurance property. The computers, business machines, and office equipment of national banks are exempt from property taxation, although State banks pay taxes on such property. As a matter of equity, it might be advisable for the State

Government to sponsor legislation through Maine's Congressional Representatives and Senators to eliminate the preferred tax position of the business equipment of national banks, as compared to state banks. If all banks were placed on an equal basis, much needed revenue would be produced for Maine municipalities.

In regard to business equipment now exempt from local taxation by State law, it is recommended that the State reimburse Maine municipalities for the amount of business property taxes lost through such exemptions.

The same general principle holds true in regard to individuals who are given real property tax relief through State law. Relief for many of these individuals may be meritorious, but certain municipalities are seriously burdened by the loss of property tax revenue. If the State reimbursed the municipalities for such exemptions, many Maine municipalities with a relatively high effective tax rate would be able to provide the quality of services which would justify their new tax rate in the eyes of the residents.

**Local tax relief should be available for persons on small fixed incomes.** Some municipalities in Maine have a disproportionate population of the rural poor, many of whom are elderly or infirm persons with a very limited fixed income, as from Social Security, or a modest pension, or a small amount of interest paid on the savings of a lifetime of productive work at low wages. Persons of this sort need and deserve some form of tax relief, but some rural communities have so large a proportion of citizens in this category that they cannot afford to rebate a portion of the property taxes charged to such persons. Either the direct reimbursement from State general funds to municipalities suffering a tax loss in such cases, or some form of State-administered equitable apportionment could be used to provide homestead relief for persons in carefully defined categories so that the loss of property tax income would be shared equitably throughout the State.

**The establishment of a Uniform School Fund merits consideration.** In spite of increased State subsidies from other revenue sources, it is probable that the property tax will remain a significant source of educational revenue. To insure equal educational opportunity throughout the State, as well as to encourage orderly economic growth, the Maine Education Council has recommended that consideration should be given to a Uniform School Fund. Such a fund would receive and distribute the money necessary to guarantee that every public school pupil in Maine would have a more nearly equal educational opportunity than is now possible.



The Uniform School Fund would be raised by a combination of legislative appropriations from the State general funds and a uniform local property tax based on the State equalized valuation of each municipality.

In the long run, such benefits would result in greater municipal prosperity, for modern industry is attracted to communities with good educational systems, and the more prosperous heads of families tend to settle and pay property taxes in municipalities where they are sure of good educational facilities for their children.

**Municipalities with good assessment practices and excessively high effective tax rates should be helped.** A practical method of helping local municipalities through an equitable distribution of certain tax revenues is apparently needed. If municipal government is to practice a reasonable measure of local autonomy, it must have the necessary revenues to meet essential local needs. State and federal grants frequently have requirements that a municipality contribute a given percentage from local tax sources. Such offers usually have time limitations. The result is that some item of pressing local priority may be set aside so that municipal officials may take advantage of the federal or State funds which must be matched in some proportion if they are to be obtained.

The result is that many essential municipal services, particularly in Maine's larger cities, suffer because the federal or State governments have set a different set of priorities from those recognized by local municipal officials. A given municipality may have a pressing need for new fire equipment, or a new grade school, or an improved hospital at a time when no State or federal matching funds are available for such purposes. At the same time, funds may be available from federal and State revenue sources to help on projects of much lower local priority. Municipal revenues are then diverted to these ends rather than to the greater actual needs of the community.

Generally speaking, the needs of a municipality are closely related to the population of the municipality and not to the tax revenue from the industrial plants or commercial establishments which may or may not, be located within municipal limits. It would be unwise for the State to provide assistance primarily through taking over fiscal and administrative responsibility for functions which could be administered more efficiently at a local level if funds were available. It would be better to provide funds on some equitable basis, as on the basis of municipal population.

The Task Force therefore recommends that the State share a portion of some major tax with Maine's municipal governments on the basis of

municipal population, without restrictions as to how the municipalities shall use the money, provided that the municipalities benefited meet State standards as to assessment practices and that their effective tax rate be above the national average. The proposed State subsidies should be used to help municipalities to meet added high-priority local needs, but not to enable them to reduce their effective property tax rate below national averages.

A State apportionment, based on population, for all municipalities with an effective property tax rate above the national average and with good assessment practices, would have many benefits. It would promote uniformity, economy, and fairness; and it would also preserve the principle of local representative government, local responsibility, and local autonomy.

For the 1969-71 biennium it is probable that a fixed percentage of the sales and use tax might provide the best source for such a plan of apportionment to meet the municipal revenue gap. Once a uniform State system of property tax assessment could be put into operation, it is probable that it might be found that the average effective property tax rate in Maine is sufficiently below national average so that some form of apportionment based on the property tax might be developed.

**One important problem, then, is that of professional assessment.** The 104th Legislature should take into consideration the need to set assessment standards, provide professional training for assessors under the University of Maine, set professional licensing standards, provide technical assistance upon request, and set up the machinery to enforce good assessment practices, including property tax appeals courts.

**Intergovernmental transfers now produce only 20 percent of local governmental revenue.** Maine communities receive only about two-thirds as much assistance through intergovernmental transfers as is common in most states, where transfer payments account for as much as 30 percent of municipal revenues. Past pressures to increase State assistance to municipalities may be expected to mount. The State will doubtless increase such assistance but should require, in return, better and more equitable administration of local taxes, together with more rationally structural units of local government. Increased State aid should encourage and indeed require reform as well as lend relief.

**Local government now receives a relatively low proportion of its revenue from sources other than property tax and transfers.** In this area of taxation and the raising of revenue, Maine appears to lag far behind the nation as a whole. Compared to the national average of 16 percent, local government in Maine receives only 8 percent of its revenue

from sources other than the property tax and transfers. In Maine the chief sources of miscellaneous revenue for local communities are excise taxes and poll taxes. Other sources, which are much more profitable in many other states, include various license fees and service charges. Possibilities of obtaining more revenue from such fees and charges should be carefully explored.

**An increase in taxes is not the only income possibility available to local communities.** Local governmental units throughout the State of Maine have a number of revenue sources available to supplement those already in use. Some of the possibilities listed in this section of the discussion may have more immediate application than others. Some may prove to be inappropriate for conditions in Maine. Each alternative should be considered carefully before it is rejected or accepted.

Among the alternatives are the following, which appear to have a measure of immediate applicability:

1. Develop minor taxes and fees.
2. Maximize the use of bonding for capital improvements, especially during periods of inflation, such as we are now experiencing.
3. Obtain additional federal support.
4. Obtain additional State support.
5. Increase local efficiency in every possible way.

Additional sources of revenue that will require efforts extending beyond the next two years can be classified under the following:

1. Improvement in property tax administration.
2. Consolidation of local governmental units into units of a relatively efficient size, as already exemplified by our new administrative district system and our district court system.
3. Initiation of new types of major taxes.

### **More Immediate Income Possibilities**

**Develop minor taxes and fees.** Since Maine communities now receive only 8 percent of their revenue from the poll tax and various license and service fees, while the typical community in many other states gains twice as great a proportion of its total revenue from such sources, officials of Maine communities should investigate the possible increases in license and service fees, as well as new fees that might be put into effect. Reports from various communities indicate that most local license fees and service charges have not changed since depression days.

Communities should become innovative by developing more miscellaneous fees and service charges. They should consider the possibilities of each of the following:

1. Business license fees of various specialized categories.
2. Fees for business which desire on-street parking for customers in front of the place of business.
3. Franchise fees and other licenses.
4. Increased charges for various utilities.
5. Inducements to taxpayers to obtain partial or full prepayment of taxes to reduce short term borrowing.
6. Cash-flow analysis.

It may be feasible to charge tax-exempt organizations, including churches, for municipal services which are currently provided at no cost. Specific service charges to cover the proportionate cost of fire and police protection, sewer connections, etc., are illustrations of charges which might be considered.

**Maximize the use of bonding.** Preliminary investigation suggests that many municipalities are endeavoring to make both new capital expenditures and also capital improvements on an annual basis financed by surplus revenue. Even such well-administered cities as Portland and Bath have been pursuing this type of fiscal policy in the construction of sewerage projects. Bath has also used this method for major school improvements. In times of inflation, when construction costs are rising and the dollar is constantly losing purchasing power, it seems reasonable that local governmental units could make a greater use of bonding as a method of financing capital improvements.

The private sector of our economy has long since adopted credit as a way of life. If, for example, Bath must improve its school facilities to meet accreditation standards, even though the student population is not rising, it would seem that the only practical means of financing this kind of capital expenditure is through bonding.

It is possible that legislative action will be necessary to raise the debt limit of local governments. This is especially important in view of our current inflation, which makes some existing debt limits absurdly low.

**Obtain additional federal support.** It was reported earlier that local communities in Maine are not receiving the proportion of federal and State financial aid that is commonly provided in other states. Local communities in Maine must take full advantage of all aid available from both federal and State sources. The services which need support are in areas which are rapidly growing, such as welfare, health services, hospital services, pollution abatement, and sewage disposal. All of these areas involve large expenditures. These fields are currently receiving increased funding from federal sources. The additional support of the state administration will help relieve the burden of the local taxpayer.

Many Maine municipalities are failing to use all the potential federal resources which are actually available to them. Such communities, particularly those with small populations and limited financial resources, need the aid of a community and government organization specialist who can suggest ways and means to utilize available federal funds. It is hoped that the newly created State Planning Office and the municipal coordinator will be able to improve this situation. It might also be helpful if specialists from the Cooperative Extension Services of the University of Maine assist local communities in finding sources of federal funds.

To take maximum advantage of federal and State funds for major projects, it may be necessary to form planning districts in order to involve a sufficient population and a sufficient geographical area. The State Planner might encourage such a trend by suggesting the advisable geographic boundaries of such districts and then using financial incentives to motivate participation by municipalities.

**Obtain additional State support.** In the opening section of this chapter, the need of some form of State apportionment of property tax revenues was discussed. Although such State apportionment would not require the expenditure of State general fund revenues, it would have the effect of aiding those municipalities which are forced to set exceptionally high effective property tax rates, in spite of high standards of assessment practices. It was also mentioned that, for the 1969-71 biennium, it might be advisable for the State to provide a fixed proportion of the sales and use tax to meet the local municipal revenue gap faced by municipalities of the type just mentioned.

It was also suggested that such direct general fund subsidies might not be necessary after the 1969-71 biennium. First, if uniform and equitable assessment practices were established throughout the State during that period, it might be discovered that the average effective property tax might be raised and the revenues apportioned sufficiently to meet general municipal needs. Second, if the State government assumed more fiscal and administrative responsibility for education, welfare, and general health facilities, the municipal revenue gap might be closed.

The support of education, of welfare, and of general health facilities should become more and more the financial responsibility of the State government rather than the local municipalities. The Task Force on Relationship of Governmental Welfare Programs has already made recommendations concerning this matter.

In spite of the outward appearance of stability of population in

many small towns of Maine, families move from one community to another with surprising frequency. There is a constant migration toward the more urbanized centers. Matters having to do with the welfare of the people as a whole are therefore best considered as an area of State responsibility. Matters such as education, health services, care of the aged, infirm and chronically ill, as well as the general public safety, should increasingly become the primary financial responsibility of State government, rather than local government. As things are today, an elderly, impoverished person suffering with a chronic illness can obtain excellent hospitalization if he resides in a major city, like Portland, but will be denied these benefits if he lives in one of our many smaller communities.

The matter of police protection in the smaller community may also become increasingly the responsibility of the State Police, rather than the county sheriff's department. Counties with a relatively large, urbanized population, like Cumberland County, may be able to afford the modern technical facilities and the level of training for its sheriff's department to meet the needs of today. There is a question, however, whether sparsely settled rural counties or towns can afford to provide the police specialists and the technical equipment and the training needed for modern law enforcement. The use of the automobile by criminals also makes the services of the statewide police of greater relative value.

It is obviously undesirable for communities to abandon all their responsibilities to the State government. Purely localized matters should be cared for at the local level. State financed and State subsidized programs and services can frequently be administered best at the local level, as in the case of schools. Citizens must continue to feel a closeness to local government. Care must be taken to insure that affairs will not be relegated to some kind of impersonal bureaucracy. On the other hand, unnecessary duplication of services should be avoided, such as conflicting responsibilities of local and State welfare services, or conflicts between the State Police and county sheriff's department. The State of Maine cannot afford any needless duplication of services.

**Increase local efficiency.** A trend appears to be developing throughout the country for small municipalities to contract with private enterprise or with nearby large towns or cities for the performance of selected municipal services. An example of this is the way in which certain State Highway Departments contract with individual towns to build new town roads and to maintain all town roads on an annual contract basis. The maintenance includes snow plowing and maintenance patrols. In other places local communities contract with private enterprise for such muni-

cial services as trash disposal, bus transportation of pupils, the operation of school cafeterias, and similar services.

It might be possible for the State or the University of Maine, through its Cooperative Extension Service, to supply a cost-study service for small towns. This would allow cost analysis of a town's direct provision of certain services compared to the cost of contracting for such service by either private enterprise or by another governmental unit. Long-run, as well as short-run, costs should be compared, to allow the individual municipality to make the best possible use of its tax revenue.

A good example of such a plan is provided by the Portland Water District. It is successfully servicing a number of towns with a level of efficiency and quality of service that the individual customer towns could not provide by themselves at a competitive cost. The town of Cumberland, for instance, attempted to provide its own water source for several years, but found that it gained a substantial advantage by turning its system over to the Portland Water District.

There is now a proposal under consideration for the Portland Water District to take over the problem of trunkline sewers and sewage treatment and disposal plants in its area of operation. The cost of bonding, construction, operation and maintenance would be taken over by the District and then prorated over the communities served. Such a plan would relieve the participating municipalities of heavy bonding costs and ensuing maintenance expense.

Local communities should utilize the State of Maine Purchasing Department to obtain locally needed supplies at the cost savings provided by a centralized consolidation of purchasing. The State purchasing department is already offering this service, but it might be helpful if it frequently reminded the officers of small municipalities that the service is available.

**Establish metropolitan districts for police, fire protection, sanitation, and similar desirable services.** The Committee for Economic Development has published a recent study by the Research and Policy Committee under the title, *Modernizing Local Government*. The committee strongly urges smaller communities to reduce local expenditures by joining together in providing various services. A start could be made by setting up meetings at regular intervals for the simple, voluntary exchange of information. From such meetings proposals could be developed to share desirable services which no one small town could afford, but which could be financed by the joint effort of several towns. Groups of towns might institute task forces to study ways and means of the joint provision of needed services which would be beyond the financial capa-

bilities of any single small town to provide. Just as the establishment of rural School Administrative Districts has provided a higher quality of education than any single member town could provide, so could other types of districts be developed to provide other advantages for the inhabitants of small communities.

The State of Maine, through legislative action, should assist communities in this effort toward inter-community cooperation. Financial incentives supplied by the State are highly desirable to reduce inhibitions at the local level. The State should follow the practice of the Federal Government by writing specifications, providing technical help, and rewarding communities by additional financial assistance as they follow through.

### **Long Range Sources of Income for Maine Communities**

The administration of the property tax must be improved. As was pointed out earlier, the chief problem connected with the property tax is unequitable assessment. The University of Maine, through its Bureau of Public Administration, has just completed a study of this matter. The recommendations of this study should be carefully considered by the officers of every community and State legislators as well.

Every municipality, individually or on a shared basis, should move toward utilizing professional assessors. Only the larger towns or cities could afford the full-time services of an assessor, and it is possible that the State government might have to provide the salaries for assessors, who could then do contract work for the individual towns. The other, and perhaps preferable possibility would be a staff of State assessors, each assigned to cover a group of towns or a district at State expense, similar to the New Hampshire program.

If groups of towns hire their own assessors directly, then the State should set strict professional standards. As a first step toward this goal, the State could use about the same methods it has used since World War II to upgrade public school teachers. This would include the following:

1. Pay a State subsidy toward the salaries of assessors who meet State standards for "sanctions," or for a "first provisional certificate," or for a "regular certificate."
2. Require all assessors with "sanctions" or a "first provisional certificate" to upgrade themselves through approved courses, probably offered by the Bureau of Public Administration of the University of Maine through the Continuing Education Division.

There are many other details which could be developed according to the pattern developed by the State Department of Education in the



upgrading of public school teachers in Maine. Experience with the "assessors' schools" which have been run in recent years indicates that the assessors who most need the schooling will not attend on a voluntary basis. Those who are doing a reasonably satisfactory job already are those who attend. Apparently the only way to get the less skilled assessor to attend is to pay a State subsidy toward the salaries of those who are certified or who are attending courses preparing them for full certification.

**Establish a practice of monthly billing for property taxes.** A very careful study should be made by a legislative committee of the practice followed by New Brunswick, Canada, in Property Tax Administration. The present custom of fall billing for property taxes is based on the economy of rural America of the last century. Farmers in Maine today are as accustomed to monthly bills as city people. The modern business world operates on monthly billing, and municipalities should do the same with billing for the property tax. Once the monthly billing system was established, the advantages would far outweigh the expenses of mailing out monthly bills or providing monthly coupon books, like those used by automobile finance companies, as the case might be.

Although many municipalities could set up a monthly billing system without undue difficulty, it is possible that some local government units might lack the clerical help or office equipment to set up such a system. A modified solution would be the creation of municipal tax clubs, like those already maintained by the cities of Augusta and Gardiner. The net result would be the same: monthly payments on the part of the tax payers and monthly receipts of funds for municipal needs.

The advantages would be a constant cash flow into municipal coffers freeing municipalities of taking high-cost short-term loans from banks, and less resistance on the part of citizens to the paying of property taxes. A payment of \$25 a month would be much less painful than a single October bill for \$300 to be paid in a very limited time if penalties were to be avoided. For owners of more expensive property, \$75 a month would be much easier to pay than \$900 a year in one lump sum. The experience of the Federal Government with income tax collections indicates that citizens are willing to pay large annual taxes if small payments are extracted at frequent intervals. The comparative acceptance of the sales tax is based upon the same principle of frequent small payments.

**Local governmental units should be consolidated into units of more nearly optimum efficiency.** Maine suffers from too many small local governmental units. The vast majority of townships in Maine contain

less than 2,000 people within their borders. It has been asserted that Yankee individualism will not tolerate consolidation of two or more little towns into a municipality with sufficient population to provide adequate services. But the success of the District Court system and the School Administrative Districts indicates that a certain measure of grouping small governmental units into unified districts is possible in Maine today. Ideally speaking, the number of local governments in Maine should be reduced to about 20 percent of the present number. It would seem that 130 units of local government should be sufficient.

A local governmental unit depending for revenue on the support of less than 1,000 persons, or approximately 300 families, is perhaps too small to provide adequate municipal services on a realistic tax base. A minimum size of 2,500 persons would be more realistic and efficient. It is essential that local units become large enough to function efficiently if power over local affairs is not to be centralized at the State capitol.

The same type of strategy used in the formation of School Administrative Districts could be developed to consolidate inefficiently small towns into governmental units of reasonable size. Some other ways to encourage the desired trend include the following:

1. Encourage small towns to contract services from larger nearby towns. (This was discussed earlier)
2. Organize plans to set up district departments, such as the federation of several road-repair and maintenance departments on a district basis.
3. Set up federated assessment districts.
4. Develop area police and fire districts, probably again of federated nature at the beginning.
5. Strengthen SAD functions with allied services, such as family health services, SAD public libraries, cultural events, etc.
6. Encourage federated planning districts, especially in areas threatened by disorderly development.

**Initiate new major taxes.** The opportunities to institute new major taxes on the local level are limited. Certain types of taxes would merely drive the revenue sources into the next town, unless that town also had the same tax structure. For instance, sales taxes imposed by a small town would not be practical unless all towns within a broad area also imposed similar town sales taxes. Most Maine communities are so small that they lack effective machinery to collect any complicated new taxes or to enforce their collection.

Deane S. Stevens, Portland Director of Finance, commented upon this problem in a paper presented at the Sept. 1968 Property Tax Seminar at Orono:

Is a municipal income tax a practical solution to Maine municipalities as a source of substantial new tax revenue? My answer is an emphatic NO!

In the Pine Tree State we have no large urban centers where it would be feasible to impose a payroll tax without jeopardizing the economy of the municipalities. Maine's largest city, Portland, has only 75,000 inhabitants. That, by any measuring rod, is a small city. We have only two cities in the neighborhood of 40,000, three cities in the 20,000 category, and other cities from 18,000 to below 3,000 in population. In short, we are a State of small cities, small towns and rural areas. Such a situation does not lend itself to municipal payroll taxes.

Were a Maine city to adopt a payroll tax on people earning money in its city I dare say some employers would transfer their business to a city without such a tax, while some workers would switch jobs to avoid the tax. In prosperous times like today, job shifting is easy for the worker. Furthermore, a city having such a tax would be in a poor position to attract new industry. Obviously, competing communities would be certain to advertise to an individual prospect that their cities have no income or payroll taxes.

A study of all suggestions received seems to indicate that any new major tax must be administered and collected by the State. There is a possibility that a specified share of such taxes could be distributed to the towns. This would be advisable only in a broad sense, for there are dangers inherent in such a plan. Nothing should be done to encourage the perpetuation of archaic local governmental practices. The impact of increasing State funds should not be merely to give them financial aid, but also to lead them to adopt more modern public administrative structures. On the other hand, any major tax adopted by the State could be used to benefit the local governmental units in one way or another, as in freeing towns from welfare costs, in providing better health and hospital services at State expense, in granting a larger subsidy to the schools, in meeting the rising need for junior colleges by financing two year programs under the University of Maine, in granting aid to the elderly, and in eliminating some nuisance taxes on business.

One practical suggestion for a tax administered directly by the local towns is the replacement of the present poll tax with a head tax to be paid by all residents of both sexes of voting age. The head tax might be \$5, rather than \$3. It is estimated that there are currently about 580,000 persons in Maine between the ages of 21 and 70. A Head Tax of \$5 would yield approximately \$2,030,000 annually above the amount the present poll tax now yields.

Excise taxation of pleasure boats under uniform standards analogous to those currently administered for motor vehicles has already

been mentioned. It is also suggested that similar excise taxation standards be developed for the taxation of heavy construction equipment and similar types of farm machinery. Uniform standards for taxing such machines need to be developed to assure equitable treatment in all municipalities and also to assure the collection of reasonable tax revenues from construction companies and other users of heavy equipment.

Many other suggestions for added types of municipal taxes were submitted to the Task Force, but the subcommittee which evaluated their possibilities decided that they would provide little, if any, practical benefit under conditions prevailing in the State of Maine. Maine's larger cities cover so small a geographic area that many types of urban taxation would merely drive business outside the city limits into an adjacent municipality without that added type of taxation. Many of the other suggestions, which are not listed in this report, would also present the problem that they would probably cost more to administer than the revenues would be worth. Any taxation of this type is unsound.

**Conclusion: the State Must Provide the Answer.**

All things considered, the answer to the revenue problem seems to be with the State. Even as local units increase their efficiency through reorganization, and even as they increase their current tax rates and create new minor taxes, they will be faced with a revenue gap and must look to the State for aid. The Task Force has carefully avoided the idea that local units can look to the State for "relief." The State's obligations are many and pressing, and the demands upon it for new services are great. In looking to the State for aid in their financial situation, the best that local government can expect is that State aid may slow down the rate at which the costs of local government will increase. Given the rate at which these costs are mounting, such aid will be necessary.

## Chapter 5

### TRENDS IN STATE GOVERNMENT EXPENDITURES

During the next decade Maine, like most other states, will experience a changing pattern of financing and administering a number of public services. The change will be marked by a shift of financial and administrative responsibility from relatively small local communities with their archaic boundaries to large, more rationally designed districts, and from these districts to the more centralized state government. This nation-wide trend is being accelerated by the changes in our pattern of living since World War II. The population of the United States has become highly mobile. Increasing numbers of individuals work in central cities, but establish their homes in suburban towns. They may spend much of their income at a shopping center located in yet another municipality. A municipality's real estate valuation may, therefore, no longer bear any significant relationship to the demands made upon that municipality for the support of schools or any other municipal services.

Individuals tend to move from community to community, and from state to state, to a greater extent than ever before. The typical American no longer expects to live in one community for his entire life, but he will probably live in at least five homes during his lifetime. Many rural towns in Maine suffer from the effects of this mobility. They are forced to provide schooling for hosts of children who promptly move out of town once they reach the age of productivity, when they could become assets to the town's economy rather than liabilities against its tax revenues.

#### **Trends in State-Local Intergovernmental Relations and Their Effect on Expenditures.**

County government and county government units were established in the State of Maine at a time when the chief modes of transportation were by waterway or by horseback trails. If one imagines a map of Maine as it existed in the days before all-weather roads or bridges over the broader streams, one can see the logic in the boundaries of Lincoln County or Sagadahoc County. Brunswick, for instance, logically belonged to Cumberland County, because there was direct access through the sheltered waters of Casco Bay to Portland. On the other hand, travel from the lower Kennebec valley to Portland involved several miles of exposure to open sea between the mouth of the Kennebec River and tip of Harpswell. Bath was not linked with Brunswick as part of a common shopping complex, as it is today. It was then an isolated commercial port and trading center, and accordingly a county seat.

This illustration of how the present shopping complex of Bath and Brunswick is split between two counties is only one of many possible illustrations of the ways in which municipal and county boundaries no longer meet the needs of the Twentieth Century. Maine currently has 658 local governmental units, 80 percent of which have total populations too small to function as efficient government units. The entire population of Maine, scattered irregularly over an area of 33,215 square miles, is less than that of the two adjacent cities of Boston and Cambridge, Massachusetts. It is approximately 10 miles from the northern city limits of Cambridge to the southern municipal limits of the City of Boston, but the air-line distance between Kittery and Fort Kent, Maine is 235 miles.

Besides the inefficiently small base of population upon which most of the small local governmental units have to draw for support is the dwindling number of small local industries. Before the days of steam, or internal combustion engines, or rural electrification, nearly every stream with an adequate supply of water and sufficient downward slope was dammed to provide power for a small mill or manufacturing plant. Few of these plants could meet the competition of today's industry. Villagers who once would have worked in a small factory or mill within town limits now tend to work in large paper mills, shoe factories, or other industrial plants which draw their labor supply from a multitude of neighboring towns but pay property taxes only in the town which is fortunate enough to provide the plant site.

Accordingly, the local tax revenue in many small towns has little relationship to the municipal needs of the residents. Local governmental units in Maine now have to depend upon property taxation for approximately 72 percent of their total revenue. When the majority of the wage earners in a cluster of small towns depend upon a single paper mill for employment, the town where the mill is located may have more than adequate revenue, but the other towns in the cluster lack sufficient revenue to operate schools and other governmental services on an economically feasible basis. This leads to the conclusion that Maine, like a number of other states, must begin long-range efforts to encourage local communities to unite into some form of federated organization, as by forming districts or otherwise regrouping into larger governmental units.

Although progress toward this end will require many years of patient effort, the relative speed with which the State of Maine has established District Courts and has encouraged the formation of School Administrative Districts indicates that progress can be made if the state provides the proper incentives.

### **Policies Advocated in State-Local Intergovernmental Relations.**

The State of Maine would be following today's trend in state-local intergovernmental relations by adopting the following policies:

1. Increase State support of general education on a basis equitable to all the citizens of Maine.
2. Increase State involvement in health and welfare activities throughout the State.
3. Establish ways and means to improve the administration of property tax assessment.
4. Coordinate local activities by providing advisory services of a municipal coordinator in the State Planning Office.
5. Supply certain services to local communities on a contract basis.
6. Motivate local governmental units by various incentives to form administrative districts or to establish metropolitan service organizations.

An important question to all citizens is how to establish the best balance between centralized State government and decentralized local government. There is need of developing an operative policy to coordinate the centralized and decentralized structures. Ways must be found to encourage each community official to work toward achieving a high level of efficiency with federal and State help and yet to maintain a necessary degree of local autonomy. Local autonomy, however, must not be fragmented into tiny units, but maintained and developed through units of adequate population for efficient government.

**1. Increase State support of general education on a basis equitable to all the citizens of Maine.** Educational costs account for more than half of the local governmental budgets in Maine. A majority of the local communities in the State are too small and lack enough locally taxable industry to meet the financial needs of the increased costs of education, even through the combined efforts of several municipalities working together through School Administrative Districts.

On the basis of the discussion and authorities cited in the section of this report dealing with local government expenditures, greatly increased state subsidies for public education are necessary. One proposal adopted by the State Board of Education recommends that the subsidy be increased from \$290 per pupil to \$450 per pupil, with no distinction between elementary and secondary levels of education. This proposal becomes most equitable when instituted in connection with the Uniform School Fund concept advocated by the Advisory Commission on Intergovernmental Relations.

School Districts will also be enabled to provide a higher quality and a greater diversity of educational opportunity for the youth of Maine, particularly in the rural areas. Further inducements should be offered towns to enter districts, except, as in the case of islands, where such consolidation promises neither improved schools nor greater efficiency. Where conditions make small elementary schools unavoidable, such schools can be developed to provide quality education, but ordinarily only at high per-pupil costs for reference books, special equipment, and specially prepared teachers. Such extra costs under such circumstances should be borne by the State.

**2. Increase State involvement in health and welfare activities throughout the State.** Health and welfare expenditures rank among the major costs to some local governments.

**Expenditures for health services should be tripled during the next decade.** The current emphasis on all aspects of health care, including preventive, corrective, and custodial services, has been estimated by the Committee of Economic Development to result in a tripling of costs in the next decade. The age distribution of the population of Maine has a disproportionate number of the very young and the very old when compared to the number of able-bodied adults. This situation makes the emphasis on improved health services all the more imperative.

New techniques need to be explored. It has been suggested by Dr. E. Grosvenor Plowman, former Chairman of the Maine State Transportation Committee, that Maine pioneer with such devices as minibuses for transporting medicare patients to clinics and helicopter ambulances for transporting emergency cases from the more isolated rural areas. Other new types of outpatient services, such as those offered by the Child and Family Center at Lewiston, should be developed at state cost in convenient locations to serve districts throughout the state.

In regard to health services, the situation is now particularly difficult for many rural communities because of the shortage of medical and ancillary personnel. The State government should assist local communities by organizing and subsidizing regional district health centers staffed with the necessary professional and technical personnel.

State officials who were interviewed in the course of this study estimate that initial costs to establish adequate programs will be very high, but that costs should level off after 1975. The initial costs will require the purchase of expensive equipment, both for fixed centers and for mobile units. Professional personnel and trained technicians are in short supply. Expansion of the professional nurses program at the Portland campus of the state university, will help the situation slightly, but state



scholarships along with other inducements may be necessary to attract a sufficient number of students into the program.

Until state university and technical institute programs can be developed to provide an adequate supply of professional and technical personnel, the State will have to compete with other states for the limited supply of trained medical and ancillary personnel.

State officials estimate that the State's share in these increased health services during the next three biennia will require expenditures in excess of \$75,000,000, as estimated by officials of the Department of Health and Welfare. After 1975 the outlay for equipment will be reduced. Increased federal support beginning in 1975 or earlier should prevent further increases in costs to the State, but it is unwise to plan on any reduction in State expenses.

Every effort should be made to avoid expensive duplication of service equipment and facilities. Financial inducements should be made to gain the cooperation of existing hospitals, health centers, and other medical service organizations. Any new rural centers should be so located as to encourage the cooperation of districts embracing a number of rural communities.

**State supervision and control of all public welfare could mean increased social welfare services while slowing down cost increases.** Public welfare is the third ranking category in General Fund expenditures. According to publications of the Tax Foundation, Inc., it will take an increasing share of state budgets during the next decade. Under present conditions it places an undue strain upon local governmental budgets. It has been proposed by the Task Force on Relationship of Government and Welfare Programs that the State Department of Health and Welfare assume the responsibilities for the direct costs and supervision of local public welfare.

In view of the financial weakness of many communities, the labor and money now wasted in attempts to establish legal residence and local responsibilities, the increasing mobility of our population, and the lack of uniformity of local welfare programs, it seems advisable that the State government assume the financial and supervisory responsibility for welfare, as proposed by the Task Force on Relationship of Governmental Welfare Programs. It is estimated that implementing this proposal, together with a minimum medicaid program, will mean an increase in state expenditures of \$16,000,000 over the next biennium, and that this sum, adjusted to meet inflationary pressures, will thereafter become part of the normal operating budget of State government in Maine.

State administration of the program will entitle the State to addi-

tional federal funds not now available. One example of federal benefits which have been lost for lack of local community action concerns the federal surplus foods. Many small communities have found federal requirements for storage, bookkeeping, and reporting procedures too complex. Rather than go to the extra trouble and expense of complying with federal requirements, many local communities have rejected the entire program. Needy families have therefore been deprived of food which would have been available if the State government had administered the program.

**3. Establish ways and means to improve the administration of property tax assessment.** A major problem in property tax administration is how to provide for equitable assessment. There is no pay for assessors in most small towns. The assessors are usually the selectmen, whose total pay is only a token amount. Even if they did no assessing whatsoever, they would be receiving much less than one dollar an hour for the time they put in on other town duties. Accordingly, they cannot afford to take time off from their private work to attend the seminars that are currently available, nor to go to the extra unreimbursed expense for travel, meals, and the like. There is a need for some form of State subsidy to provide a financial inducement to prepare the assessor to perform more effectively. In fact, there appears to be a need for a relatively extensive and expensive State program leading to certification standards for all assessors and providing sufficient numbers of trained personnel so that all property assessment in the State will be ultimately done under the supervision of certified assessors.

Such a program will necessarily take a number of years to put into full effect. Its development will require the same general techniques that have been used to upgrade public school teachers to meet certification standards. There must be State subsidies to encourage municipalities to pay for the services of assessors who meet or who are working to meet state certification standards. There must be government in-service training courses for assessors, presumed administered by the Bureau of Public Administration of the University of Maine, and offered on week-day evenings at convenient locations throughout the State. There should also be University programs for the education of full-time, professional assessors.

**A Tax Assessor Appeals Board should be established.** Citizens should have the right to appeal from any assessment which they consider unfair. The state should therefore establish a procedure for appeals so that both the assessing municipality and the assessed citizen would be assured of a full hearing and equitable treatment, as suggested by the

current report of Paul C. Dunham entitled *A Study of Property Tax Administration in the State of Maine*.

**4. Coordinate local activities by providing advisory services of a municipal coordinator in the state planning office.** Most small communities need help in finding ways to get the greatest long-range value from their expenditures, in planning for future needs (especially in such matters as pollution control, waste disposal, sewage treatment, etc.), and in finding ways to coordinate their activities with other communities, state departments, regional governmental units, and federal officials. This lack of coordination often results in local governments not receiving intergovernmental funds, such as federal grants, which could easily be obtained, or in their failing to make optimum use of such funds. A municipal coordinator in the State Planning Office would be of great benefit by providing professional services to help local governmental units in such matters.

Another helpful service that could be provided by the municipal coordinator would be assisting local governmental units in working together on common problems. The district idea, as exemplified by School Administrative Districts and the new District Court organization, should be encouraged to cover other types of local governmental services, any of which would be too expensive for any single small municipality, but a number of which would be feasible if provided by a group of adjacent communities, each sharing a part of the total expense. When Maine first became a state, this concept underlay county government. As has been pointed out, the contemporary economic groupings of communities have little to do with historic county lines.

While there is sound economic justification for such a county as Aroostook, the county boundaries of York, Cumberland, Sagadahoc, Lincoln, Knox, and Waldo no longer bear a meaningful relationship to modern economic or trading districts. Accordingly, a more contemporary type of district coordination is needed. This is particularly true of the many small towns which possess no major industry and very few year-round inhabitants. Several of these towns in a given geographic area might be able to provide acceptable municipal services with reasonable efficiency if they were banded together in some sort of federated district. A municipal coordinator, salaried by State funds and working out of the State Planning Office, might be able to encourage such coordination and work with local municipal officials toward those ends.

Funds are already available in the State Planning Office to take the first steps toward such activity. Accordingly, it would appear that a State service of the type previously described could be started on a modest

scale. Such a service would make an important contribution towards reducing local costs.

**5. Supply certain services to local communities on a contract basis.**

There is one way in which the State government could help local governmental units, including counties, incorporated villages, and similar units, as well as municipalities, without substantial cost to the State. Functions of local governmental units which could be provided more efficiently by existing State departments might be made available to the local units on a contract basis. It seems reasonable to assume that the State Highway Department could build, maintain, plow, and sand the town roads of many local municipalities at a lower cost than an understaffed and sometimes ill-equipped municipal public works department. This type of service might well be purchased from the State Highway Department on a contract basis.

Certain aspects of public protection could also be provided by the State on a contract basis. In the matter of fire protection, it is probable that rural communities would have to continue to depend upon volunteer crews for most fires. A group of communities, however, might contract with the state for the services of one or more experienced fire-fighting training officers, who would train the volunteers to a higher level of efficiency, advise on the purchase of new equipment, and try to coordinate the fire-fighting centers of their district to provide the best coverage of protection at the lowest possible cost. They might also be empowered to make the decision as to when added firemen and equipment should be requested from the larger municipalities which possess full-time fire departments.

Police service for small communities is now usually provided by deputies from the county sheriff's department, with occasional overlapping service provided by the State Police under certain circumstances. In general, it would seem advisable for an extension of trained, well-qualified State Police service by contract. The deputy sheriff system has been open to frequent criticism, and there is a question whether it should not be reduced in importance, in favor of an enlargement of the functions of the State Police.

**6. Motivate local governmental units by various incentives to form administrative districts or to establish metropolitan service organizations.** This subject has been mentioned several times on the past few pages and discussed at some length in the subsection about the coordination of local activities by providing the State services of a municipal coordinator.

The typical small Maine town lacks the population or the socio-

economic diversity to provide adequate modern municipal services all by itself. This is true of small rural communities throughout the nation. Even the village church, if operating throughout the year, is either a sort of part-time mission, served by a clergyman from a larger community, or else one of a group of rural churches, served by a common clergyman. This latter idea, a joining of resources from several adjacent communities to provide for a service too expensive for any one but needed by all, appears to be a trend throughout rural America today. Throughout the reports and booklets which members of the committee obtained in their search to find out what other states were doing about the problem of state and local taxation are comments on efforts which are being made to encourage small communities to band together in cooperative efforts. Many comments were made on the advisability of state governments providing financial inducements to encourage local communities to do this.

It is recommended that the Governor and Legislature of Maine endeavor to provide incentives to encourage small communities to coordinate their administrative efforts. The successful development of School Administrative Districts forms a good precedent. Similar incentives should be used to encourage other types of administrative districts through which small towns could provide better services with higher efficiency and lower unit costs. It would be a mistake to continue to increase the level of financial support from the state if the net result would be to perpetuate obsolete and inefficient local government practices.

### **Trends in State Expenditures for Promoting Future Prosperity**

State expenditures are a necessary catalyst for economic growth. Since 1950 all state governments have endeavored to promote economic development of their respective states. It is the current practice of most state legislatures to spend public funds on projects that are expected to have a catalytic effect on the development of state economic health and future prosperity, such as education, highways and transportation, basic and applied research, and industrial promotion. Maine, like nearly all other states, is actively supporting efforts in all these areas.

**Higher education is a prerequisite to all future development in Maine.** Large university centers attract science-based industries, which are the kind of industry currently showing the greatest growth and promise for the future. Vocational-technical institutes and similar post-secondary schools provide technical employees for these industries. Centers which provide both types of higher education are particularly attractive to the newer types of industries. In addition, the demands

of business and industry for highly trained manpower continue to grow rapidly, and business enterprises tend to develop near centers where their management employees will have opportunities for self-improvement and advancement through evening courses of university calibre.

The recent creation of the new university system, which includes the University of Maine, with campuses at Augusta, Bangor, Orono, and Portland, together with the various State Colleges, is evidence of Maine's concern for higher education, as is also the creation of vocational-technical institutes at several locations throughout the State.

Maine has made an excellent beginning, but it must continue to increase its effort if it is to be successful in its competition with other states, which are also making marked increases in; their support of higher education. As has been pointed out, Maine will need to educate professional assessors, public health personnel, social workers and other professionalized groups to man its expanded services. In addition, added university and technical institute research will be needed in the areas of great concern for the State of Maine: air and water pollution control, waste disposal, marine biology-oceanography, public administration, and area economic planning.

Because of these pressing needs for professionalized training and research, as well as certain expansions of current programs, it is recommended that additional new funds in excess of \$35,000,000 be appropriated, over and above the funds required to maintain the present level of services, for higher education in the State of Maine.

In addition to the \$35,000,000 increase in appropriation for higher education in Maine for the 1969-71 biennium, another increase of \$20,000,000 is recommended for the 1971-73 biennium, and still another for the 1973-75 biennium. These increases appear necessary if we are to educate our young people, conduct necessary research, hold a competitive position to attract a sufficient volume of new industry and increased employment.

**Transportation is a major key to economic development.** All phases of transportation have an important influence on the economic development of municipalities, district areas, and states. Maine must follow the lead of other coastal states by carefully planning expenditures for highways, air transportation facilities, port promotion and development, and the encouragement of better coordination between various modes of transport, including the railroads. The Maine State Transportation Commission has just completed the second phase of a study on transportation. The Commission's report discusses the importance of coordinating the various modes of transportation and the impact of this

coordination upon economic development. Its recommendations should be carefully reviewed in respect to the importance of the impact that transportation has on Maine's economic development.

**Highway development must progress and not go backwards.** Expenditures for highway planning, construction, and maintenance rank second only to expenditures for education in the State of Maine. The State Highway Department is the largest single department in State government. Its income has come largely from dedicated funds in the past, revenues from State taxes on gasoline and diesel fuel, plus Federal appropriations. The current inflation, which is driving up the cost of materials and labor for construction and repair more rapidly than for the general cost of living, is curtailing the amount that can be accomplished with current highway department revenues. The extensive Federal Interstate construction, moreover, has been diverting State funds which would historically have been used for maintenance of secondary roads. The added requirements for beautification, rest areas and picnic facilities, and added safety features are also increasing annual maintenance costs. Accordingly, the older roads are not being improved as rapidly as they should, and many roads are in serious need of repair.

The Maine State Highway Commissioner reported earlier this year that his department will face a \$29,000,000 need unmet by current revenues during the next biennium, on the basis of current revenues. Unless the department can find ways of reducing its costs, either some services will have to be curtailed or a combination of highway bonding and an increase in the gasoline and diesel fuel tax will be required. It is estimated that each additional cent per gallon increase in the gasoline and diesel fuel tax will yield \$9 million added revenue per biennium.

**Air transportation development is of major importance to the State.** The development of regional airports and third-level carriers is of great importance to the future prosperity of the State of Maine. The State cannot afford many regional airports, but it needs a few more than it now has, particularly one to serve the Augusta-Waterville area adequately with full-size runways and modern facilities. Even if the present airlines wanted to extend their services, the majority of regional areas within the State lack modern airport facilities.

State expenditures to study and develop modern airport facilities on a regional basis and to develop third-level air carrier service within the Northern New England tri-state area are a necessity during the next three biennia. The establishment of a tri-state commission to deal with these transportation problems on a regional basis is a prerequisite to the development of third-level air carriers.

**The Maine Port Authority's efforts at port development should receive legislative support.** During the current year the Port Authority has endeavored to develop a general and specialized Foreign Trade Zone in the State of Maine. Success in this area would stimulate economic growth in the State, and especially in Washington County. The development of these specific port authorities will give Maine an opportunity to compete for a new kind of foreign trade. In the specialized subzone at Machias, ships of such great draft that they could not enter the ports farther south along the New England coast, would be calling at the port of Machias. Moreover, this port at Machias might encourage coastal water-borne trade with New Brunswick and Nova Scotia.

**Pollution control and sewage disposal problems will require funds.** The problems of developing control of air and water pollution are demanding increased attention throughout the United States. Although it is reasonable to assume that the Federal Government will play a major role in this area, individual states will be expected to conduct research studies and supply matching funds for all phases of pollution abatement.

It is assumed that bonding will be used to finance the capital expenditures in this area and that some of the more general research will be conducted by the state university and technical institutes, but specialized or specific research grants will have to be supplied from the General Fund. Although no estimates of costs are presently available, these problems should be anticipated as meriting appropriations when the time arrives. Such matters should be evaluated in terms of their long-range effects and benefits.

**The demand for administrative services will increase.** If the State is to provide added services for municipalities, administrative services will have to be expanded. The new State Planning Office will need additional funds if it is to render adequate service to State and local governmental units. The central computing system, currently under study will require an expansion of electronic data processing personnel and equipment if it is to meet the needs of all levels of government. It is hoped that a centralized data bank which will include important State and municipal information can be developed for use by legislators, departmental administrators, and local officials. It should be noted that our neighboring State of Vermont has initiated the first phase of a study and proposal to develop a computerized system for the handling of all state data. In the long run such a system could yield both increased availability of important information and also reduced administration costs.



**Salary and labor costs will increase.** The combination of inflation and shorter working hours, together with longevity raises and increased fringe benefits, will continue to increase costs for current services approximately seven percent a year. This point has been fully discussed in previous sections of this report, but it is summarized at this point in the study for emphasis. The direct cost of inflation has been averaging approximately four percent a year for the past decade, and there is every indication the trend will continue. Maine salary and wage scales have, however, lagged behind those common in most other states. Various pressures are now forcing these scales in Maine up toward national levels. This is especially true in the case of professional or other highly trained or educated personnel, who are nationally in short supply.

The trend toward the 40-hour week is also affecting the labor costs of the highway department, the mental health and corrections department, and a number of other state departments. In the case of hospital workers and guards in correctional institutions, the shorter work week means the hiring of a complete added shift of workers, boosting the costs of wages and fringe benefits very sharply.

There is a trend toward increasingly attractive fringe benefits in private industry. If State employment is to remain as competitive as it has been in the past, the fringe costs of labor will be even higher than they now are.

A proportion of this increase in expenditure, however, will be compensated for by the increase in sales tax revenues that will accompany the inflation of the prices of goods sold. If the State adopts an income tax, revenue from this source will also tend to rise in pace with the general inflation. Given such a responsive tax structure, once State pay scales and working conditions are brought into line with national averages, the pressure for rapid tax increases should decline.

## Chapter 6

### ALTERNATIVE SOURCES OF STATE REVENUE, YIELDS AND IMPLICATIONS

In the previous section a brief analysis was made of the expenditures needs of the State of Maine for the next three biennia. In each biennium the state legislature will be obliged to find additional revenues. The amount of revenue required will depend on the level of new services implemented. Only by offering services at a reduced level will the State be able to operate without increasing revenue.

#### **I—Long Range Considerations**

Before various means of obtaining additional State revenues are discussed, it is important to give attention to some broad, long-range considerations. Positive action on the following suggestions should bring substantial benefits to the State and make it easier to obtain sufficient State revenues.

- A. Increase support of economic development activities aimed at raising per capita income in the State.
- B. Improve departmental and interdepartmental organizational structure and procedures, with particular emphasis upon making the most efficient use of the computer.
- C. Liberalize municipal debt limits and support increased use of bonding for long term capital improvements.

These long run measures should be given immediate attention, even though their benefits would not become fully apparent for the first two or three years. Since the problem of obtaining adequate state revenue is projected to become greater in the 1971-73 biennium, it is important that the above steps to improve the efficiency of government in Maine be given immediate attention.

#### **A. Increase Support of Economic Development Effort.**

One important stimulus to generating state revenue is the expansion of the economic base including industrial and recreational economic activity. More rapid expansion of the economic base of Maine would result in more jobs and higher incomes and could affect the size of the population. Increased economic activity and a larger population will of course mean greater costs to municipalities. Attracting industry and providing services for expanding economic development within the State, in the face of the competition from other states, may require a substantial investment in the public sector. If the economic development successfully causes a more rapid increase in per capita income, higher

revenue will probably offset the increased costs and will certainly raise the general prosperity of the State.

**B. Improve Departmental and Interdepartmental Organizational Structure and Procedures, with Particular Emphasis upon Making the Most Efficient Use of the Computer.**

The Citizen's Task Force on the Reorganization of State Government is currently studying several very important aspects of this problem. The findings of this citizens' group should be carefully studied by all members of the executive and legislative branches of state government.

The computer can be used as an aid to coordinate many departmental activities and can serve as a data bank upon which all departments can draw. During this study, it was observed that some departments were engaged in work already completed or under study by other departments within the State. The computer could be used to store data collected by individual departments and made available to other agencies in the State. Standardized accounting and reporting from the local governmental units could also be stored in computers; this information would then be available to all communities within the State, possibly at a nominal fee.

The Executive and Legislative branches of State Government through the State Planning Office should coordinate a number of activities presently undertaken by State, local and federal governments. Two important areas include the following:

- (1) Standardized accounting practices and procedures with uniform reporting.
- (2) Monthly billing and centralized payment of all accounts between levels of government.

**1. Standardized Accounting Practices and Procedures with Uniform Reporting.** A strenuous effort should be made to persuade local governments to use standardized accounting procedures and to adopt the July 1 to June 30 fiscal year. Each local unit currently reports in a locally convenient manner to the state governments. Except in the case of the Department of Education, where uniform report forms developed by the U.S. Department of Education are now required of local units, statistics provided by various State departments appear to be based on a substantial volume of incomplete data or non-comparable data. The Task Force has also found that statistics furnished by certain State departments vary considerably from those furnished by the Federal Census Bureau.

In addition to reporting in an unstandardized manner, local govern-

ments are operating on differing fiscal bases, with the result that analysis and cooperation are much more difficult and expensive than they need be.

**2. Monthly Billing and Centralized Payment of All Accounts Between Levels of Government.** Currently the State of Maine is making semi-annual payments for educational subsidies to most municipalities. To meet these occasional payments the State must accumulate a large amount of money which is of no advantage to the municipalities until the end of each quarter.

Since the municipalities are operating under varying fiscal policies with differing fiscal years, their uncoordinated practices necessitate short term borrowing to cover expenditures between State payments. One result is that the municipal expenditures are unnecessarily increased by the amount of the aggregate interest on short term loans.

It is reasonable to conclude that out-of-pocket costs would be reduced, in addition to the cost of reduplicated effort, time and money, if all units of State and local governments operated on a common fiscal year basis and were required to use standardized accounting and reporting practices. Once all government units are on the same fiscal base, large payments could be eliminated. By using a computer, payments to municipalities could be made on a monthly basis. The single monthly payment could include all department grants, such as health and welfare, education, highway, etc. As by-products there might very well be a reduction of administrative costs and improved expenditure records.

### **C. Increase the Use of Bonding as a Fiscal Practice.**

The Executive and Legislative branches of State government should consider a continuation of the national trend of using bonding, where possible, to finance long term expenditures. It was discussed earlier in the study that an increasing number of citizens have grown up in a society oriented toward consumer credit. It is reasonable to assume that these same people will be amenable to public credit in the form of bonding.

The past practice of relying, whenever possible, on surplus funds for a portion of the capital expenditures may be inadequate to develop Maine economically.

Legislation is recommended to permit municipalities to bond to either 15 percent of 100 percent valuation of local property, or 30 percent of State valuation computed at 50 percent of actual value.

## **II—Immediate Opportunities for Increasing State Revenues**

The fact must be faced that neither the long-run economies here suggested nor the projected growth of the economic base will be sufficient to meet the projected revenue needs of the State. We must therefore take a realistic look at means of increasing our revenues during the 1969-71 biennium. Additional State revenues may be obtained from four general types of sources:

- A. Additional funds granted by the national government and/or the more complete use of existing federal funds.
- B. Increased rates in existing taxes and license and other fees, together with the removal of certain current exemptions.
- C. Minor sources of new types of revenue.
- D. Major sources of new types of revenue.

In the following discussion of each of these general sources, an attempt will be made to estimate various yields whenever possible.

### **A. Additional Funds Granted by the National Government and/or the More Complete Use of Existing National Funds.**

Except for some long-funded programs, grants from the national government, may be an uncertain form of State income. Such grants also usually supplement and do not take the place of State funds. With these considerations in mind, additional income from national sources may be available for the following purposes and in the following amounts, according to data submitted by the Legislative Finance Office, as of May 1968:

**1. Arts and Humanities.** Additional funds available from the National Foundation of Arts and Humanities. An estimated \$100,000 is available yearly provided it is matched dollar-for-dollar by a combination of State and local effort.

**2. Civil Defense.** Funds are available both for personnel and administration and also for C.D. equipment. In the first category, it is estimated that \$30,000 in additional federal funds are available yearly if matched dollar-for-dollar by State funds. For C.D. equipment, it is estimated that \$50,000 in additional federal funds are available yearly if matched dollar-for-dollar by State funds.

**3. Education.** More federal funds are available for vocational rehabilitation and retraining of the physically handicapped, provided State funds provide one dollar for each three dollars of federal aid accepted. The precise limit of federal aid in this category is unknown.

**4. Health and Welfare.** All major appropriations are based on "open-ended" federal appropriations, and theoretically no matter how much State money might be spent, there would still be more federal funds available. In the public assistance and adult categories, if the State spent more, there would be additional funds available. A statement from the Department indicates that there are various kinds of project funds available that might be secured if they proved useful and related to their programs. Various rates of matching State funds would be required.

**5. Indian Affairs.** Additional funds are available from Housing and Urban Development for planning and construction of community facilities. Such funds require one dollar of State money for each three dollars of federal funds accepted.

**6. Library.** Federal funds are available, provided they are matched in the various programs that are now fully federal. *Title III Interlibrary Cooperation* will require dollar-for-dollar matching. *Title IV Institutional Library Services* and *Title IV-B Library Services to the Physically Handicapped* will also require similar matching funds.

**7. Mental Health and Correction.** There is a large and complex network of programs available in the field of Mental Health. The applicability and monetary value of any single program differs for various state and local governments and private agencies concerned and must be investigated and determined on an individual basis. The personnel available to study and make requests for these grants is limited on the Department level. This limitation, together with the need to provide State matching money at various rates, depending on the individual projects concerned, is a factor in how much can be used.

**8. Sea and Shore Fisheries.** *P.L. 89-304 Anadromous Fish Program* could receive additional federal funds, possibly \$30,000 per year, if matched dollar-for-dollar by the State. Other P.L. funds of \$10,900 per year are also available if matched by the State on a dollar-for-dollar basis.

It seems obvious that Maine should continue to exploit every possible opportunity to obtain national grants, and that the Legislature should appropriate the funds required to obtain such grants. It also seems obvious that, with the budget reductions accepted by the President, reduced amounts are likely to be available under many existing programs. The Task Force suggests, therefore, that the national government is not in the short run likely to be a major source of additional State revenues.

## B. Changed or Increased Rates on Existing Sources of Taxation, Together with the Removal of Certain Current Exemptions.

1. **The Sales and Use Tax.** The largest source of State revenue, other than the national government, has been the general sales and use tax. In the fiscal year ending June 30, 1957, the State obtained \$54,699,067 from the general sales and use tax. As that year ended, the rate was 4%. It has now been raised to 4½%.

(a) **Potential Revenues at Varying Rates.** For the current fiscal year 1968-69 the Bureau of Taxation estimates that, at differing rates, the income to be derived from the sales and use tax would be:

6%	\$92,700,000
5½%	84,975,000
5%	77,250,000
4½%	69,525,000
4%	61,800,000

It must be noted that Maine is very dependent upon sales tax revenues. Maine already gains a greater proportion of its total state revenues from this sales and use tax than most of the 44 other states which have adopted this form of taxation. The following table lists the six New England states, together with the other state most similar to Maine in population and general income levels, as reported by the Internal Revenue Service. The table abstracted from data supplied by the Commerce Clearing House, in its Fiscal 1967 Report indicates the rate of tax in terms of percentage, the total yield for fiscal 1967, and the per cent of total state revenue, represented by the yield.

State	Sales and Use Tax Percentage	Fiscal 1967 Total Yield	Percent of Total State Revenue
<b>Maine</b>	<b>4½%</b>	<b>\$ 54,669,000</b>	<b>41.371%</b>
Conn.	3½%	145,636,000	31.854%
Mass.	3.0%	128,106,000	13.592%
N. H.	*	*	*
R. I.	5.0%	48,955,000	34.128%
Utah	3.0%	55,846,000	31.832%
Vt.	3.0%	2,535,000	3.222%

The asterisk marked in the New Hampshire columns refers to the fact that New Hampshire has adopted a meals and room tax only, and that no reports are yet available concerning the yields.

As the tabulation indicates Maine receives more than two-fifths of its total revenues from the sales-use tax, whereas about half of the other states listed gain only about one-third of their total revenues from

this taxation, and the remaining states depend upon it even less. Maine now appears to be somewhat too dependent upon this single form of taxation.

(b) **Broadening the Tax to Include Certain Services.** If the sales tax were broadened so as to include repairs, installation, and servicing; rentals of tangible personal property; and cleaning, pressing, and dyeing, the returns for fiscal 1969-71 at various rates are estimated to be:

6%	\$2,725,000
5½%	2,500,000
5%	2,275,000
4½%	2,050,000

Low-income families cannot afford the expense of many types of services which are patronized primarily by families of higher incomes. The extension of the sales tax to the kinds of services listed above would work little hardship on the poor. It might, however, involve rather difficult policing and collection problems, as so many services enterprises operate on small scales, frequently out of homes rather than fixed places of business.

(c) **Broadening the Tax to Include Trade-in Values.** The removal of the sales tax exemption on motor vehicle trade-in allowances would make the tax more equitable, since the poor family in need of relatively cheap transportation would be paying only a few dollars more in sales tax than at present, whereas the person affluent enough to trade in his automobile for a new one every few years would be paying a proportionately larger amount of money.

The Task Force has been unable to unearth any evidence that extending the sales tax to the trade-in value of motor vehicles would either depress sales or drive any business out of state. A vehicle purchased out of state would be subject to the use tax before it could be registered. Whereas the use tax may be easily evaded on many other items, Maine registration laws make evasion impossible in the case of motor vehicles.

If exemptions on sales of motor vehicles were removed, the additional income for fiscal 1969-70, derived at various rates, would be:

6%	\$5,570,000
5½%	5,105,000
5%	4,640,000
4½%	4,175,000

For the 1969-71 biennium, however, increased prices in the industry have resulted in the following estimate from the Bureau of Taxation:

1969-71 biennium 4½%	\$8,515,000
----------------------	-------------



Removal of this exemption is an added source of revenue which merits consideration.

(d) **The Exemption of Food.** Because poor families with many children are forced by necessity to consume large quantities of food, 14 of the 45 states which impose a sales and use tax exempt food entirely. Six of the remaining states which impose a sales tax provide income tax credits to lower income groups for the tax paid on food. Of the states with a sales tax as high as Maine, only five tax food.

For the fiscal year 1969-70 at the  $4\frac{1}{2}\%$  rate, the Bureau of Taxation estimates the return from a tax on food would be \$15,750,000. The income derived at various rates would be:

6%	\$21,000,000
$5\frac{1}{2}\%$	19,250,000
5%	17,500,000
$4\frac{1}{2}\%$	15,750,000
4%	14,000,000
3%	10,500,000
2%	7,000,000
1%	3,500,000

The returns listed above are extended downward to lower rates than in the other listings, because the Legislature might consider imposing a sales tax on food at a substantially lower rate than the tax on other sales items. The District of Columbia, for instance, imposes a sales tax of 1% on food, rather than the higher rate imposed on other types of purchases.

It should be emphasized that the amounts listed above are for the single fiscal year of 1969-70, and that the return of a sales tax on food at the rate of 1% for the 1969-71 biennium would, because of the two-year span and the attendant rise in the cost of consumer items, amount to somewhat more than \$7,000,000.

It must be borne in mind, however, that a sales tax on food items would become quite regressive in its impact. Such a tax will take a larger fraction of the total incomes of low-income families, particularly those with several children, than it takes from the higher income families. For this reason, we do not recommend the elimination of the food exemption.

(e) **Exemption of Feed, Seed, and Fertilizer from Sales Tax.** The effect of the removal of exemptions on feed, seed, and fertilizer might be socially inadvisable and probably inequitable, since in many cases it would introduce a form of double taxation. This would be

especially true if food were taxed, for feed, seed, and fertilizer which are not used to help produce some other taxable product are normally used to produce food. If the exemptions were eliminated, however, the sales tax at various rates would yield annually:

6%	\$4,870,000
5½%	4,465,000
5%	4,060,000
4½%	3,655,000

(f) **Exemption of Raw Materials Used in Manufacturing.** As in the case of feed, seed, and fertilizer, the imposition of the sales and use tax on raw materials used in manufacturing would introduce a form of double taxation for end products of the manufacturing process sold to the Maine consumer. Removing exemptions on sales of certain raw materials used in manufacturing, however, would result in the following revenues, as estimated at various rates on an annual basis:

6%	\$1,350,000
5½%	1,240,000
5%	1,125,000
4½%	1,010,000

**2. The Gasoline and Diesel Fuel Tax.** The State Highway Commission estimates that substantial increases in its revenue will be needed to keep present roads in repair and to make highway improvements. The Task Force recommends that the operations of the State Highway Commission should be financed through a combination of bond issues and increased motor fuel taxes.

(a) **The Case for a Higher Motor Vehicle Fuel Tax.** The following tabulation indicates the comparative motor fuel tax rates, the total yield for 1967, and the percent of total state income represented by motor fuel collections in the six New England states and the state of New Mexico and Utah, the two states most similar to Maine in population and personal income, including general distribution of personal income groups, as reported by the Internal Revenue Service. Twenty-eight states, including Maine, levy a 7¢ tax on gasoline. States with a higher tax are Washington, 9¢ a gallon; Vermont and Alaska, 8¢; Arkansas and Nebraska, 7½¢.

State	Tax per Gallon	Yield for 1967	Percent of Total State Revenue
<b>Maine</b>	<b>7 cents</b>	<b>\$ 27,976,000</b>	<b>21.107%</b>
Conn.	7 cents	64,307,000	14.065%
Mass.	5.5 cents	115,761,000	12.283%
N. H.	7 cents	18,729,000	22.378%
N. Mexico	7 cents	30,696,000	14.954%
R. I.	7 cents	20,999,000	14.639%
Vt.	8 cents	11,008,000	13.991%

In addition to the tax on motor fuel purchased within the state, the two states of Maine and Connecticut also levy a "road tax" on out-of-state commercial vehicles that enter the state with fuel purchased outside the state. Vermont levies such a tax only on vehicles from states which would levy a road tax on Vermont vehicles. All these states, with the exception of Vermont, also tax diesel fuel at the same rate as gasoline per gallon.

The State Tax Assessor has estimated that a tax increase of one cent per gallon on both gasoline and diesel fuel would yield additional revenue of approximately \$9,000,000 for the 1969-71 biennium. At the present time, motor fuel taxes yield about \$56,000,000 per biennium. There is no reason why the motor fuel tax could not be raised to 8 cents a gallon or even higher.

The diesel fuel tax might be raised a cent or more above the tax on gasoline. An increase of one cent on diesel fuel in addition to any increase in the tax on gasoline would yield approximately \$400,000 more per biennium.

The demand for motor vehicle fuels is inelastic. This means that any increase in fuel prices will not cause a decline in the volume sold. There is a question whether the increase in the motor fuel tax rate will be fully reflected in the retail sales price of the fuel. Reports to the Task Force indicate that when a motorist drives from a state with a higher gas tax across the border into a neighboring state with lower tax, there appears to be little, if any, difference in the advertised cost of gasoline in the towns on either side of the border. If this is so, the distributors may tend to absorb part of the added tax by reducing the wholesale price of their gasoline on the high-tax side of the state border, and increasing their wholesale price to the retailer on the lower-tax side.

#### **(b) The Case for Repealing Tax Rebates on Aviation Fuel.**

Commercial and private aircraft under existing state law are entitled to a tax rebate upon application to the State. If this exemption were repealed and the funds assigned to the Maine Aeronautics Commission,

the income could be used for needed airport improvement, particularly in view of the apparent need of providing airports for third-level air carriers. Although the revenue derived from a repeal of the existing tax rebate would be relatively small, it could be used to supplement other funds for airport improvement. The yield for the 1969-71 biennium would amount to approximately \$1,000,000.

**3. Other Current Revenue Sources Which Might Yield Greater Revenues.** Certain established sources of revenue might yield higher returns. The following taxes or similar sources of revenue are briefly reviewed in this subsection: Liquor and Beer, Cigarettes, Pari-mutual Betting, Hunting and Fishing Licenses, Wildlands Taxation, Public Utilities, Inheritance Taxes, Insurance Taxes, Miscellaneous Minor Dedicated Funds, and Fines for Motor Vehicle Violations.

(a) **Liquor and Beer.** Profits, licenses, and taxes on liquor and beer are next to the sales tax in the amount of their contributions to the General Fund. In fiscal year 1966-67 they totaled \$13,021,230. Beer contributes about one third of the total.

The Liquor Commission has proposed that "table wines" (containing less than 14% alcohol) be sold in grocery stores. Maine now ranks 14th among the 17 "control" states in per capita consumption of wine, .336 gallons annually. If sale through grocery stores increased consumption to the national average of one gallon, the tax yield would be increased, the Commission estimates, to \$435,000.

Legalizing the Sunday sale of alcoholic beverages to accompany meals served by restaurants and hotels now licensed for such sales on weekdays should also result in an increase in revenue.

The National Alcoholic Beverage Control Association reports that Maine has a mark-up of 71% in its liquor stores. Only three states use a higher figure. Washington is high with 83%. There is evidence that a further increase in liquor taxes would not yield revenue in proportion to the increase in rates. The 10% increase which went into effect July 1, 1967 may have been responsible for a decline of 6/10ths of one percent in consumption during 1967 over 1966. It seems probable that if the increase had been in effect throughout the whole year, the decline would have been one percent or more in the face of an average increase throughout the country of 5%. According to the Distilled Spirits Institute, Maine is already 40th in the nation in the consumption of distilled spirits, and it is doubtful whether further increase in cost may not make bootlegging more attractive. Assuming that a further mark-up of 10% will result in another decrease in consumption of 1%, the increased tax-yield would be \$900,000.

At present license fees are different for clubs, hotels, for liquor, beer and other variables. If all fees were raised to be comparable to the highest, there would be an increase of \$267,000. If a 10% discount to licensees were eliminated, it would result in \$236,000. If a 10% discount to military installations were eliminated it would bring \$254,000.

(b) **Cigarette Tax.** In 1966, the cigarette tax, then at 8¢ a pack, yielded \$10,461,000. Since then, the tax has been increased, first to 9¢, then to 10¢. New York City residents pay 14¢; Pennsylvania, 13¢; and New Jersey, Washington State, and Texas pay 11¢.

If Maine raised its tax to Pennsylvania's level and there was neither a decline in consumption nor a shift to out-of-state buying, there could be an increased yield of between three and four million dollars.

(c) **Pari-Mutual Tax.** This tax produced \$1,342,000, which is about what can be expected unless we have more betting. As it is now, 82% of what is bet is paid back to the bettors. Eleven percent goes to the track, 1% to Department of Agriculture to be distributed among the fairs for premiums in 4-H shows, cattle shows, etc., and 6% goes to the State as taxes. A return of much less than 82% to the bettors might be considered insufficient to attract business.

(d) **Hunting and Fishing Licenses.** These licenses produced \$2,166,000 in 1965-66, which was earmarked for conservation under federal laws. We receive federal funds on condition that we devote as much to conservation of the wildlife as we get from hunting and fishing licenses. It is possible that non-resident rates might be increased.

(e) **The Wildlands Tax.** This tax of .015/1000 of 50% valuation yielded \$1,203,000 in 1965-66. The situation in regard to the wildlands differs from the towns and cities where taxes are ordinarily levied to provide services. In the wildlands, fire protection is provided by the Forestry District Taxes, the wardens are paid from hunting and fishing licenses, and special taxes are levied wherever schools and roads are provided. The amount of taxes to be levied seems arbitrary. Using the average property tax is not helpful since the State gets none of the property tax in other areas.

Perhaps some consideration should be given to the social effect of a tax. Do we or don't we want to hasten the day when all our lakes have cottages around their shores?

(f) **Public Utilities.** The Railroad tax produced \$435,000 in 1965-66. It is a gross receipts tax, but it is subject to a provision that when the roads fail to make a return of 5¾% on investment, the tax may be reduced to 1% of the investment.

The Telephone tax yields \$3,692,000, of which everything above \$3,300,000 is distributed to the local municipalities. It's a tax of 1¼% to 7% on gross receipts. Telephone users already pay this tax along with the more direct state and federal taxes on their telephone bills, but perhaps this is as painless a way to collect taxes as there is. The telephone company does have substantial property on which it pays no property tax.

The New England states get the following amounts from public utilities:

State	Amount	Percent of total collections
Mass.	\$ 9,134,000	1.178%
Conn.	24,882,000	5.656%
<b>Maine</b>	<b>4,127,000</b>	<b>3.235%</b>
Rhode Island	6,412,000	2.645%
New Hampshire	983,000	1.603%
Vermont	1,610,000	2.237%

The Connecticut tax includes taxes on power and water companies. It seems as if such a tax would produce significant amounts of money.

(g) **Inheritance Taxes.** In 1966, these states received the following amounts from "death taxes":

State	Amount	Percent of total revenues
Massachusetts	\$34,903,000	4.503%
Connecticut	39,994,000	9.090%
<b>Maine</b>	<b>4,967,000</b>	<b>3.894%</b>
Rhode Island	6,830,000	4.960%
New Hampshire	3,031,000	4.942%
Vermont	1,498,000	2.082%

Federal law provides that an amount equal to 80% of the Federal tax in 1926 may be collected and used by the states and credited toward the federal inheritance tax, consequently all states except Nevada have what is commonly called an estate tax. This tax is ordinarily of limited application, intended only to absorb the credit available to states for federal estate taxes. Most states have, in addition to this, independent taxes, levied at varying rates. In nine states, the tax is in the form of an estate tax; in 38 states, in the form of an inheritance tax.

Obviously our law could be modified to yield more money, but no state relies on inheritance taxes as a major source of revenue.

(h) **Insurance taxes.** The 1965-66 yield from insurance taxes was as follows:

State	Amount	Percent of total revenues
Mass.	\$27,919,000	3.602%
Conn.	19,956,000	4.536%
<b>Maine</b>	<b>3,226,000</b>	<b>2.529%</b>
Rhode Island	3,642,000	2.645%
New Hampshire	2,625,000	4.280%
Vermont	1,602,000	2.226%

Maine is the only New England state that discriminates in favor of local companies. Our rate is 2% on premiums on foreign companies.

(i) **Removal of dedicated funds.** There are many small dedicated funds over which the Legislature now has no control. There appear to be many special license funds based on rates which have not been changed for decades. Such funds should either have realistic modern license fees to meet the expenditures required, or else they should be transferred to general revenue where the purpose for which the funds are expended can be placed under some form of control.

(j) **Fines for motor vehicle violations.** The schedule of fines for motor vehicles violations was largely set many years ago when personal incomes were much smaller than they are today. Very recent laws may set realistic fines, as in the case of the skindiver who catches one lobster while skindiving, an offense for which he is fined \$50. But is this two and one-half times as serious an offense as disregarding a stop light at a highway intersection? A sharp increase in the current fine structure for moving violations of operators of automobiles would increase state revenues for a short period of time. After that, the deterrent effect would probably cause a drop in violations. It might be assumed that safer driving and a reduced accident rate would slow down the increasing cost of policing highways.

**C. Minor Sources of New Types of Revenue.** The tax structure of other states were carefully studied by members of the Task Force in an effort to find appropriate new sources for revenue for the State of Maine. Most of the taxes appeared either too limited in yield, when applied to Maine, or too difficult in administration to be of practical benefit.

Besides the major new tax sources available through a state corporate income tax and a state personal income tax, four sources which would produce relatively limited revenues appeared promising: a Soft Drink Tax, an Excise and Annual Registration Tax on Pleasure Boats, a Severance and Stumpage Tax, and a Head Tax.

**1. A Soft Drink Tax.** A tax on soft drinks would gain revenues from a non-essential item, not necessary for the health or physical well-being of either adults or children. It is estimated that a soft drink tax at the rate on one cent a bottle and \$1.00 per gallon of syrup could produce \$3,000,000 per year, based on comparison with other states which impose such a tax. Problems of enforcement might arise, but theoretically the tax could yield for the 1969-71 biennium an additional source of revenue amounting to approximately \$6,000,000.

**2. An Annual Excise and Registration Tax for Pleasure Boats.** Many municipalities have attempted to tax boats as personal property, but the problems of jurisdiction, evasion, and proper assessment appear to make taxation on this basis impractical and inequitable. Pleasure boats large enough to make some form of motorized propulsion advisable should be assessed for excise taxation and annual registration according to some form of schedule similar to that now used for motor vehicles, unless such boats already fall into the classification of documented vessels. Sailboats larger than so-called "sailboards" should also be subject to some equitable form of excise tax and annual registration. Such a tax, after State administrative costs are deducted, would probably be returned either to the municipality of the owner's residence or to the municipality where the boat in question is normally docked, the decision possibly to be at the preference of the taxpayer. It is probable that such taxation would return from \$750,000 to \$1,000,000 annually, but accurate estimates of details are not available at this time.

**3. A Head Tax on All Adults Between the Ages of 21 and 70.** If the present poll tax is continued, it would seem logical to convert it to a head tax covering both sexes as a matter of equal rights for both men and women. A head tax on each of the estimated 580,000 adults in Maine between the ages of 21 and 70 would yield, at an annual assessment rate of \$5, additional revenue for the 1969-71 biennium amounting to \$5,800,000.

**4. A Severance Tax, Including a Stumpage Tax.** With the possibility of significant mineral discoveries and the added possibility of petroleum discoveries off our shores, Maine should consider passage of severance tax legislation. Severance taxes, however, would not be a major source of state revenue for the immediate future, though they might well become a major source eventually. Severance taxation should, therefore, be considered a form of insurance to guard against future developments. Maine should have such legislation to protect itself against potential revenue losses, but not as a means of meeting immediate revenue needs.



However, a type of severance tax, the stumpage tax, might yield revenues close to \$4,000,000 during the 1969-71 biennium, and a combination of a stumpage tax with an increase in the wildlands tax to 0.1 would probably yield a total of more than \$20,000,000 during the 1969-71 biennium.

Severance taxes could yield a worthwhile return under present conditions only from a stumpage tax on harvested timber. The amount of the estimated yield would be: \$1,995,765 based on the 1966 saw logs and the 1967 pulpwood figures.

The stumpage tax should be considered in relation to the present wildlands tax. It might be advisable to increase the rates of wildlands from .015 to 0.1, which would bring a return, as of 1967, of \$8,292,473.

A tax based on the best use of the land should be considered. This would likely provide for its development. Such development would provide for a broader tax base on such land. The land considered would be that of shore frontage on lakes and rivers.

**D. Major Sources of New Types of Revenue.** If the legislature of the State of Maine wishes to reduce the rate of increase of taxes on real property in its municipalities, and/or if it wishes to improve the quality of public services through added assistance from State revenues, it must find major sources of additional State revenues. Substantial added revenue must be obtained not only to maintain current services at a desirable level, but also to meet the increasing needs of higher education, health and welfare, mental health and corrections, and other State services.

The experience of other states indicates that the prime sources of tax revenue come from various types of property taxes, various types of sales and service taxes, and various types of income taxes. In addition to these, attempts have been made to gain substantial revenues from lotteries.

New Hampshire has tried a state lottery, with increasingly disappointing results. It had been the hope of some who advocated the lottery that it would be extensively patronized by tourists and by residents of the more prosperous Southern New England States. If Maine should attempt such a measure, it would be in competition to New Hampshire, which has the advantage of bordering on a highly industrialized and populous section of Massachusetts. The disappointing results of the New Hampshire lottery, coupled with a wide-spread disapproval of what many Maine citizens consider morally questionable ways of raising money, indicate that it would be difficult to pass a Maine lottery bill in the first

place, and that the revenue prospects would be highly uncertain in the second place.

The Task Force has considered the experience of the other states in their attempts to find major new sources of taxation and has come to the conclusion that the only practical new source adapted to meet the needs of the State of Maine is a combined corporate and personal state income tax.

**1. Corporate Income Tax.** In 1967 the State Bureau of Taxation estimated that a corporate net income tax, levied at a flat 5 percent rate, with a \$25 minimum, would produce approximately \$25,000,000 in revenue each biennium for the State of Maine. Currently all but eight states have a corporate income tax as part of their tax structure.

Connecticut reports its 1967 revenue from the corporate income tax as amounting to \$80,600,000. Massachusetts reports \$168,800,000 for the same period. Utah reports \$11,000,000 for 1967. New Hampshire does not levy this tax yet, and the specific corporate tax yields for New Mexico and Vermont are not currently available.

There is considerable disagreement among economists as to whether the costs of the corporate income tax are ultimately shifted to the consumer of the corporate products. Since a large proportion of the corporate products of Maine corporations are sold out of state, it is possible that much of the effect of such a tax would be passed on to out-of-state customers, if this assumption is true. It is probable that the corporate income tax will result eventually in either higher prices for corporate products and/or somewhat less investment by corporations due to a reduced rate of return because of the tax.

Another important consideration is the impact of taxes on business location decisions. A number of studies have been conducted, and generally they have found that tax levels are not a major factor influencing the location of business. There are a number of reasons for this conclusion. One, state and local taxes are a relatively small part of business total costs, and therefore variations in them are considerably less important than variations in other costs, such as labor and transportation. The significance of state and local tax costs is further reduced by the deductibility of these taxes in calculating federal income tax liability. Firms may also find that the structure of business taxes, particularly inequalities or inequities in taxes, may be as important as their levels in creating a favorable or unfavorable business climate. In addition, business firms making a careful location analysis consider municipal and other governmental services as well as taxes. If low taxes mean poor services, as they often do, firms may find these areas unattractive.

The experience of Massachusetts seems to bear out this contention, for the Massachusetts corporation tax now is 7.5%, the highest in the nation. In spite of this extremely high corporate income tax, Massachusetts industry appears to keep flourishing and maintaining a competitive position.

The conclusion that taxes, in themselves, are not of major importance in business location decisions contradicts the viewpoint of many business associations and development commissions who argue that taxes are important in business location decisions. One answer to this apparent contradiction is that, by stressing the impact of taxes through media which may reach the eyes or ears of legislators, firms hope to be able to convince legislators that if they increase taxes they will drive business out of the state. This questionable argument has led some legislators to exaggerate the influence of taxes beyond any effect which they may have.

The corporate income tax does not have to be based on a flat percentage, as is the case in Massachusetts. Many states adopt some form of graduated corporate income tax.

**2. A Personal Income Tax.** At the present time there are 38 states and 16 cities which levy personal income taxes. Of the 38 states using personal income tax, 20 use the federal income tax as a base, imposing a percentage of that tax as a state income tax.

The federal income tax paid by citizens of Maine in 1965 totaled \$177,123,000, whereas the 1966 income tax rose to \$192,848,000, an increase of 8.9 percent in one year. During the same period, returns reporting less than \$5,000 income dropped off, while returns reporting income between \$5,000 and \$10,000 increased by about 3 percent, and the number of returns reporting more than \$10,000 annual income increased markedly from 29,292 returns to 36,864 returns, or almost 26 percent. This very substantial increase in the number of families reporting more than \$10,000 annual income, together with the other statistics given above, may be verified by a comparison of the 1966 and the 1965 *Statistics of Income: Individual Income*, published by the Department of the Treasury, Internal Revenue Service, U. S. Printing Office.

On the basis of the data above, a Maine state income tax based on an assessment of 20 per cent of the federal income tax would yield approximately \$80,800,000 during the 1969-71 biennium. It should be noted that a state income tax amounting to 20 percent of the federal tax would not cost the taxpayer 20 percent more in total state and federal income taxes. Since state taxes are deductible expenses from income reported to the Internal Revenue Service, the individual Taxpayer would

pay a smaller tax to the federal government as a result of his having paid the state income tax.

(a) **Personal Income Tax Revenues in Comparable States.** The two states most similar to Maine in population and distribution of income are New Mexico and Utah, both of which impose a state income tax. Utah, whose economic similarity to Maine is demonstrated in Table XIV, obtained \$39,946,000 through its state personal income tax in fiscal 1967, providing approximately 22.8 percent of its total state revenues. New Mexico levied a tax at a somewhat lower rate, apparently based on 10 percent of the Federal income tax. The New Mexico state income tax return for fiscal 1967 was \$18,040,000, providing 8.8 percent of that state's total revenue. Table XIV gives federal data for the slightly earlier period of 1965, the most recent year for which a complete statistical analysis is currently available.

**TABLE XIV**  
**A Comparison of Maine With the Two States Most Similar**  
**in Population and Distribution of Family Income**

	<u>New Mexico</u>	<u>MAINE</u>	<u>Utah</u>
Total Personal Federal Income Tax Paid	\$173,383,000	\$177,123,000	\$178,053,000
Approximate Population Indicated by Federal I.T. Exemptions Other than Age and Blindness	909,290	954,316	974,380
Total Number of Returns Filed	306,378	354,140	318,238
Number of Returns Not Requiring Payment of Tax after Credits	73,302	84,665	67,466
Number of Returns Requiring Payment of Tax on Income of Less than \$5000 After Credits	98,983	129,787	90,487
Number of Returns with Income between \$5000 and \$9999 after Credits	93,275	110,447	113,774
Number of Returns with Income between \$10,000 and \$14,999 after Credits	28,468	20,270	34,851
Number of Returns with Income of \$15,000 or More after Credits	12,350	8,971	11,660

Source: U.S. Treasury Department, Internal Revenue Service, *Statistics of Income 1965, Individual Income Tax Returns*, pp. 95, 98, 102.

Note: The approximate population statistics exclude any persons who are neither required to file returns nor can be taken as dependents by other persons.

Our nearby state of Vermont, using the Federal tax structure as a base, obtained \$25,065,412 from its state personal and corporate income tax in fiscal 1967. On a comparable basis, provided the balance between personal and corporate income is similar in Maine and Vermont, a Maine income tax on personal and corporate income, using the same rates and structures as Vermont's, would have brought in a revenue in excess of \$62,600,000 during fiscal 1967.

The similarity between the distributions of income of Vermont and Maine is very striking when the percentages of federal income tax returns in each category are compared. A comparison on any other basis would be difficult, because the 1965 population of Maine was approximately 2.56 times the population of Vermont.

**TABLE XV**  
**A Comparison of the Distribution of Family Income**  
**in Maine and Vermont in 1965**

	<u>Maine</u>	<u>Vermont</u>
Total Proportion of General Population Filing Federal Income Tax Returns	37.1%	40.5%
Proportion Not Requiring Payment of Federal Income Tax after Credits	8.9%	9.2%
Proportion Requiring Payment of Tax on Income of Less than \$5000 after Credits	13.6%	16.7%
Proportion Requiring Payment of Tax on Income between \$5000 and \$9999 after Credits	11.6%	11.5%
Proportion with Income between \$10,000 and \$14,999 after Credits	2.1%	2.1%
Proportion with Income of \$15,000 or More after Credits	1.0%	1.0%

Source: Percentages derived from U.S. Treasury Department, Internal Revenue Service, *Statistics of Income 1965, Individual Income Tax Returns*, pp. 95 and 102. The "Number of exemptions other than age or blindness" is used as the base of 100% for Maine and for Vermont. This "general population" approximation excludes persons who are neither required to file tax returns nor can be taken as dependents by any other individuals.

As Table XV indicates, Vermont apparently has slightly smaller average family units than Maine, for about 40 percent of the general population in Vermont file federal tax returns, as contrasted to about 37 percent in Maine. Interestingly enough, this added 3 percent is reflected by a greater proportion in the lower income brackets, Vermont having a fractional percentage of more people not earning enough taxable income to pay income tax, and about 3 percent more paying a tax on an income of less than \$5000 after credits.

The proportion of Vermont households with incomes between \$5000 and \$9999 is one-tenth of one percent less than in Maine. The percentages in upper income brackets are identical in both states to the nearest tenth of one percent.

Maine therefore has a population with a distribution of incomes slightly superior to the distribution in Vermont, and there is no reason why a Maine state personal and corporate income tax, based on the Vermont pattern, would work any particular hardship on the people of Maine. Both states have areas of marked poverty, but both states have a sufficient proportion of families in moderate and well-to-do circumstances to provide a very satisfactory source of major revenue through a state income tax.

During recent years a number of states have adopted state income taxation because of its various advantages. West Virginia, Indiana, and Nebraska have put such taxation into effect during the past five years. New Hampshire has not adopted a general income tax, but it is now imposing  $4\frac{1}{2}$  percent tax on income received from interest and dividends. The yield has not yet been reported. Rhode Island now has legislation pending on the establishment of a state income tax. Massachusetts has long had such a tax, which now accounts for 38 percent of the total state revenues.

There are many reasons why states are now tending to adopt income taxation as a major source of revenue. First, there has been an overriding fiscal need of all state governments to find more tax revenue to meet the rapid growth of state and local expenditures since World War II. Second, most state tax systems would be otherwise comparatively unresponsive to growth in personal income, while revenues from the individual income tax have tended to grow more rapidly than gross personal income. Third, the resistance of property owners to further increases in property tax rates has emphasized the need to spread the tax burden more widely and to exact a fair share from citizens with little tangible property but good income and ability to pay.

**(b) Effect of a State Personal Income Tax on Economic Growth in the State.** The Task Force's study of states levying income

taxes, as contrasted to state not utilizing such taxes, shows that from 1961 to 1965 there was a slightly more rapid increase in employment, payrolls, and per capita income in the states levying personal income taxes than in the states which did not levy such a tax.

The absence of any pronounced effect is perhaps attributable to the fact that the deductibility of the state tax for Federal tax purposes substantially reduces tax differentials between states.

The experience of Utah and New Mexico, the two states most similar to Maine in population characteristics and income, indicate the potential benefits that Maine might gain through a more diversified tax base which would include a state income tax. The remarkable similarity of Utah, New Mexico, and Maine in state income tax potential is indicated by the Federal returns of 1965, the most recent year of complete published return-data. Federal personal income taxes in Utah totaled \$178,053,000 in that year, while they totaled \$173,383,000 in New Mexico, and \$177,123,000 in Maine. The distribution of income levels was also remarkably similar.

**E. Final Comments.** The Task Force on Municipal and State Revenues has endeavored to present as objective and thorough a report as possible within the limitations of time and money at its disposal.

The general conclusions of the report are presented in the opening section of "Conclusions and Recommendations." The body of the report offers the 104th Legislature a broad variety of composite alternatives.

The Task Force expended considerable sums of money to attempt to discover whether any of the major or minor forms of taxation described in this final chapter of the report might have an adverse effect upon Maine industry or the Maine general economy. In spite of any claim which may be set forth by certain industrial representatives, no evidence could be found indicating that an equitable state severance and stumpage tax, or a state corporate income tax, or a state personal income tax would harm the economy or welfare of Maine citizens in any way.

So long as taxation is equitable, administered throughout a state without variation from a common standard, there appears to be absolutely no adverse effect on a state's economy. Before recommending that Maine adopt a combination of personal and corporate income taxation, the Task Force made a comparative study of the recent trends of economic activity in states levying income taxes as compared to the trends in states not imposing such taxation. There appeared to be a slightly more rapid increase in employment, payrolls, and per capita income in the states levying such taxes than in the states which failed to impose income taxation.