

# MAINE STATE LEGISLATURE

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**STATE OF MAINE  
120TH LEGISLATURE  
FIRST REGULAR SESSION**

**Final Report  
of the  
EDUCATION FUNDING REFORM  
COMMITTEE**

**December 31, 2001**

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Rep. Janet L. McLaughlin  
Sen. S. Peter Mills  
Rep. Eleanor Murphy  
Rep. Richard W. Rosen  
Sen. Margaret Rotundo  
Rep. Steven S. Stanley**

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## Executive Summary

The Education Funding Reform Committee was established during the First Regular Session of the 120th Legislature by Public Law 2001, chapter 439, Part SSS. The Committee was directed to develop a comprehensive package of tax reform legislation to update and equalize the method of raising money for education including finding ways to reduce the State's reliance on property taxes for elementary and secondary schools. The Committee included 14 legislators: eight from the Joint Standing Committee on Taxation, three from the Joint Standing Committee on Appropriations and Financial Affairs and three from the Joint Standing Committee on Education.

The Committee met four times to receive and discuss information from staff, state agencies and other interested parties. A subcommittee was appointed to review four proposals submitted by members of the Committee and present one proposal to the full Committee for consideration. During its fourth meeting, Committee members reviewed the proposal presented by the subcommittee. Rather than endorse the substantive changes contained in the subcommittee proposal, a majority of the 12 committee members present reached a consensus that the proposal should be forwarded to the Legislature for further consideration. A minority of those voting to move the proposal forward would recommend adoption of the substantive elements of the proposal. A separate minority voted against forwarding the proposal to the Legislature at this time.

The proposal consists of two bills. One is a proposed constitutional amendment authorizing different property tax maximum rates for different classes of property and exempting personal property from property tax if an excise tax is adopted on certain property. The other includes the statutory changes developed by the Committee and direction to the Taxation Committee of the 121st Legislature to develop additional necessary components of the plan. The proposal contains the following elements.

**Element 1.** Element 1 would place a cap on the amount of property tax revenue that could be raised on the local level for education. Two maximum rates would be established – 6 mills for primary residential property, commercial, agricultural and industrial property and tracts of undeveloped land not enrolled in a current use tax program and 12 mills for all other property. The remainder needed to fund a quality education would be provided by the State. Municipalities would be able to raise additional amounts through the property tax but could impose the additional tax only against primary residential property.

**Element 2.** Element 2 would repeal the property tax on personal property first owned or placed in service after April 1, 2003 if there is an excise tax on certain personal property at a rate that would be less than the property tax.

**Element 3.** Element 3 would repeal the homestead property tax exemption because the proposed property tax rate maximums will, in most instances, provide greater relief.

**Element 4.** Element 4 would phase out the Business Equipment Tax Reimbursement Program for property first placed in service after April 1, 2003. This phase-out occurs automatically as the personal property tax exemption takes effect. Property that became eligible for BETR on or before April 1, 2003 would continue to be eligible for 12 years.

**Element 5.** Element 5 would provide for the establishment of an excise tax on personal property to support part of the cost of municipal government. The details of the excise tax would be developed by the 121st Legislature.

**Element 6.** Element 6 of the proposal would require a statement on property tax bills to inform taxpayers of the impact of the property tax rate maximums on their property tax bills.

**Element 7.** Element 7 directs the Taxation Committee of the 121st Legislature to develop funding sources for additional State revenue for education with special consideration of sales tax base expansion, an excise tax on certain personal property and an education funding stabilization fund to ensure adequate revenues for education costs in the event that economic conditions result in a situation where revenues do not keep pace with education costs.

## I. INTRODUCTION

The Education Funding Reform Committee (“Committee”) was established during the First Regular Session of the 120th Legislature. The authorizing legislation for the Committee grew out of LD 970, “An Act to Limit the Use of Property Taxes to Fund Education”, which was sponsored by Representative Bernard McGowan of Pittsfield and introduced as a concept draft to the First Regular Session of the 120th Legislature. This bill was referred to the Joint Standing Committee on Taxation (“Taxation Committee”). The concept draft proposed to accomplish the following:

- ❖ To equalize the levy of property taxes, sales taxes and the personal income tax;
- ❖ To cap the mill rate on property taxes earmarked for education at 4 mills for primary residences and business properties;
- ❖ To recover the revenues lost by implementing this change by increasing the sales tax and eliminating selected exemptions as recommended by the Taxation Committee or by an alternative plan to be recommended by the Taxation Committee; and
- ❖ To phase in the changes proposed by the bill over a 3-year period by decreasing the property tax rate  $\frac{1}{3}$  of its present rate each year for 3 years.

The committee amendment to LD 970 (H-216) proposed to replace the bill with a resolve to establish the Education Funding Reform Committee to make recommendations to the Legislature that would: (1) reduce the State's reliance on the property tax as the primary source of funding for education; (2) identify other funding sources that could ensure equal educational opportunity; (3) provide a more equitable balance among funding sources; and (4) stabilize the State's tax structure. The study committee would have been required to make recommendations to the Legislature by December 31, 2001. It was also the intent of this resolve that the study committee's recommendations must be submitted to the voters at a public referendum at the time of the general election in November 2002.

While the bill as amended by the Taxation Committee was not adopted, a provision to establish a study committee to examine the issues presented by LD 970 was approved by the Appropriations Committee and included in the Part 2 Budget Bill (see LD 855, Public Law 2001, chapter 439, Part SSS). A copy of the authorizing legislation is attached as **Appendix A**.

### **Scope and Focus of the Committee**

The Education Funding Reform Committee was established to develop a comprehensive package of tax reform legislation to update and equalize the method of raising money for education including finding ways to reduce the State's reliance on property taxes for elementary and secondary schools. The scope of the Committee study was limited to investigating sources of revenue to fund elementary and secondary school education; and not to investigate the existing

distribution formula or the development of the essential programs and services funding model<sup>1</sup>. In developing its recommendations, the Committee was charged with studying alternate sources of revenue for elementary and secondary education that meet the following criteria:

1. Provide more state money for education and consequently ensure equal educational opportunities for all students of the State;
2. Provide property tax relief for home owners, farmers and businesses to encourage new businesses to locate to the State and new businesses to expand and to entice more people to live in the State; and
3. Balance the primary methods of raising taxes between the property tax, sales tax and personal income tax.

The Committee was also given the authority to introduce legislation during the Second Regular Session of the 120th Legislature to implement its recommendations. The authorizing legislation further provided that the Legislature may adopt or reject the Committee's recommendations or submit the Committee's recommendations to the voters at a public referendum at the time of the general election in November 2002.

The Committee included 14 Legislators, eight of whom serve on the Joint Standing Committee on Taxation, three of whom serve on the Joint Standing Committee on Appropriations and Financial Affairs and three of whom serve on the Joint Standing Committee on Education and Cultural Affairs. The Committee membership is listed in **Appendix B**. The Committee was convened on October 16, 2001 and held three additional meetings on the following dates: November 5, 2001; November 30, 2001 and December 18, 2001. Following its third meeting, the Committee established a subcommittee – which met on December 11, 2001 -- to develop a proposal for consideration by the Committee at its fourth meeting.

The Committee requested technical assistance from the Department of Administrative and Financial Services, Bureau of Revenue Services and the Department of Education. In addition to the information and analysis presented by state officials, the meetings also provided an opportunity for Committee members to deliberate on information provided by representatives of the Maine Municipal Association, the Maine Education Policy Research Institute and other interested parties.

The Committee used the first meeting to discuss the purposes of the study and to formulate a work plan. Committee members decided to focus the next meeting on gathering information about the legislative history and the current policies concerning K-12 public education funding and to review Maine's tax structure. During its second meeting, the Committee received detailed information regarding the following policy issues:

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<sup>1</sup> The Joint Standing Committee on Education and Cultural Affairs was authorized to review during this interim the transition to a school funding formula based on the essential programs and services model.

- ❖ The recent history of the “state share” in K-12 education funding in Maine;
- ❖ The revenue sources used to fund K-12 public education in Maine school administrative units, including revenues from state, local and federal sources;
- ❖ The revenues available to fund K-12 public education in other states and recent examples of education finance “reforms” in other states;
- ❖ A summary of previous legislative studies of tax/education funding;
- ❖ The factors affecting residential property tax “burden” -- defined as property taxes paid as a percentage of household income;
- ❖ A summary of Michigan tax policy changes and school finance reform (pre- and post-1994), including a videotape of the process that Michigan lawmakers used to craft their school finance reform package;
- ❖ A description of Maine Municipal Association data sources and data analysis of education tax burden for municipalities; and
- ❖ A description of the Maine tax incidence model developed by the Bureau of Revenue Services, including statewide analyses of the amount of state and local taxes actually paid by Maine residents and the distribution of state and local taxes for Maine taxpayers broken out by income levels.

Following discussion of the information provided, Committee members were invited to identify and propose policy options for consideration during the third meeting.

During the third committee meeting, written proposals were introduced by Senator Mills, Representative McGowan and Representative Green; and a fourth proposal was put on the floor by Representative Cummings. Copies of these proposals are attached as Appendix C. The Committee established a subcommittee to explore these alternative proposals and to bring back a more detailed proposal for further consideration. Sensing that the Committee required further time to complete its work, Committee members also agreed to seek an extension of the reporting deadline from the Legislative Council.

The authorizing legislation established December 31, 2001, as the deadline for the Committee to provide its report to the 120th Legislature. Due to the short time period in which the Committee had to complete its work after the October 16, 2001 convening date, the Committee chairs petitioned the Legislative Council for an extension of the reporting deadline. The extension request was denied.

During its fourth meeting, Committee members reviewed the proposal presented by the subcommittee. Rather than endorse the substantive changes recommended by this proposal, a majority of the Committee members present reached a consensus that this proposal should be



forwarded to the Legislature for further consideration by the Taxation Committee. A minority of Committee members present recommended adoption of the substantive elements of the subcommittee proposal; and a separate minority of the Committee voted against forwarding this proposal to the Legislature.

**II. COMMITTEE PROPOSAL**

The Committee voted to present to the Legislature the following legislative proposal for further consideration and review during the Second Regular Session of the 120th Legislature. The proposal includes 2 bills. They are presented separately only because part of the proposal includes a proposed amendment to the Maine Constitution, and a proposed constitutional amendment cannot be included in the same legislative document as legislation to make statutory changes.

**Element 1:** Property tax rate cap on property taxes raised to fund education. Element 1 of the proposal would place a cap on the amount of property tax revenue that could be raised on the local level for education. Two maximum rates would be established

<u>Rate</u>	<u>Class of property</u>
6 mills	Primary residential property, commercial, agricultural and industrial property and tracts of undeveloped land not enrolled in a current use tax program
12 mills	All other property

These mill rate caps would represent the maximum amount that could be collected through the municipal property tax to fund K-12 education. A municipality that could fund its education costs at a lower mill rate would not be required to raise more than it needed. The remainder of the cost of K-12 education determined necessary by the State would be paid from State revenue sources. The Legislature is currently in the process of evaluating a system for defining a level of “essential programs and services” that are necessary for an adequate K-12 education. It is envisioned that this level of funding would be the standard against which the State’s required participation would be gauged. If a municipality or school unit wished to exceed the level of “essential programs and services,” it would be able to do so by a vote of the legislative body of the municipality or school unit, but the additional revenue could only be assessed against primary residential property.

Implementation of Element 1 requires an amendment to Article 9, Section 8 of the Maine Constitution which requires that “ ... taxes upon real and personal estate, assessed by authority of this State, shall be apportioned and assessed equally according to the just value thereof.” This provision requires that all property taxes

be assessed at the same rate. The proposed Constitutional Amendment grants authority to the Legislature to establish limits on the property tax rates that may be assessed against different classes of property for purposes of financing K-12 public education.

Property taxes for the noneducation components in the municipal budget would continue to be assessed and apportioned under current law and constitutional requirements.

**Element 2: Repeal of property tax on personal property first owned or placed in service after April 1, 2003 and substitution of an excise tax at a reduced rate.**

Element 2 of the proposal provides a property tax exemption for personal property first owned or placed in service after April 1, 2003. In order to protect municipalities from a portion of the loss of property tax revenues from personal property, an excise tax, similar to the excise tax on motor vehicles but at a lower rate, would be substituted for the personal property tax for personal property first placed in service after April 1, 2003. This proposal would be implemented by an amendment to the Maine Constitution. Including this proposal in the Constitution guarantees municipal access to revenues from personal property in the form of an excise tax. If the Legislature failed to implement an excise tax or repealed it, the property tax on personal property would be reinstated. Establishing the exemption in the Constitution, rather than in statute also eliminates the requirement created by Article IV, Part Third, Section 23 of the Maine Constitution that the Legislature reimburse municipalities from state revenue sources for at least 50% of the revenue lost from a newly enacted property tax exemption.

**Element 3: Repeal of the homestead property tax exemption.** Element 3 of the proposal is the repeal of the homestead property tax exemption. Property tax relief provided by the proposed limit on property tax rates for education will, in most instances, result in far greater relief than the current \$7,000 homestead property tax exemption. Therefore, this proposal would repeal the homestead property tax exemption in order to be able to use those funds to achieve the maximum relief from a property tax rate limit.

**Element 4: Phase-out of Business Equipment Tax Reimbursement Program.** Element 4 is the gradual phase-out of the property tax on personal property for property first owned or placed in service after April 1, 2003. This phase-out recognizes the phasing out of need prospectively for the Business Equipment Tax Reimbursement (BETR) program which reimburses qualified businesses for taxes on qualified business property. Personal property first placed in service after April 1, 2003 would be exempt from property tax so no reimbursement is required. Property placed in service on or before April 1, 2003 would continue to be subject to property tax and would be subject to the current rules regarding BETR reimbursement. BETR reimbursement is limited to 12 years under current

law; therefore, after 12 years no reimbursement would be available. Property first owned or placed in service before April 1, 2003, whether eligible for BETR reimbursement or not, would continue to remain subject to property tax under this proposal.

**Element 5:** **Excise tax on certain personal property.** Element 5 recognizes that it is appropriate for personal property to continue to bear some of the cost of municipal government but that the property tax is an inflexible, unwieldy and unfair method for obtaining that revenue. The Committee discussed adopting an excise tax on certain personal property similar to the excise tax on motor vehicles that would establish some measure of original cost as the base of the tax with declining annual tax rates to reflect the obsolescence of the property. This tax would be assessed against individual items of personal property with a value over a base amount. The tax would be collected and retained by municipalities. This element is included in the proposal presented by the Committee; however, the Committee did not have sufficient time to work on the details of the excise tax and has included in the legislation implementing the proposal a direction to the Joint Standing Committee on Taxation of the 121st Legislature to develop the excise tax more fully with the goals of balancing the state's interest in establishing a uniform, stable and competitive industrial tax obligation compared to other states, removing disincentives to replace or modernize business machinery and equipment, and obtaining revenues from the personal property tax base that the Legislature considers reasonable to support municipal support services and a fair-share of the cost for kindergarten to grade 12 public education.

**Element 6:** **Taxpayer information.** Element 6 of the proposal is a statutory requirement that property tax bills contain information to enable property taxpayers to identify the impact of the changes implemented by this proposal on the amount of their property tax. Property tax bills would be required to identify property tax mill rates for both the education component and the municipal and county budget component of the property tax bill both before the implementation of caps on the education component and for the year covered by the property tax bill.

**Element 7:** **Directives to 121st Legislature.** Element 7 contains several legislative directives to the 121st Legislature. The proposal directs the joint standing committee with jurisdiction over taxation matters to develop legislation for consideration by the First Regular Session of the 121st Legislature to implement components of the proposal not contained in the initial legislation. The 121st Legislature could adopt legislation or refer the proposals to the People for a referendum vote. These components include the following.

- Development of legislation to generate the additional state revenue from General Fund sources sufficient to meet the state's obligation to fund K-12 education. In developing this legislation the Taxation Committee would be directed to reflect the work of the Joint Standing Committee on

Education in the determination of the standard for establishing the total level of funding necessary to ensure an adequate education for all students in the State;

- Development of legislation establishing an excise tax on personal property first owned or placed in service in the State after April 1, 2003. The excise tax would be imposed on items of person property with a value over an amount to be determined. It would be based on the original cost of the property with a rate that would decrease over a number of years to a minimum floor amount.
- Development of an educational funding stabilization fund. In developing this fund, the Taxation Committee would be directed to consult with the Joint Standing Committee on Appropriations and Financial Affairs. The education funding stabilization fund is intended to provide a cushion to ensure that adequate state revenues are available to fund the state's education funding obligations in the event that economic conditions result in significant stress on General Fund revenues. Legislation establishing the fund should carefully delineate the conditions that would trigger contributions to the fund and the conditions identifying when resources would be released from the fund.

**Element 8:** **Referendum; contingent on approval.** Element 8 of the proposal is the recommendation that all elements of the proposal be submitted to the voters in the form of a referendum at the general election in November 2002. The elements of the proposal amending the Maine Constitution must be submitted to the voters for approval under the terms of Article 10, Section 4 of that Constitution. The Committee also recommends that the other elements of this proposal also be submitted to the voters at the same time as the constitutional amendment and that the statutory changes become effective only if the proposed constitutional amendment is approved.

### III. ESTIMATED FISCAL IMPACT

Several factors contributed to the difficulty of estimating the fiscal impact of the proposal developed by the Committee. Materials presented to the Committee by the Maine Municipal Association at the request of members of the Committee attempted to present an approximation of fiscal impact by looking at education data for fiscal year 2000-01 and property tax data for property tax year 2000. These figures identified the following impact if the proposal presented by the Committee were implemented in that year.

FY 2000-01 Education Revenues	\$840,951,568
Raised Locally	

Education Revenue Generated with 6/12 Mill Cap	\$520,115,353
Education Cost Shifted to the State	\$320,836,215
Estimated State Savings from repeal of Homestead Exemption and Reductions in BETR and Property Tax Circuitbreaker Costs	\$45,500,000
Additionally Needed State Revenue to be Identified by 121 <sup>st</sup> Legislature	\$275,336,215

Complete estimates of future potential impact of the proposal were not possible given the time available to the Committee for presenting a final report. Any such estimates are complicated by the fact that the Legislature is currently in the process of considering revisions in the way educational costs are defined and apportioned, making future total education costs difficult to estimate at this time. Additionally, several aspects of the proposal will need additional details worked out before fiscal estimates are possible.<sup>2</sup>

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<sup>2</sup> Estimates presented in this section have not been analyzed by executive branch agencies or by legislative fiscal staff.

**APPENDIX A**

**Authorizing Legislation  
Public Law 2001, Chapter 439, Part SSS**

**PUBLIC LAW 2001  
CHAPTER 439**

**PART SSS**

**Sec. SSS-1. Committee created; charged.** The Education Funding Reform Committee, referred to in this Part as the "committee," is established to develop a comprehensive package of tax reform legislation to update and equalize the method of raising money for education including finding ways to reduce the State's reliance on property taxes for elementary and secondary schools. The committee shall investigate sources of revenue to fund elementary and secondary school education and may not investigate the existing distribution formula or the development of the essential programs and services funding model.

**Sec. SSS-2. Commission membership; chairs.** The committee consists of 14 Legislators appointed as follows:

1. Four members of the Senate, 2 of whom serve on the Joint Standing Committee on Taxation, one of whom serves on the Joint Standing Committee on Appropriations and Financial Affairs and one of whom serves on the Joint Standing Committee on Education and Cultural Affairs, appointed by the President of the Senate. In making the appointments, the President of the Senate shall provide representation from geographically diverse regions of the State and shall appoint not more than 2 members from the same political party. The first named Senator is the Senate chair of the committee; and

2. Ten members of the House of Representatives, 6 of whom serve on the Joint Standing Committee on Taxation, 2 of whom serve on the Joint Standing Committee on Appropriations and Financial Affairs and 2 of whom serve on the Joint Standing Committee on Education and Cultural Affairs, appointed by the Speaker of the House of Representatives. In making the appointments the Speaker of the House of Representatives shall provide representation from geographically diverse regions of the State and shall appoint not more than 5 members from the same political party. The first named member of the House is the House chair of the committee.

All appointments must be made not later than 30 days following the effective date of this Act. The appointing authorities shall notify the Executive Director of the Legislative Council once all appointments have been made. When appointment of all members is completed, the chairs shall call and convene the first meeting of the committee, which must be held not later than 15 days after all members have been appointed.

**Sec. SSS-3. Duties.** In developing its recommendations the committee shall study alternate sources of revenue for elementary and secondary education that meet the following criteria:

1. Provide more state money for education and consequently ensure equal educational opportunities for all students of the State;

2. Provide property tax relief for home owners, farmers and businesses to encourage new businesses to locate to the State and new businesses to expand and to entice more people to live in the State; and

3. Balance the primary methods of raising taxes between the property tax, sales tax and personal income tax.

**Sec. SSS-4. Committee report; extension.** The committee shall present its report and any necessary implementing legislation to the Second Regular Session of the 120th Legislature by December 31, 2001. The Legislature may adopt or reject the committee's recommendations or submit the committee's recommendations to the voters at a public referendum at the time of the general election in November 2002. If the committee requires a limited extension of time to conclude its work, it may apply to the Legislative Council, which may grant the extension.

**Sec. SSS-5. Staff assistance.** The Legislative Council shall provide necessary staffing services to the committee. In addition, the Department of Administrative and Financial Services, Bureau of Revenue Services and the Department of Education shall provide such information and assistance to the committee as requested by the chairs.

**Sec. SSS-6. Compensation.** Legislative members of the committee are entitled to receive the legislative per diem, as defined in the Maine Revised Statutes, Title 3, section 2, for each day of attendance at committee meetings and reimbursement for expenses upon application to the Executive Director of the Legislative Council.

**Sec. SSS-7. Budget.** The committee chairs, with assistance from the committee staff, shall administer the committee budget. Within 10 days after its first meeting, the committee shall present a work plan to the Legislative Council for approval. The committee may not incur expenses that would result in the committee's exceeding its approved budget.

**Sec. SSS-8. Appropriation.** The following funds are appropriated from the General Fund to carry out the purposes of this Part.

2001-02

**LEGISLATURE**

**Education Funding Reform Committee**

Personal Services	\$7,700
All Other	14,300

Provides funds for the per diem and expenses of members of the Education Funding Reform Committee, to conduct public hearings, for technical assistance and for printing and other miscellaneous costs.

**LEGISLATURE  
TOTAL**

            
\$22,000



**APPENDIX B**

**Membership List  
Education Funding Reform Committee**

# EDUCATION FUNDING REFORM COMMISSION

## MEMBERS Updated 10/17/01

### Senate Members:

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**APPENDIX C**

**Proposals Presented by Committee Members During the November, 30, 2001 Meeting**

**Proposal for Consideration by the Education Funding Reform Committee\***  
Rep. Glenn Cummings  
11/30/01

As an alternative to the Mills-McGowan proposal submitted to the 120<sup>th</sup> Legislature in this committee report, the following policy proposal merits further exploration by the 120<sup>th</sup> Legislature as we consider submitting a referendum question to Maine citizens in November 2002.

Policy alternative for further exploration:

1. Amend the Maine Constitution to require a 55% state share of combined state and local funding for kindergarten through grade 12 education (see attached draft language for a constitutional amendment);
2. Conduct a review of the current exceptions to the sales tax and also consider other State general fund revenue streams to provide the amount of funds necessary to achieve the 55% state share of funding for K-12 education; and
3. Create a long-term implementation plan to:
  - (a) Incrementally reform the state tax system to provide a sufficient level of State general fund revenues to achieve the constitutional mandate of a 55% state share (e.g., beginning in FY 2003-04, establish targets for state revenues over the next 6 years to achieve the 55% contribution level by FY 2008-09); and
  - (b) Incrementally achieve a 55% state share of combined state and local funding for kindergarten through grade 12 education, (e.g., beginning in FY 2003-04, establish targets for state funding over the next 6 years to achieve the 55% contribution level by FY 2008-09).

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\* Note: This document, together with the proposed amendment to the Maine Constitution, describes the proposal outlined by Rep. Cummings at the November 30<sup>th</sup> meeting of Education Funding Reform Committee.

An Act to Implement the Recommendations of the Education Funding Reform Committee

Sec. 1. Constitutional amendment. Resolved. Two thirds of each branch of the Legislature concurring, that the following amendment to the Constitution be proposed:

Constitution, Art. VIII, Part First, §1 is amended to read:

Section 1. ~~Legislature shall require towns~~ The state and the municipalities to support public schools; duty of Legislature. ~~A~~ Because a general diffusion of the advantages of education being is essential to the preservation of the rights and liberties of the people; to promote this important object, the Legislature are is both authorized, and it shall be their duty and obligated to require, the several towns to make that suitable provision, at their own expense, for the support and maintenance of public schools; and it be made for the support and maintenance of public schools at the expense of the State and its municipalities; each child have reasonable access to suitable educational opportunities and to programs of uniformly high quality; and the burden of support for public schools be equitably allocated among municipalities, regions, citizens and businesses of the state. Beginning with the school year that commences in 2004, the Legislature shall provide at least 55% of the cost of the total allocation from both state and local sources to support the operational and programmatic needs of Kindergarten through grade 12 public education. For the purposes of this provision, total allocation means the amount of state and local revenues reasonably necessary to provide all the resources required for the state's public elementary and secondary schools to educate their students so that they may meet the programmatic standards of learning established by the legislature, except that total allocation shall not include or be construed to include the premium payments to the Maine State Retirement System appropriated by the legislature on behalf of the public school educators, contributions made by the legislature to any school renovation or construction fund that operates independently of the allocation system, or property tax appropriations authorized at the local level for public school renovation, construction or programmatic purposes that exceed the standards of reasonably necessary educational services established by the legislature. This provision must be construed in such a way to establish a rigorous funding obligation on the legislature that may not be manipulated by the statute; and in order to comply with the level of funding required by this provision, the legislature may not reduce or freeze the state tax revenues that have been historically shared with municipalities, including specifically municipal revenue sharing, highway fund contributions to local road capital construction, general assistance reimbursement, and reimbursements for current use taxation programs. ~~It shall further be their-~~ the Legislature's duty to encourage and suitably endow, from time to time, as the circumstances of the people may authorize, all academies, colleges and seminaries of learning within the State; provided, that no donation, grant or endowment shall at any time be made by the Legislature to any literary institution now established, or which may hereafter be established, unless, at the time of making such endowment, the Legislature of the State shall have the right to grant any further powers to alter, limit or restrain any of the powers vested in any such literary institution, as shall be judged necessary to promote the best interests thereof.

"It was in making education not only common to all, but...compulsory on all, that the destiny of the free republics of America was practically settled." James Russell Lowell [from Literary Essays, 1864-1890]

*A Modest Proposal for Education Funding*

1. Petition the Federal Government to fulfill its responsibilities to fully fund the Special Education requirements it has mandated the states to implement before it returns so-called surplus funds. There cannot be a surplus if financial responsibilities have not been met.
2. Require the Department of Education, in consultation with classroom educators, to complete the definition and description of essential programs and services.
3. Remove the responsibility for the cost of essential programs and services from the municipalities, and include it in the state budget.
4. The combination of removing the costs of Special Education and the basic per pupil cost from the local property tax will relieve the burden of the rising cost of education from the financial resources of individuals who do not experience a corresponding elevation in resources from which to pay those costs.



## McGowan Proposal

For the purposes of reducing the state's reliance on the property tax to fund K-12 education, reducing the volatility of Maine's tax code and bringing the three major sources of governmental revenue in Maine into a more equitable alignment, the following changes should be implemented.

1. The state constitution would be amended to: (1) modernize the section regarding the state and local obligation to support education; and (2) delete the obligation for equal apportionment and allow variable property tax rates for financing K-12 education to be applied to five separate categories of property – business, primary residential, secondary residential, undeveloped tracts and all other.
2. Beginning with the assessment of April 1, 2004, a property tax mill rate cap of 4 mills for education funding would be applied to all primary residential property and all parcels over some minimum acreage (e.g., 5 or 10 acres) that are entirely undeveloped but not enrolled in a current use program.
3. Beginning with the assessment of April 1, 2004, a property tax mill rate cap of 8 mills for education funding would be applied to all business property (real estate and personal property). The 8 mill cap would be reduced over a five year period to eventually match the 4 mill cap for education funding that is applied to primary residential and undeveloped property.
4. Running in parallel with this annual reduction of the mill rate cap for business property, the Business Equipment Tax Reimbursement Program (BETR) would be gradually phased-out, both with respect to the duration of eligibility and the reimbursement percentages. By 2008, when the business-property tax rate cap was reduced to 4 mills, the BETR program would be completely repealed, except the BETR phase-out would “hold harmless” all property first installed in the state through April 1, 2002.
5. Beginning with the assessment of April 1, 2004, a property tax mill rate cap of 12 mills for education funding would be applied to all property other than primary residential, business and undeveloped property.
6. The legislative body of a school district or municipality would be permitted to exceed the property tax caps for education, but in all cases the over-cap millage would be assessed against the homesteaders only.
7. As a result of the property tax caps for education purposes, the Homestead Exemption would be repealed. The BETR program would be phased out, and the circuit breaker tax relief program could be scaled back very significantly. All revenues “saved” by the state because of the repeal or scaling back of these programs would be redirected to contribute to the state share of K-12 education.

8. As part of the approval of the tax reform package by the voters, the Taxation Committee would be charged with developing a recommended expansion of the sales tax, either by base or by rate or in combination, to the extent necessary to adequately finance the state share of the K-12 allocation. This work would be accomplished during the first session of the 121<sup>st</sup> Legislature and could either be enacted directly by the Legislature or sent to the voters in November, 2003.
9. The education subsidy formula should be redesigned in the context of the *Essential Programs and Services* model so that the total state-local allocation is sufficient to provide an adequate education in all school administrative units.
10. "Tax revenue targeting" language would be required on all property tax bills. The required language would identify the mill rate for education and the mill rate for non-education purposes in the tax year immediately before the tax cap changes went into effect and those separate mill rates as reflected in the tax bill. The purpose of this would be to plainly identify any mill rate "creep" on the municipal side of the budget and any above-cap mill rate on the educational side.



## Tax & Education Funding

### Policy concerns:

1. There is no guaranty of equity in education funding.
2. The property tax is overburdened for education.
3. Business property taxes are chaotic and non-uniform.
4. The sales tax base is narrow and volatile.

To put a referendum through requires support from the following constituencies:

1. Educators
2. Municipalities
3. Business & industry
4. The Governor

Consider the following proposal:

1. Change the Constitution to require equitable funding for education.
2. Cap or set the mill rate for education at, say, 6 mills for homesteads, businesses, farms and open space.
3. Reduce or eliminate property taxes on business equipment.
4. Expand the sales tax base to pick up needed revenue.

Advantages:

1. We could repeal the BETR program, eliminate the double dip and adopt a consistent, long term policy on taxation of business property.
2. We could repeal the Homestead exemption.
3. We could focus municipal revenue sharing exclusively on the municipal side of the local property tax and leave GPA to subsidize the education needs of each community.

Remaining policy concerns:

1. Can the sales tax be sufficiently expanded?
2. How do we dampen the volatility of the sales tax?
3. Will property rich towns support reducing the tax on business personal property?
4. Need to leave towns with flexibility to spend what they desire to spend on education.

## **APPENDIX D**

### **Draft of Proposed Constitutional Changes:**

**“Resolution, Proposing an Amendment to the Constitution of Maine to Allow the Legislature to Establish Classes of Property for Purposes of Taxation and to Exempt Personal Property from Taxation if there is an Excise Tax on Certain Personal Property”**

**Resolution, Proposing an Amendment to the Constitution of Maine to Allow the Legislature to Establish Classes of Property for Purposes of Taxation and to Exempt Personal Property from Taxation if there is an Excise Tax on Certain Personal Property**

**Sec. 1. Constitutional amendment. Resolved:** Two thirds of each branch of the Legislature concurring, that the following amendment to the Constitution of Maine be proposed:

**Constitution, Art. IX, §8** is amended to read:

**Section 8. Taxation.** All taxes upon real ~~and personal~~ estate, assessed by authority of this State, shall be ~~apportioned and~~ assessed ~~equally~~ according to the just value thereof.

1. Intangible property. The Legislature shall have power to levy a tax upon intangible personal property at such rate as it deems wise and equitable without regard to the rate applied to other classes of property.

1-A. Property tax rates. The Legislature may establish maximum limits on property tax rates based on the status of property after April 1, 2003, adjusted in the same manner as state valuation, that may be assessed for the purposes of financing kindergarten through grade 12 public education. The Legislature may establish and define different classes of property and may establish different maximum limits on property tax rates for each class of property.

1-B. Personal property. All taxes on personal property first owned or installed in this state on or before April 1, 2003 must be apportioned and assessed equally according to the just value thereof. All personal property first owned or installed in this state after April 1, 2003 is exempt from taxation as personal property, provided that certain personal property as defined by the Legislature is subject to an excise tax to be collected and retained by municipalities. The base value of the personal property subject to an excise tax must be the original cost of the property when first purchased or installed in this state. The Legislature must establish a depreciating excise tax mill rate schedule with a minimum rate with the goals of balancing the state's interest in establishing a uniform, stable and competitive industrial tax obligation compared to other states, removing disincentives to replace or modernize business machinery and equipment, and obtaining revenues from the personal property excise tax base that the Legislature considers reasonable to support municipal services and a fair share of the cost for kindergarten to grade 12 public education.

2. **Assessment of certain lands based on current use; penalty on change to higher use.** The Legislature shall have power to provide for the assessment of the following types of real estate whenever situated in accordance with a valuation based upon the current use thereof and in accordance with such conditions as the Legislature may enact:

A. Farms and agricultural lands, timberlands and woodlands;

B. Open space lands which are used for recreation or the enjoyment of scenic natural beauty; and

C. Lands used for game management or wildlife sanctuaries.

In implementing paragraphs A, B and C, the Legislature shall provide that any change of use higher than those set forth in paragraphs A, B and C, except when the change is occasioned by a transfer resulting from the exercise or threatened exercise of the power of eminent domain, shall result in the imposition of a minimum penalty equal to the tax which would have been imposed over the 5 years preceding that change of use had that real estate been assessed at its highest and best use, less all taxes paid on that real estate over the preceding 5 years, and interest, upon such reasonable and equitable basis as the Legislature shall determine. Any statutory or constitutional penalty imposed as a result of a change of use, whether imposed before or after the approval of this subsection, shall be determined without regard to the presence of minerals, provided that, when payment of the penalty is made or demanded, whichever occurs first, there is in effect a state excise tax which applies or would apply to the mining of those minerals.

3. **School districts.** The Legislature shall have power to provide that taxes, which it may authorize a School Administrative District or a community school district to levy, may be assessed on real, personal and intangible property in accordance with any cost-sharing formula which it may authorize.

4. **Watercraft.** Beginning with the property tax year 1984, all watercraft as defined by the Legislature shall be exempt from taxation as personal property, provided that certain watercraft as defined by the Legislature shall be subject to an excise tax to be collected and retained by the municipalities.

; and be it further

**Constitutional referendum procedure; form of question; effective date. Resolved:**

That the municipal officers of this State shall notify the inhabitants of their respective cities, towns and plantations to meet, in the manner prescribed by law for holding a general election, at the next general election in the month of November following the passage of this resolution, to vote upon the ratification of the amendment proposed in this resolution by voting upon the following question:

“Do you favor amending the Constitution of Maine to permit the Legislature to establish different maximum property tax rates for different classes of property and to exempt personal property from property tax if certain personal property is subject to an excise tax to be collected and retained by municipalities?”

The legal voters of each city, town and plantation shall vote by ballot on this question and designate their choice by a cross or check mark placed within the corresponding square below the word “Yes” or “No.” The ballots must be received, sorted, counted and declared in open ward, town and plantation meetings and returns made to the Secretary of State in the same manner as

votes for members of the Legislature. The Governor shall review the returns and, if it appears that a majority of the legal votes are cast in favor of the amendment, the Governor shall proclaim that fact without delay and the amendment becomes part of the Constitution on the date of the proclamation; and be it further

**Secretary of State shall prepare ballots. Resolved:** That the Secretary of State shall prepare and furnish to each city, town and plantation all ballots, returns and copies of this resolution necessary to carry out the purpose of this resolution.

### **Summary**

This constitutional resolution is offered by the Education Funding Reform Committee pursuant to Public Laws 2001, chapter 439, Part SSS as a proposal for reducing the State's reliance on the property tax for funding public education. This constitutional resolution is accompanied by separate legislation to implement the changes proposed in the resolution and to provide further details of the proposal developed by the Committee for further consideration by the Legislature. A minority of the Committee recommends adoption of this proposal. A majority of the Committee offers the proposal for further consideration by the Legislature rather than as recommendations of the substantive changes contained in the Committee's proposal.

This constitutional resolution would make 2 major changes in the constitutional requirements related to the property tax. The first change would permit the Legislature to establish classes of property and impose different maximum rates on the local property tax that could be imposed on each class of property for the purposes of funding local education costs. The second change would exempt personal property from taxation if certain personal property, as defined by the Legislature, is subject to an excise tax to be collected and retained by municipalities.

**APPENDIX E**

**Draft of Proposed Statutory Changes:  
“An Act to Implement the Recommendations of the  
Education Funding Reform Committee”**

## **An Act to Implement the Recommendations of the Education Funding Reform Committee**

**Sec. 1. 36 MRSA §501**, as last amended by PL 1957, chap. 271, is further amended to read:

### **36 § 501. Definitions**

The following words and phrases as used in this chapter shall, unless a different meaning is plainly required by the context, have the following meaning:

**1. Estates.** "Estates" shall be construed to mean both real estate and personal property.

**1-A. Commercial, agricultural and industrial property.** "Commercial, agricultural and industrial property" means all real estate and tangible personal property subject to property taxation used or held for use for a business purpose.

**2. Mortgagee.** "Mortgagee" shall be construed to include the heirs and assigns of the mortgagee.

**3. Municipality.** "Municipality" shall include cities, towns and plantations.

**4. Municipal officers.** "Municipal officers" shall mean the mayor and aldermen of cities, the selectmen of towns and the assessors of plantations.

**4-A. Permanent residence.** "Permanent residence" means that place where an individual has a true, fixed and permanent home and principal establishment to which the individual, whenever absent, has the intention of returning. An individual may have only one permanent residence at a time and, once permanent residence is established, that residence is presumed to continue until circumstances indicate otherwise.

**5. Person.** "Person" may include a body corporate or an association.

**5-B. Primary residential property.** "Primary residential property" means any residential property in this State assessed as real property owned by a resident of the property or held in a revocable living trust for the benefit of a resident and occupied by that resident as the resident's permanent residence. "Primary residential property" does not include any real property used solely for commercial, agricultural and industrial purposes.

**6. Place.** "Place" shall include municipalities, townships and any other unorganized area.

**7. Property.** "Property" shall be construed to mean both real estate and personal property.

**8. Registered mail.** "Registered mail" shall be construed to include certified mail.

**9. Reside or resident.** "Reside" or "resident" shall have reference to place of domicile.

**10. Tax collector.** "Tax collector" shall mean any person chosen, appointed or designated by a municipality or the officers thereof to collect any tax due a municipality; or his successor in office.

**11. Tracts of undeveloped property not enrolled in a current use taxation program.** “Tracts of undeveloped property not enrolled in a current use taxation program” means any separately deeded parcel of land 10 acres or greater in size that is completely undeveloped and supports no buildings, improvements or structures of any kind and that is not classified for current use taxation under subchapter II-A or subchapter X.

Sec. 2. 36 MRSA § 507, as last amended by PL 1997, Chap. 643, is further amended to read:

**§ 507. Taxpayer information.**

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

Each property tax bill issued with respect to the property tax year beginning on or after April 1, 2004 must also contain the following statement, including the appropriate values accurately calculated:

*In 2002, the Legislature and the voters established a maximum property tax rate limit of 6 mills to be applied against the just value of primary residential, commercial, agricultural, industrial and undeveloped properties for the purpose of financing kindergarten to grade public 12 education, beginning in 2004. Before these changes went into effect, the property tax rate for education purposes in (name of municipality) was \_\_\_\_\_ mills and the property tax rate for municipal and county purposes was \_\_\_\_\_ mills. The property tax rate for education reflected in this bill for primary residential, commercial, agricultural, industrial and undeveloped properties is \_\_\_\_\_ mills and for municipal, county and all other purposes is \_\_\_\_\_ mills.*

Each property tax bill issued by a municipality shall clearly state the date interest will begin to accrue on delinquent taxes.

Sec. 3. 36 MRSA, c. 105, subc. I-A, is enacted to read:

**Subchapter I-A**

**Property Tax Contribution to Public Education**

**§ 510. Purpose.**



This subchapter implements the 2002 amendment of Article IX, Section 8 of the Maine Constitution which authorizes the Legislature to establish limits on the equalized property tax rates that must be paid for the purposes of financing kindergarten through grade 12 public education.

**§ 511. Maximum mill rates established.**

With respect to the assessment of any property taxes for a property tax year beginning on or after April 1, 2004, the maximum property tax rate that may be applied against the value of certain properties for the purpose of funding kindergarten through grade 12 public education is provided in this section. In a municipality that assesses property at a percentage other than 100% of just value, the maximum mill rates established by this section must be adjusted, in the process of assessment and prior to commitment, to the mill rate that generates the equivalent revenue that would be collected if the municipality was assessing property at 100% of just value.

A. For primary residential property, commercial, agricultural and industrial property, and tracts of undeveloped property not enrolled in current use programs, the maximum mill rate is 6 mills.

B. For all other property the maximum mill rate is 12 mills.

**§ 512. Exceeding mill rate limits.**

The legislative body of a school administrative unit, as defined in Title 20-A, section 1, subsection 26, may vote to adopt a school budget, undertake a school construction project or otherwise obligate itself to educational expenditures in such a manner and to such a degree so as to require the application of property tax rates that exceed the limits established by section 511, except that, in all such circumstances the property tax rate for educational purposes that exceeds the limits established by section 511 must be applied against primary residential property and no other class of property.

**Sec. 4. 36 MRSA, c. 105, subc. IV-B, is repealed.**

**Sec. 5. 36 MRSA, § 709 as last amended by PL 1975, Chap. 651, is further amended to read:**

**§ 709. Assessment and commitment.**

The assessors shall assess upon the estates in their municipality all taxes for kindergarten to grade 12 public education in accordance with subchapter I-A and all municipal taxes and their due proportion of any state or county tax payable during the

municipal year for which municipal taxes are being raised, make perfect lists thereof and commit the same, when completed and signed by a majority of them, to the tax collector of their municipality, if any, otherwise to the sheriff of the county or ~~his~~ the sheriff's deputy, with a warrant under their hands, in the form prescribed by section 753.

**Sec. 6. 36 MRSA § 709-A**, as last amended by PL 1973, Chap. 788, is further amended to read:

**36 § 709-A. Primary assessing areas; assessment and commitment.**

The municipal officers after receipt of the valuation lists from the primary assessing areas shall assess upon the estates in their municipality all taxes for kindergarten to grade 12 public education in accordance with subchapter I-A and all municipal taxes and their due proportion of any state or county tax, make perfect lists thereof and commit the same, when completed and signed by a majority of them, to the tax collector of their municipality, if any, otherwise to the sheriff of the county or his deputy, with a warrant under their hands in the form prescribed by section 753.

The municipal officers may delegate the preparation of such lists to any municipal employee, appropriately designated in writing, or may contract with the primary assessing area for the preparation of such lists.

**Sec. 7. 36 MRSA §6664** is enacted to read:

**§6664. Phase-out of program**

This chapter applies only to property first placed in service on or before April 1, 2003. Property first placed in service after April 1, 2003 is not eligible for reimbursement of property taxes under this chapter.

**Sec. 7. Legislative Duties.** During the First Regular Session of the 121<sup>st</sup> Legislature, the joint standing committee with jurisdiction over taxation matters shall develop recommendations designed to generate the additional revenue necessary to fund kindergarten to grade 12 public education. The committee shall be guided by the following directions.

1. The committee's recommendation must be designed to fund a total allocation that is adequate to provide a quality education for all the students in the public elementary and secondary schools in this state and for which the entire local share is established by the property tax rate limitations established by this Act. In order to determine the total allocation that is entirely adequate to provide a quality education for all the students in the public elementary and secondary schools in this state, the committee shall consult with the joint standing committee having jurisdiction over matters of education.

2. The committee may consider increases to rate or expansions to base, or both, of any broad-based tax that provides revenue to the general fund and the committee shall give special consideration to expanding the base of the sales and use tax to include services presently excluded from taxation. In addition, the committee shall give consideration to converting the state's sales and use tax to a gross receipts tax.
3. For the purpose of obtaining revenue to fund the state share of the total allocation for education, the committee may not recommend reductions to or freezes in revenues or reimbursements that historically have been provided to or shared with municipalities or the property taxpayers directly except for the repeal of the homestead tax exemption, residual savings provided by the diminishing demands on the Business Equipment Tax Reimbursement program and whatever reductions in appropriations for the Maine Residents Property Tax program the committee finds to be warranted in light of the property tax relief provided by this Act.
4. The committee shall develop legislation establishing a municipally-collected and retained excise tax on certain personal property with the goals of balancing the state's interest in establishing a uniform, stable and competitive industrial tax obligation compared to other states, removing disincentives to replace or modernize business machinery and equipment, and obtaining revenues from the personal property tax base that the Legislature considers reasonable to support municipal services and a fair share of the cost for kindergarten to grade 12 public education.
5. The committee, in consultation with the committees with jurisdiction over appropriations and financial affairs and education matters, shall recommend to the First Regular Session of the 121<sup>st</sup> Legislature an educational budget stabilization fund designed to ensure that an appropriate level of educational funding revenues are retained and protected during positive economic periods to ameliorate the volatility of sales tax revenue production.
6. The recommendations of the committee must be submitted to the 121<sup>st</sup> Legislature during its First Regular Session for consideration. The Legislature may either adopt the recommendations or send one or more recommendations to the voters in November 2003 for ratification.

**Sec. 8. Application date.** The section of this Act that repeals Title 36 Maine Revised Statutes chapter 105, subchapter IV-B applies to property tax years beginning on or after April 1, 2004.

**Sec. 9. Statutory referendum procedure; submission at general election; form of question; effective date.** This Act must be submitted to the legal voters of the State of Maine at

the next general election in the month of November following passage of this Act. The municipal officers of this State shall notify the inhabitants of their respective cities, towns and plantations to meet in the manner prescribed by law for holding a statewide election. to vote on the acceptance or rejection of this Act by voting on the following question:

“Do you favor ratifying the action of the 120th Legislature whereby it passed an Act establishing a maximum property tax rate on taxes raised for education of 6 mills on primary residential property, commercial, agricultural and industrial property and tracts of undeveloped land not enrolled in a current use program and 12 mills for all other property, repealing the homestead property tax exemption, and directing 121st Legislature to develop recommendations designed to generate additional revenue necessary to fund the costs of public kindergarten to grade 12 public education?”

The legal voters of each city, town and plantation shall vote by ballot on this question and shall designate their choice by a cross or check mark placed within a corresponding square below the word “Yes” or “No.” The ballots must be received, sorted, counted and declared in open ward, town and plantation meetings and returns made to the Secretary of State in the same manner as votes for members of the Legislature. The Governor shall review the returns and, if it appears that a majority of the legal votes are cast in favor of the Act, the Governor shall proclaim that fact without delay. This Act takes effect 30 days after the date of the proclamation but only if the Governor has by that date also proclaimed that the Constitution of Maine has been amended to permit the Legislature to establish different maximum property tax rates for different classes of property and to exempt personal property from property tax if certain personal property is subject to an excise tax to be collected and retained by municipalities.

The Secretary of State shall prepare and furnish to each city, town and plantation all ballots, returns and copies of this Act necessary to carry out the purpose of this referendum.

### **Summary**

This bill is presented by the Education Funding Reform Committee pursuant to Public Laws 2001, chapter 439, Part SSS as a proposal for reducing the State’s reliance on the property tax for funding public education. This bill is accompanied by separate legislation to amend the Maine Constitution to authorize aspects of the proposed changes. A minority of the Committee recommends legislative adoption of this proposal. A majority of the Committee supports presenting the proposal for further consideration by the Legislature rather than as recommendations of the substantive changes contained in the Committee’s proposal. This bill provides that the Act must be submitted to the voters for approval, and, if approved, it takes effect only if the proposed constitutional amendment is also approved by the voters.

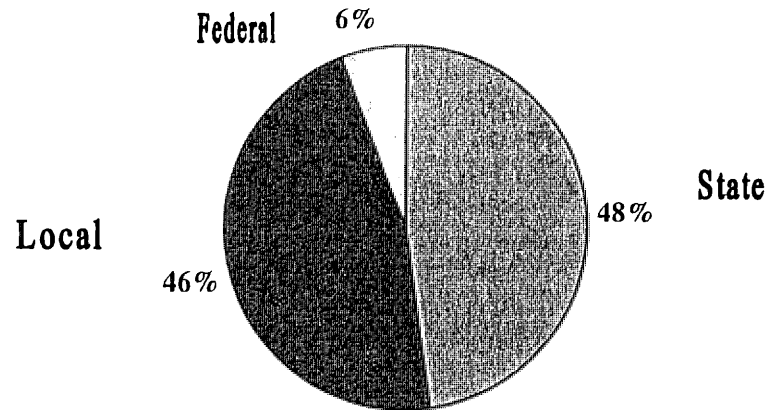
This bill establishes property tax maximum mill rates for local kindergarten to grade 12 public education costs. Mill rates would be limited to 6 mills for primary residential property, commercial, agricultural and industrial property and tracts of undeveloped property not enrolled in a current use program and 12 mills for all other property. Municipalities would be able to

raise additional amounts for public education through the property tax but only from primary residential property. The bill repeals the homestead property tax exemption and requires information regarding the impact of the changes to be included on property tax bills. The bill directs joint standing committee of the 121st Legislature with jurisdiction over taxation matters to develop recommendations designed to generate the additional state revenue necessary to fund kindergarten to grade 12 public education. The committee is directed to give special consideration to sales tax base or rate expansions and to consider converting the State's sales and use tax to a gross receipts tax. The committee is also directed to recommend an excise tax on personal property as partial replacement of property taxes on personal property and an education budget stabilization fund designed to ensure that adequate funds are available for education costs during periods when General Fund revenues do not keep pace with educational costs. Recommendations developed by the committee may be enacted by the Legislature or submitted to the voters for approval in November 2003.

**APPENDIX F**

**Selected Materials Presented to the Committee**

**Total K-12 Funds Available to School Administrative Units -- FY 1999-00**



F-1

Source of Funds	Total Funding	Percent of Total K-12 Funds
State General Funds *	\$813,881,579	47.75%
Local Taxpayers **	\$788,962,864	46.29%
Federal Funds	\$101,659,123	5.96%
<b>Total</b>	<b>\$1,704,503,566</b>	<b>100.00%</b>

\* State Funds -- Includes State General Purpose Aid, Teacher Retirement, Revolving Renovation & Other State Grants

\*\* Local Funds – Includes Total Local Taxes Raised for K-12 Education (Local Required and Local Option)

STATEWIDE SCHOOL FINANCE DATA  
 Total K-12 Funds available to School Administrative Units  
 FY 88 through FY 00

(1) Fiscal Year	(2) State Education Subsidy*	(3) State Funds for Teacher Retirement	(4) State Revolving Renovation Fund	(5) Other State Grants to Local Schools	(6) Total STATE Funds to Local Schools	(7) Total LOCAL Taxes Raised for Education	(8) Total FEDERAL Funds to Local Schools	(9) Total STATE LOCAL & FEDERAL Funds	(10) Percent** Total State Col. (6) to Col. (9)	(11) Percent** Total Local Col. (7) to Col. (9)	(12) Percent** Total Federal Col. (8) to Col. (9)
1987-88	\$367,178,096	\$91,800,000		\$3,242,405	\$462,220,501	\$367,281,061	\$36,533,029	\$866,034,591	53.37%	42.41%	4.22%
1988-89	\$429,832,728	\$93,400,000		\$4,287,203	\$527,519,931	\$404,269,826	\$39,756,367	\$971,546,123	54.30%	41.61%	4.09%
1989-90	\$475,471,927	\$116,799,187		\$4,089,540	\$596,360,654	\$454,592,121	\$43,028,585	\$1,093,981,361	54.51%	41.55%	3.93%
1990-91	\$523,535,768	\$62,604,930		\$3,926,066	\$590,066,764	\$498,401,866	\$46,569,503	\$1,135,038,134	51.99%	43.91%	4.10%
1991-92	\$512,925,568	\$85,708,221		\$1,979,072	\$600,612,861	\$531,496,570	\$52,848,065	\$1,184,957,496	50.69%	44.85%	4.46%
1992-93	\$516,204,022	\$139,305,477		\$2,331,316	\$657,840,815	\$547,687,083	\$60,618,157	\$1,266,146,055	51.96%	43.26%	4.79%
1993-94	\$519,850,486	\$101,110,616		\$2,527,323	\$623,488,425	\$579,323,658	\$55,661,475	\$1,258,473,558	49.54%	46.03%	4.42%
1994-95	\$521,910,192	\$128,591,206		\$3,741,862	\$654,243,260	\$616,551,745	\$54,902,481	\$1,325,697,486	49.35%	46.51%	4.14%
1995-96	\$534,148,396	\$124,643,209		\$5,421,916	\$664,213,521	\$653,448,261	\$62,914,636	\$1,380,576,418	48.11%	47.33%	4.56%
1996-97	\$544,460,070	\$132,817,000		\$6,144,373	\$683,421,443	\$687,218,671	\$66,295,577	\$1,436,935,690	47.56%	47.83%	4.61%
1997-98	\$556,290,235	\$151,539,355		\$6,609,806	\$714,439,396	\$722,412,628	\$77,278,403	\$1,514,130,427	47.18%	47.71%	5.10%
1998-99	\$593,048,207	\$160,982,218	\$20,000,000	\$6,779,545	\$780,809,970	\$752,942,136	\$92,238,464	\$1,625,990,570	48.02%	46.31%	5.67%
1999-00	\$626,580,384	\$153,641,283	\$23,420,315	\$10,239,597	\$813,881,579	\$788,962,864	\$101,659,123	\$1,704,503,566	47.75%	46.29%	5.96%
2000-01	\$664,131,846	\$162,620,993	\$28,000,000	N/A	N/A	\$840,951,568	N/A	N/A	N/A	N/A	N/A

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\* Includes Teacher Salary Block Grants (1987-88) distributed and adjustments (i.e., unusual enrollment grants, geographic isolation grants, etc.).

\*\* Since the "at least 55%" statutory requirement does NOT consider these additional local property tax levies, the percentages in this column are not required to comply with the "at least 55%" requirement. The 55% requirement ended in 1996-97 with the enactment of the School Finance Act of 1995. When the 55% requirement applied it did not include Teacher Retirement.

1. FY 91 amount includes the June 91 check that was delayed in payment til July 91.
2. The June 98 check was actually paid in June of 98.
3. Includes additional appropriation for State Wards and State Agency Clients \$1,515,880
4. 1999-00 Includes separate appropriation for hardship cushion \$3,783,692 and hold harmless of \$1,230,000.
5. 2000-01 Includes an appropriation for a cushion of \$4,309,297.



**RESIDENTIAL PROPERTY TAX BURDEN**  
 (Property taxes paid as a percentage of household income)

**FACTORS AFFECTING RESIDENTIAL PROPERTY TAX BURDEN**

	Tax rate factors			Taxing jurisdiction factors		
	Mill Rate	Home value	Household income	Tax base	Education costs	
Factors that lead to high property tax burden	HI	HI	LO	SMALL	HI	LOCAL CHOICES
Factors that lead to low property tax burden	LO	LO	HI	LARGE	LO	

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**SOME OTHER FACTORS INFLUENCING TAX BURDEN:**

- Assessing practices
- Development pressures
- Exempt property
- Industrial property
- SAD apportionment formulas
- Tax Increment Financing

# MICHIGAN/MAINE COMPARISON<sup>1</sup>

Tax	Michigan		Maine
	Before Reforms	Reforms	Current
Local property tax contribution to education funding	All taxable property (34 mill average)	Homesteads : 0 mills Nonhomesteads : (municipality must tax at least 18 mills in order to receive full state aid (100% remains in district))	All taxable property (state average FY 01 – 11.63 mills)
State property tax	None	All property : 6 mills (100% of revenue goes to school funding)	None
State sales tax	4%	6% (60% from 4% rate and 100% of revenue from the 2% increase goes to school funding)	5%
State individual income tax	4.6%	4.4% (14.4% of revenue after refunds goes to school funding)	4 tax brackets graduated from 2% to 8.5%
State real estate transfer tax	None	0.75% (100% of revenue goes to school funding)	0.44%
State cigarette tax	\$.25 per pack	\$.75 per pack (63.4% of revenue goes for school funding)	\$1.00 per pack (eff. 10/1/01)
Use tax	4%	6% (100% of increase goes to school funding)	5%
Other tobacco products		16% of wholesale on noncigarette tobacco products (100% of revenue goes for school funding)	62% of wholesale sales price
Lottery	Net revenue	Net revenue (100% goes to school funding)	Net revenue
Miscellaneous taxes (commercial and industrial facilities tax, commercial forests tax)	School district share	For schools (School district share)	
Liquor tax	4% excise tax	4% excise tax (100% of revenue goes to school funding)	markup sufficient to achieve previous year's revenue
Interstate telephone tax	None	6% (100% of revenue goes to school funding)	None

<sup>1</sup> Based on chart presented in Thompson, A Mavourneen, *Impacts of Michigan's Finance Reforms of 1994*, Maine Education Policy Research Institute, January 2001. Maine information added by Committee staff.  
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Table 1  
Maine's Effective Tax Rates by Expanded Income Level  
All Taxpayers (1998)

Expanded Income Range	Families	Income Tax		Consumer		Total State Taxes /2		
		Individual	Corporate /3	Sales Tax	Excise Tax	Individual	Business /3	Total
\$0 - \$9,999 /1	93,701	0.2%		7.5%	3.2%	10.9%		10.9%
\$10,000 - \$19,999	77,044	0.8%		4.0%	2.0%	6.9%		6.9%
\$20,000 - \$29,999	67,895	1.6%		2.6%	1.1%	5.3%		5.3%
\$30,000 - \$49,999	112,120	2.5%		2.2%	0.8%	5.5%		5.5%
\$50,000 - \$74,999	82,864	3.6%		1.9%	0.6%	6.1%		6.1%
\$75,000 - \$99,999	34,857	4.1%		1.6%	0.6%	6.3%		6.3%
\$100,000 - \$199,999	26,988	4.7%		1.4%	0.5%	6.7%		6.7%
\$200,000 & Over	7,081	6.4%		1.9%	0.5%	9.6%		9.6%
<b>Total</b>	<b>502,550</b>	<b>3.7%</b>	<b>0.1%</b>	<b>2.1%</b>	<b>0.8%</b>	<b>6.7%</b>	<b>0.8%</b>	<b>7.5%</b>

Income Range	Local Property Taxes			Property Tax Relief Programs /4		Total State and Local Taxes		
	Individual	Business /3	Total	Individual	Business /3	Individual	Business /3	Total
\$0 - \$9,999 /1	11.1%		11.1%	-1.9%		20.0%		20.0%
\$10,000 - \$19,999	6.6%		6.6%	-0.8%		12.6%		12.6%
\$20,000 - \$29,999	5.2%		5.2%	-0.5%		9.9%		9.9%
\$30,000 - \$49,999	3.6%		3.6%	-0.3%		8.8%		8.8%
\$50,000 - \$74,999	2.9%		2.9%	-0.2%		8.9%		8.9%
\$75,000 - \$99,999	2.5%		2.5%	-0.1%		8.7%		8.7%
\$100,000 - \$199,999	2.2%		2.2%	-0.1%		8.8%		8.8%
\$200,000 & Over	1.1%		1.1%	-0.0%		10.7%		10.7%
<b>Total</b>	<b>3.2%</b>	<b>0.8%</b>	<b>3.9%</b>	<b>-0.3%</b>	<b>-0.0%</b>	<b>9.6%</b>	<b>1.5%</b>	<b>11.1%</b>

1/ Effective tax rates for the first income group exclude a small number of households with negative income. Because the information for this group includes data anomalies and measurement limitations discussed in the study, effective tax rates for this income group should be viewed with caution.

2/ Total state taxes include taxes not shown separately.

3/ Due to the uncertainty of the incidence of business taxes, estimates of effective tax rates by income class for business taxes are not shown.

4/ State administered property tax relief programs include the Maine Residents Property Tax Program, Homestead Exemption and BETR.