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STATE OF MAINE GOVERNMENT FINANCES RELIEF AND REFORM 1973-1975

submitted by

ESCO Research, Inc.

for the

State Planning Office

Executive Department

State of Maine

December 1972

CURTIS
OR

PHILIP M. SAVAGE
STATE PLANNING DIRECTOR

The preparation of this report was financially aided by the State Planning Office, Executive Department, State of Maine, and through a Federal Planning Grant from the U. S. Department of Housing and Urban Development.

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State of Maine
Executive Department
State Planning Office
180 State Street, Augusta, Maine 04330

KENNETH M. CURTIS
GOVERNOR

PHILIP M. SAVAGE
STATE PLANNING DIRECTOR

December 30, 1972

Honorable Kenneth M. Curtis
Governor of Maine
State House
Augusta, Maine 04330

Dear Sir:

I am pleased to transmit to you this report, entitled "State of Maine Government Finances Relief and Reform 1973-1975." This report was prepared by ESCO Research, Inc., of Portland, Maine, in close cooperation with the State Planning Office.

Special emphasis was placed on obtaining the personal and professional involvement of the heads and other officials of major departmental offices of the State of Maine, together with the cooperation of representatives of municipal, industrial, and other organizations which were also studying various aspects of this problem. Good use was made of material from various state and national sources, as evidenced by the Bibliography of this report, together with direct correspondence and field trips to the executive offices of the States of Vermont, where an innovative land-use program is under serious study, and Minnesota, where an extensive tax-reform program has been recently put into effect.

Because this report was based on such a broad background of study, combined with the active involvement of so many Maine officials and representatives of various interested groups, it is believed that its findings will be of practical value to the Legislature of the State of Maine during the deliberations of the 106th Legislature.

It is also hoped that this report will contain material of value to officials and study groups in other states faced with similar problems of government finances relief and reform. Copies of this report will be forwarded to the appropriate officials of the U. S. Department of Housing and Urban Development.

Sincerely,
Philip M. Savage
State Planning Director

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December 15, 1972

Mr. Philip Savage, Director
State Planning Office
State of Maine Executive Department
State House
Augusta, Maine 04330

Dear Mr. Savage:

ESCO Research, Inc., was pleased to be given a most important assignment by the State of Maine, that of assisting the Governor and the members of the 106th Legislature to develop an overall revenue policy for the State of Maine.

In accordance with our agreement ESCO is submitting these findings and recommendations to assist the Governor, members of the Legislature, and the State Planning Office in the developing of a budget for the next biennium and a revenue policy for the State of Maine for the immediate years ahead.

During the past nine months, members of the ESCO Research staff have visited all major departmental offices of the State of Maine, some of them on repeated occasions. The many State officials who were thus contacted have cooperated fully with the ESCO staff and made valuable contributions to the end product. In addition to the State officials, many representatives of various other interested publics were visited and their recommendations solicited. The ESCO staff also worked closely with other committees and agencies that have been studying various aspects of the State's financial problems. All reports submitted by such groups have been studied so that the latest information might be included in this final ESCO report.

It is my sincere hope that the ESCO report will be of major importance to the Governor and Legislature of the State of Maine during the forthcoming deliberations of the 106th Legislature. I also hope that some of the material embodied in this report will be of value to officials and legislators in other states where a current need is found to study the various alternative methods of state financing.

ESCO now submits its report to the State Planning Office. In doing so, we wish to compliment the many members of State government for their assistance and understanding during the course of the study.

Respectfully submitted,

ESCO Research, Inc.

Harry J. Waters, Ph.D.

Executive Director

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Recommendation 1: Provide All Basic Operating Funds for Public Schools

To insure a relatively equal opportunity for all Maine youth, and to further insure that Maine citizens will bear the burden equitably, the 106th Legislature should provide all of the basic operating funds for public schools, grades Kindergarten through 12. Full funding of public school education would put the State of Maine in the forefront of educational reform by making educational opportunities more equivalent in all sections of the State. The estimated additional cost to the State of Maine of taking over the burden of what would otherwise need to be financed by the revenues of local municipalities will be $123.5 million in fiscal 1974-75, the second year of the biennium.

Recommendation 2: Fund the Entire Cost of Transportation for Public School Pupils

Since it is difficult to obtain an equitable level of education in all sections of the State if some municipalities are required to financially support a school bus system while other municipalities have no need for a similar bus service, it is recommended that the State of Maine assume all of the costs of transporting elementary and secondary pupils to and from school. The added cost of the State of Maine upon assumption of all the bus service would be $3.3 million in the second year of the biennium.

Recommendation 3: Provide a Measure of Tuition Credit for Parents of Private School Children

The State legislature should provide a tuition credit, amounting to not more than 70 percent of the tuition paid for each of the estimated 12,000 children whose parents are residents of Maine and who are enrolled in private schools, grades K-12, with a maximum credit of $200 per enrolled child.

Such tuition credits for the affected parents might enable the parents to keep their children in private schools rather than transferring them to public schools. The net savings to State and local governments in allowing this tuition credit rather than providing public school education would be nearly $7.1 million.

Recommendation 4: Eliminate Selected Personal Property Tax Classification and Reimburse the Municipalities

In order to place Maine industry at a competitive advantage with industries located in New Hampshire and other New England States, it is recommended that the Personal Property Tax be phased out over a period of time.

Since it seems impractical to remove all of the Personal Property Tax during the current biennium, it is recommended that the Personal Property Taxes be removed from the following classifications: stock in trade, industrial inventories, wood, lumber and logs, live stock, and other miscellaneous items. It is estimated that these exemptions would result in a loss of approximately $15.0 million in the fiscal year 1974-75.

In order to reimburse the communities for their loss in personal property taxes, it is recommended that 80 percent of the loss in inventory and similar personal property tax revenues, using 1972 tax collections as the base, be paid directly by the State to the municipalities during fiscal 1974-75 and that the remaining 20 percent be distributed to all the municipalities in the State using the current State-local revenue sharing program. In each following year the direct payment would be decreased by 20 percent of the 1972 personal property taxes eliminated and the revenue sharing portion would be increased by 20 percent of this amount. Thus in fiscal 1978-79, 100 percent of the base amount would be distributed via the State-Local revenue sharing program.

Recommendation 5: Eliminate the Bank Stock Tax.

In 1961 all taxes on intangible property, with the sole exception of the Bank Stock Tax, were repealed by the Maine Legislature. Since this tax reform program is recommending that the Corporate Income Tax be increased, it is recommended that the one surviving tax on intangibles be repealed.

Since the municipalities will be receiving a substantial increase in State-Local revenue sharing funds from the increase in the income and sales taxes recommended as part of this tax reform program, it is suggested that the local municipalities should not be directly reimbursed for the approximately $0.7 million dollars they would collectively lose.

Recommendation 6: Amend the Sales and Use Tax Law to Exempt Machinery and Equipment Used Directly and Solely in the Manufacture of Tangible Personal Property for Sale or in Research and Development.

In order to encourage the development of Industry within the State of Maine, it is recommended that the Machinery and Industrial Equipment used in production of Tangible goods and for research and development be exempted from the Sales and Use Tax.

The estimated loss of Sales and Use Tax revenue for a full year attributed to such an amendment is estimated to be $5.0 million per year.

Recommendation 7: Provide a Measure of Rent Relief Through a Cash Subsidy for Tenants.

It is recommended that a cash subsidy be given each of the 34,084 tenants in Maine who do not own a home or principal place of residence but who live instead in rented quarters. The subsidy to the tenants should amount to 20 percent of their rent payment for the year but not exceed $200 in fiscal 1974. The maximum rent subsidy would decrease by $50 per year. Thus the program would be phased out in fiscal 1979.

It is estimated that the new general fund revenues that would be required to provide this relief to renters would amount to $7.5 million per year.

Recommendation 8: Eliminate the Poll Tax

The current poll tax should be eliminated because it is discriminatory as well as irritating to Maine residents while yielding only $646,968 in 1970. As the tax is currently assessed, it excludes women and males under 18 or over 70.

Since the municipalities, which receive very little revenue from this tax, will be receiving increased State-Local revenue sharing, it is not recommended that the Municipalities be reimbursed for this lost revenue.

Recommendation 9: Reintroduce and Enact the Morrill Bill (LD 2003) to Bring the State Income Tax Standard Deduction into Conformity to Federal Income Tax Standards.

The Morrill Bill which was introduced in the 1972 special session of the 105th Legislature was intended to change Maine's income tax law so that it might more closely conform to the federal income tax law. Some Maine residents are not liable for federal income taxes but must file and pay a Maine State Income Tax in spite of Maine's low income tax rate. In order to make the State Income Tax law similar to the federal law, the standard deduction must be changed, which would mean a loss of $2.5 million to the State of Maine.

Recommendations for Financing the Tax Reform

Recommendation 10: Establish a Uniform State Property Tax Based on State Valuation.

In order to finance the tax reforms recommended in this study it is proposed that each municipality in Maine be assessed a Uniform State Property Tax based on the State Valuation of the Real and Personal Property in each of the 496 municipalities in Maine. Each municipality would be responsible for collecting and remitting these funds to the State Government.

The mill rate which would be assessed by the State Tax Assessor could vary, depending upon the specific reform program and revenue package which is selected.

Recommendation 11: Increase the State Corporation Income Tax Rate

It is recommended that the income tax rate on all corporations be increased from 4 percent to 6 percent with an additional 4 percent surtax on corporate earnings over $25,000. It is estimated that this increase in tax rates will yield an additional $10.9 million during the second year of the biennium, fiscal 1974-75.

This recommendation has the support of many elements of the business community who prefer an increase in the Corporate Income Tax in lieu of the Personal Property Tax. The Corporate Income Tax is favored over the Personal Property Tax because you do not pay the tax unless you make a profit.

Recommendation 12: Increase the State Personal Income Tax Rate

It is important to note that the personal income tax law passed by the Maine legislature has been described as an equitable and progressive tax. In comparison to many other States using this method of taxation, the rates charged in Maine have been relatively low.

Therefore it is recommended that the Personal Income Tax rate be increased, with a new tax rate ranging from 2-12 percent, an increase that would yield $29.1 million in the second year to the biennium.

Recommendation 13: Increase the Revenue from the Sales and Use Tax by Broadening the Base or Increasing the Rate

Despite the criticism of the sales tax as a source of revenue it still remains highly desirable because it can be made to fall more heavily upon seasonal residents or visitors to the State of Maine.

It is recommended that the legislature increase the revenue from the Sales and Use Tax by broadening the base or increasing the rate in the manner indicated below.

1. Broaden the Base of the Sales Tax to include Services.
2. Broaden the Base of the Sales Tax to include food with an income tax rebate.
3. Increase the Sales Tax Rate on Current Base.

One alternative which has been recommended would be to broaden the current sales tax to include charges for all services exclusive of medical and dental services with an offsetting income tax credit or rebate for families of low income. It is estimated that this broadening of the tax after rebates would yield $30.0 million in the second year of the biennium.

Another alternative approach to increasing revenue from the sales tax would be to broaden the sales tax to include a tax on all food products. The net revenue to the State if the sales tax were applied to food would be $13.4 million per year. To avoid placing an extra tax burden on Maine residents of low income, it is recommended that a $25.00 per capita Maine Income Tax credit or rebate be used to offset the added cost to Maine residents.

Finally the legislature might increase the current Sales and Use Tax from 5 percent to 6 percent. This alternative would yield approximately $20.0 million per year to the General Fund of the State of Maine. The one percent increase in the sales tax is considered a more politically acceptable way to obtain increased revenue and will be paid in part by the many visitors to the State of Maine.

Recommended Non-Revenue Reforms for State Government

Recommendation 14: Establish a Property Tax Bureau Within the Department of Finance and Administration.

It is recommended that a separate Property Tax Bureau within the Department of Finance and Administration be created to replace the existing Property Tax Division of the Bureau of Taxation.

A Property Tax Bureau, headed by a person of sound technical competence and strong administrative ability, is needed to provide effective assistance to both the Legislature and the Executive in the consideration of Property Tax matters, to furnish leadership at the State level to help improve local property tax administration, and to carry out in a satisfactory manner all State functions connected with property taxation.

Recommendation 15: Establish a State Board of Property Tax Appeals.

A State Board of Property Tax appeals should be established. Such a Board would provide the taxpayer of moderate and low income with a means to appeal an assessment that he considered unfair without forcing him to an expensive legal process in the courts.

Recommendation 16: Undertake a Land Use Study Similar to That of Vermont.

A new approach to property tax reform is undergoing an experimental three-year study, which is being conducted by the State of Vermont, assisted by a substantial grant from the Federal Housing and Urban Development Authority (HUD). It is recommended that an in-house task force should be developed to understand, modify, and implement the Land Use Tax System that is being designed and developed in Vermont. This in-house task force could prepare a proposal for federal funds to assist in a Maine version of this study.

Recommendation 17: Require Municipalities with Less than 2,000 Children of Public School Age to Join in a School Administrative District Wherever it is Geographically Possible.

Provided the State Legislature decides to fund the cost of basic public school education through some plan similar to that recommended in this study, it is strongly recommended that the Legislature require all municipalities with school populations of less than 2,000 students to consolidate their school systems in School Administrative Districts wherever it is geographically possible. It is recommended that such School Administrative District consolidation be required to be completed within three years of the passage of such legislation.

Recommendation 18: Establish a Council on Quality in Education.

It is recommended that a Council on Quality in Education be established to receive proposals for innovative public school programs from the various School Administrative Districts and from municipal school systems. The council, which would operate much like Title III of the Elementary and Secondary Education Act of 1965, would in this way encourage the development of programs that promise educational and cost benefits.

It is recommended that the State Legislature appropriate $750,000 to establish and fund a Council on Quality in Education.

Recommendation 19: Establish a Coordinator for Federal Funds.

It is recommended that a new position of Coordinator of Federal Grants be established within the Department of Finance and Administration. The responsibility of the proposed coordinator would be to keep thoroughly updated as to the availability of federal funds and their specific applicability to programs of benefit to the State of Maine.

It is recommended that the Legislature appropriate $50,000 dollars to establish and fund an office of a Coordinator of Federal grants during the 1973-75 biennium.

Recommendation 20: Employ a Financial Planner for the Determination of Sources of State Revenues.

To provide expert assistance to the various tax committees appointed by the Legislature or the Governor and to engage in ongoing revenue research, including the updating of current revenue estimates and the preparing of estimates concerning potential revenue improvements and tax reforms, a financial planner is needed.

It is recommended that the Legislature establish the position of State Financial Planner and that $17,500 per year be appropriated to fund that position.

Recommendation 21: Assess Effluent Charges on Polluting Industries Which Fail to Undertake and Continue Adequate Measures of Pollution Control.

Effluent charges on industries which continue polluting the Maine environment without taking measures to install pollution control equipment within a reasonable period should be regarded, not as a source of State revenue, but as measures to encourage reasonably prompt pollution control.

Recommendation 22: Make Available a Research Staff for the Members of the Legislature.

The pressure of a Legislator's work is so great that a Legislative Research Staff is needed to research the pro's and con's of anticipated legislation between sessions, to prepare brief summaries of such points before a bill is formally considered. The research staff could provide the necessary background data to help make the Legislators more effective in their deliberations. This staff could also staff many of the major Legislative committees during the session and in between sessions.

For these reasons it is recommended that the Legislature establish and provide adequate funding for a competent Legislative Research Staff to work with the present professional Legislative staff.

PART II

ESTIMATES BASED ON CURRENT REVENUE STRUCTURE

Current revenue structure and rates, together with surplus funds and the State's share of federal revenue sharing and grants, and the yield from already authorized bond issues are estimated to be adequate to continue current State programs in the 1973-1975 biennium and to provide for limited Part II budget needs.

A pre-Legislative estimate made by the Department of Finance and Administration leads one to conclude that no new taxes will be needed to continue current State services and also a limited Part II budget for certain new or added State services of high priority. The new federal revenue sharing program, together with increased yield from current taxes and surplus funds, should provide $186.1 million in additional revenues over the $404.3 million in General Fund revenues budgeted for the 1971-73 biennium. This would provide a total of $590.4 million in General Fund revenues available for appropriation during the 1973-75 biennium.

Part I Budget requirements are estimated to increase from the $404.3 million budgeted for Parts I and II during the 1971-73 biennium to $544.2 million for the 1973-75 biennium. The items necessitating this increase of $139.9 million are explained on the following pages.

After Part I budget requirements are met, approximately $46.5 million will be left to meet high-priority Part II budget needs. Whether this $46.5 million is enough to meet the Part II high-priority programs that may be authorized depends on the programs selected, the appropriations authorized, the adequacy and timing of additional Federal grants, and the bond issues that may be required.

The following table, Chart II-1, provides a tabular summary of these General Fund revenue and appropriation estimates.

Table II-1

Tentative Estimates as of December 15, 1972, of General Fund Revenues and Appropriations Based on the Current Revenue Structure of the State of Maine During the 1973-75 Biennium*

Estimates of General Fund Revenues: 1973-1975		1973-1974 (millions)		1974-1975 (millions)		Biennial Total (millions)
General Fund Revenues as Budgeted for 1971-75		$ 195.2		$ 209.1		$ 404.3
Increase in Yield from Current Revenue Sources	$ 53.0		$ 60.2		$ 113.2	
Surplus Funds	$ 15.5		$ 18.8		$ 34.3	
Federal Revenue Sharing Alloted for Period Prior to June 30, 1973	$ 13.8		———		$ 13.8	
Federal Revenue Sharing Each Fiscal Year	$ 12.3		$ 12.5		$ 24.8	
Total Increases in Revenues		$ 94.6		$ 91.5		$ 186.1
Total General Fund Revenues		$ 289.8		$ 300.6		$ 590.4

Estimates of General Fund Appropriations: 1973-1975		1973-1974 (millions)		1974-1975 (millions)		Biennial Total (millions)
Total General Fund Appropriations: 1971-75		$ 195.2		$ 209.1		$ 404.3
Part I Budget Increases for 1973-1975	$ 48.8		$ 44.6		$ 93.4	
Part II Budget High Priority Appropriations: 1973-75	$ 21.5		$ 25.0		$ 46.5	
Increases in Appropriations		$ 70.3		$ 69.6		$ 139.9
Total General Fund Appropriations		$ 265.5		$ 278.7		$ 544.2

* These estimates do not include Federal grants or payments, other than the new Revenue Sharing funds which are additions to Surplus not allocated by the grant terms to a particular purpose. Also not included are the yields from sale of authorized State bonds whether or not such sale proceeds are used as matching to obtain Federal funds.

Explanations of Increases in Appropriations

Part I Budget Increases: Current estimates of the increases in necessary costs of maintaining current State services at current levels indicate a Part I budget increase of $93.4 million during the 1973-75 biennium. A relatively small part of this increase is an allowance for the inflationary increases in the costs of goods purchased, services hired, and cost-of-living adjustments to salaries.

The greater part of the increase in the Part I budget is required to fund a continuation of Part II budget programs of the 105th Legislature, some of which required previous funding only for the second year of the 1971-73 biennium. Now that these are continuing programs, funding for the full two years under the Part I budget will be required. The listing presented below in Table II-2 presents the major identifiable items which were funded for at least the latter part of the 1971-73 biennium under the Part II budget of that biennium and which now represent major increases in the Part I budget for the 1973-75 biennium. The total amount of $85.1 million represents approximately 91 percent of the Part I budget increases for the new biennium. The remaining 9 percent of the increases represent either previous Part II budget increases in on-going Part I programs, such as allowances for added personnel in previously existing State offices, or price-level changes due to inflation, increasing the allowances for wages, salaries, or purchases of goods or services required by previously established offices.

Table II-2

Major Identifiable General Fund Part I Increases for the 1973-75 Biennium

Specific Identifiable Items	Biennial Increase (millions)
School Subsidies	$ 37.5
Full Funding of State Employees' Salary Plan	6.4
State Employees' Retirement Costs	3.4
Teachers' Retirement Costs	4.3
Interest on Bonds	3.4
Retirement of Bonds	20.6
Full Funding of Tax Relief for the Elderly	2.8
Full Funding of the Local Government Fund	6.7
Total Increases Caused by Identifiable Items	$ 85.1

School Subsidies: Approximately 40 percent of the increase in the Part I budget is attributable to the increased rates and amounts of State financial assistance to the public schools, enacted by the 105th Legislature. The need for an even greater degree of State financial assistance to public school education is discussed in Part III of this report.

Full Funding of State Employees' Salary Plan: The 105th Legislature recognized that growing inflation had deflated the paychecks of State employees by about 13 percent during the 1969-71 biennium and that updated wage and salary scales were needed. Increased appropriations to provide the added funds needed for a new salary plan which went into effect the second year of the 1971-73 biennium were included in the Part II budget of that biennium. This added cost, amounting to $6.4 million for the 1973-75 biennium, must now become part of the Part I budget increase for this biennium.

State Employees' Retirement Costs: State employees have a retirement plan which is funded in part by deductions from their salaries and in part by proportionate contributions from the State. To meet legal reserve requirements, an increase of an estimated $3.4 million in the State's share will be required during the 1973-75 biennium.

Teacher's Retirement Costs: Teachers in the public school systems throughout Maine are required to contribute toward a State Retirement Plan for Teachers into which the State must also contribute a proportionate share. The higher pay scales for teachers in public schools will necessitate an increase of an estimated $4.3 million in State contributions over previous levels during the 1973-75 biennium.

Interest on Bonds: In addition to the interest which must be paid on previous issues of State bonds, an added $3.4 million must be paid on bonds issued during the 1971-73 biennium.

Retirement of Bonds: Bond issues amounting to $20.6 million are maturing during the 1973-75 biennium, requiring the state to pay these retirement costs.

Full Funding of Tax Relief for the Elderly: During the second year of the 1971-73 biennium a program of limited Property Tax relief for the elderly went into effect, funded through the Part II budget of the 105th Legislature. Complete funding of $2.8 million will be required for the 1973-75 biennium as part of the Part I increase in the budget.

Full Funding of the Local Government Fund: A bill specifying that 4 percent of State revenues from the Sales and Use Tax and the Personal and Corporate Income Tax be returned to municipal governments in the form of State-Local revenue sharing was enacted by the 105th Legislature and went into effect the second year of the 1971-73 biennium, funded through the Part II budget of that biennium. An estimated increase of at least $6.7 million in the Part I budget of the 1973-75 biennium will be required for full funding during the new biennium.

Part II Budget, New Appropriations: In preparation for the convening of the 106th Legislature, State officials have been engaged in screening the requests for enlarged or added programs considered necessary or highly desirable by the various State departments. Preliminary estimates, as of mid-December 1972, indicate that approximately $46.5 million in General Fund revenues, based on the current tax structure of the State of Maine, should be available for Part II budget needs of high priority during the 1973-75 biennium.

Explanations of Increases in Estimated Revenues

Increase in Yield from Current Revenue Sources: Both the Sales and Use Tax and the State Personal Income Tax have been producing substantially better revenues during the 1971-73 biennium than earlier estimates had indicated. Although the State Corporate Income Tax has not yet yielded a proportionate increase in revenues, economic indicators forecast a rapid upturn in general business and industrial profits.

State officials in the Department of Finance are in general agreement with the conclusion of this report that Maine is sharing and will continue to share in the substantial economic revival and growth now forecast for much or all of the 1973-75 biennium. The favorable effect on State revenues has been emphasized for the United States as a whole by leading economists, including Dr. Elsie M. Watters, Director of State-Local Research, Tax Foundation, Inc., Princeton, New Jersey.

According to estimates of the State of Maine Department of Finance and Administration, current tax sources during the 1973-75 biennium will probably yield approximately $113.2 million over and above the revenues received from such sources during the 1971-73 biennium. One of the reasons for this forecast is the way that revenues from the Sales and Use Tax and the Personal Income Tax have been consistently increasing and exceeding all previous estimates by wide margins.

It is quite possible that the estimates of tax revenues prepared by the Department of Finance and Administration may prove to be as conservative in regard to the 1973-75 biennium as they were in forecasting receipts from major taxes in the 1971-73 biennium. Elsie M. Watters, the economist mentioned above, has published a recent article, entitled "Some Perspectives of State-Local Finance to 1980," in which she predicts that surplus funds will appear in many state treasuries because of the increased yield of current taxes as the economy improves. Although Maine may not experience the benefits of the economic upturn so rapidly as some of the more highly industrialized states, it is still possible, if one accepts the assumptions of Elsie M. Watters, that our current broad-based taxes may yield a greater proportion of needed State revenues during the 1973-75 biennium than previously anticipated.

Surplus State Funds: The increased yield from current sources of taxation predicted by Elsie M. Watters has already made a marked impact on Maine State revenues. As periodic tax reports have been compiled during the 1971-73 biennium, estimates of State surplus funds have been revised upward again and again. As of December, 1972, it is estimated that current tax sources will provide Surplus State Funds amounting to $34.3 million by the end of this biennium to help meet budgetary needs for the 1973-75 biennium, as indicated by Table II-1 on a previous page. Since Surplus State Funds tend to be appropriated chiefly for Part II budget items, many of which are not put into effect until the second year of the biennium, the projection in Table II-1 may apportion somewhat too much of the surplus for expenditure during the 1973-74 fiscal year, and somewhat too little for expenditure during the 1974-75 fiscal year. The total amount available for expenditure during the 1973-75 biennium should be at least $34.3 million, however, and possibly somewhat more.

Federal Revenue Sharing Allotted for Period Prior to June 30, 1973: The retroactive and current aspects of the Federal Revenue Sharing Bill, HR 14370, passed by Congress on October 13, 1972, willl allot $13.8 million to the Maine State Government for the period prior to June 30, 1973.

Federal Revenue Sharing for Each Fiscal Year: The Federal Revenue Sharing Bill, HR 14370, has established a five-year program to share a total of $30.2 billion in federal revenue with state and local governments. One-third of each state's entitlement will be allocated to the State government, while the remaining two-thirds will be allocated to local governmental units within the state. Payments are to be made quarterly.

The actual allocations may vary slightly from the estimates given in Table II-1 and Table II-3, which is displayed below, because the federal formulas are influenced by such factors as state population, relative income, and tax effort. There is a possibility, therefore, if Maine's relative income fails to increase as rapidly as that of other states, and if Maine's tax effort increases to a greater relative extent, that the allocations for the second year of the biennium may be somewhat greater than the estimates tabulated below.

Under the Federal Revenue Sharing Act, states are permitted to legislate optional formulas for distributing local government funds by population weighted by local tax effort, or by population weighted by relative income, or by a combination of these weightings. A formula change enacted by the State legislature may, however, be done once during the five-year program. Moreover, if the State legislates a reduced transfer of State funds to local governmental units, the Federal Revenue Sharing entitlement allocated to the State government will likewise be reduced, except in cases where the State can demonstrate that it has assumed responsibility for offsetting expenditures previously made by local governmental units or has conferred new taxing authority on local governments to provide offsetting funds.

The State of Maine may use funds received from Federal Revenue Sharing for any legal expenditure except expenditures of so-called matching funds connected with federal grants. This provision may result in need for additional State bond issues to provide needed matching funds for one-time or special purpose Federal grants.

Local governmental units may use funds received from Federal Revenue Sharing for capital expenditures authorized by law and for ordinary operating and maintenance expenditures for public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor and aged, and for financial administration.

It is estimated that many local governmental units will use as much as one quarter of their revenues from Federal Revenue Sharing to stabilize their property taxes. Although this means a measure of immediate relief, the projected cost of local government may continue to increase at least 6 percent each year. This means that, in spite of the immediate relief provided local governments by Federal Revenue Sharing, the State will still need to assume a larger proportion of the costs of public education if local property tax rates are to be held within reasonable limits.

PART III

SUMMARY OF FOUR ALTERNATIVE PLANS TO PROVIDE AND FINANCE TAX REFORMS

To provide a more equitable balance of State and local taxation, and particularly to relieve the currently increasing burden of rising rates of local property taxation, a number of reforms in the State and local tax structure of Maine should be considered. Three specific objectives of these tax reforms should be:

1. To provide a more equitable means of support of public schooling, grades K-12.
2. To improve the overall equity of the tax system and, in particular, to reduce the property tax burden on Maine home owners and tenants.
3. To improve the business climate in Maine by substantially reducing or eliminating the Personal Property Tax.

The following four alternative plans to provide and finance tax reform have been designed to meet these objectives in varying degrees. The first plan is most comprehensive in meeting all three objectives quite fully. Plans II and III meet these objectives in a more limited way. Plan IV fails to meet the third objective, but it does provide for State support of the basic operating costs of public schools, together with a reduction in the proportion of the costs of public education paid through property taxation.

Each of the four plans for tax reforms, together with the suggested alternative plans for providing sources of revenue to finance these reforms, was based on a careful study of information received from many sources. All available recent studies of the problems involved, including studies prepared by Maine organizations representing municipal and industrial groups, Legislative committees, citizens' committees, State governmental staff specialists, and outside consultants, were carefully reviewed. Proposed legislation that had been submitted to the 105th Legislature was also studied. Conferences or interviews were carried on with various members of the Legislature, State department heads and other officials, representatives of local governmental and citizen groups, and representatives of industrial and other associations. Tax reforms which have been implemented in other states, such as in Minnesota, or which are being prepared for serious consideration, as in Vermont, have also been studied. Reports and articles prepared by professional tax-study organizations, such as the Tax Foundation, Inc., of Princeton, New Jersey, have also received careful consideration.

The nine measures listed under Plan I to provide a program of tax reform, together with the alternative revenue proposals to fund the costs of these reforms, were selected on the basis of a careful study and comparison of the reports received from the studies and interviews described above. The revenue proposals show how the State can finance these reforms in an equitable and administratively practical manner, without any need to resort to "nuisance taxes" which are difficult to police and costly to administer.

Descriptions of the nine suggested measures of tax reform, with reasonably full explanations of the details, are contained in the following Part IV section of this report. Table III-1 provides little more than the descriptive titles of the reform measures.

Descriptions of the specific revenue items in the alternative revenue proposals are fully given in Part V of this report.

Table III-1

Cost of Tax Reforms
Estimated by the Department of Finance and Administration
Fiscal Year 1974-75

(Millions of Dollars)

	Plan I	Plan II	Plan III	Plan IV
1. Provide all basic operating funds for Public Schools, starting in the second year of the biennium	123.5	123.5	123.5	123.5
2. Fund the entire cost of transportation for Elementary and Secondary Pupils, starting in the second year of the biennium	3.3	3.3	—*	—*
3. Provide a measure of Tuition Credit for parents of private school children, for the second year of the biennium	2.5	2.5	—	—
4. Exclude from personal property taxation such categories as inventories, stock in trade, and similar items; and reimburse municipalities, for the second year of the biennium.	15.0	15.0	15.0	—
5. Eliminate the Bank Stock Tax; do not reimburse municipalities	No Cost	No Cost	No Cost	No Cost
6. Amend the Sales and Use Tax to exempt machinery and industrial equipment used in production of tangible goods, for the second year of the biennium.	5.0	5.0	—	—
7. Provide a Rent Subsidy for tenants in the second year of the biennium.	7.5	—	—	—
8. Eliminate the Poll Tax the second year of the biennium; do not reimburse municipalities	No Cost	No Cost	No Cost	No Cost
9. Reintroduce and enact the Morrill Bill (LD 2003) to bring State Income Tax Deductions into conformity to Federal Income Tax Standards.	2.5	2.5	—	—
TOTAL COST OF EACH PLAN	159.3	151.8	138.5	123.5

*Dashes mean that the item in question is omitted from the plan so marked.

Table III-2

Recommended Methods of Funding Tax Reforms For Fiscal Year 1974-75

(Millions of Dollars)

	Plan I	Plan II	Plan III	Plan IV
Revenue from Uniform State Property Tax (Actual rate to be set to produce equivalent revenue to that which would be produced by 26 mills on 1973 State valuation. See Note 1.)	97.9	97.9	97.9	97.9
Added Revenue from Increase in the Corporate Income Tax from 4% to 6%, with Additional 4% Surtax on Profits in Excess of $25,000	10.9	10.9	10.9	—
To Be Appropriated from State Funds (which will be available after funding Part I and Part II as limited by the Governor's Budget recommendations)	21.4	13.9	29.7	25.6
Increase in Personal Income Tax from Current 1% to 6% to Proposed 2% to 12%. (See Note 2 for alternative suggestions)	29.1	29.1	—	—
TOTAL FUNDING PROVIDED	159.3	151.8	138.5	123.5

NOTE 1: It is possible that the increase in the State valuation of real property, because of new construction and other improvements, together with adjustments reflecting 50 percent of the increase in market values of certain types of property, may be sufficient to offset the proposed exemption of stock in trade, inventories, and similar categories of items from Personal Property Taxation. If there are no adjustments for new construction or increased Real Property valuations, the proposed exemptions would narrow the Property Tax base sufficiently to require a rate of approximately 30 mills to produce the needed revenue. Because some of these adjustments will almost certainly be made, the probable rate will be somewhat less than 30 mills but possibly more than 26 mills. Eventual return of certain types of real property from the current tax-exempt status to a tax-paying status, as discussed briefly in Part V, would also lower the rate.

NOTE 2: An increase in Sales Tax revenues might be utilized instead of an increase in Personal Income Tax rates. As explained in Part V of this report, broadening the Sales Tax base to include services would yield $30 million in new State revenues. This method of financing enables the non-resident to pay his fair share, even though he pays no State Income Tax. Other Sales Tax programs which would derive a substantial proportion of revenues from vacationers and other non-residents, as discussed in Parts V and VII, might also be utilized by the Legislature in lieu of an increase in the Personal Income Tax.

Table III-3

Net Effect of Proposed Tax Reforms upon the Municipalities of Maine

Gross Gains for the Municipalities

(1) Support of basic operating costs of Public School Education provided by the State	$ 123,500,000
(2) State-Local Revenue Sharing of 4 percent of the increase in yield from current rates and types of Income Taxation and Sales and Use Taxation	2,400,000
(3) Distribution according to population of 20 percent of the State reimbursement for loss of certain personal property tax revenues (Plans I, II, and III only)	3,000,000
(4) State-Local Revenue Sharing of 4 percent of new revenue from increased rates of the Corporate Income Tax (Plans I, II, and III only)	436,000
(5) State-Local Revenue Sharing of 4 percent of New Revenue from Increased Personal Income Tax rates (Plans I and II only)	1,164,000
TOTAL GROSS GAINS	$ 130,500,000

Gross Losses Partially Offsetting Some of the Gains

(6) Payment to State of the State Property Tax	$ 97,900,000
(7) Loss of direct reimbursement of 20 percent of lost municipal revenues previously derived from certain categories of Personal Property Taxation (Compare Item 3 above)	3,000,000
(8) Loss of Net Revenue from Poll Tax (Adjusted to eliminate no-longer-needed costs of billing and mailing)	646,000
(9) Loss of revenue from the Bank Stock Tax	720,500
TOTAL GROSS LOSSES	$ 102,266,500
Net Gains (Excess of Gross Gains over Gross Losses)	**$ 28,233,500**
Reduction in Municipal Tax Load (Percentage of $180.4 Million)	**15.65 percent**

NOTE: If Plan III were adopted, Gain No. 5, as listed above, would be eliminated. This elimination would cause the reduction in Municipal Tax Load to fall to 15.0 percent. If the municipalities, however, applied one-half of their $20.8 share of Federal Revenue Sharing to pay for items currently supported by municipal taxation, local taxation would be further reduced. The combined reductions would then amount to $37,469,500 or 20.77 percent of the current property tax load.

Four alternative tax reform plans are presented in Table III-1, ranging in estimated annual cost, as of the second year of the 1973-75 biennium, from $159.3 million down to $123.5 million.

The assumption by the State of all basic operating costs of public school education, Kindergarten through Grade 12, is common to all four plans. The additional cost to the State, to provide funds to replace those currently provided by the municipalities through local property taxation, is estimated to be $127.3 million for the 1974-75 fiscal year. This is the major item requiring increased State revenues in each of the four alternative plans.

Four alternative plans to provide additional State revenues to fund the various tax reform plans are presented in Table III-2. Each of the four revenue plans is designed to yield new funds sufficient to meet the added costs of the tax reform plan coded with the same number. Thus Tax Reform Plan I can be funded by the recommended combination of revenue sources listed under Revenue Plan I, and so on.

The largest single revenue proposal, which is common to all four funding plans, is that a substantial and uniform State Property Tax be levied, based on State property valuation, to be collected in the same manner as at present and then transmitted to the State Treasurer for inclusion in tax revenues as part of the undedicated State General Fund.

It must be emphasized that the four tax revenue plans, which provide an estimated annual yield ranging from $123.5 million for Plan IV to $159.3 million for Plan I, **are not additions** to total tax revenues. They replace taxes already being assessed, collected, and expended by State and local governmental units. These plans are devised to provide a more equitable tax structure rather than any addition to the total State-Local tax revenues which will be required during the second year of the forthcoming 1973-75 biennium.

The pressure upon increasing the burden of local property taxation might be further relieved through Legislative review of previous legislation which exempts many categories of real estate from property taxation. This problem, however, is so complex that needed reforms should be undertaken only after a thorough study of all the ramifications, as suggested in Part V of this report.

PART IV

DISCUSSION OF THE NINE PROPOSALS FOR TAX REFORM

The preceding section, Part III, presented a summary of four alternative plans to provide and finance tax reform. The first plan, which was the most complete, listed and briefly summarized nine reform proposals, which will be explained and discussed at greater length in this section, Part IV. The recommendations for financing these reforms are not discussed in this section but will form the topic of the following section, Part V.

It is important to emphasize what was stated earlier regarding the objectives of this entire study. They are as follows:

1. To provide a more equitable means of support of public schooling, Kindergarten through Grade 12.
2. To improve the overall equity of the tax system and, in particular, to reduce the property tax burden on Maine residents.
3. To improve the business climate in Maine by substantially reducing or eliminating the personal property tax.

The nine tax reforms described on the following pages were selected on the basis of a careful investigation involving both a painstaking study of the most recent reports and articles relating to tax reform and State financing, and also many interviews with Maine State officials and representatives of legislative, municipal, industrial, and other organized groups.

For the convenience of the reader of this report, the nine major proposals for tax reform are listed in the following tabulation, with page references in the column on the right denoting the location of the expanded discussions of each of these proposed reforms.

It should be noted that all nine proposals for tax reform are recommended for implementation during the second year of the biennium. This delay will allow time for careful Legislative study before the bills are drawn and voted upon on a non-emergency basis. The delay in implementation will also provide the time needed by State and municipal officials to set up the procedure, work out the reporting and budgetary details, and organize the efficient administration of any of the tax reforms passed by the Legislature.

Nine Proposals for Tax Reform

8. Eliminate the Poll Tax in the Second Year of the Biennium, and Do Not Reimburse the Municipalities.
   Estimated Annual Cost to the State: None 50

9. Reintroduce and Enact the Morrill Bill (LD 2003) to Bring State Income Tax Deductions into Conformity to Federal Income Tax Standards.
   Estimated Annual Cost to the State: $2.5 Million 50

Proposal Number 1

Provide All Basic Operating Funds for Public Schools, Starting in the Second Year of the Biennium.

To insure a relatively equal opportunity for all Maine youth, and to further insure that Maine citizens will bear the burden equitably, the 106th Legislature should provide all of the basic operating funds for public schools, grades Kindergarten through 12. Full funding of public school education would put the State of Maine in the forefront of educational reform by making educational opportunities more equivalent in all sections of the State. The estimated additional cost to the State of Maine of taking over the burden of what would otherwise need to be financed by the revenues of local municipalities will be $123.5 million in fiscal 1974-75, the second year of the biennium, based on an average per-pupil cost of $733, as described in the program below.

Basis of the Total and Per-Pupil Cost Estimates for Fiscal 1974-75

The estimate of $123.5 million in additional State funds required to finance all basic operating costs of public school education is based on an estimated student body of 249,522 pupils in the primary and secondary schools, at an average per-pupil cost estimated as $733 in the fiscal year 1974-75.

The average per-pupil expenditure of $733 in fiscal 1974-75 was derived from Table IV-1. The public school operating expenditures are shown in Table IV-2 on a per-pupil basis for the 1971-72 fiscal year, which provides the latest available data. They are then estimated for the two following fiscal years, 1972-73 and 1973-74. This estimate for the period ending June 30, 1974, is $733 per pupil and is also used as the estimate for the fiscal year beginning July 1, 1974. Whether the per-pupil cost in 1974-75 will turn out to be above this $733 estimate is possible, but cannot be regarded as a certainty. These data are shown in Table IV-2.

Table IV-1

Public School Operating Expenditures

Fiscal 1971-72

Administration	$ 5,021,648
Instruction, Salaries	115,648,760
Instruction, Other	7,685,774
Attendance	94,816
Health	711,566
Operation of Plant	14,845,873
Maintenance of Plant	4,554,836
Fixed Charges	3,965,052
Food Services (Local Appropriations Only)	932,374
Student Body Activities (Local Appropriations)	550,907
	$ 154,011,606
Tuition to Non-Public Schools	4,546,166
TOTAL (Excluding Federal Funds)	$ 158,557,772

October 1st and April 1st Average
Resident Pupils, 1971-72 School Year: 249,522

Operating Cost per Pupil
($158,557,772 divided by 249,522):
Rounded to the Nearest Dollar $635

As defined by State law, Section 3731 of Title 20, the per pupil operating cost is computed by the procedure illustrated by Table IV-1. The entire operating costs, excluding about 4 percent from federal funds (as of 1971-72) for ESEA Title I, II, and III, and also excluding federal contributions to food services, etc., are first totaled. These costs include expenditures for administration, instruction, attendance services (truant officers), health services (school physicians and nurses), operation of plant and equipment (janitorial services), maintenance of plant and equipment fixed charges (insurance, social security payments, etc.), food services from local funds, student body activities from local funds, and tuition expenditures to non-public schools. The total expenditures thus accumulated are then divided by the average number of pupils educated at public expense, the average number being computed on the basis of the count of pupils on October 1 and April 1 of the school year. The result of this division of the total operating expenditures by the average number of pupils served provides the average per-pupil operating cost, Kindergarten through grade 12, for pupils educated at public expense in Maine.

Table IV-2

Annual Actual or Estimated Per-Pupil Expenditures, 1971-74

School Year	Per-Pupil Expenditures
1971-72 Actual	$635
1972-73 Estimated	$682
1973-74 Estimated	$733

The Department of Educational and Cultural Services provided the data presented in Table IV-2. In their opinion, the cost projections estimated for 1972-73 and 1973-74 should include an anticipated per-pupil cost increase of 7.5 percent. The $733 estimate for 1973-74 is used as the basis of allocations for 1974-75.

Estimate of the Additional State Appropriations Required to Support Full Funding of Education

During fiscal 1971-72, the State provided $59.4 million of the $158.6 million in public school operating expenditures reported in Table IV-1. The State's share was almost exactly 35 percent of the total. If the State were to continue its current proportion of support in 1974-75, assuming a student body of 249,522 and a per-pupil operating cost of $733, the State's share would be $64.8 million, requiring additional revenues of $8.4 million. If the State is to assume the entire basic operating cost of public school education, however, additional revenues of $123.5 million will be needed, as indicated by Table IV-3. This total of $123.5 million includes the $8.4 million in additional funds already required under current State law.

Table IV-3

Additional State Appropriation Needed For Full Support of Public School Basic Operating Costs 1974-75

Total Operating Costs of Public Schools in 1974-75, Based on an Average Per-Pupil Cost of $733 Multiplied by 249,522 Pupils	$182.9 Million
State Funds Provided in 1971-72 toward the Operating Costs of Public Schools in Maine	$59.4 Million
Estimated Additional State Funds Needed for Full Funding of Basic Operating Costs of Public Schools in Fiscal 1974-75	$123.5 Million

Three points should be emphasized in regard to the amounts listed in Table IV-3. First, even if the State does not assume full support in

1974-75, it will still need to provide additional operating funds of approximately $14.4 million to maintain its current percentage of support. Second, the basic operating costs of Maine's public schools for 1974-75 will almost certainly rise by some $44 million over the 1971-72 costs, and substantial State aid will be needed to prevent local Property Tax rates from inflicting undue hardship on the typical home owner. Third, even when the State assumes full support of the basic operating costs of the public schools, there are many other items not covered in the $182.9 million estimate. This amount does not include any federal subsidies, administrative costs of the State Department of Educational and Cultural Services, teacher retirement costs, transportation costs, construction and debt retirement costs, or anything beyond the local share of the costs of school lunch programs, all of which are either funded separately or subsidized to some extent under other appropriations.

A Financial Plan for Distributing the Educational Appropriation

Although the average per-pupil expenditure of $733 in 1974-75 is important in determining the total amount of general funds that must be appropriated for full funding of the operating costs of public-school education, a more precise plan for identifying the distribution of funds to each individual School Administrative District or municipal school system must be utilized. The following eight factors should be considered in determining the appropriation for a specific School Administrative District or municipal school system withn the State of Maine.

1. Educational Cost Differentials for Regular Students at the Various Grade-Level Groupings.

2. Educational Cost Differentials for Students Requiring Specialized Training.

3. Computation of Pupil Count in Terms of Daily Pupil Membership Rather than Average Daily Attendance.

4. Abolition of Non-Resident Tuition Fees Because of State Payment to the School District Where the Pupil is Enrolled.

5. Financial Adjustments in Payments to School Administrative Districts or Municipal School Systems Which Shall Have Spent Less than $733 per Pupil in 1973-74.

6. Financial Adjustments in Payments to School Administrative Districts or Municipal School Systems Which Shall Have Spent More than $733 per Pupil in 1973-74.

7. Local Leeway Available to Each Municipality.

8. Biennial Legislative Review.

Each of these factors is explained in the following discussion.

1. **Educational Cost Differentials for Regular Students at the Various Grade Level Groupings.** The experience of educators in the State of Maine and throughout the nation has been that children with differing educational needs require differing levels of funding. It is therefore recommended that the weights assigned to the elementary and secondary levels of education in Table IV-4 be utilized in any financial plan for distributing the educational appropriation to a municipality. There funds can be requested on an estimated basis by a School Administrative District or municipal school system, with adjustments reflecting the actual school membership of the school year when the final quarterly payment for the school year is made by the State.

Table IV-4

Weighted Cost of Elementary and Secondary Grade Levels as Estimated by the Maine Department of Educational and Cultural Services

Grade Levels	Assigned Weight as Percentage	Per Pupil Cost in Maine 1973-74
Kindergarten through 8	86%	$630
Grades 9 through 12	129%	$945
Average Costs, K-12	100%	$733

2. **Educational Cost Differentials for Students requiring Specialized Training.** School systems often provide specialized programs for students who are mentally, physically, or otherwise handicapped. Such programs should be encouraged, even though they have a relatively high per-pupil cost. Certain vocational programs also incur higher costs, even though they may be heavily funded by the federal government. When allocations are made to fund the basic operating costs of public-school education, adjustments should be made to fund any excess per-pupil costs not already covered by federal allocations.

3. **Computation of Pupil Count in Terms of Daily Pupil Membership Rather than Average Daily Attendance.** Schools have to be staffed on the basis of the total number of pupils enrolled rather than the number of pupils in attendance on certain given days. Pupils in kindergarten or the lower grades are quite prone to periods of absenteeism because of common colds or a variety of childhood diseases. Frequent truancy is often a problem in the upper grades. The traditional method of computing State support on the basis of average daily attendance tends to penalize schools faced with problems like these, as well as schools with a longer school year. Computing the number of pupils served on the basis of average daily membership rather than average daily at-

tendance would relieve this problem and provide a more realistic basis for financial support.

4. **Abolition of Non-Resident Fees Because of State Payment to the School District Where the Pupil is Enrolled.** Many small Maine municipalities which do not belong to a School Administrative District are unable to provide their own secondary schools but pay non-resident tuition charges for such of their young people of secondary school age who attend secondary schools in neighboring municipalities. The proposed plan for State funding of the basic operating costs of public school education would do away with this problem, for "the dollar would follow the pupil" to the school in which he was actually enrolled. The municipality in which the pupil held legal residence would have no bearing in such matters. The school unit that received the pupil would simply count the student as if he or she were a resident pupil in applying for its allocation of State funds.

5. **Financial Adjustments in Payments to School Administrative Districts or Municipal School Systems Which Shall Have Spent Less than $733 per Pupil in 1973-74.** Municipalities or School Administrative Districts which spend substantially less than the State average of $733 per pupil in 1973-74 will be brought up to full subsidy level over a three-year period. For 1974-75 they will receive 107 percent of the amount they expended per pupil in 1973-74, plus one-third of the difference between that amount and the State average, as adjusted for the proportions of their pupils enrolled at the various grade levels listed in Table IV-5. For the 1975-76 school year they will receive 107 percent of the 1974-75 subsidy, plus one-half of the difference between that amount and the adjusted State average. For 1976-77 and subsequent years they will receive the full State subsidy, as computed on the basis of the proportion of pupils on the various grade levels. The adoption of this policy will provide school boards and administrators with sufficient time for long-range planning so that the increased funds can be used to maximum advantage, with the assurance that all school districts will receive the same basic proportional support within an interval of not more than three years.

6. **Financial Adjustments in Payments to School Administrative Districts or Municipal School Systems Which Shall have Spent More than $733 per Pupil in 1973-74.** School districts or municipalities which are currently spending more per pupil than the State average will receive the standard State subsidy under the new plan, but they will also be allowed to maintain their current level of educational expenditures, plus a maximum annual 7 percent cost-of-living increase provided they raise the added necessary funds through local taxation.

Increases in excess of this amount will require the approval of local voters through a properly called town meeting or a referendum, as described in the following paragraphs.

7. **Local Leeway Available to Each Municipality.** While this financial plan for distributing the educational appropriation would greatly reduce the need to use local property taxation to support public school education, certain items should still be funded by means of local taxation to the same proportionate extent as at the present. Current policies in regard to funding the local share of capital expenditures, debt service, and transportation costs connected with education should be continued. In addition, local property taxation would be allowed to meet annual cost-of-living increases of not more than 7 percent per annum until such time as the Legislature should recognize the need for a higher per-pupil subsidy and appropriate funds for this purpose. Municipalities which desired to increase per-pupil support beyond this limit would be allowed to do so, without proportionate loss of State subsidy, only when a majority of their voters gave their formal approval to this specific appropriation at a properly called town meeting or through a municipal referendum.

8. **Biennial Legislative Review.** It is recommended that, at each session of the Legislature, the average per-pupil cost be reviewed and adjusted so that State support will be sufficient to meet the basic, realistic per-pupil operating costs of public school education, kindergarten through grade 12. This need is particularly evident during the current inflationary period during which the cost of living and the costs of fuel, utilities, and supplies are increasing at varying rates each year.

Additional Data to Aid the Legislator

The following table indicates how the public school attendance in the State of Maine has been gradually increasing during recent years.

An examination of Table IV-5 will indicate that the school population of Maine increased by 3 percent between 1969 and 1971, but that a slight drop in the birth rate decreased the enrollment in the lower grades slightly whereas the percentage of students continuing into and through high school increased sharply. The balance between these factors provides the basis for the estimate of a 1 percent increase in the school population each year during the 1973-75 biennium.

Table IV-6, which follows, was prepared by the State Department of Educational and Cultural Services (under its former title of State Department of Education) in June 1972. It should be emphasized that the total amounts expended, together with the per-pupil expenditures,

Table IV-5

Average Daily Attendance of Pupils in Maine, by Grades, 1969-1971

Grade Level	Fiscal 1969	Fiscal 1970	Fiscal 1971
Special Elementary	2,436.5	2,649.0	2,638.0
Kindergarten	18,929.5	18,590.0	17,485.5
Grade 1	20,626.0	20,330.0	19,681.5
Grade 2	19,789.0	19,958.0	19,701.5
Grade 3	19,154.5	19,605.5	19,960.0
Grade 4	18,902.0	19,358.0	19,728.5
Grade 5	18,901.5	19,150.0	19,759.0
Grade 6	18,729.5	19,299.0	19,558.0
Grade 7	18,708.5	19,302.5	19,975.5
Grade 8	18,611.5	19,028.0	19,663.5
Grade 9	18,950.0	19,529.0	19,926.5
Grade 10	17,903.5	18,352.5	18,784.5
Grade 11	16,160.5	16,950.5	17,080.0
Grade 12	14,815.5	15,192.0	15,755.0
Special Secondary	319.0	386.0	481.5
Tuition Students	44.0	92.0	112.0
Post Graduates	50.0	99.5	77.5
TOTAL PUPILS	243,031.0	247,872.0	250,368.0

Prepared by the State Department of Educational and Cultural Services, October 1972.

are much greater than those previously presented in this discussion, because all federal allocations, together with expenditures for the administration of the State department, as well as certain other expenditures not included in the operating costs as previously defined are included.

In the past eight years, five of which are included in this table, the number of pupils increased by about 13 percent, while the per-pupil expenditure increased by approximately 112 percent. The municipalities increased local revenues raised for the support of public schools from \$61.7 million to \$125.8 million, or 139 percent. During the same period the federal government increased its support from approximately \$4.5 million to \$18.8 million, or 318 percent. It should be remembered, however, that \$6.5 million of the \$18.8 million reported for 1971-72 was federal money provided to fund experimental model programs for educational improvement under the terms of the Elementary and Secondary Education Act of 1965 (listed as E.S.E.A. in the detailed tabulation).

TABLE IV-6

SUMMARY OF MONIES EXPENDED FOR PUBLIC SCHOOL EDUCATION, 1967-68 TO 1970-71 AND PROJECTED FOR 1971-72

6/2/72

ANALYSIS AND PROJECTION BY THE STATE DEPARTMENT OF EDUCATION

The fiscal years for all units begin July 1 and end June 30.

	1967-68	1968-69	1969-70	1970-71	1971-72
Local					
Appropriation	$ 76,128,467	$ 91,138,461	$100,825,059	$114,426,430	$123,000,000
Other	1,544,203	1,856,302	2,699,545	2,838,527	2,800,000
Federal					
P. L. 874	1,986,892	2,631,715	2,692,355	4,100,031	3,500,000
P. L. 815	43,140	32,174	72,011	1,113	—
N. D. E. A.	534,161	308,018	388,652	246,314	300,000
Vocational	175,546	406,394	615,690	1,488,098	1,750,000
Miscellaneous	301,672	606,233	990,853	1,824,669	2,000,000
State					
G.P.A. — F.P. + Bonus	30,759,562	36,201,651	43,522,872	44,730,947	54,657,611
Construction	2,048,565	3,116,648	5,973,208	6,452,692	9,500,000
Other	1,206,579	1,484,959	1,902,689	1,453,409	1,500,000
Total Local Units	$114,728,787	$137,782,555	$159,682,934	$177,562,230	$199,007,611
State-Teacher Retirement	5,949,382	6,009,944	6,370,291	6,711,861	9,392,779
Supt. of Schools	185,012	585,000	727,213	727,213	727,213

Federal					
E. S. E. A.	4,641,586	4,437,289	4,288,579	6,147,288	6,500,000
School Lunch	1,208,377	1,484,125	1,717,630	3,653,000	3,750,000
Dept. of Education					
State	820,608	897,357	1,020,814	1,150,000	1,250,000
Federal	593,643	816,646	986,028	1,000,000	1,000,000
Total Expenditures	$128,127,395	$152,012,916	$174,793,489	$196,951,592	$221,627,603
No. of Pupils	233,114	237,347	243,384	247,467	249,298
Per Pupil Expenditure	$549.63	$640.47	$718.18	$795.87	$889.01
Local	$ 77,672,670	$ 92,994,763	$103,524,604	$117,264,957	$125,800,000
	60.62%	61.18%	59.23%	59.54%	56.76%
Federal	$ 9,485,017	$ 10,722,594	$ 11,751,798	$ 18,460,513	$ 18,800,000
	7.40%	7.05%	6.72%	9.37%	8.48%
State	$ 40,969,708	$ 48,295,559	$ 59,517,087	$ 61,226,122	$ 77,027,603
	31.98%	31.77%	34.05%	31.09%	34.76%
Total	$128,127,395	$152,012,916	$174,793,489	$196,951,592	$221,627,603
	100.00%	100.00%	100.00%	100.00%	100.00%

Such funding is not provided on a continuing basis but is "seed money invested to begin innovative, exemplary or adaptive programs."

During the 8-year period between 1964-65 and 1971-72, while local municipalities were increasing their share of the support of education by 139 percent, the State was increasing its support from $26.4 million to $77.0 million, or 192 percent. The State funded much of this increase through Sales Tax revenues which were rising sharply during this period, partly due to the increase in the rate and partly due to the inflationary increase in the cost of items. A substantial part of these revenues, also, come from sales taxes on purchases made by summer residents and vacationers, rather than local residents.

Municipal revenues, on the other hand, depended on property taxation. The rise in the Property Tax rate tended to work a disproportionate hardship on low-income residents, especially retired people deriving most, if not all, their income from Social Security.

To avoid working undue hardship on Maine residents of low income, a much greater share of the cost of public education must be taken over by the State, which has sources of revenue, such as the Sales Tax and the Income Tax, which tend to rise as rapidly as the inflationary spiral drives up the cost of goods and also the general level of wages. The part of the support of education which depends upon property taxation should also be taken over, either entirely or to a large extent by revenue from a State Property Tax, equalizing that part of the burden, insofar as rates are concerned, throughout the State.

Proposal Number 2

Fund the Entire Cost of Transportation for Elementary and Secondary Pupils Starting in the Second Year of the Biennium

It has been recommended to the research staff by many of the various groups visited during the course of this study that the State of Maine assume all costs of transporting elementary and secondary pupils to and from school. A number of the members of the Legislature who were interviewed advocated this policy very strongly. Representatives of the Maine Educational Council also felt that it will be difficult to obtain an equitable level of education in all sections of the State if a number of the poorer and more thinly settled municipalities are required to share to any extent in the support of an adequate bus system, although such a system might not impose too great a burden on some of the more compact and densely settled municipalities.

The per-pupil cost of bus service may be very high in some sparsely settled municipalities where many of the families with children of school age live on back roads far from the more highly traveled highways. When the families involved are very widely scattered, and when the roads are circuitous because they have to wind around mountains, swamps, and lakes, school bus costs even for elementary pupils are disproportionately high. When there is no direct route to the nearest municipality with a secondary school, the cost of transporting secondary pupils becomes too great a burden on the local taxpayers.

Although the present formula of State aid for public school transportation represents an attempt to increase equalization of educational opportunity, it does not take into consideration the exceptionally high per-pupil transportation costs faced by many of Maine's smallest and poorest municipalities. No formula based on percentage can meet such needs. From a practical point of view it would seem advisable to let the State meet the entire costs, so that the burden will be distributed more equitably on all citizens throughout the State, rather than having the heaviest proportionate burden placed on those least able to pay.

Under the current law, the State subsidy for public school transportation for each of the years 1973-74 and 1974-75 is computed through a formula based on the average of expenditures for 1970-71 and 1971-72. The budget request for the 1973-75 biennium for the transportation subsity is $13,681,866. This amount is based on expenditures of $9,363,394 for 1970-71, and $10,536,424 for 1971-72. The requested transportation subsidy of almost $13.7 million for the 1973-75 biennium represents 68.75 percent of the amount actually spent in the two-year period from July 1, 1970 to June 30, 1972.

The Cost of Full Funding of Transportation in Fiscal 1974-75

As shown in Table IV-7, if the State were to assume 100 percent of the costs of transportation, computed according to the current law, $3.3 million in new funds would have to be appropriated by the Legislature in addition to the $13.7 million already in the budget request.

Table IV-7

Financing Bus Transportation for Primary and Secondary Pupils

	State Share	Local Share	Total Cost
1970-71 Actual	$ 3.8 million	$5.6 million	$ 9.4 million
1971-72 Actual	5.0 million	5.5 million	10.5 million
1972-73 Estimated	5.0 million	6.6 million	11.6 million
1973-74 Estimated	6.7 million	6.1 million	12.8 million
1974-75 Full Funding Estimate	10.0 million	4.1 million	14.1 million

As Table IV-7 indicates, full funding under the method of computation that is legally required cannot allow for inflationary costs, which in the area of bus transportation have been increasing at about 10 percent per year, as actual experience shows. This increase has been allowed in the estimates above. As a result, even with "full" subsidy from the State, the local municipalities would be required to raise $4.1 million through local taxation to meet the balance of estimated costs for the 1974-75 school year.

Legislation to Provide Full Funding Should Include Provisions for Increased State Supervision of Matters Concerning School Bus Transportation

It is recommended that any bill providing for the full funding of public school transportation include provisions authorizing the Department of Educational and Cultural Services to establish standards regarding the provision of school-bus transportation, together with cost standards and procedures for auditing the costs of local school-bus services. Provision of State supervision of this sort will be needed to enable the State government to set reasonable standards and also to control expenses connected with school-bus transportation.

Proposal Number 3

Provide a Measure of Tuition Credit for Parents of Private School Children Starting in the Second Year of the Biennium

It is recommended that a tuition credit, amounting to not more than 70 percent of the tuition paid for each of the estimated 12,000 children whose parents are residents of Maine and who are enrolled in private schools, grades K-12, with a maximum credit of $200 per enrolled child, be allowed the parents of the child or children in question. In case the federal government should enact legislation providing federal tax credits to parents for any part of private school tuition, the credit allowed by federal legislation would be deducted from the State credit allowance, as described above.

The tuition credit allowed by the State of Maine, after any deductions for federal tax credit, would be allowed as a State Income Tax credit. If the amount of the tuition credit exceeds the amount of income tax payable to the State when the tax forms are filed, the parents will be entitled to a cash rebate from the State.

Such tuition credits for the affected parents might enable the parents to keep their children in private schools rather than transferring them to public schools. The net saving to State and local governments in allowing this tuition credit rather than providing public school education for these added pupils at the estimated per-pupil cost of $733 would be nearly $6.4 million in operating costs per year, as indicated by Table IV-8 below:

Table IV-8

The Cost of Educating Current Private School Pupils in Public Schools Compared to the Cost of a $200 Per-Pupil Tuition Subsidy

Cost of educating 12,000 pupils in public schools at $733 per capita	$8,796,000
Less cost of $200 tuition subsidy for 12,000 pupils	2,400,000
SAVINGS to State and local governments	$6,396,000

Added to these savings of more than $6 million to the taxpayers would be the savings that would come from not having to construct hundreds of new classrooms to accommodate these 12,000 pupils now housed in private schools.

It is important to note that the New York District Court has given approval to a private school support program passed by the Legislature of that state. The Legislature of the State of California has passed a similar tuition credit bill which has been sent to the governor for his signature. Ohio residents will be eligible for a tax credit, beginning in January 1973, provided no adverse decision is made before that date in a case testing the Ohio law and currently in the courts. Since it now appears that at least one of these laws will meet approval of the courts, it appears highly desirable, on economic grounds alone, for the State of Maine to support a program of tuition credit.

Proposal Number 4

Exclude from Personal Property Taxation Such Categories as Inventories Stock in Trade, and Similar Items; and Reimburse Municipalities Starting in the Second Year of the Biennium

From conversations with representatives of Maine business and industry, and from a study of numerous published reports, it has been concluded that Maine industry suffers a competitive disadvantage in sales to customers outside the State of Maine, when competing with industry located in New Hampshire. The reason that Maine business is at a disadvantage is that Maine still permits the levy of a Personal Property Tax to be assessed on business and industry within the State of Maine.

On the basis of interviews with business and industrial leaders, it was observed that less dissatisfaction was expressed concerning the Personal Property Tax on productive machinery than the tax on inventories and stock in trade. Productive machinery and equipment tend to pay their own way through the sale of the products of their production. Inventories, on the other hand, are essential, but items in inventory do not earn any profit on their cost during the period while they are waiting to be used or sold.

It therefore appears highly desirable to exempt the following categories of inventory items from personal property taxation: stock in trade, industrial inventories, wood, lumber and logs, live stock, and some minor miscellaneous items. It is estimated that these exemptions would result in a loss of approximately $15 million in local property taxation in the fiscal year 1974-75, as indicated by the following table, IV-9, entitled "Estimate of Personal Property Taxes Collected in Maine."

Table IV-9

**Estimate of Personal Property Taxes Collected in Maine
Calendar Year of 1971**

Machinery and Equipment	$15,479,990	
Furniture and Fixtures	2,021,130	
Watercraft	709,390	
Subtotal of Items Connected with Industrial, Commercial, or Fisheries Production		$18,210,510
Stock in Trade	$ 9,508,550	
Industrial Inventories	3,831,620	
Wood, Lumber and Logs	248,210	
Live Stock	546,830	
Others	858,920	
Subtotal of Items Connected With Inventories, etc., together with Various Minor Items		$14,994,130
TOTAL PERSONAL PROPERTY TAXES COLLECTED		$33,204,640
Allowed for Inflation Since 1971		2,000,000
TOTAL ESTIMATE		$35,204,640

NOTE: Although the Personal Property Tax on watercraft was listed as if it referred primarily to boats used for fisheries production, much of this tax is presumedly collected on pleasure craft.

It has been documented a number of times during the study that many industries prefer the Corporate Income Tax to the Personal Property Tax, because the Corporate Income Tax is more equitable and is paid only when the corporation makes a profit. A letter from Richard F. Wagner, Jr., for the Legislative Committee of the Industrial Development Council of Maine, written on November 21, 1972, states in part: "The Industrial Development Council of Maine is most concerned about Maine's Personal Property Tax as it affects industry. We are in full support of measures to reduce/eliminate the tax, and replace the revenue lost to municipalities from the Corporate Income Tax."

As Table IV-9 indicates, Maine manufacturers paid more than $3.8 million in Personal Property Taxes on their industrial inventories in 1971. Distributors, wholesalers, and retail merchants paid $9.5 million on their inventories (called "stock in trade") during the same year.

In regard to such taxation, a report on "Tax Policy" published by the Tax Institute of Princeton, New Jersey, in its bulletin of January-February 1971, states: "A state that taxes inventories and has relatively high property tax rates will almost always lose fabrication and wholesale distribution to nearby states."

During the field interviews it became evident that Maine was losing warehousing activity as a source of employment, because some major manufacturers were storing their products outside of Maine. Exemption of at least such categories as inventories, stock in trade, and related items from Personal Property taxation would have a positive economic impact on the economy of Maine.

The categories recommended for exemption from this form of taxation may be informally defined as follows:

Industrial Inventories: Raw materials, goods in process, and finished work on hand. In determining a taxable assessment, an average of what was on hand during the preceding year should be used.

Stock in Trade: Any definition should include inventory held for resale, as by a distributor, wholesaler, or retail merchant, etc. In determining a taxable assessment, an average of what was on hand the preceding year should be used.

Wood, Lumber and Logs: Any definition should include logs, pulp wood, and manufactured lumber, except in the possession of a transportation company.

Live Stock: Any definition should include farm animals, neat cattle, and fowl, as subject to number and age.

Other: A catch-all category established because of doubt by the assessor as to the classification of items which do not fit into any of the above categories, or the other categories of Machinery and Equipment, Furniture and Fixtures, and Watercraft.

Members of the Legislature may be interested in how the exemption of Personal Property taxation of stock in trade, industrial stock, wood (including lumber and logs), live stock, and various unclassified items would affect their home counties. Table IV-10 provides a breakdown of the 1971 taxes collected for each of these categories in each of the 16 counties of Maine.

Table IV-10

Estimate of Personal Property Taxes Collected by County For Stock in Trade, Industrial Stock, Wood-Lumber-Logs, Live Stock, Etc. Calendar Year of 1971

County	Stock in Trade	Stock (Industrial)	Wood Lumber Logs	Live Stock	Other
Androscoggin	$ 864,690	$ 336,710	$ 3,160	$ 53,420	$ 63,920
Aroostook	994,950	226,360	8,730	26,340	59,720
Cumberland	2,341,290	1,417,190	10,480	44,990	184,360
Franklin	668,550	16,610	640	12,970	20,380
Hancock	249,990	95,980	3,480	7,500	26,310
Kennebec	956,090	502,450	10,180	93,930	92,170
Knox	256,880	76,450	80	21,220	39,760
Lincoln	82,250	10,400	630	8,670	4,770
Oxford	203,950	294,890	37,850	24,440	33,130
Penobscot	1,462,750	214,510	148,690	48,290	130,470
Piscataquis	105,390	19,530	3,640	11,150	15,180
Sagadahoc	91,840	141,350	100	6,850	10,620
Somerset	277,770	102,480	5,410	71,130	51,580
Waldo	171,550	10,570	5,660	68,260	58,290
Washington	173,360	75,420	7,540	11,200	30,750
York	604,250	290,720	1,940	36,470	37,510
TOTAL	$9,508,550	$3,831,620	$248,210	$546,830	$858,920

It might be pointed out that the removal of the tax on stock in trade would tend to be particularly helpful to the owners of small or individualized types of stores, where the inventories do not turn over rapidly. Chain stores, often owned by out-of-state corporations with warehouses in New Hampshire or other states where the personal property tax is not imposed on business, tend to carry very low inventories in their outlets in Maine. The tax on stock in trade therefore is particularly harmful to the Maine resident who owns and operates his own store, stocking many kinds of items for the convenience of his customers but experiencing a slow rate of turnover in his stock.

The removal from taxation of other categories listed in Table IV-10 would help Maine producers of industrial or agricultural products to reduce costs so that they could compete more easily with similar producers in New Hampshire. It is eventually hoped that other categories of items taxed through Personal Property taxation can also be exempted, but it is recommended that consideration of a broader range of exemptions, resulting in the abolition of all Personal Property taxation, be deferred until a subsequent Legislative session. The reason is that certain municipalities derive a high proportion of their total municipal revenues through Personal Property taxation. A somewhat gradual elimination of this form of taxation will enable the State to help the municipalities through the period of adjustment.

A Program for Reimbursing Municipalities for Lost Revenue. The problem of recommending the most equitable way to reimburse municipalities for their loss of nearly half their current revenues from Personal Property taxation is somewhat more open to question than the economic desirability of exempting at least items connected with inventory and stock in trade from such taxation. For a period of one or two years the State could reimburse the municipalities for the tax revenue lost by the exemptions, paying a reimbursement equivalent to the municipal revenues collected on such assessments during a base year, such as 1972. This would not be advisable as a long-run solution, for business enterprises come and go, and rise and fall from year to year. On the other hand, a straight per-capita distribution would upset the finances of certain municipalities which have had large inventories to tax, year after year, whereas it would yield a windfall to some small municipalities lacking industrial or major commercial businesses.

The ESCO Research staff recommends a combination of these methods. During fiscal 1974-75, it is proposed that 80 percent of the loss in inventory and similar Personal Property taxation be paid by the State to the municipalities in proportion to their loss in Personal Property taxation as compared to 1972, and that the remaining 20 percent be distributed to all the municipalities in the State, using the current program of State-Local sharing. During the next fiscal year, the proportion of payment on the first-mentioned basis could be reduced to 60 percent, and the remaining 40 percent be distributed through local revenue sharing. The proportions the third year would be 40 percent to 60 percent; the fourth year, 20 percent to 80 percent; and the fifth year would start a straight per-capita form of distribution using local revenue sharing. It must be remembered that federal revenue sharing coupled with the proposed State assumption of the basic operating costs of the public schools, together with continued State revenue sharing, will reduce the pressure on local property taxation as the major source of municipal revenues.

Although it is not recommended that machinery and equipment and similar items be exempted from Personal Property taxation until a subsequent Legislative session, Table IV-11 is provided to show the relative significance of this form of taxation of such items in each of the 16 counties of Maine.

Table IV-11

Estimate of Personal Property Tax Collected by County For Machinery and Equipment, Furniture and Fixtures, and Watercraft Calendar Year of 1971

County	Machinery and Equipment	Furniture and Fixtures	Watercraft
Androscoggin	$ 972,620	$ 225,900	$ 21,530
Aroostook	1,779,100	151,510	14,470
Cumberland	3,404,380	578,780	200,670
Franklin	653,970	22,890	6,820
Hancock	698,130	62,930	125,970
Kennebec	1,020,060	267,710	49,170
Knox	221,880	12,430	71,180
Lincoln	90,840	13,460	57,310
Oxford	1,611,030	22,730	16,710
Penobscot	2,720,610	375,190	19,740
Piscataquis	97,690	7,040	12,440
Sagadahoc	323,900	39,480	21,300
Somerset	533,770	48,930	17,760
Waldo	177,550	27,550	15,630
Washington	216,180	9,210	29,460
York	958,280	155,390	29,230
TOTALS	$15,479,990	$2,021,130	$709,390

Proposal Number 5

Eliminate the Bank Stock Tax

In 1961 all taxes on intangible property, with the sole exception of the Bank Stock Tax, were repealed by the Maine Legislature. The tax is levied upon the two types of commercial banks doing business in the State of Maine: National Banks chartered by the federal government, the Trust Companies chartered by the State of Maine.

Prior to recent federal legislation, the State could not tax the corporate income of national banks while the Bank Stock Tax existed. With the changed federal law which allows the taxing of bank income irrespective of the existence of the Bank Stock Tax, it would appear only equitable that the Bank Stock Tax be removed. Table IV-12 indicates the revenue which has been received from this tax of 15 mills on valuation of common stock issued by banks and trust companies, together with the estimated revenue for 1972. This tax is annually determined by the State Tax Assessor.

Table IV-12

Revenue from the Bank Stock Tax

(Rounded Totals)

Type of Bank	1968	1969	1970	1971	1972
National Banks	$256,900	$289,900	$294,400	$333,600	$345,100
Trust Companies	232,400	262,200	273,200	325,500	275,400
TOTALS	$489,300	$552,100	$567,600	$659,200	$720,500

Another area of support for the elimination of the Bank Stock Tax might be found in the municipalities which have been unable to apply Personal Property taxation of equipment, furniture, and fixtures to the banks because they were already benefiting from their municipal returns from the Bank Stock Tax. It is probable that nearly all municipalities in which banks or branch banks are located would derive greater revenues from Personal Property taxation from which they are now barred, than from their current share of the proceeds of the Bank Stock Tax. The municipalities would also gain from their share of the State-Local revenue sharing of the proceeds of the State Corporate Income Tax, particularly if the recommended increase in the rates of this tax should be enacted by the Legislature. Because of the substantial increase in State-Local revenue sharing from the increased income tax and sales tax revenues recommended as a part of the tax reform program together with the municipal revenues from Personal Property taxation of the banks which have been previously exempt, it is recommended that no further measures are needed to reimburse the municipalities for their lost income from the Bank Stock Tax, once the tax is eliminated.

Proposal Number 6

Amend the Sales and Use Tax to Exempt Machinery and Industrial Equipment Used in Production of Tangible Goods Starting in the Second Year of the Biennium

It has been recommended by industrial leaders and industrial development specialists that the present Sales and Use Tax law be amended to exempt from such taxation any machinery or equipment used directly and solely in the manufacture of tangible Personal Property for sale, and also to exempt any machinery or equipment used directly and exclusively for research and development in the experimental and laboratory sense of those terms. Such research and development should not be deemed to include the ordinary testing or inspection of materials or products for quality control, efficiency surveys, management studies, consumer surveys, advertising, promotion, or research in connection with literary, historical, or similar projects.

The importance of this proposal to the economic development of the State of Maine was described in Legislative Document No. 718, as presented to the 105th Legislature. The "Statement of Fact" in that document read as follows:

> Currently, in Maine a 1% increase in per capita income yields about 2.5 million more dollars in the state tax system. But a necessary step to improve per capita income in the State is more productive machinery and equipment in our manufacturing plants. From 1967-1969, new plant and equipment expenditures per worker in Maine were over 30% lower than the national average.
>
> Maine has over 2,400 manufacturing plants, many of which are small in size, old in terms of manufacturing equipment, and probably somewhat weak financially. Yet, we depend upon these firms for about 124,000 jobs. Better, higher-paying jobs than currently exist in the State can bring about a substantial increase in government revenues. It, therefore, becomes important to develop a state tax policy that encourages up-dating manufacturing machinery and equipment.
>
> The advantages in the newest production machinery are many and involves nearly everyone within the State:
>
> a. lower cost manufacturing and, therefore higher company profits;
>
> b. greater ability for a given Maine company to meet competition;
>
> c. usually new equipment enables a company to produce a higher quality product;
>
> d. higher wages for Maine citizens;
>
> e. the increased investment in machinery in the short run creates additional tax dollars;
>
> f. increased corporate income yields increased tax revenues;
>
> g. gives Maine some important competitive advantages over other states in attracting firms to locate in Maine;
>
> h. it will substantially help Maine close the capital equipment gap compared with the United States average.

The estimated loss in revenue from the Sales and Use Tax through the exemption of manufacturing machinery and equipment is estimated to be approximately $5.0 million per year, as Table IV-13 indicates.

Table IV-13

Annual Expenditures and Tax Revenues Through Purchases of New and Used Manufacturing Machinery and Equipment

1967-1971

Year	Purchases	Tax Revenue
1967	$110.5 million	$ 5.5 million
1968	84.8 million	4.2 million
1969	84.9 million	4.2 million
1970	117.3 million	5.9 million
1971	108.6 million	5.4 million
Total Tax Revenue, 1967-1971		$25.2 million
Average Annual Tax Revenue		$ 5.04 million

Proposal Number 7

Provide a Rent Subsidy Starting in the Second Year of the Biennium

Although some 70 percent of the occupied housing units in Maine are the residences of their owners, approximately 30 percent of Maine's residents have to pay rentals for the places in which they live, as Table IV-14 indicates. Since it has been recommended that a measure of Property Tax relief be afforded Maine property owners, as detailed in Part V of this report, it also appears equitable that Maine residents who have to occupy rented quarters be granted a measure of rent relief for at least a limited period of time. Eventually it is hoped that they will benefit from the Property Tax relief afforded the owners of rental property, but it may take some time for such adjustments to be made.

To provide a measure of assistance to Maine residents who live in rented quarters, it is suggested that a cash subsidy be given each tenant, amounting to 20 percent of their rent payment for the year, but not exceeding $200 in any one year. It is also proposed that this relief program be phased out over a five-year period, on the assumption that the rental market will adapt to the lower costs of property taxation by the end of that period. It is therefore suggested that the maximum allowable cash subsidy be reduced by $40 for each year following the second year of the biennium. The maximum subsidy would therefore be $200 for the fiscal year beginning July 1, 1974; $160 for the fiscal year beginning July 1, 1975; $120 for the fiscal year beginning July 1, 1976; $80 for the fiscal year beginning July 1, 1977; $40 for the fiscal year beginning July 1, 1978; and terminating on June 30, 1979.

Insofar as the elderly are concerned, it would be the intent of this rent subsidy program to supplement the current rent relief for the elderly, but in no way to replace the current program passed by the 105th Legislature.

Table IV-14

Occupied Housing Units in Maine by County
U.S. Census of April 1970

County	Owner Occupied	Occupied Units Renter Occupied	Totals
Androscoggin	16,885	11,654	28,539
Aroostook	17,658	7,641	25,299
Cumberland	38,560	21,803	60,363
Franklin	5,247	1,396	6,643
Hancock	9,065	2,269	11,334
Kennebec	19,506	8,967	28,476
Knox	7,352	2,330	9,682
Lincoln	5,769	1,056	6,825
Oxford	10,020	3,404	13,424
Penobscot	25,461	10,744	36,205
Piscataquis	4,279	964	5,243
Sagadahoc	5,453	1,984	7,437
Somerset	9,424	3,014	12,438
Waldo	5,717	1,400	7,117
Washington	8,010	1,458	9,468
York	23,790	10,640	34,430
MAINE STATE TOTAL	212,199	90,724	302,923

It must be remembered that a substantial proportion of Maine residents living in rented quarters are persons of low income who have to pay a disproportionately large proportion of their scanty income for rent. Even in the case of those of more adequate income, it must be remembered that renters do not have the home owner's advantage of deducting interest on mortgage payments when they fill out their federal and State Income Tax returns. Since the various proposals for tax reform in the State of Maine stress the importance of giving a measure of Property Tax relief to Maine residents, it is only equitable that the 30 percent of the families in Maine who live in rented quarters should also be granted some relief.

It is estimated that the new General Fund revenues that would be required to provide this relief to renters would amount to $7.5 million during the second year of the biennium, after which the annual amount required would decrease each year until the program ended on June 30, 1969.

Proposal Number 8

Eliminate the Poll Tax

The ESCO Research staff recommends that the current Poll Tax be eliminated because it is discriminatory, both on the basis of sex and also on the basis of the age span under current law. It currently is assessed only on male residents between the ages of 18 and 70, excluding all women. Its exclusion of elderly men is logical, though there is a question why the age of exemption had not been set at 65, rather than 70, since many employers now retire their employees at the age of 65, when full Social Security benefits are available. The exclusion of women is now being questioned as to the possible unconstitutionality of this sex discrimination. If this form of taxation is to be retained, it should be changed to a head tax, covering all residents of both sexes, aged 18 to 65, which is now the common retirement age in business and industry. The ESCO Research staff, however, recommends that such a tax should be abolished completely. The Poll Tax returns very little to the municipalities when the costs of printing bills, addressing envelopes, paying postage, and bookkeeping are considered. The proposed increases in more equitable forms of taxation will increase State revenues and consequently State-Local Revenue Sharing sufficiently to compensate the municipalities several times over for the loss of Poll Tax revenues.

The total municipal revenues received from Poll Tax payments by Maine's 215,656 males, aged 20-70, in 1970 was $646,968, without taking into consideration the municipal costs of billing, collecting, and bookkeeping. If the 106th Legislature enacts measures to increase the State Personal and Corporate Income Tax rates as recommended in this report, State-Local Revenue Sharing would provide the municipalities of Maine with additional revenues in the 1973-75 biennium ranging between $3 million and $5 million over those dispersed the municipalities during the 1971-73 biennium.

Proposal Number 9

Reintroduce and Enact the Morrill Bill (LD 2003) to Bring the State Income Tax Standard Deduction into Conformity to Federal Income Tax Standards

The current standard deductions allowed by the federal income tax law are substantially higher than those allowed by the Maine State Income Tax law. This works some hardship on some Maine residents who are not liable for federal income taxes but who must file and pay a Maine State Income Tax in spite of Maine's low income tax rate. This occurs because Maine law allows a standard deduction of only 10 percent of adjusted gross income up to a deduction of $1,000, whereas the federal government allows 15 percent, up to a deduction of $1,500.

During the special session of the 105th Legislature in 1972, Representative Morrill introduced a bill providing for a change in the Maine State Income Tax law which would increase the standard deduction of gross adjusted income from 10 percent to 15 percent, up to a maximum deduction of $1,500. This would have made the Maine law conform to federal standards in this regard.

Representative Morrill's bill, which would have resulted in an annual decrease in State Income Tax revenue amounting to $2.5 million, was not acted upon in the special session. It is recommended that this bill be reintroduced and enacted.

PART V

DISCUSSION OF RECOMMENDATIONS FOR FINANCING THE TAX REFORMS

The recommendations of the ESCO Research staff for financing the proposed tax reforms would mean, for most Maine citizens, not an increase in taxes, but a change to a more equitable tax structure.

Eight suggested plans to finance various combinations of tax reform proposals are listed in Part III of this report. All of these plans rely heavily on the establishment of a uniform State Property Tax. Nearly all recommend increases in the State Corporate Income Tax rates, and most of them suggest some increase in the rates of the State Personal Income Tax. Several, however, suggest some form of increase in revenue from the State Sales Tax, for reasons explained in the discussion in the following pages. For the convenience of the reader, these various components of the various plans are listed below with page references:

Principal Components of the Various Plans Proposed for Financing the Tax Reforms

It must be remembered that there is no ideal tax reform program which will satisfy all segments of the population of Maine. The alternative plans listed in Part III of this report, however, have been designed to provide what seems to be an equitable compromise. The alternative suggestions represent views expressed by many interested citizens from all walks of life, including State officials, various members of the Legislature, municipal officials, representatives of business and industry, members of the professional community, and concerned citizens groups. Members of the ESCO Research staff also made a careful study of relevant material from many sources, most of which are listed in the bibliography at the end of this report. The reports of various committees which have also been involved in the study of varying aspects of taxation in Maine received careful study during the same period.

Establishment of a Uniform State Property Tax

All of the revenue plans listed in the tables in Part III of this report rely heavily on a Uniform State Property Tax as a major source of revenue and also as an important means of providing a more equitable structure of taxation. It is strongly recommended that the State Property Tax be assessed at a uniform rate, based on State valuation of real and personal property in each of the 496 municipalities in Maine.

The mill rate which would be assessed by the State Tax Assessor would depend upon which of the alternative reform programs and which of the revenue plans, or variants thereof, might be enacted by the Legislature. Under current law, each mill of property taxation, based on the 1973 State valuation, would yield approximately $3.77 million in annual revenue.

If the Legislature accepts the recommendation of the ESCO staff that inventories, stock in trade, and similar items be exempted from personal property taxation (thereby removing any objections to a marked increase in Corporate Income Tax rates), the State property valuation would be slightly decreased, and each mill of State property taxation would yield about $3.46 million annually.

Although it is recommended that inventory items be exempted from personal property taxation, the current State law does not allow for such exemptions. Table V-1, therefore, indicates the revenues which might be generated through a uniform State Property Tax, based on a 1973 State Valuation of $3,766,170,000 for the total real and personal property within the 496 municipalities of Maine.

Table V-1

Fund Generation from a Uniform State Property Tax Based on a 1973 State Valuation of $3,766,170,000 for the Total Real and Personal Property in the 496 Municipalities of Maine

Mill Rate	Fund Generation	Mill Rate	Fund Generation
10 Mills	$37.7 Million	22 Mills	$82.9 Million
12 Mills	$45.2 Million	24 Mills	$90.4 Million
14 Mills	$52.7 Million	26 Mills	$97.9 Million
16 Mills	$60.3 Million	28 Mills	$105.5 Million
18 Mills	$67.8 Million	30 Mills	$113.0 Million
20 Mills	$75.3 Million	32 Mills	$120.6 Million

Should the Legislature decide to establish a State Property Tax, but not to exempt inventories, stock in trade, and similar items from personal property taxation, Table V-1 provides a range of estimates as to the annual fund generation from each of twelve possible rates of taxation.

If the Legislature, however, decides to accept the recommendations of this report in regard to the advisability of exempting inventories and similar items from personal property taxation, the total State property valuation would be reduced by about 8 percent to approximately $3,459,000,000.

Table V-2 presents a range of estimates as to the annual fund generation of a State Property Tax which would exempt inventories and similar items from personal property taxation, as recommended in this report.

Table V-2

Fund Generation from a Uniform State Property Tax Which Would Exempt Inventories and Similar Items from Property Taxation Resulting in a State Valuation of $3,459,000,000 for Taxable Property in 1973

Mill Rate	Fund Generation	Mill Rate	Fund Generation
10 Mills	$34.6 Million	22 Mills	$76.1 Million
12 Mills	$41.5 Million	24 Mills	$83.0 Million
14 Mills	$48.4 Million	26 Mills	$89.9 Million
16 Mills	$55.3 Million	28 Mills	$96.9 Million
18 Mills	$62.3 Million	30 Mills	$103.8 Million
20 Mills	$69.2 Million	32 Mills	$110.6 Million

A uniform State Property Tax will tend to equalize the Property Tax burden throughout the State. Under current law, each municipality has the sole property taxing authority over all property within its boundaries, irrespective of the geographical impact of some major industrial employers. The result is that a municipality in which a large plant is located may now enjoy a relatively low tax rate, while neighboring municipalities in which many of the workers and their families live have to derive their tax revenues almost entirely from residential property. A well-known example is Rumford, with a 1971 tax rate of 54 mills based on State valuation, as compared to the adjacent town of Mexico, with a 1971 tax rate of 92 mills based on State valuation.

The majority of Maine's 496 municipalities have small populations, with little or no industrial property to tax. The Property Tax burden upon the resident home owners in such municipalities tends to be disproportionately high, particularly because of the mounting costs of public school education. A uniform State Property Tax would be of great benefit in such cases, for it would help make possible a more equitable means of support for the basic operating costs of public education through increased appropriations from the General Fund revenues of the State.

Need for a Special Study of Laws Exempting Various Categories of Real Property from Property Taxation.

Legislation enacted during the past 153 years has exempted many categories of real estate from Property Taxation. Most of the legislation appears to have been justified at the time of enactment, but circumstances may have changed, making some of these exemptions no longer advisable. There is a question. for instance, whether an institution should be property-tax exempt when it offers its services only in exchange for the payment of dues, fees, or direct charges. On the other hand, many schools which charge tuition and many hospitals which bill for all services are also partly subsidized through charitable donations which reduce the amount charged to those who receive the services. Circumstances like these make the problem of equitable taxation highly complex.

Modern society has also introduced a further problem. Most churches and similar institutions offer their services without imposing specific charges, gaining their support through voluntary contributions but providing services without regard to whether the recipient has made any contribution. There appears to be no question that property used for such purposes should be free from Real Property Taxation as such. In urban areas, however, such property does receive protection from the Fire Department, the Police Department, and also certain other municipal departments. Urban churches have to pay for their electricity, their telephones, their fuel, and their property insurance. Shouldn't they also have to pay some sort of Municipal Service Fee for fire protection, police protection, sewage disposal, and the snow-plowing of city streets bordering their property?

A rural State University campus has to provide its own police, fire protection, sewage disposal, and street maintenance. An urban State University is currently provided all these services by the city, the cost being borne entirely by the taxpayers of that city, although the students come from a much larger area.

The entire problem is too complex for further consideration in this report. It is recommended that the 106th Legislature consider funding an adequate study so that specific recommendations may be made to the 107th Legislature.

Increase in Revenue from the State Corporate Income Tax

It is recommended that the State Income Tax rate on all corporations be increased from 4 percent to 6 percent, with an additional 4 percent surtax on corporate earnings over $25,000. It is estimated that this increase in the State Corporate Income Tax rates will yield an additional $10.9 million during the second year of the biennium, fiscal 1974-75.

Provided that this increase be accomplished by the exemption of inventories and similar items from personal property taxation, this recommendation has the support of many elements of the business community. During the many interviews with business executives and association committees, members of the research staff were repeatedly told that the business and industrial community in Maine would prefer an increase in the Corporate Income Tax in lieu of the Personal Property

Tax. Business representatives pointed out that the Personal Property Tax often worked a hardship because it was assessed without reference as to whether a firm was operating at a profit or actually losing money during a given year. Many of them also stated that they felt the Personal Property Tax was poorly administered. They supported an increased State Corporate Income Tax as a substitute because it was impartially administered and was payable only when firms made a profit.

It is important to note that the current Maine Corporate Income Tax is being underutilized as a source of State revenue. Not only is the tax rate lower than that levied by many other states, but the Maine tax also has an element of regressivity because all firms pay a common rate of 4 percent. The recommended change in the basic rate from 4 percent to 6 percent, together with the proposed 4 percent surtax on corporations reporting more than $25,000 a year in taxable profits, will make this tax more progressive and reasonably comparable to the rates imposed in many other states.

In a review of various findings concerning acceptable levels of State Corporate Income Taxes, a 1971 report by the Tax Institute of America, Princeton, N. J., summed up the conclusions of a number tax specialists. The Institute's report on "Tax Policy," published January-February 1971, stated: "So long as the Corporate Income Tax in a state is reasonably comparable to those of other states and to the Personal Income Tax, there is no reason to believe that the tax has significantly affected locational decisions."

The same report went on to say that excessive or poorly administered property taxation policies discouraged industrial location or expansion, but that State Corporate Tax rates did not appear to be harmful to business firms or to the economy of a state unless the tax rates were in excess of ten percent.

There as many reasons why a Corporate Tax Rate should be progressive. A very small corporation lacks the capital resources to meet unexpected expenses when machinery breaks down or when sales are slow. It needs to put aside a larger proportion of its profits in good years to meet the expenses of bad years or to provide working capital during periods of sluggish sales than is the case of the typical large corporation.

During the fiscal year which ended June 30, 1972, the most recent period for which an analysis is available, 10,804 corporations paid Maine Corporate Income Taxes totaling $8,586,999. All firms were taxed at the 4 percent rate. A fraction more than 90 percent of the firms were small, reporting taxable profits of $25,000 or less, and providing only 11.3 percent of the total tax revenue. A fraction less than 10 percent of the firms were large, reporting for the most part very much higher profits, and providing 88.7 percent of the total revenue from Maine's Corporate Income Tax.

Table V-3 shows the relative amounts actually received from these two classifications of corporations and also indicates what would have been received under the proposed base rate of 6 percent, together with a 4 percent surtax on profits of more than $25,000.

Table V-3

Fiscal 1972 Maine Corporate Income Tax Revenues Compared to Revenues at Proposed Rates

Corporate Income Tax Revenue Source	Fiscal 1972 at 4 Percent	At Proposed 6 Percent Rate Plus 4 Percent Surtax on Profits of More Than $25,000
From 9,767 Small Firms with Profits of $25,000 or Less	$ 970,444	$ 1,455,666
Base Rate Revenues from 1,037 Large Firms with Profits of More than $25,000	7,616,555	11,424,832
Surtax Revenues from 1,037 Large Firms, Paid on That Part of Profits in Excess of $25,000	—0—	6,580,000
TOTAL CORPORATE TAX REVENUE	$8,586,999	$19,460,498

As Table V-3 indicates, the proposed Corporate Income Tax rates would have increased State revenues from approximately $8.6 million to $19.5 million, providing an increase of $10.9 million from this source of taxation.

Increase in Revenue from the State Personal Income Tax

It is recommended that the rate schedule of the State Personal Income Tax be increased, with the new rates ranging from 2 to 12 percent. The increase in revenue from this tax for the second year of the biennium would amount to an estimated $29.1 million.

A progressive income tax, such as that adopted by the State of Maine, is considered one of the most equitable forms of taxation, for it best recognizes the taxpayer's ability to pay. Taxes represent a continual and ongoing outflow of funds from the taxpayer. The best way to measure one's ability to meet this outflow is to evaluate his inflow or income after the necessary adjustments for support of dependents, charitable donations, and other deductions. Other types of taxation may provide a more dependable source of revenue, together with a good proportion of revenue from non-residents of the State. The income tax does possess the two disadvantages that its revenues fluctuate more with economic conditions than the revenues from other forms of taxation and that its revenues come only from residents of the State. For the resident, however, an increase in the State Income Tax is more equitable than an increase in the rate of either the Property Tax or the Sales and Use Tax.

In comparison to many other States using a State Income Tax, the rates charged in Maine have been relatively low. Reports of various tax experts consulted by the ESCO staff indicate that the State Government of Maine is not deriving a sufficient share of its total revenue from the State Income Tax to meet recommended norms. More than 99.7 percent of Maine residents are paying less than one-half of the national median rates in their income brackets. Consequently, a viable source of additional revenues for the State of Maine should be derived from general increases in the State Personal Income Tax rates.

An analysis of the Federal Income Tax returns for Maine for 1971 shows that more than half the income tax revenues come from families reporting taxable incomes of $10,000 or more. Maine is considered a rather low-income state, but there were 46,171 returns reporting incomes of $10,000 or more, and the Federal Government received $121,040,000 in income taxes from these more affluent families. On the other end of the scale, 66,178 out of the 99,901 families in the lowest income bracket paid no income taxes whatsoever. Table V-4 presents a more complete analysis.

Table V-4

Analysis of 1971 Federal Income Tax Returns from the State of Maine

Income Classification	Number of Returns	Percent of Total	Returns Paying No Tax	Federal Income Tax Paid	Percent of Total Amount Paid
Under $2,000	99,901	27.4%	66,178	$ 2,395,000	1.1%
$ 2,000-$ 3,000	31,908	8.7%	6,879	4,664,000	2.1%
$ 3,000-$ 4,000	32,388	8.8%	4,981	8,653,000	3.9%
$ 4,000-$ 5,000	34,735	9.5%	3,322	13,117,000	5.9%
$ 5,000-$ 6,000	31,812	8.7%	934	10,366,000	4.7%
$ 6,000-$ 7,000	33,579	9.2%	—	17,505,000	7.9%
$ 7,000-$ 8,000	20,924	5.7%	233	12,163,000	5.5%
$ 8,000-$ 9,000	18,027	4.9%	234	13,648,000	6.2%
$ 9,000-$10,000	16,668	4.6%	—	17,535,000	7.9%
$10,000-$15,000	33,396	9.1%	—	45,683,000	20.8%
$15,000-$20,000	6,405	1.7%	—	15,737,000	7.1%
$20,000-$50 000	5,426	1.5%	—	32,897,000	14.9%
Over $50,000	944	0.3%	5	26,723,000	12.0%
TOTALS	366,113	100.0%	82,766	$221,086,000	100.0%

Increase in Revenue from the Sales and Use Tax

The Sales and Use Tax is the largest revenue producing tax for the State of Maine. In the fiscal year 1971-72 it produced almost $92.0 million in State revenue and accounted for almost 24 percent of the State's General Fund for that year.

It would appear that between 5 percent and 10 percent of the Sales Tax revenue in Maine originates from sales made to persons who are not permanent residents, such as summer residents and vacationers. The reason for this opinion is a comparison between Sales Tax revenues in Maine and those in Rhode Island. The population of Rhode Island is only a few thousand less than that of Maine, but the income level and presumedly the purchasing power of the population can be considered slightly greater. Both states impose a 5 percent sales tax. The dollar yield from the Rhode Island 5 percent sales tax, however, was $8.7 million less than that in Maine in 1971. The only logical explanation for this difference of almost $9 million in Sales Tax revenues is the purchasing activity of seasonal residents and vacationers, who help in this way to pay a part of the costs of Maine State services.

Many of the people interviewed during the field studies favored an increase of some sort in the Sales and Use Tax, mostly because they realized that this method of taxation reached the vacationers in our State. A number of others felt that the Sales Tax was already high enough. Connecticut, with a 7 percent rate, is the only New England state to levy a higher rate than the 5 percent rate of Maine and Rhode Island, but citizens in a number of other states have to pay higher effective rates, as indicated by the table in Part VIII of this report.

The Tax Structure Study Committee, as discussed in more detail in Part VI of this report, endorsed a "Balanced State-Local Tax System," in accordance with the high quality state-local fiscal system guideline developed by the Advisory Commission on Intergovernmental Relations. On the basis of these guidelines they concluded that the current Sales Tax rate of 5 percent raises the full recommended percentage of State revenue which should be derived from this form of taxation.

It was also pointed out by a number of people that the Sales Tax is regressive and therefore taxes a greater proportion of the income of families of low income than it does in the case of more affluent people.

Despite these major criticisms, it still remains highly desirable, in the opinion of the ESCO Research team, to broaden or increase the Sales Tax in some way, primarily because it helps the State to derive a reasonable portion of its revenues from seasonal residents and vacationers who benefit from a variety of State services.

In addition to enabling seasonal residents and vacationers to pay their way, the Sales and Use Tax has several other important advantages:

1. This form of taxation is broadly based.
2. It is visible, in that it is clearly added to the cost of each sale.
3. It provides State government with a relatively stable source of revenue.
4. It is relatively easy to pay, in that a proportionate amount of tax is paid whenever a sale is made.
5. It is relatively easy for the State government to collect from the merchant who makes the sale.

Because the Sales and Use Tax is generally accepted as a major source of revenue by a majority of states throughout the nation, and because the Sales Tax in Maine is effective in providing a reasonable portion of its revenues from seasonal residents and vacationers, it is recommended that the Legislature continue its reliance on this form of revenue. It is more specifically recommended that one of the three following approaches be utilized to increase revenues from the Sales and Use Tax:

Alternative One: Broaden the Base to Include Services.

Alternative Two: Broaden the Base to Include Food, with an Income Tax Credit or Cash Rebate.

Alternative Three: Increase the Sales Tax Rate on the Current Base.

Each of these alternatives will be discussed in some detail in the following pages.

Alternative One: Broaden the Base to Include Services.

After discussing the revenue problem with many of the interested residents of Maine, the ESCO staff has come to the conclusion that one of the most acceptable methods of obtaining more adequate revenues from transients, seasonal residents, and resident families with relatively high incomes would be to broaden the base of the Sales Tax to include services. It is specifically recommended that the Sales Tax at the current rate be broadened to include charges for all services exclusive of medical and dental services, with an offsetting income tax credit or rebate for resident families of low income. It is estimated that this broadening of the tax after rebates would yield $30 million in the second year of the biennium.

Taxable services should include automobile repairs and similar services; repair and installation of appliances and equipment; building repairs, alterations, and construction of all types; printing services; photographic processing; laundering, pressing, and dry cleaning; barber and beauty shop services; and rental of tangible property.

To avoid imposing hardship on residents of low income, any law enacted by the Legislature should combine the institution of this broadening of the tax base with an offsetting tax credit or rebate applied to the State Personal Income Tax. It is recommended that the Income Tax credit or cash rebate be established at a maximum of $20 or less per exemption, based on a sliding scale and decreasing to zero when the adjusted gross income reaches a level of $2,000 per exemption. The net effect would be to provide two-thirds of the families in Maine with some amount of tax credit, while at the same time bringing in $30.0 million in new tax revenue, largely from non-residents and relatively affluent residents.

For the benefit of the many Maine residents whose incomes are so low that they do not have to file a standard State Personal Income Tax return, a highly simplified return-card tax form should be prepared for the exclusive use of residents whose gross income is insufficient to require their filing a regular detailed income tax form. Elderly persons living on Social Security, together with other residents of insufficient income to file a regular income tax form, could thus fill out and mail their tax-rebate card at any time after January 1 of a calendar year. In this way, they would receive their cash rebates in the dead of winter when they would be in the greatest need of added cash.

Alternative Two: Broaden the Sales Tax Base to Include Food, with an Income Tax Credit or Cash Rebate.

Of the 48 states which levy State or State-Local Sales Taxes, 32 include food among the taxable items, although sometimes with certain limitations or Income Tax credits, as shown in Table V-5.

Including food items among the items subject to the Maine Sales Tax and then providing an offsetting Income Tax credit or cash rebate for Maine residents would provide new revenues, largely from the non-resident seasonal population, estimated as $12.7 million for fiscal year 1974-75.

The advantages of this plan would be that no extra tax burden would be placed upon Maine residents of low income, while seasonal residents and tourists who made purchases in our food stores would be helping to pay their share of the cost of the various State services provided them. As Table V-6 indicates, non-residents would be provid-

Table V-5

States Including Food in the Sales Tax Base
As of January 1, 1972

State	Adjustment for Food Taxation, if Any
Alabama	
Alaska	
Arizona	
Arkansas	
Colorado	Offsetting Income Tax Credit
District of Columbia	Lower Rate on Food; Income Tax Credit
Georgia	
Hawaii	Offsetting Income Tax Credit
Idaho	
Illinois	
Indiana	Offsetting Income Tax Credit
Iowa	
Kansas	
Kentucky	
Louisiana	Lower Rate on Food
Michigan	
Mississippi	
Missouri	
Nebraska	Offsetting Income Tax Credit
Nevada	
New Mexico	
North Carolina	
North Dakota	Exemption of Certain Perishable Foods
Oklahoma	
South Carolina	
South Dakota	
Tennessee	
Utah	
Virginia	
Washington	
West Virginia	
Wyoming	

Source: Advisory Commission on Intergovernmental Relations, Publication M-74, 1972, Page 178.

ing approximately two-thirds of the net revenues from the Sales Tax on food, while the remaining one-third would come from the more affluent Maine residents whose food budgets exceeded the current norms for Maine families.

Table V-6

Net Revenue from a 5 Percent Sales Tax on Food in the State of Maine

Resident, After Tax Credits	$ 4.6 Million
Non-Resident, Taxes on Food	8.1 Million
TOTAL ANNUAL NET REVENUE	$12.7 Million

As Table V-6 indicates, the net revenue to the State from extending the Sales Tax to food items, with an offsetting Income Tax credit or cash rebate, would be $12.7 million in the second year of the biennium.

To avoid placing any extra burden on Maine residents of low income, it is recommended that a $25 per capita Maine Income Tax credit or rebate offset the added cost to Maine residents, and that a highly simplified return-card tax form be prepared for the use of residents whose gross income is insufficient to requiring their filing a regular detailed income tax form. Elderly persons living on Social Security, together with other residents of insufficient income to file a regular form, could in this way fill out and mail their tax-rebate card at any time after January 1 of a calendar year.

The $25 tax credit or rebate would mean that each Maine resident would be entitled to a rebate of taxes paid on almost $10 per-capita food purchases each week. According to statistics prepared by the Bureau of Welfare, as of October 1, 1972, poor people, including the aged, blind, and disabled, currently spend on an average $492 per year per person. The proposed $25 tax credit or rebate would therefore allow for a slight inflationary increase in the cost of food purchased by such persons. Rural people, who supplement their food purchases by products from their own garden or farm, might also anticipate a 100 percent return of the Sales Tax money spent on food purchases. Urban residents of Maine might find that their tax credit would be slightly less than the Sales Tax paid on food items, but the net impact of this form of taxation on such families would be much less than any other alternative means of raising an equivalent amount of additional State revenues. As was pointed out previously, approximately two-thirds of the new revenues would come from non-residents of Maine.

Alternative Three: Increase the Sales Tax Rate on the Current Base.

If the current Sales and Use Tax were increased from 5 percent to 6 percent, the added yield would be approximately $20.0 million per year. An increase from the current 5 percent to 7 percent would double this amount, bringing added revenues of $40.0 million per year.

Among the New England states, the Sales Tax rate in Maine is currently the same as that levied in Rhode Island, but substantially lower than the 7 percent recently imposed in Connecticut. It must also be remembered that Maine levies its Sales and Use Tax on a narrower base than that used in many other states. The percentage rate in many of the states listed in Table V-5 on a preceding page may be lower than the 5 percent rate of Maine, but a broader base of taxable items may more than compensate for the difference in rate. In the 25 states listed in Table V-5 as allowing "no adjustment" for the Sales Tax paid on food items, the total amount of Sales Tax paid by the typical citizen may be substantially greater than the tax rate would seem to indicate.

Many states which levy a Sales Tax also permit their local municipalities to levy an additional Sales Tax on items sold within municipal limits. Maine avoids this practice and provides State-Local revenue sharing as a more viable substitute.

Table V-7 lists the states which currently levy either a greater Sales Tax rate than the 5 percent rate in Maine or which allow a higher rate through a combination of State and Local Sales Taxes.

Table V-7

State or State-Local Sales Tax Rates in Excess of 5 Percent

State	Total Rate Allowed
Alabama	6 Percent
California	5.5 Percent
Colorado	6 Percent
Connecticut	7 Percent
Louisiana	6 Percent
New York	7 Percent
Pennsylvania	6 Percent

Source: Data assembled by the Commerce Clearing House, 1972.

According to the reports of a number of tax specialists studied by the ESCO Research staff, an increase in revenues from the Sales Tax, either through a broadening of the base of taxable categories or through an increase in the rate on the accustomed base, is a more politically acceptable way to obtain increased revenues than an increase in the rates of other major types of taxation. Both the income tax and the property tax meet with psychological resistance because the total amount paid becomes so obvious when the income tax form is made out or the property tax bill is received. Families of low income might pay much less through an income tax increase than through a sales tax increase, but they never see a summary of the total amount of sales taxes paid. The sales tax total is buried in a mass of small transactions, few of which are large enough to alert the purchaser to the substantial amount involved over the course of a year.

The sales tax is one of the few taxes paid by all tourists who spend a day or more visiting the State of Maine. It is particularly important in providing revenue from seasonal residents who pay their income taxes in other states. Since the tax reform recommendations presented in this report propose a reduction in the property tax and an increase in the income tax as two major components in the reform package, some compensatory increase in sales tax revenue should be obtained from seasonal residents who own summer homes in Maine but pay their state income taxes elsewhere.

An increase in sales tax revenues through one of the three alternatives which have been discussed seem to be needed to make the tax reform proposal more equitable and to insure that the seasonal resident and the vacationing tourist pay a fair share of the cost of the State services which help make Maine so attractive to visitors from other states.

PART VI

OTHER POSSIBLE TAX REFORM PROPOSALS

During the 1972 field interviews with various State officials, representatives of organizations concerned with tax problems, and other interested persons, many suggestions for tax reform were considered and a number of proposals that had been previously made, both in Maine and other states, were studied. The key ideas in some of these proposals have been incorporated into the recommendations explained earlier in this report. Since the Legislature should consider various alternate ways of accomplishing tax reforms, the salient points from some of the other proposals that were studied are summarized on the following pages.

For convenience these alternative proposals are grouped under three subsectional headings. Three alternative proposals concerning educational reform are grouped under the first heading. Two alternative proposals for property tax relief come next. Four alternative proposals for economic development incentives are explained under the final subsection. The complete listing is as follows:

1. **Alternative Proposals for Educational Reform**

    A. Increase State subsidies to cover all costs of new school construction, including debt service on schools recently built.

    B. Finance public education as suggested by the Associated Industries of Maine.

    C. Finance public school education as proposed in the Smith Bill (105th Legislature Document No. 1131).

2. Alternative Proposals for Property Tax Relief

A. Provide homestead tax relief through a State Income Tax credit or rebate amounting to 40 percent of the Real Property Tax Paid by Maine Homeowners on Their Homestead Property, but Not Exceeding $200 in Any One Year.

B. Reduce Property Taxes through adoption of a balanced State-Local Tax System.

3. Alternative Proposals for Economic Development Incentives

A. Exempt manufacturing machinery and manufacturing inventories of raw materials and finished products from Personal Property Taxation.

B. Eliminate the Personal Property Tax.

C. Defer the Sales and Use Tax on purchases of machinery and equipment.

D. Exempt from the Sales and Use Tax all machinery and equipment used directly and solely in the manufacture of tangible personal property for sale.

E. Eliminate the Sales and Use Tax on bills from utilities.

F. Provide a one percent investment credit to manufacturers to encourage expansion.

The recommendations explained in an earlier part of this report were somewhat different from these alternative proposals. In some cases it was felt that they would accomplish much the same objectives in a more effective way. In other cases the problem of finding State or local revenues to replace the revenues lost by some of these alternative proposals appeared too great to be considered during the upcoming Legislative session.

1. Alternative Proposals for Educational Reform

A. Increase State subsidies to cover all costs of new school construction, including debt service on schools recently built.

A number of persons interviewed during the course of this project suggested that the State government assume all debt service payments connected with construction loans, together with all future costs of school construction. It was pointed out the taxpayers in many small, relatively poor municipalities rejected the idea of joining a School Administrative District because of the substantially higher Property Taxes they would have to pay to meet their town's share of the debt service on a modern District high school. Although the per-pupil operating costs of such a school would be much lower than those of a local high school, housed in an obsolete building and offering only a very limited variety of courses for a very small student body, the local share of the debt service for a centralized School Administrative District high school would place too great a burden on the taxpayers of a municipality with little or no high-valuation property to tax.

The State of Maine currently assumes approximately 40 percent of the capital outlays and debt services connected with public school construction. The precise percentage is computed by an equalization formula, so that the State subsidy may range slightly above or slightly below the 40 percent average in individual cases. Each year for the past ten years, new school construction has ranged between a low of $2.1 million in 1965-66 and a high of almost $3.0 million in 1970-71. Since the debt service on school construction is paid off in installments over a period of a number of years, much like mortgage payments on a private home, the total annual cost of debt service has been rising sharply, especially since 1967. In 1967-68 the debt service on school construction amounted to less than $9 million. By 1970-71 it had risen to approximately $18.0 million per year. Even if no new school construction is undertaken, it will remain at that level until the construction costs of schools built in the early 1960's are amortized.

The State of Maine is currently subsidizing this debt service at the 40 percent rate, amounting to $7.2 million per year. The remaining cost of $10.8 million per year, as of 1971, is being assumed by local taxpayers. In many municipalities this burden has increased the rates of property taxation sharply.

If the Legislature can find the revenues to allow the State to assume the entire burden, property taxation will be reduced in municipalities which have recently engaged in new school construction, either individually or as part of a School Administrative District. Such a policy would also remove one of the greatest impediments to the formation of School Administrative Districts in the areas where tax rates are already high because there is little property value to tax. A 100 percent State subsidy, however, should be accompanied by some sort of cost-ceiling formula, flexible enough to meet localized District needs, but rigid enough to avoid excessive expenditure in terms of the numbers of pupils served.

B. Finance public school education as suggested by the Associated Industries of Maine.

An alternative method of supporting public school education, somewhat similar to that recommended earlier in this report, but differing in various details, was introduced in the 105th Legislature, LD 1293, by the Associated Industries of Maine (AIM). The plan was modified slightly, as of February 23, 1971, to read as follows:

> To make the transition from the present subsidy program to the program proposed by the select subcommittee of the Association, the following is proposed:
>
> 1. For the 1971-73 fiscal year a uniform local effort of 17.5 mills be instituted. The money raised from this source plus the educational subsidy in the Part I budget, plus $2.5 million in new state appropriations would distribute $419 per pupil.
> 2. The appropriation above would supply 80 percent of the cost of transporting students to and from school.
> 3. The appropriation in Number 1 above would supply a 7 percent bonus to school administrative districts. This would be the beginning of a phase-out of bonuses to school administrative districts. (1973-74 = 5 percent; 1974-75 = 3 percent; 1975-76 = 1 percent).
> 4. During the phase-in program, a grandfather clause would be in effect which would guarantee to each unit whose computation was less than the 1971-72 aid, that an amount would be added to the aid of the unit not to exceed 90 percent of the 1971-72 aid, with the result that the total net amount payable to the unit may not exceed 90 percent of the 1971-72 aid.
> 5. Necessary school district reorganization would be authorized, to be completed by 1975.
> 6. Approximately $10 million per year in addition to the State program will be distributed to specific units through various federal programs.
> 7. In 1973-74, the full 20 mill effort plan would be implemented to distribute the State average per pupil expenditure plus 80 percent of the cost of transportation, plus 5 percent district bonuses, with a reduction to 3 percent in the second year of the biennium.
> 8. The funding for 1972-73 would be as follows:
>
> | | |
> |---:|---|
> | $ 57.1 | million by 17.5 mills on State valuation of local units. |
> | 53.8 | million from Part I budget of General Purpose Aid. |
> | 2.5 | million in new money or Part II budget. |
> | $113.4 | million total distribution for school purposes. |

It might be noted that the AIM proposal, as detailed above, would provide a State subsidy for only 80 percent of school transportation costs. In comparison to the recommendations in the earlier part of this report, it would provide a much lower proportion of the per-pupil operating costs. This would mean that, although local Property Tax payers would be provided some relief on an average, they would still have to provide for the remainder of the operating and transportation costs through local property taxation over and above the uniform State Property Tax of 17.5 mills for the first year and 20 mills for ensuing years.

C. Finance public school education as proposed in the Smith Bill (105th Legislative Document No. 1131).

An alternative method of funding public school education would be to reintroduce Legislative Document 1131 of the 105th Legislature, as presented by Representative Douglas Smith. The proposal was designed to support education primarily through increased rates in the State personal and Corporate Income Taxes so that educational opportunities might be relatively equalized for students in all parts of the State. In order to accomplish this, Representative Smith outlined a financial formula for State Aid to education that subsidized local school districts on the basis of relative need. The Smith proposal recommended both that the State's share of educational costs be substantially increased and equalized, and that the State Board of Education would be empowered to complete the formation of adequate School Administrative Districts.

The method of financing support recommended in LD 1131 was to shift the cost of education from the local Property Tax to the broad-based Corporate and Personal State Income Tax. This would require raising State Income Tax rates to the point where the increased revenue from the State Income Tax would be equivalent to the total required to meet the average per-pupil expenditure as computed by the State Department of Education under the current formula.

2. Alternative Proposals for Property Tax Relief

A. Provide homestead tax relief through a State Income Tax credit or rebate amounting to 40 percent of the Real Property Tax paid by Maine homeowners on their homestead property, but not exceeding $200 in any one year.

One method of granting a measure of Property Tax relief to all home-owning Maine residents, and especially beneficial to elderly persons who have little income and who are struggling to continue living in the residences they bought during their earning years, would be by granting an income tax credit or rebate for a portion of the Property Taxes paid by Maine residents on their homesteads.

In the case of the many whose income is insufficient to require the filing of a standard income tax form, a highly simplified return postal-card form should be provided so that they could obtain their rebate without feeling the need of going to a tax consultant or being confused by a multitude of lines to be filled in.

It is proposed that each homestead owner receive a tax credit against his income tax payment to the State amounting to 40 percent of the local real estate tax levied upon his dwelling and the lot upon which it stands, except that in no case the total tax credit may exceed $200 in any one year.

A program of this sort would guarantee a measure of Property Tax relief to all home owners, but it would benefit especially those of low income, who would be entitled to an income tax rebate from the State if the amount of their homestead credit should exceed the amount of income tax payable to the State.

It should be noted that the Homestead Tax Relief proposal is submitted as an alternative to the general Property Tax Relief measures recommended in the earlier part of this report. If the State assumes a significant portion of the public school education costs, most property owners will receive a property tax reduction equal to or in excess of the Homestead Tax Relief alternative discussed here.

If the Legislature prefers to provide Homestead Tax Relief instead of the more general Property Tax Relief that was recommended in an earlier section of this report, new revenues required to provide Homestead Tax Relief would amount to $11.6 million for the balance of the fiscal year ending June 30, 1974, if the program is started on January 1, 1974; and $24.5 million for the second year of the biennium, making a total needed for new General Revenue funds amounting to $36.1 million for the biennium.

B. Reduce Property Taxes through adoption of a balanced State-Local Tax System.

A recommendation endorsed by the Tax Structure Study Committee, which was established by the 105th Legislature, stated that a desirable goal is the institution of a "Balanced State-Local Tax System," in accordance with the high-quality State-Local fiscal-system guidelines developed by the Advisory Commission on Intergovernmental Relations.

The following tabulation shows the proportion of State-Local revenues derived from Property Taxes, the Sales and Use Tax, the State Income Tax, and other sources in 1971 and, in parallel columns, shows what the proportions and gross amounts would have been if the ACIR guidelines had been followed.

Table VI-1

Proportionate State-Local Revenues Received from Principal Sources in 1971 Compared to ACIR Proportionate Recommendations

Source of Revenue	1971 Actual Revenue (millions)	1971 Percent of Total	ACIR Recommended Percentage	Revenues Under ACIR Plan (millions)
Property Taxes	$209.0	44.6%	30.0%	$140.7
Sales and Use Tax	99.5	21.2%	22.0%	103.2
State Income Tax	33.0	7.0%	25.0%	117.2
Other Sources	127.5	27.2%	23.0%	107.9
TOTAL	$469.0	100.0%	100.0%	$469.0

The ACIR guidelines would suggest that the State Personal and Corporate Income Tax rates be raised to three and one-half times their present level. This would have increased their 1971 yield by $84.25 million making it possible for the State to subsidize a much larger portion of the services currently supported through local taxation.

Maine, however, differs from the "typical state" for which the ACIR guidelines were designed in that a disproportionate amount of Maine real property is owned by out-of-state residents who are not subject to the State Income Tax. Any reduction in the Property Tax rate which is not accompanied by a reassessment of the valuation of seasonal property (which has increased in market value very rapidly during the past decade) will mean a disproportionate reduction in the tax burden of out-of-state seasonal residents, when compared to the increase of the income tax burden placed upon Maine residents. It may be that some modification of the ACIR suggestions may be needed if the Legislature wishes to use this approach to a program of equitable taxation in Maine.

3. Alternative Proposals for Economic Development Incentives

A. Exempt manufacturing machinery and manufacturer's inventories of raw materials and finished products from Personal Property Taxation.

While the majority of industrial leaders interviewed recommended the elimination of the entire Personal Property Tax, most of them realized that the tax revenues involved would cause practical difficulties if all categories now subject to personal property taxation were exempted during any one Legislative session. A majority of the business and industrial leaders agreed that the first stage in the removal of this tax would be the exemption of inventories, stock in trade, and analogous items from personal property taxation.

Several representatives of manufacturing and processing industries, however, recommended a different approach, involving the exemption of manufacturing machinery, together with inventories of raw materials and finished products in manufacturing and processing plants. This exemption would exclude inventories and stock in trade held by wholesale or retail merchants.

It was claimed that the exemption of manufacturing machinery and manufacturers' inventories of raw and finished products would make Maine more competitive in its search for new industrial firms, which might then be enticed to build new plants or relocate in Maine rather than in Connecticut, Rhode Island, or New Hampshire.

If the Legislature should decide to aid economic development in Maine by excluding manufacturing machinery and manufacturers' inventories of raw and finished products from personal property taxation, the cost to the State of Maine in the second year of the biennium, as illustrated in Table VI-2 below, would be at least $19.3 million, or 58 percent of all the personal property taxes collected.

Table VI-2

Estimate of Personal Property Taxes Collected for Selected Categories in Maine for the Calendar Year of 1971

Machinery and Equipment	$15.5 million
Industrial Inventories	3.8 million
TOTAL	$19.3 million

B. Eliminate the Personal Property Tax

Discussions with representatives of business and industry, as well as conclusions drawn from printed articles concerning business problems and taxation, indicated that the Personal Property Tax was considered one of the most unfair forms of taxation and that it tended to repress the economic development of the State of Maine. Close questioning, however, indicated that the application of this tax to inventory and stock for sale caused the greatest damage, and that there was less resentment about the taxation of machinery used in actual production. Since the removal of the entire Personal Property Tax would require substantially increased rates in other forms of taxation, it seems advisable that only that part of the tax having to do with inventory and stock in trade should be removed during the 1973-75 Legislative session.

Many knowledgeable people throughout the State, however, have recommended the complete elimination of the Personal Property Tax.

In order to implement such a proposal, the State Legislature would need to replace approximately $30.0 million in annual lost income on the part of the local municipalities. For this reason it would probably be preferable that the Legislature consider phasing out the municipal loss of Personal Property Tax revenue over a 5-year period, reimbursing the municipalities 100 percent of the previous year's Property Tax revenue the first year it was abolished, 80 percent for the second year, and so on. This would give the municipalities time for a period of fiscal readjustment.

C. Defer the Sales and Use Tax on purchases of machinery and equipment.

The payment of a sales tax on purchases of machinery and equipment hits expanding businesses at a most inappropriate time, when they have incurred a substantial capital outlay, but before they can generate a cash flow from their investment.

One form of assistance to Maine business and industry would be to allow them to defer the sales tax payment until they can start earning money from the sales of the goods produced by the new machinery or equipment. Such a plan would not cost the State any long-run revenues, but it would postpone their receipt.

It is therefore recommended that the Legislature consider the following proposal. Whenever a Maine business or industrial firm purchases equipment or machinery on which the total sales tax would amount to more than $100 in any one calendar year, the firm in question be allowed to defer payment of the sales tax for two years from the date of purchase. At the end of the two years, 25 percent of the deferred sales tax liability would be payable; at the end of three years another 35 percent of the liability would be payable; and at the end of four years an amount equivalent to 45 percent of the initial liability would be paid. The total amount paid under this plan would be 105 percent of the initial liability, providing a small return to the State for granting deferral of the Sales and Use Tax on substantial purchases of machinery and equipment.

For many owners of small Maine manufacturing or processing plants this plan would be very helpful, for such persons usually have to obtain bank loans to finance purchases of capital equipment. By not having to borrow to pay the sales tax in addition to the purchase price of the new equipment, they would be saved an appreciable annual expense in interest charges.

D. Exempt from the Sales and Use Tax all machinery and equipment used directly and solely in the manufacture of tangible personal property for sale.

Because the Sales and Use Tax on purchases of machinery and equipment works a hardship on many Maine businessmen, especially the owners of small manufacturing or processing plants, who usually have to borrow to make substantial capital purchases, the Legislature might consider the exemption of such machinery and equipment from the Sales and Use Tax. If outright purchases alone are considered, the loss to the State would be approximately $4.0 million each year. If the exemption were extended to sales to lessors who in turn lease the machinery or equipment to industrial users, as commonly happens, the loss of sales tax income to the State would amount to an estimated $4.5 million each year.

The exemption of the Sales and Use Tax on outright purchases of machinery or equipment could be accomplished by legislation reading as follows:

> R. S., T. 36 Section 1760, sub-section 31, additional. Section 1760 of Title 36 of the Revised Statutes, as amended, is further amended by adding a new subsection to read as follows:
>
> 31. Machinery and Equipment. Sales of machinery and equipment, or replacement parts thereof, for use by the purchaser directly and exclusively in the manufacture of tangible personal property for later sale.

If the Legislature were to consider excluding from the sales and use tax machinery and equipment purchased by lessors who lease such machinery and equipment to industrial users, the language would be much more complex and administration of the law would become much more difficult. Many concerns engaged in leasing equipment will lease both to manufacturers of tangible personal property and also to businesses not engaged in such manufacture, or even to private individuals, as in the case of firms which rent sanders, power saws, and similar power tools to persons engaged in home remodeling projects. At the time of the sale of machinery or equipment to a company engaged in leasing such items, it would be difficult to prove what the ultimate physical use of such property would be. For these reasons, it might appear to be unwise to introduce legislation which attempted to exempt lessors of machinery or equipment from the Sales and Use Tax. If such legislation were desired, however, the suggested wording of the bill might run as follows:

> R. S., T. 36 Section 1760, sub-section 31, additional. Section 1760 of Title 36 of the Revised Statutes, as amended, is further amended by adding a new subsection to read as follows:
>
> 31. Machinery and Equipment. Sales of machinery and equipment, or replacement parts thereof, for use by the pur-

chaser or by the initial lessee-user directly and exclusively in the manufacture of tangible personal property for later sale provided that in the case of the initial lessee-user, the initial lease for such use is for a period in excess of ninety days. For purposes of this subsection a use (other than the use of a lessor deriving income from rental of tangible personal property located in this State) that occurs subsequent to the sale but prior to the direct and exclusive use of the machinery and equipment, or replacement parts thereof, by the purchaser or initial lessee-user in the manufacture of tangible personal property for later sale shall prohibit the granting of tax exemption under this subsection.

For purposes of this subsection the terms "initial lessee-user" shall mean a lessee or a sub-lessee who is the first person subsequent to the sale to use directly and exclusively the machinery and equipment, or replacement parts thereof, in the manufacture of tangible personal property for later sale.

E. Eliminate the Sales and Use Tax on bills from utilities.

During the field interviews, several persons suggested that the application of the Sales and Use Tax to electric bills, gas bills, and water bills was unfair, in view of the current exemption of food and domestic fuel oil from such taxation. Most professional tax studies, however, recommended against such exemptions. The total amounts involved would be very substantial, totaling more than $11.2 million in 1971 if all utilities were included, as the table following indicates.

Table VI-3

Sales and Use Taxes From Utilities in 1971

Type of Utility	Sales Tax	Use Tax	Total Revenues
Light and Power	$4,448,321	$2,612,684	$ 7,061,005
Water	456,278	7,048	463,326
Telephone	2,343,496	921,385	3,264,881
Railroads and Bus Lines	6,429	356,044	362,473
Others	69,030	23,475	92,505
TOTALS	$7,323,554	$3,920,636	$11,244,190

F. Provide a one percent investment credit to manufacturers to encourage expansion.

During the field interviews with representatives of Maine industry and other industrial development specialists it was frequently recommended that the State of Maine should provide some economic incentives to encourage new industry to move into Maine and also to encourage existing industry to modernize equipment and expand facilities. One specific recommendation which the members of the Legislature may wish to consider is to provide a one percent investment credit against the Corporate Income Tax for firms which make capital expenditures for modernization of existing equipment or for new machinery, equipment, or other facilities.

If the Legislature should elect this method of encouraging economic expansion, the State would lose an estimated $1.3 million in revenues from the Corporate Income Tax in 1973, as illustrated in Table VI-4.

Table VI-4

Estimated Amounts Represented by One Percent of Annual Capital Expenditures of Maine Corporations: 1965-1973

Year	1% of Investment	Year	1% of Investment
1965	$1.7 million	1970	$1.0 million
1966	$1.6 million	1971	$1.7 million
1967	$1.5 million	1972	$1.2 million
1968	$1.1 million	1973	$1.3 million
1969	$1.0 million		

As the table above indicates, industrial investment in machinery, equipment, and other capital construction or improvements varies from year to year, ranging from about $100 million to $107 million in annual expenditures. A one percent State Corporate Income Tax credit would therefore reduce Corporate Income Tax revenues by as little as $1.0 million or as much as $1.7 million in any given year, based on recent experience.

PART VII

SOME OTHER ALTERNATIVE WAYS OF INCREASING STATE REVENUES

Suggestions received during field studies in Maine, together with reports concerning the types of taxation utilized by other states, have helped to identify a number of possible supplementary sources of State revenue. The possibilities listed below identify the principal supplementary suggestions. Each item on the list is discussed more fully on the page noted in the column on the right.

Some Other Alternative Ways of Increasing State Revenues

Although a broadening of the sales tax base to cover all conventional services has been recommended in one of the plans for funding tax reform proposals (as listed in Part III and discussed in Part V of this report), it is entirely possible that the Legislature may prefer to continue to exempt most types of services, but to add one or more categories of sales or services to the categories now being taxed. Five possibilities which have been most frequently suggested during the field studies are discussed in the following paragraphs, together with the added possibility of an increase in the sales tax rate on meals and lodging.

1. The Sales Tax Broadened to Add One or More New Categories or the Rate Increased on a Specific Category

A. Sales Tax on Automobile Trade-In Allowance

Although the Legislature in past years has considered and rejected legislation to remove the current exemption on the allowance for used cars at the time of trade-in, such legislation is still frequently advocated by many persons interviewed during the course of field studies. It is pointed out that the present exemption works a hardship on the new car purchaser who has no car of substantial value to trade in, as in the case of the person who trades cars only once in four or five years, while it gives a substantial advantage to the more affluent customer who trades cars annually. The loss in revenue to the State of Maine is very substantial. If the exemption were removed, the State would receive $13.2 million in additional revenue during the 1973-75 biennium. During the period ending June 30, 1974, the additional sales tax revenue would amount to $6.4 million, and for the year between July 1, 1974 and June 30, 1975, the added sales tax revenue would be $6.8 million.

B. Sales Tax on Barber and Beauty Shop Services

A sales tax of 5 percent on services provided by barbers and beauty shop operators would generate approximately $2.0 million during the 1973-75 biennium, or about $1.0 million per year. Although this tax has been unpopular with persons working in this field whenever it has been proposed in the past, it is a tax that would derive a substantial part of its revenue from those of higher income and from summer residents and vacationers. Many residents of low income use such services rarely or at all, because they consider professional services of this sort an unnecessary luxury.

C. Sales Tax on Laundry and Dry Cleaning Services

Persons who have to do their laundry at home already have to pay a sales tax on laundry supplies and domestic laundry equipment, but they currently pay no tax on outside laundry services. As a matter of equity, such services should be taxed, particularly since they tend to be used by the well-to-do and by vacationers. Although the use of such specialized services has begun to decline, partly because of the increasing use of wash and wear fabrics, and partly because of the popularity of coin-operated machines, the volume of regular laundry and dry cleaning work remains high enough so that it is estimated that a 5 percent tax on such services would generate approximately $2.0 million during the 1973-75 biennium.

D. Sales Tax on Admission to Commercial Amusements, Etc.

A 5 percent sales tax on admissions to commercial amusements and similar activities has been suggested by a number of the people interviewed during field studies throughout Maine. Such a tax has been adopted by more than 200 communities in Ohio, New York, Pennsylvania, New Jersey, Maryland, Virginia and Washington. The experience of these places indicates that such a tax at 5 percent would yield approximately $1.20 per capita. On this basis, a Maine State tax would yield approximately $2.5 million during the 1973-75 biennium. A substantial portion of the revenue would probably be derived from tourists and vacationers.

E. Sales Tax on Oil Used as Domestic Fuel

Whereas increasing numbers of Maine homes are now being heated by either gas or electricity, both of which are subject to the sales tax, it appears reasonable to tax oil used as domestic fuel also. It has been estimated that a tax on domestic fuel oil, at the 5 percent rate, would yield in excess of $6.0 million during the 1973-75 biennium, or more than $3.0 million per year.

It should be noted, however, that a number of persons interviewed during field studies felt that a tax on any kind of fuel worked a hardship on low-income families, particularly the elderly, and that charges for the domestic use of not only oil but also gas and electricity should be excluded from this form of taxation.

F. Sales Tax Increase of 2 Percent on Meals and Lodgings

It has been suggested by members of the Legislative Tax Committee that the Sales Tax rate on meals and lodging be increased 2 percent, raising the Sales Tax on such items from 5 percent to 7 percent. It is estimated that this increase would yield an additional $8.5 million in biennial revenue.

For the greater part, this tax would be paid by those most able to pay, such as vacationers, seasonal residents, and businessmen traveling at company expense. The tax, however, might work a hardship on elderly retired persons living in rented rooms without kitchen privileges and consequently dependent upon restaurants for their daily hot meals.

2. A Maine State Lottery: Estimated Net Revenue: $1.9 Million Per Year

The Maine State Legislature might establish a state lottery system, with legislation patterned upon the New Hampshire Sweepstakes Law and with administration and promotion including the types of outside professional services now employed by New Hampshire. It is conservatively estimated that such a Maine State Lottery system would generate nearly $5 million per year in ticket sales, but only about $1.9 million in annual net revenue.

Since a state lottery is not a tax, but derives its income entirely from voluntary purchases of tickets, its success, as demonstrated in New Hampshire, is largely dependent upon the State's hiring the services of a specialized marketing organization. The relatively poor experience of New Hampshire in 1968, 1969, and 1970 before such a marketing organization was engaged, and the dramatic improvement in 1971, when Mathematicia, Inc., was hired, is reflected by the table below:

Table VII-1

New Hampshire Sweepstakes

Year	Gross Revenue	Operating Expenses Including Prizes Paid	Net to Education
1966	$3.9 million	$2.1 million	$1.8 million
1967	2.6 million	1.5 million	1.1 million
1968	2.1 million	1.2 million	0.9 miilion
1969	2.0 million	1.1 million	0.9 million
1970	2.0 million	1.2 million	0.8 million
1971	4.3 million*	2.4 million	1.9 million

* Mathematicia, Inc., of Princeton, New Jersey, hired to streamline the New Hampshire Sweepstakes program, beginning June 1971.

Source: New Hampshire Sweepstakes Commission. The amounts have been rounded off.

In addition to hiring the specialized professional services of Mathematicia, Inc., New Hampshire makes use of an advertising agency, which receives 1½ percent of the gross receipts for agency fees, printing, and media costs. The New Hampshire program has to compete with state lotteries in Massachusetts, Connecticut, New York, New Jersey, and Pennsylvania, the home states of most of the tourists who visit both New Hampshire and Maine. By hiring shrewd professional services, New

Hampshire, according to its latest reports, derives only one-half its gross revenues from residents of New Hampshire, while one-third come from residents of Massachusetts, and about one-sixth from residents of other states or countries. During its eight years of operation, the New Hampshire Sweepstakes Commission has distributed over $9.7 million in prizes to winners from 48 states and 13 foreign countries.

During the April-June quarter of 1972, approximately 215,000 sweepstakes tickets were sold by the New Hampshire Commission each week, the sales ranging from 207,595 in the poorest week to 227,236 in the best week. This means that on an average, 29 tickets were sold weekly in proportion to each 100 residents of the state. If a Maine State Lottery were established and the sales were promoted through the services of a competent outside marketing organization, reinforced by an effective advertising campaign, Maine sales could probably be developed to an average of more than 250,000 weekly. It is also possible that a Maine State Lottery would obtain very nearly half its revenues from sales to out-of-state residents, largely vacationers in the State of Maine.

The costs of setting up, promoting and administering a successful Maine State Lottery during the first 18 months would be approximately $1,250,000. This means that the Legislature, if it authorized such a lottery, would need to appropriate about $1 million from General Funds to meet starting-up expenses, including initial payments to the outside merchandising firm, initial salaries of personnel, rentals of offices and equipment, printing and distribution costs of tickets, advertising costs, and an allowance of a slow transmittal time of the receipts from ticket sales.

The New Hampshire plan provides for ticket sales through the State liquor stores, State park offices, and a large variety of privately owned stores and other agencies, all tickets being sold at a five percent commission. Proceeds from the sale of tickets are deposited in a large number of conveniently located commercial banks throughout the state. Each bank, with two exceptions, may accumulate $10,000 in its deposit account before transmitting the excess to the central account. Amounts in excess of $10,000, which is held in the local account, are transmitted weekly to the designated central bank. The two exceptions, mentioned above, include one local bank which is allowed to build up a balance of $20,000 before transmitting any surplus to the central bank, and the central bank itself, which is allowed to build up a balance of $100,000 before transferring any surplus to the state treasury.

From a bookkeeping or auditing point of view, the New Hampshire plan means that the banks handle the entire clerical detail involved with the transmittal of funds received from ticket sellers, and that the banks are paid for this labor by being allowed to hold at least $10,000 on constant deposit. If the Maine Legislature adopted this plan, utilizing one central bank, with major regional banks in Bangor and Portland, and 40 local banks scattered throughout the State, $540,000 of the $1 million in start-up money appropriated from the General Funds would be tied up indefinitely in this way. The interest on $540,000 at 6 percent is $32,400, representing the hidden annual cost to the State for the banking service connected with the State Lottery.

For full-time personnel, New Hampshire employs 35 staff workers, of whom 10 are field representatives servicing and checking upon more than 950 commercial and state establishments where sweepstakes tickets are sold. Since Maine is so much larger geographically than New Hampshire, more field representatives would be needed and more overhead per worker would have to be allowed for travel expenses. A large number of sales outlets for tickets would have to be set up to make tickets easily accessible throughout the state, and to make possible the sale of a sufficient volume of 50-cent tickets each week, so that there would be sufficient income for frequent drawings and a large number of pay-offs to stimulate repeated sales. By stressing low-cost, easily accessible tickets, coupled with frequent drawings and rapid pay-offs, the State of New Hampshire reported average sales of 215,000 tickets per week during the April-June quarter of 1972. With a similar organization, assisted by a team of expert outside consultants, a Maine State Lottery should be able to achieve a similar volume of sales, paying off 50 percent of the gross income to ticket holders, paying 5 percent commission to ticket sellers, using 10 percent for administration and promotion, and returning 35 percent in profits to State revenues.

3. Miscellaneous Possible Sources of Added State or Local Revenues

A. Increase of Real Estate Transfer Tax to 1 percent

The Real Estate Transfer Tax is currently levied at a very low rate of approximately 1/10th of 1 percent. In spite of this very low level of taxation, it produced General Fund revenue in excess of $400,000 in 1971, and also returned another $40,000 to the various counties, since the counties receive 10 percent of the gross amount collected. The current statute governing this tax has been criticized as being somewhat unworkable. If the Legislature should redraft the statute in more workable form and at the same time raise the transfer rate to 1 percent, it is conservatively estimated that the additional revenue for the 1973-75 biennium would be at least $7.0 million over what is currently anticipated. If the market prices for real estate in Maine continue to increase as rapidly as they have been increasing recently, the probable revenue would be substantially greater than this estimate.

B. Increase in the Premium Receipts Tax on Domestic Insurance Companies to 2 Percent

Currently, insurers domiciled in the State of Maine (other than Blue Cross/Blue Shield) are taxed at 1 percent on direct premiums, net of dividends, received from Maine policyowners. An increase in this rate to 2 percent (assuming a continuation of the exclusion noted above) would add to the revenues of the State of Maine approximately $0.5 million per year, or $1.0 million each biennium.

Such a tax increase would not place Maine insurance firms at any competitive disadvantage, since out-of-state competitors already have to pay 2 percent on direct premiums, net of dividends, received from Maine policyholders. Since the proposed tax increase to 2 percent would not harm Maine insurance companies in any way, it is recommended as a potential source of additional State revenue.

C. Increase in the Premium Receipts Tax on Out-of-State Insurance Companies to 3 Percent

Currently, insurance companies not domiciled in the State of Maine (other than non-profit fraternal associations) are taxed at 2 percent on direct premiums received from Maine policyowners. An increase in this rate to 3 percent would add to the revenues of the State of Maine about $2.5 million but would also expose companies domiciled in the State of Maine to an additional tax of more than $1.5 million a year, payable to other states as a result of their "retaliatory" laws. Only 8 of the 50 states currently impose a tax of 3 percent or more, and insurance companies domiciled in such states suffer a serious competitive disadvantage because of the "retaliatory" laws of the other states. For this reason, it is believed that a 3 percent premium receipts tax would place Maine-domiciled insurance companies at a competitive disadvantage in nearly all the other states from which they obtain the bulk of their business. For this reason, the proposed increase is not recommended.

D. Institution of a Gross Receipts Tax on the Investment Income of Domestic Insurance Companies

A tax of 1 percent on the total investment income of insurers domiciled in Maine would yield about $200,000 of tax revenue per year. This is patterned after a tax recently enacted in Massachusetts. Since such a law would apply only to domestic companies, it would not expose them to added tax under the retaliatory laws of other states in which they do business.

E. Increase of 2 Cents in Excise Tax on Cigarettes

The current cigarette tax in Maine is higher than that in either

New Hampshire or Vermont, but it is not so high as that in Massachusetts or Connecticut. It generated $15.5 million in revenue for the State of Maine in the 1970-71 fiscal year. It is estimated that an increase of 2 cents in this excise tax, bringing the tax to the same level assessed in Massachusetts, would generate $3.0 million in additional biennial revenue. There is, however, a possibility that the difference in legal price between cigarettes purchased in New Hampshire and those sold in Maine might stimulate extensive black-market operations. On the other hand, the Maine tax of 14 cents is already substantially greater than the New Hampshire tax of approximately 10 cents, and yet Maine sales of cigarettes increased about 3 percent in 1971 as compared to 1970. On the basis of this experience it appears doubtful that an increase in the Maine tax to 16 cents would divert any great amount of business to New Hampshire.

F. Institution of a Head Tax on All Residents, Aged 18-64, to Replace the Poll Tax

Since the poll tax is discriminatory on the basis of sex, it should be abolished. A number of persons interviewed during field studies believed that it should not be replaced by any other tax, while a number of other persons advocated a head tax on members of both sexes of the ages of common adult employment, between the 18th and the 65th birthdays. In addition to generating some revenue, a head tax of this sort would provide an annual labor-market census of each municipality.

In 1970 the yield of the $3 poll tax was $646,968. A head tax imposed at the same $3 rate on all persons of both sexes, aged 18 through 64, should provide an annual yield of $2,276,414, as the table below indicates. The table also shows the number of persons in each of three age groups, together with the total aged 18 through 64, and the potential head tax revenues at different rates.

Table VII-2

1970 Age Distribution in Maine, and Potential Head Tax Revenue

	18-19	20-64	Total 18-64	65-70
Number in Age Group	128,117	630,691	758,808	37,943
Yield on $2 Head Tax	$256,234	$1,261,382	$1,517,616	$74,886
Yield on $3 Head Tax	$384,351	$1,892,073	$2,276,414	$112,829
Yield on $5 Head Tax	$640,585	$2,153,455	$2,794,040	$187,715

It should be noted that advocates of a head tax generally suggested that persons aged 18 and 19 should be included, since they now have the rights and responsibilities of adults, whereas persons who have passed their 65th birthday should be excluded, since they have reached the common retirement age of industry and business and since many of them are now forced to live primarily on their limited income from Social Security.

G. Increase in Highway Fund Dedicated Revenues by Increasing Automobile Registration Fees by $5

Since the dedicated revenues which were designated to meet the needs of the Highway Fund are no longer sufficient to meet the needs of highway and bridge construction and maintenance, it might be advisable to raise the tax rates which support these revenues. An increase of $5 in the automobile registration fee would increase the estimated biennial revenue of the Highway Fund by approximately $4.4 million, very nearly half of the supplementary amount currently needed. It would, however, place the entire burden of this added taxation on the Maine residents, without deriving any added revenue from the summer resident or vacationer.

H. Increase in Highway Fund Dedicated Revenues by Increasing the Motor Fuel Tax by One Cent per Gallon

Although the Maine State gasoline tax of 9 cents a gallon is one of the highest rates charged in the nation, the State of Connecticut taxes gasoline at the rate of 10 cents a gallon, and it is entirely possible that some other state legislatures may raise the rates in their states to comparable levels during the 1973 Legislative sessions. An increase in Maine's rate by one cent a gallon would place the added tax burden on summer residents and vacationers, as well as on Maine residents, and it would generate sufficient additional revenues to meet almost all the unfilled needs of the Highway Fund during the 1973-75 biennium. It is estimated that the one-cent increase in the gasoline and motor fuel tax would generate at least $9.2 million in added Highway Fund revenues during the 1973-75 biennium.

Table VII-3

Motor Fuel Taxes Charged Per Gallon by New England and Middle Atlantic States As of January 1972

New England States		Middle Atlantic States	
Maine	9c	Delaware	8c
New Hampshire	9c	Pennsylvania	8c
Vermont	9c	New Jersey	7c
Massachusetts	7.5c	New York	7c plus optional local surtax
Rhode Island	8c		
Connecticut	10c		

4. Other Revenue Considerations

The following subsections are discussions of other types of revenue sources which might be considered after the pro's and con's and other limiting factors are thoroughly studied. Both of the following areas which might be explored as sources of revenue involve offsetting factors or problems of general policy which limit their use as sources of added revenue. For this reason, only a general discussion is presented in the following subsections, and no revenue estimates are given.

A. Consideration of the Principle of Increasing Charges to Users of Specialized State Services

Charges for bacteriological, chemical or other technical tests performed for citizens of Maine by State laboratories should be examined to see whether they currently reflect the actual direct and indirect operating costs involved. If the general health or safety of the public might be jeopardized under a schedule of charges sufficient to meet these costs, then it is possible that realistic charges should not be established. On the other hand, if a more realistic schedule of charges would not endanger the public safety or health, then the rates should be increased to cover operating costs.

In the case of State-subsidized educational institutions, such as the University of Maine and the Vocational-Technical Institutes, the possibility of raising tuition charges, coupled wth a more extensive program of loans and scholarships for students from low-income families, should be explored. If the University Trustees should decide to adopt more uniform tuition levels, with little or no distinction between Maine and out-of-state students, and if at the same time they should be enabled by a Legislative appropriation to establish an ample loan and scholarship fund to insure that no Maine student would be excluded because of low family income, it is possible that the per capita State subsidy might be less than it would be under a continuation of current policy.

A similar principle should be considered in dealing with proposals to convert the Maine Turnpike into a freeway at State expense. The costs of amortizing the bonds, paying operating costs, and making needed improvements in the Maine Turnpike are currently paid by user charges in the form of Turnpike tolls. Throughout the year, and especially during the summer season, large numbers of tourists, out-of-state salesmen, and other non-residents pay these user charges and thereby help relieve the residents of Maine from having to assume the total costs. It would be a disservice to Maine residents to remove this source of income by abolishing the Maine Turnpike Authority.

B. Consideration of the Pro's and Con's of Bonding as a Source of State Revenue

Bond issues are often used by State or local governmental units as a means of bridging the gap between current revenues and the expense of some major capital construction project. They are rarely used for any other purpose than the financing capital construction of a relatively long-lasting nature. For small governmental units that engage in infrequent capital construction projects, this method of financing offers several advantages. First, the tax rate can be held at more nearly its previous level than would be possible if the entire construction cost had to be paid off immediately. Secondly, the costs of the building, highway, bridge, or other capital improvement will be paid by the users as they benefit by the improvement over a period of years. Finally, whether the governmental unit is large or small, this method of financing construction offers an economic advantage during a period of inflation. So long as the inflationary trend persists, immediate construction will cost less than deferred construction. In addition to this, the payments will be made with dollars of diminishing value as the years go by, just as long as the inflationary trend persists.

The following example illustrates the role of inflation. Let us consider bonding as a method of financing the construction of a school building which is considered to have a useful life of more than 30 years. Accordingly, it is decided to amortize the cost over a 30-year span. If the cost is $3 million and the interest rate is 4 percent per annum, the following arithmetic is typical:

Bonds Sold, Providing $3 Million, Used to Pay Construction Costs

Year	Interest Paid	Amortication	Balance Unpaid
1	$ 120,000	$ 100,000	$2,900,000
2	116,000	100,000	2,800,000
....	....	....	....
29	8,000	100,000	100,000
30	4,000	100,000	Paid in Full
Totals	$1,860,000	$3,000,000	

By the end of 30 years, the total cost of the building would be $4,860,000 rather than $3,000,000, but an inflation rate of only about 2 percent per annum would be sufficient to wipe out the entire cost of the interest. In other words, during a continuing period of inflation it usually costs the taxpayer less in the long run if the money is borrowed for immediate construction. Under such circumstances, it is cheaper to pay interest on work done at today's prices than to be confronted with much higher construction costs in the future.

Bond issues, however, become burdensome when it becomes evident that most of the proceeds of a new bond issue will have to be used just to pay the interest and retirement cost of previous bond issues. This has not yet happened in Maine governmental bonding, and it does not appear likely in the near future.

If it were not for the added factor of almost $17 million in federal transfer funds made possible by the $10.3 million highway bond issue approved by the Maine electorate on November 7, 1972, the bonding activities of the State Department of Transportation's Bureau of Highways illustrate the possibility of what might happen, as shown below:

Highway Bond Interest and Retirement, 1971-73

1972-73 Bond Interest	$2,355,433	
1972-73 Bond Retirement	4,320,000	
Total Interest and Retirement		$ 6,675,433
1971-72 Bond Interest	$2,361,018	
1971-72 Bond Retirement	4,370,000	
Total Interest and Retirement		$ 6,731,018
Biennium Total, 1971-73		$13,406,451
Percent of Biennium Expenditure		9.7 percent
Percent of Bureau of Highways Revenue Represented by $10.3 million Bond Issue:		7.5 percent

The justification of raising $10.3 from a bond issue rather than from a higher rate of taxation is therefore contingent upon the nearly $17 million in federal transfer of funds generated by the bond issue. In the long run, it will prove a beneficial investment.

PART VIII

STATE AND LOCAL TAXATION IN MAINE COMPARED TO THAT IN OTHER STATES

As Chart VIII-1 indicates, the theoretical state-local per capita tax burden in the State of Maine is below the national median of $423 and also lower than that in any other state equally far north in the United States, with the exceptions of New Hampshire and Idaho. Southern states tend to have lower per capita rates because of less frost damage to highways, less snow plowing, and lower heating and maintenance costs for buildings used for state and local governmental operations.

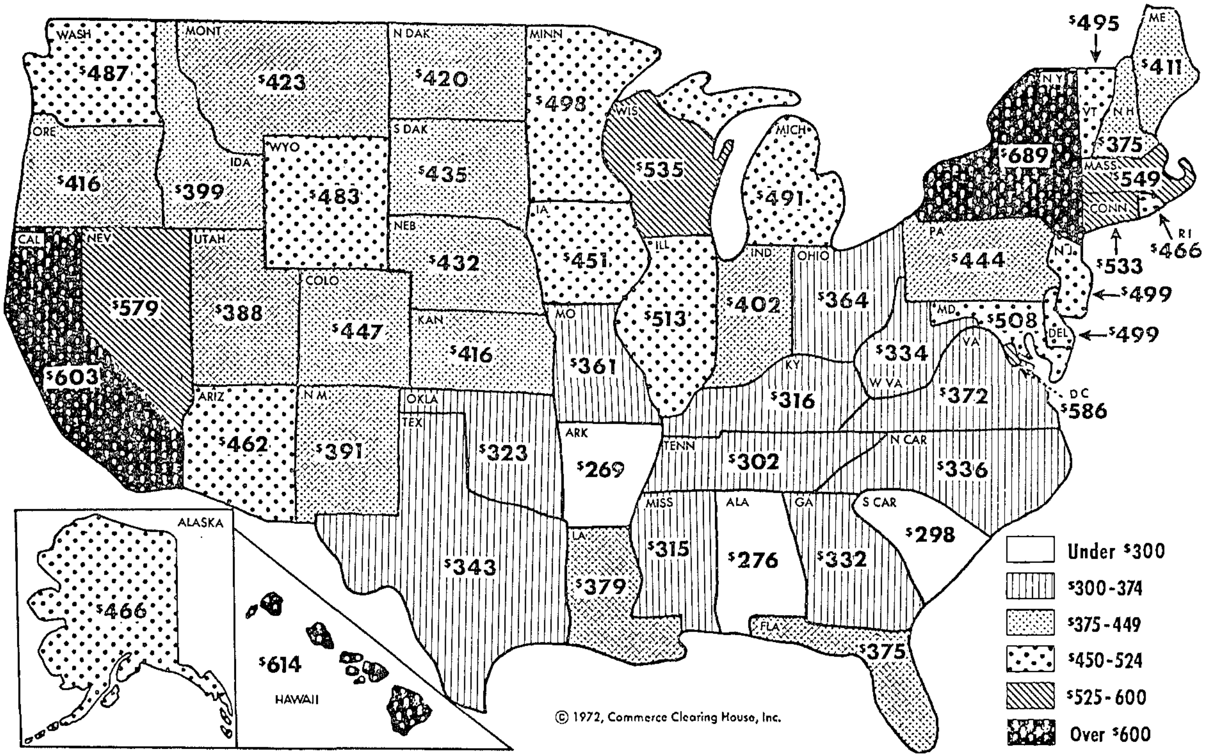
It must be remembered, moreover, that a substantial proportion of Maine's tax revenue comes from non-residents, who pay property taxes on some of Maine's choicest real estate and account for most of the marked summer-season increase in revenues, from the gasoline tax, the cigarette tax, and the general sales tax. Non-residents also boost the profits of the State Liquor Stores substantially during the summer season.

Although it is impossible to estimate the exact proportion of the State and local tax revenues provided by non-residents, it would appear that approximately 10 percent of the total State-Local tax revenues come from persons who are not legal residents of the State of Maine. If this rough estimate is correct, the actual State-Local per capita tax burden on Maine residents is nearer $370 than the $411 displayed on the preceding map.

New Hampshire, like Maine, also derives a substantial proportion of its State-Local operating revenues from non-residents, but no direct comparison concerning the respective tax burdens of residents of the two

VIII-1

State and Local Per Capita Tax Burden in Fiscal 1970-71



states can be made. Much of northern New Hampshire is federally owned White Mountain National Forest territory, with essential governmental services provided primarily by the federal government. If New Hampshire residents, for instance, had had to pay a substantial share of the cost of constructing the Kancamagus Highway, or if they currently had to pay the annual maintenance costs, their tax burdens would be appreciably higher. Much of Maine's northern forest land, on the other hand, is owned by out-of-state corporations. The State of Maine has to provide all governmental services in these areas, and the tax revenues to support these services are included in the computation of per capita taxation, even though such revenues come, for the most part, from out-of-state corporations which are not included in the per capita count.

Another factor that makes any comparison of the respective tax burdens in New Hampshire and Maine practically impossible is the greater reliance of New Hampshire on revenues from state-operated business ventures, which cannot be considered in computing the burden of taxation. New Hampshire is fortunate in being able to have a series of State Liquor Stores close to the border of a densely populated section of Massachusetts, selling both bottled goods and also New Hampshire sweepstakes tickets. Maine, however, is much farther from the Massachusetts border.

The tabulation which is included in this report, at the end of this brief Part VIII section, is entitled, "State and Local Tax Rates for Major Taxes." It is a useful chart, but it should be noted that property taxation, a major source of local revenue, is completely omitted. The reason, of course, is that a property tax rate is meaningless unless the percentage of true market value is also known. A 40 mill rate on property assessed at 100 percent of true market value is precisely the same thing as an 80 mill rate based on 50 percent of market value.

Interstate comparison of State data alone or local data alone is therefore of almost no use, because states and local governments have different relationships in their proportionate support of government functions. For example, local government in Hawaii contributes no support to education, whereas in New Hampshire the local government supports 97 percent of public school expenses exclusive of federal assistance. Consequently, any comparisons between the tax rates levied in Maine and those of other states must be made with both the State and local governments in mind, and it must never be forgotten that local property taxation has been omitted from the tabulation at the end of this section.

On the matter of Sales Tax rates, for instance, only a "Total State-Local" comparison provides a realistic basis. Maine, as it will be seen from this column, is one of 20 states in which the consumer pays a Sales

Tax of from 5 percent to 7 percent. Whether the tax is all State tax, or partly State and partly municipal, makes no practical difference to the taxpayer. It is the total tax that counts.

Interstate comparisons of tax rates may also lead to erroneous decisions about the tax structure which is best for Maine, unless the unique economic characteristics which make Maine somewhat different from each of the other states are kept in mind. Maine has the largest geographic area of any state in New England. Its permanent population is widely scattered, necessitating a much greater highway network in relation to its population than the neighboring state of New Hampshire. During the summer, certain highways which are perfectly adequate for normal winter traffic become seriously overcrowded, necessitating eventual added highway construction to take care of the influx of non-residents. Towns in coastal or lake areas are often faced with the need of providing sewers, water mains, and protective municipal services, primarily for property which is occupied for only ten or twelve weeks during each year. For reasons such as these, an equitable tax structure for the State of Maine would be somewhat different from a tax structure which would be equitable for a compactly settled, industrialized state without wide seasonal variations in the numbers of people to be provided with governmental services.

In comparison to many states, Maine appears to rely too heavily on Sales Tax revenues as compared to its tax revenues from other sources. The Sales Tax, however, is one of the few types of taxation which can derive a substantial proportion of revenue from seasonal residents and tourists. The tabulation on the following page shows that Maine's Sales Tax rate is close to the national average. What the tabulation does not show is the base, that is, the categories of items subject to the Sales Tax. Many states tax services as well as tangible items. Many states tax food purchases, as shown in Part VII of this report. The rate of the tax is not so important as the total tax paid by the average resident, an amount quite different from the theoretical per capita estimate which lumps residents and non-residents together in the computation of the totals, but which provides the "average" by dividing only by the number of legal residents. In the case of Maine, such a computation results in a highly inflated result.

VIII-2
State and Local Tax Rates for Major Taxes
As of January, 1972

State	Sales Tax (Percent) Total State-Local	Individual Income-Tax (Percent)	Eff. Max. Rate*	Motor Fuel Tax (per gallon)	Cigarette Tax (per pack)
Alabama	6 %	1.5 - 5.0†%	2.6 %	7† ¢	12† ¢
Alaska	5	3.2 -14.56**	9.36	8	8
Arizona	5	2 - 8	4.16	7	10†
Arkansas	4	1 - 7	6	7.5	17.75
California	5.5	1 -11†	7.6	7	10
Colorado	6	2.5 - 8	5	7	5†
Connecticut	6.5	None	8	10	21
Delaware	None	1.5 -18†	7.2	8	14
Florida	4	None	5	8	17†
Georgia	3	1 - 6	6	7.5	12
Hawaii	4	2.25 -11	6.435	8.5-10	9 apx.
Idaho	3	2.5 - 9	6	7	7
Illinois	5	2.5	4	7.5	12†
Indiana	2	2% (Gross)	2	8	6
Iowa	3	.75 - 7	7.6	7	13
Kansas	3.5	2 - 6.5	3.51	7	11
Kentucky	5	2 - 6†	3,64†	7	3
Louisiana	6	2 - 6	4	8	11
Maine	5	1 - 6	4	9	14
Maryland	4	2 - 5†	7	7	6
Massachusetts	3	5	8.55	7.5	16
Michigan	4	3.9†	7.8†	7	11
Minnesota	5	1.6 -15.0	12	7	18
Mississippi	5	3 - 4	4	8	9
Missouri	4	1.5 - 6†	2.6†	5	9†
Montana	None	2.8 -15.4	6.75	7	12
Nebraska	3.5	2.1 -10.5**	3.0	8.5	13
Nevada	3.5	None	None	6	10
New Hampshire	None	‡	7	9	11 apx.
New Jersey	5	2 -14‡	4.25	7	14†
New Mexico	4.5	1 - 9	5	7	12†
New York	7	2 -14‡	9†	7†	12†
No. Carolina	4	3 - 7	6	9	2
No. Dakota	4	1 -11	3.64	7	11
Ohio	4.5	0.5 - 3.5†	8†	7	15
Oklahoma	4	0.5 - 6	4	6.58	13
Oregon	None	4 -10†	6	7	4
Pennsylvania	6	2.3†	12†	8	18
Rhode Island	5	2.1 -10.5	8	8	13
So. Carolina	4	2 - 7	6	7	6
So. Dakota	5	None	None	7	12
Tennessee	5	‡	6	7	13
Texas	5	None	None	5	18.5
Utah	4.5	2 - 6.5	3.12	7	8
Vermont	3	4.025-20.125	6	9	12
Virginia	4	2 - 5	5	7	2.5†
Washington	5	None	None	9	16
West Virginia	3	2.1 - 9.6	6	8.5	12
Wisconsin	4	3.1 -11.4	7.11	7	16
Wyoming	3	None	None	7	8
D. C.	4	2 -10	7	8	4

apx. Approximate rate per pack. Rate actually stated as a percent of price.
* Some states do not permit deduction of Federal taxes in computing state corporate tax liability. Effective maximum rate shows tax as a percent of corporate income before deduction of Federal taxes assuming payment at maximum Federal tax rate.
** Tax is imposed as a percent of Federal tax liability. Rate shown in table above is computed as a percent of taxable income.
† Local tax is also applied by some local jurisdictions within the state.
‡ Tax applies only on certain types of income.

Prepared by UTAH FOUNDATION from data assembled by Commerce Clearing House, Inc., *State Tax Guide,* a current tax service publication.

PART IX

NON-REVENUE REFORMS TO BE CONSIDERED

As a byproduct of this study, notations were made of several non-revenue reforms which should be considered for implementation. The most needed reforms according to the opinions of many of the persons interviewed, could be summarized as follows. Each item in the list is discussed fully on the page noted in the column on the right.

Suggested Non-Revenue Reforms

It is possible that there may be other non-revenue reforms of higher priority in the light of actual need, but these reforms represent frequently expressed suggestions that were backed with convincing arguments.

1. Establish a Property Tax Bureau within the Department of Finance and Administration

It has been suggested by a number of people inside and outside of State government that the Legislature create a separate Property Tax Bureau within the Department of Finance and Administration to replace the existing Property Tax Division of the Bureau of Taxation. The recommendation is necessitated by the many changes which have taken place in the field of property taxation, the further changes which are anticipated if the Legislature enacts legislation concerned with property taxation, the need to face the increasing criticism of property tax administration with corrective measures, and the advisability of anticipating probable future developments in this area.

A Property Tax Bureau, headed by a person of sound technical competence and strong administrative ability, is apparently needed to provide effective assistance to both the Legislature and the Executive in the consideration of property tax matters, to furnish leadership at the State level to improve local property tax administration, and to carry out in a satisfactory manner all State functions connected with property taxation. These functions currently include both the State Valuation of municipalities and the direct administration of property taxes in the unorganized territory. If the 106th Legislature should implement the recommendations of this report concerning a Uniform State Property Tax, the administration of that tax would also become a responsibility of the proposed Property Tax Bureau.

The reason why the Property Tax Bureau should be established as a separate unit within the Bureau of Taxation is quite simple: To obtain a person with the technical and administrative ability necessary to develop and manage an agency at the State level to perform the functions noted, it will be necessary to pay an amount in excess of that possible so long as the property tax function rests in a subordinate Division of the Bureau of Taxation. Such an individual should command a salary at least equivalent to, if not in excess of, that of the State Tax Assessor. A person possessing a highly specialized background in the field of property taxation, together with strong administrative ability coupled with skill in human relations in enlisting the cooperation of local tax assessors and others involved in property taxation, would be well worth his salary as he worked to improve property tax administration throughout the State of Maine.

To insure an orderly improvement in property tax administration, the following suggestions seem essential to achieve the goal:

A. Legislation creating a separate Bureau of Property Taxation should be general in nature and should require only two specific amendments to existing statutes at the present time. Subsection 2 of Section 6 of Title 2 should be amended to cover the salary of the Bureau Chief, and Section 283 of Title 5 should be amended to provide for the establishment of the Bureau itself.

B. Such legislation should contain a preamble expressing the purpose of the Legislature in establishing the separate Bureau. The general ideas to be expressed in the preamble are as follows: When the present Bureau of Taxation was first created 40 years ago, its most important functions were concerned with Property Taxes, both State and local. In the intervening years, and more particularly with the adoption of the cigarette tax in 1941, the transfer of the inheritance tax to the Bureau of Taxation in 1947, the adoption of the sales tax in 1951, and the adoption of the income tax in 1969, the Bureau of Taxation has become more and more concerned with aspects of State taxation other than property taxes. At the same time, the problems involved in the administration of the Property Tax, both at the State level and the local level, have become more complex and more pressing. The necessity for a vigorous and sustained attack on such problems makes it necessary to separate the property tax function from other State tax functions administered by the Bureau of Taxation, so that adequate attention can be given to a solution of the problems of Property Tax administration.

C. The legislation should direct the State Tax Assessor and the Chief of the new Bureau to cooperate in working out a transfer of all Property Tax functions carried on by the Bureau of Taxation at the present time to the new Bureau over the course of the next biennium. Such transfer should be gradual, so arranged as to minimize interference with the operations involved (such as State Valuation of municipalities, assessment and collection of Property Taxes in unorganized areas of the State, and other activities presently carried on by the Property Tax Division of the Bureau of Taxation), and such transfer should be made only after specific written approval by the Commissioner of Finance and Administration.

D. The bill should provide that as and when such functions are transferred to the new Bureau, acts presently required to be performed by the State Tax Assessor should thenforth be performed by the Chief of the new Bureau, present statutory provisions to the contrary non-withstanding.

E. The bill should direct the Chief of the new Bureau to prepare recommendations, together with proposed specific legislation to carry out such recommendations, with respect to improved property tax administration at both local and State levels. He should be directed to so report to the next regular session of the Legislature, and to each regular Legislative session thereafter.

F. The bill should provide for a sufficient appropriation to cover the salaries of the Chief of the new Bureau, one staff assistant, and necessary clerical help for the Chief and assistant. The allowance for the salary of the Chief should be sufficient to attract applications from persons of a high level of technical and administrative competence. Beyond these necessary salaries, which would amount to some $50,000 a year, or $100,000 for the biennium, the balance of the funds necessary to operate the new Bureau for the next biennium would be derived from funds budgeted for the Bureau of Taxation. As functions are transferred from the Bureau of Taxation to the new Bureau, the balance of funds allotted to such functions, as well as personnel performing those functions, would be transferred to the new Bureau.

A bill containing such general provisions should be sufficiently flexible so that a transfer could be worked out with the minimum of difficulty. A more rigid approach would not permit this flexibility, and it would be liable to lead to serious unanticipated problems.

2. Establish a State Board of Property Tax Appeals

There appears to be a wide-spread feeling on the part of many Maine citizens that Property Tax assessment is not equitable, especially in some of the smaller municipalities. There are currently approximately 1,500 assessors in the State, nearly all persons without professional training who work at assessing on a part-time basis, usually at low hourly rates. Most of Maine's municipalities are too small to afford the services of professional assessors. Although it is hoped that some eventual provision will be made for professional assessment in local municipalities through the services of a State agency, the problem of training a sufficient number of professional assessors would probably make such an agency impossible to establish during the 1973-75 biennium.

A State Board of Property Tax Appeals, however, could be established. Such a Board would provide the taxpayer of moderate or low income with a means to appeal an assessment that he considered unfair without forcing him to an expensive legal process in the courts. Instead of taking direct legal action, the aggrieved taxpayer could submit his complaint to the Board, which would then investigate the situation. If the Board were satisfied that the taxpayer was being assessed in a clearly inequitable fashion, it could then request the local assessors to correct the situation. In case any assessing unit should fail to comply with the Board's official request, the Board might be authorized to act as the agent of the aggrieved taxpayer to initiate legal action and pursue the matter through the courts, the necessary costs being borne by the State of Maine.

3. Undertake a Land Use Study Similar to That in Vermont

A new approach to Property Tax reform is undergoing an experimental three-year study, which is being conducted by the State of Vermont, assisted by a substantial grant from the Federal Housing and Urban Development Authority (HUD). The proposed alternative to the traditional type of property taxation is an innovative approach involving the land use tax, combined with other features. Consequently, the Vermont investigation, known as the Rockingham Study, involves computer projections which show how the plan would actually work in practice. For one thing, it will show how each of the individual land owners in certain selected municipalities would be affected, as compared their situation under the current tax system. For another thing, the computer printout will show how the local, State, and federal tax revenues received from the inhabitants of those municipalities would be affected.

Since the design of the computer programming is of major importance to the study, the State of Vermont has engaged a national consulting firm, the Systems Science Development Corporation, to work with State officials on the programming details.

Dr. Edgar Miller, the Maine State Economist, together with several other persons involved in study of the Maine tax structure, has made several visits to Vermont to review the project. Since some Maine communities have different economic characteristics from any in Vermont, which is a state without seaports, lobstering villages, large paper-mill communities, or extensive potato farming regions, Vermont officials have suggested that Maine participate in the Study to see how the plan would work in municipalities of varying characteristics.

A more detailed explanation of the plan being studied by the State of Vermont has been prepared by Dr. Miller and is presented in the following paragraphs.

For many years when local government expenditures were relatively low, the Real Property Tax and the Personal Property Tax structure worked reasonably well and was somewhat aligned with ability to pay. Today neither of these situations is true. Manufacturing and commercial business firms require widely different amounts of real estate, machinery and equipment and other personal property in order to operate. The total cost of these assets do not accurately measure the ability of the firms to pay taxes, in terms of profit. Some very large firms have low profits, while small firms have high profits.

The ability of any assessor, however well trained, to equitably value manufacturing and commercial property is difficult, if not impossible. In addition, the need for constant revaluation produces a relatively expensive system to collect revenue for local government services. While greater expenditures in trained assessors can reduce some of the large inequities of the property system, it will never be free of serious valuation problems.

Since shelter is one of the major necessities of life, the effect of property tax on homes becomes important. It seems foolish to force those who upgrade their homes to pay larger taxes for the privilege, especially when there is so much low quality housing in Maine.

It is well recognized that the Property Tax system causes some serious dislocations in land use and residential development. Many developers have moved far into the country in search of low taxes and land prices and are not developing vacant land closer to urban centers. The result is patchwork development with increased costs of supplying governmental services. What then is a better system?

Currently, the Budget and Management Department of Vermont is developing and implementing a Land Use Tax System. This tax system eliminates the many weaknesses of Property Tax, increases revenue for local use, and collects revenue much more closely to ability to pay.

The Land Use Tax System offers:

1) A graduated "cost of government" tax based on the owner's declared land use and size of holding. This tax would constitute only a small proportion of the total tax liability (not greater than 15%) and all property owners except the Federal Government would pay. The tax base is enlarged through the use of multi-use, equivalent acres, and no exemption generators.

2) A town graduated "education" tax based on an individual's state income tax liability and/or corporate profits tax liability. This would amount to approximately 50% of the total tax liability.

3) A graduated "real property transfer" tax.

4) A "cost of buying in" tax to pay for the extension of town services such as water, sewerage treatment, police and fire protection, etc.

5) The retention of Federal and state withholding on a local level as a form of revenue sharing.

The benefits of the Vermont System are:

1) **Property Tax Relief for the Elderly**

Individuals 65 years of age and older would pay the "cost of government" tax only. The elderly would be exempt from the education tax provided their retirement income was less than $4,750. per year per household.

2) **Property Tax Relief for the Working Poor**

Families earning less than $4,750. per year per household would pay the "cost of government" tax only. They would be exempt from all other local taxes.

3) **An Equitable Property Tax System for the Working Farmer**

The "system" has been designed to encourage farmers to remain on their land by taxing them on the basis of **current use** and not **potential use.**

Other incentives include the application of a "multi-use" tax base to include special rates for forested land, pasture land, open space preservation land, etc.

4) **The Preservation of Open Spaces**

By not discriminating between large and small property holders, the "system" encourages large holdings.

5) **The Equitable Distribution of the Cost of Education Among Property Owners**

All residents (less the elderly, working poor, and special educational-religious, and other service oriented institutions) will contribute towards the cost of education through the town tax. The town tax is a graduated income tax computed as a percentage of the resident's state income tax liability and/or state corporate profits tax liability.

Non-residents liability under the town tax will be the average tax liability of residents within the town with the same land use as the non-residents.

State aid to education distributions will not be based on local tax efforts.

6) **An Urban Renewal Incentive Program**

By eliminating the tax on structures, the "system" provides built-in incentives for the owner of slum property or tenantless property to convert to more productive uses.

Homeowners are no longer penalized for improving their property. And, because of the "cost of buying in," marginal land bypassed by "leap-frogging" developers may now represent prime land for elderly, low-income and middle and upper income housing.

7) **General Property Tax Relief for the Average Homeowner**

The "system" accomplished this by including all land within the tax structure, and by spreading the cost of government based on **land use** and the **quantity owned** for all landowners.

8) **Industrial Growth Incentive Program**

The "system" accomplishes this by eliminating the personal property tax and the business inventory tax.

Other incentives include the cost of government taxation of business and industry on the basis of land use and the quantity owned on a graduated scale, not on an appraisal basis.

9) **Administrative Reform**

The "system" has been designed to provide the following benefits:

a. The billing, collecting, auditing, and enforcement functions can be performed on a state level for all local units.

b. The "system" has been designed as a "payroll deductible tax."

c. The local "system" can "piggyback" the existing automated state and Federal income and state corporate tax systems.

d. Local units will receive monthly income from the system thus eliminating the need to borrow in anticipation of tax revenue.

e. Tax policy does not replace zoning, but provides an information base for more precise zoning that is continually updated as property transfers occur and land declarations are made.

Expected penalties are:

1) Local education tax revenue will vary with the economy.

2) One-industry communities will no longer be able to derive the majority of income from a single source.

3) Speculators will pay a graduated property transfer tax and/or a "cost of buying in" provision.

4) The Federal government and the State of Vermont will experience a reduction in the amount of corporate and personal income taxes paid. However, the requirements for state aid should decline.

Procedure for Land Use Tax Implementation in Maine, as Suggested by Dr. Miller, the State Economist

1. Study Current Maine Land Use Laws and their enforcement to determine how they relate to the Land Use Tax System.

2. Study in-depth the Land Use Tax Systems being developed in Vermont and compare with the current Maine Local Tax System. An understanding of both systems is necessary in order to adapt and implement the Land Use Tax System.

3. Study, compare, design and re-design the computer and management systems required with each of the five major revenue sources of local government revenue. As each of these systems is developed for Vermont, the Maine Task Force should understand and develop methods of implementing in Maine.

4. Develop a sample of 50-60 communities in Maine that would represent all the problems expected in a statewide implementation of the Land Use Tax System. From this sample of communities, we can test the computer record-keeping programs and the local government and State government management structures to modify the systems to meet the needs of all groups before any shift is made from the old system to the new one.

The major task areas listed above should be conceived as a very general picture of the major work areas. Each of the four major tasks would break down to many smaller specific tasks that can be detailed after we have more specific information about the development of the Land Use Tax System in Vermont and how it compares with Maine's tax system.

Very important to this proposal is the Maine Task Force listed below. It is important for the success of this report that Maine State Government managers and technicians who will be involved in the actual implementation and operation of the Land Use Tax System contribute to its development. If consultants were to do the complete project when it eventually would be transferred as an operational system to local and State government employees, chaos is likely to result.

Secondly, the sample implementation through 50-60 test towns is essential in building an operating tax system that can work. From these test towns, we will be able to modify the management and computer systems as required in order to shift smoothly from the present tax system. In addition, local communities will be able to study the Land Use Tax System and compare its effects to the current Property Tax System **before any change is made.** This great advantage is that local officials can have the opportunity to participate in the development of the Land Use Tax System in their town, understand its advantages prior to implementation, and if necessary, reject its actual use if they deem it necessary.

The Maine Task Force and the use of test towns are very important steps in the implementation of a Land Use Tax System in Maine. The successful shift of an integrated tax system must be carefully developed and tested before being implemented to prevent the obvious fiscal chaos that could result. Also involved in this approach is that a local and State government management, administration system can be developed, understood, and tested before any change takes place. This is an extremely important requirement if we are to successfully shift from one tax system to another.

Personnel Required in Maine Task Force for Land Use Tax Implementation, as Suggested by Dr. Miller, the Maine State Economist

1. Economist 100% of time
2. Land Use Tax Specialist Full-time
3. Two clerks full-time
4. Legal talent to help restructure the Maine laws as required. 25-50%
5. State computer systems analysts who know current system and then are capable of overlaying a new system oriented to the Land Use Record System. 50-100%

System Science Development Corporation is developing the computer systems required in Vermont to implement the Land Use Tax System. The services of SSDC in Vermont is funded by a HUD grant. Because of the knowledge gained by SSDC, it is desirable to use their knowledge to adjust the computer systems developed to Maine requirements.

An in-house task force should be developed to understand, modify, and implement the Land Use Tax System that is being designed and developed in Vermont. Since much of the Maine Tax System is the same as Vermont, it will be relatively easy to adapt what is developed in Vermont to Maine. Therefore, it is desirable, cheaper, and necessary, from an effective management standpoint, to develop an in-house task force of administrators and technicians who will be responsible for working with the new system when developed to become the principal development and implementing mechanism. This task force work is partial to full-time during the development and implementation phase of the program and then can be reduced to an operating number of personnel once the system is working.

It seems reasonable to assume that some changes in the Vermont system will be necessary for this Land Use Tax System to operate successfully in Maine. Therefore, some consulting cost will be necessary with SSDC. SSDC in all likelihood will be the best consulting firm since we will be able to take advantage of what they learn in developing the computer record systems in Vermont. Obviously at this time, no accurate estimate of costs can be made since we do not have any well defined work statement. The more skilled personnel resources supplied by the State of Maine will both reduce consulting costs and supply Maine a group of skilled people capable of managing and operating the new tax system. However, there will be a number of tasks that can best be performed by SSDC, that will involve some cost which might range between $150,000-$200,000. If we could be fortunate to obtain 2/3 HUD funding, the cost to Maine would be $50,000-$67,000.

4. Require Municipalities with Less than 2,000 Children of Public School Age to Join a School Administrative District Wherever It Is Geographically Possible

If a school system is to operate at a reasonable per capita cost and also meet the diversified educational needs of its pupils, it must be large enough so that classes of reasonable size can be formed to group together the children needing specialized types of teaching or the less commonly offered kinds of subject matter. This is true at the elementary level, where a certain proportion of the pupils have learning disabilities or physical handicaps that need to be countered with specialized teaching methods. It is even more true at the high school level.

According to a report written by Asa Gordon, Associate Commissioner of Education, and published under the title, "Maine Education Finance," in the June 1972 issue of The Maine Townsman, in the year 1970 "school administrative districts expended a medial sum of $794.84 per pupil in high school, while single municipalities expended $37.63 more per pupil, or a median sum of $832.47. Small high schools expend more of the state and local resources per pupil than do larger schools. Schools enrolling between 200 and 300 pupils expended $80 more per pupil than the larger high school group. High schools with fewer than 100 pupils expended $220 more per pupil than the larger high school group."

Annual savings would range between $1.0 million and $1.5 million in the cost of public school education if all small school systems, wherever practical, were linked together in School Administrative Districts. Between 20 and 25 additional School Administrative Districts would be needed to cover the parts of the state which could not conveniently be served by a geographic enlargement of any of the present School Administrative Districts. A few Maine municipalities would have to be excluded from district grouping because of their lack of direct, all-weather highway connections, as in the case of certain island communities that lack properly scheduled and dependable ferry service during stormy or foggy weather.

Most of Maine's municipalities with populations of 2,500 or more persons are either already served by School Administrative Districts or possess large enough school populations to operate municipal schools that offer a reasonable diversity of educational services. The great majority of municipalities of smaller population, however, have not yet entered into School Administrative Districts, as the following table indicates:

Table IX-1

Percentage of Municipalities of Various Population Groups Served by School Administrative Districts in 1970

Community Population	Percent Served by SAD	Percent Served by Municipality
25,000 and over	0	100%
10,000-24,999	78%	22%
5,000-9,999	86%	14%
2,500-4,999	89%	11%
1,000-2,499	39%	61%
500-999	13%	87%
Under 500	6%	94%

If the State Legislature decides to fund basic public education costs, including the entire cost of transportation to SAD schools, as recommended earlier in this report, one of the chief objections encountered in small communities regarding entrance into School Administrative District organizations would be removed. Another objection, having to do with the cost to the local taxpayer of funding District School construction and interest charges, could also be countered through appropriate Legislative action.

Provided the State Legislature decides to fund the costs of basic public school education through some plan similar to that recommended in an earlier section of this report, it is strongly recommended that the Legislature require all municipalities with school populations of less than 2,000 students to consolidate their school systems in School Administrative Districts, the only exceptions being communities isolated from others by the lack of reasonably direct all-weather highway connections which would make dependable school bus service too time consuming or otherwise impractical. It is recommended that such School Administrative District consolidation be required to be completed within 3 years of the passage of such legislation.

5. Establish a Council on Quality in Education

It is recommended that a Council on Quality in Education be established by the Legislature to receive proposals for innovative public school programs from the various School Administrative Districts and from municipal school systems of comparable size, and on the basis of its evaluation, to approve proposed programs for a grant or for a loan. The recommended thrust of the Council on Quality in Education would be a concern for the effectiveness of an educational program in relation to its cost. The Council, which would operate much like Title III of the Elementary and Secondary Education Act of 1965, would in this way encourage at the local level the development of programs that hold promise of both educational and cost benefits. It recommended that the State Legislature appropriate $750,000 to establish and fund a Council on Quality of Education to perform the services explained above.

6. Establish a Coordinator for Federal Grants

It has been recommended by a number of State officials that a new position of Coordinator of Federal Grants by established within the Department of Finance and Administration. The responsibility of the proposed Coordinator would be to keep thoroughly updated as to the availability of federal funds and their specific applicability to programs of benefit to the State of Maine, and to help the Governor and the Commissioner of Finance and Administration to maximize the State's utilization of available federal funds. Because of the complexity of keeping track of the many varied opportunities for federal funding and of fitting the federal requirements to meet the needs of specific State programs, it is believed that a highly competent and knowledgeable expert in this field is needed to help the State take fuller advantage of available federal funds. It is recommended that the Legislature appropriate $50,000 to establish and fund an office of a Coordinator of Federal Grants, including staff salaries and expenses during the 1973-75 biennium.

7. Employ a Financial Planner for the Determination of Sources of State Revenues

To provide expert assistance to the various tax committees appointed by the Legislature or the Governor and to engage in ongoing revenue research, including the updating of current revenue estimates and the preparing of estimates concerning potential revenue improvements and tax reforms, a specialized financial planner is needed within the Department of Finance and Administration. A permanent staff position in the area of revenue planning could be established at a cost considerably lower than the expense required to engage research firms for intermittent tax studies which would otherwise be necessary. It is recommended that the Legislature establish the position of State Financial Planner and that $17,500 per year be appropriated to fund that position.

8. Assess Effluent Charges on Polluting Industries Which Fail to Under take and Continue Adequate Measures of Pollution Control

Effluent charges on industries which continue polluting the Maine environment without taking measures to install pollution control equipment within a reasonable period should be regarded, not as sources of State revenue, but as measures to encourage reasonably prompt pollution control. The Maine Legislature has already encouraged corporations to install pollution control facilities by exempting the necessary equipment from the sales tax and the facilities themselves from the Property Tax. Fifteen states now allow deductions, credits, or accelerated amortization allowances in their taxation of corporate income of corporations installing pollution control equipment, and it is possible that the Maine Legislature should consider some such allowance. Any effluent charges should be high enough to make compliance with pollution control programs a cheaper alternative, and no charges should be assessed on a corporation which can prove that it has entered into a binding contract to have adequate pollution control equipment installed and in operation within less than 5 years. Desirable legislation in this regard would require more study, including the professional recommendations of engineering consultants who are familiar with the problems of industrial pollution control. It is recommended that the Legislature consider funding such a study, with a request for specific recommendations to be submitted to the next Legislative session.

9. Make available a Research Staff for the Members of the Legislature

Members of the Legislature are charged with the responsibility of accepting or rejecting a multitude of legislative proposals during each session of the Legislature. Although committee hearings do much to clarify the advisability or inadvisability of much proposed legislation, no one Legislator has time to familiarize himself with all the points for or against every bill which he must either approve or disapprove in the general Legislative sessions; nor can he be sure that the technical wording of each bill for which he votes will meet the needs which he intends to be satisfied. The pressure of a Legislator's work is so great that a Legislative Research Staff is needed to research the pro's and con's of anticipated legislation between sessions, to prepare brief summaries of such points before bills are formally considered, to check the precise wording of proposed bills to make sure that the legislation will actually advance the purpose stated in its preamble, and to evaluate the probable validity of arguments for or against proposed bills, as in the instance of conflicting claims advanced by lobbyists or representatives of various special interest groups. For these reasons it is recommended that the Legislature establish and provide adequate funding for a competent Legislative Research Staff to work both between and during Legislative sessions.

PART X

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