PROPOSALS FOR FURTHER IMPROVEMENTS IN PROPERTY TAX AND ALLIED LEGISLATION IN THE STATE OF MAINE

submitted by

ESCO Economic Institute
Center for Research and Advanced Study
University of Maine at Portland-Gorham

for the

State Planning Office
Executive Department
State of Maine

August 1973

KENNETH M. CURTIS
Governor

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

August 31, 1973

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

Dear Sir:

I am pleased to transmit to you this report, entitled "Proposals for Further Improvements in Property Tax and Allied Legislation in the State of Maine." This report was prepared by the ESCO Economic Institute in the Center for Research and Advanced Study at the University of Maine at Portland-Gorham in close cooperation with the State Planning Office.

Special emphasis was placed on obtaining the personal and professional involvement of State officials and specialized organizations which are also studying various aspects of this problem. Good use was made of material from various state and national sources.

Because this report was based on updated information concerning 1973 legislation in other states, supplementing previous ESCO research and reports, 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 their deliberations in the Special Session 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. 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

Philip M. Savage
State Planning Director

ESCO ECONOMIC INSTITUTE

Center for Research and Advanced Study
University of Maine at Portland-Gorham
246 Deering Avenue
Portland, Maine 04102

PROJECT DIRECTOR

Harry J. Waters
Portland

PROJECT RESEARCH STAFF

John G. Campbell
Cape Elizabeth

Gregory A. Deprez
South Portland

Robert E. Doucette
Lewiston

John F. Marriner
South Portland

Robert C. McMahon
Portland

James A. Sanborn
Windham

Miss Barbara Ann Waters
Portland

CLERICAL STAFF

Miss Carol S. Williams
South Portland

Mrs. Penny L. Glidden
Gorham

Mrs. Jacqueline D. Iaconeta
Cape Elizabeth

EDITOR OF THE REPORT

Alvin D. Rogers
Portland

UNIVERSITY OF MAINE *at Portland - Gorham*

Center for Research
and Advanced Study

246 Deering Avenue
Portland, Maine 04102
(207) 773-2981

August 31, 1973

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

Dear Mr. Savage:

On behalf of the ESCO Economic Institute, I wish to thank you for the opportunity of assisting the Governor and the members of the 106th Legislature to develop some proposals for further improvements in the property tax and allied legislation in 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 development of their recommendations for the Special Session of the 106th Legislature.

During the past two months, members of the ESCO Research staff have visited major departmental offices of the State of Maine, some of them on repeated occasions. In addition to the State officials, representatives of various other interested publics were visited and their recommendations solicited. Officials of the other States that have introduced landmark legislation in this field were also solicited and copies of their laws studied.

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 Economic Institute

Harry J. Waters

Harry J. Waters, Ph.D.
Institute Director

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AID TO THE ELDERLY

Recommendation 1: Expand the "Elderly Householders Tax and Rent Refund Act."

In order to make the current "Elderly Householders Tax and Rent Refund Act" of benefit to more of Maine's low-income elderly, it is recommended that this law be expanded. The specific areas for expansion which are listed below are estimated to cost the State of Maine $2.88 million annually.

1. Eliminate the Section 6111 requirement that "no less than 35% of the household income is attributable" to the elderly person filing the claim . . . . $	3,000
2. Eliminate the net asset test for eligibility.	48,150
3. Increase the maximum eligible household income to $7,000	374,900
4. Revise the scale of percentage of income at each of the various income levels to be paid by the taxpayer for property tax before benefits would apply.	2,406,000
5. Raise the maximum benefit to $500	50,000
6. Simplify the calculation of "gross rent" to aid the elderly householder	0
Total Estimated Annual Cost:	$2,882,050

Recommendation 2: Supplement the "Circuit-Breaker" Legislation for the Elderly in Maine with Funds for Needed Household Rehabilitation.

ESCO recommends that the State Legislature appropriate $3.0 million to be used on a priority basis to enable low-income elderly householders to correct deterioration and decaying conditions which tend to make their homes hazardous and ultimately uninhabitable.

It is specifically recommended that these funds be allocated proportionally to all Maine counties based upon the number of low-income elderly living in each county.

Recommendation 3: Subsidize a Reasonable Proportion of Heating and Utility Costs for Low-Income Elderly Householders.

The State Legislature should subsidize one-half of the cost of basic telephone service, heating and cooking fuel and electricity needed for the well-being of low-income elderly persons. It is estimated that this service would cost the State of Maine approximately $6.75 million during fiscal 1974-75, and would help some 22,500 households of elderly residents with incomes of less than $3,001.

Recommendation 4: Provide State Guarantees Which Will Eliminate the Need for Utility Deposits by the Elderly.

It is recommended that the State of Maine guarantee the payment of uncollectable accounts to telephone, gas, and electric companies in order to eliminate the hardship imposed upon the elderly by requiring customer deposits which can amount to as much as $50.00 per household. If the State guaranteed payment of uncollectable bills, it is estimated that the cost to the State would be no more than $20,000 per year.

Recommendation 5: Institute a Rent Supplement Program for Low-Income Elderly Tenants.

ESCO recommends that $17.0 million be appropriated for fiscal 1974-75 so that elderly householders may be required to pay no more than one fourth of their income for adequate rental quarters and that they be reimbursed for the total amount of rent paid in excess of the 25 percent level of their incomes. The

Bureau of Elderly Services and the Maine Housing Authority should have the responsibility of assuring legislators that rental rates are in line with comparable, adequately maintained rental units in the immediate area of the State.

AID TO LOW-INCOME HOUSEHOLDS

Recommendation 6: Expand the "Elderly Householders Tax and Rent Refund Act" to Include All Low-Income Residents of Maine.

Maine should emulate the action taken by a number of State Legislatures and provide "circuit-breaker" legislation for the benefit of all low-income households. Maine's "Elderly Householders Tax and Rent Refund Act" might be amended to benefit all low-income householders regardless of age. It is estimated that this expanded legislation would cost the State of Maine $17.7 million in fiscal 1974-75 and would aid 118,200 households that are currently existing below the poverty level.

HOMESTEAD RELIEF FOR MAINE RESIDENTS

Recommendation 7: General Homestead Relief Is Not Recommended for Maine Residents.

The disadvantages of general homestead exemption laws, as compared to modern "circuit-breaker" legislation, indicates that any bill providing general homestead relief equally for householders of high income as for those of low income would be a step backwards. Furthermore, because of varying assessment practices in municipalities, such a law would be highly inequitable under current conditions.

It is far better, then, to extend "current-breaker" legislation to cover a broader range of citizens, first by providing benefits for all householders of low income, and then raising the income ceilings to provide some benefits for those of moderate income, if sufficient alternative sources of State funds are available.

GENERAL ADMINISTRATIVE RECOMMENDATION

Recommendation 8: Administer the "Elderly Householders Tax and Rent Refund Act" Within the Bureau of Elderly Services.

Since the 106th Legislature has established the Bureau of Elderly Services to coordinate the many services available to the elderly in Maine, ESCO recommends that the administration of the "Elderly Householders Tax and Rent Refund Act" be transferred from the Bureau of Taxation to the Bureau of Elderly Services.

It has been estimated by the Bureau of Taxation that the Administrative costs of this program for fiscal 1973-74 will approximate $44,000, not including the cost of the supervision. It is, therefore, recommended that an appropriation of $60,000 be made to the Bureau of Elderly Services to enable this office to administer this successful program in fiscal 1974-75.

PART II

The Trend Toward "Circuit-Breaker" Systems of Tax Relief

By July 1, 1973, every State in the Union had instituted some form of property tax relief for elderly homeowners of low-income, and an increasing number of states had broadened their legislation to bring benefits to all low-income families. New or improved programs of property tax relief had been established during the year ended on June 30, 1973, by 27 States, including eight programs which involved the "circuit-breaker" concept, the same concept which underlies the State of Maine's "Elderly Householders Tax Relief Act of 1971" and the amended act of 1973, "An Act to Amend the Elderly Householders Tax Relief Act," otherwise known as the "Elderly Householders Tax and Rent Refund Act." (Section 6101 of Title 36 of the Revised Statutes, amended).

Explanation of the "Circuit-Breaker" Concept of Tax Relief

Property taxes in excess of a reasonable percentage of personal income, particularly in the case of low-income families, may be regarded as an overload, analogous to an overload on a household electrical circuit. In a house with modern electrical wiring, the fire danger caused by an overloaded circuit is reduced by a circuit breaker. In a similar way, the overload of property taxes paid in excess of a reasonable percentage of personal income can be broken by "circuit-breaker" legislation which provides cash rebates from the State, as in the case of Maine, or which provides tax credits on the State Income Tax, as in the case of a number of other States. The desirable features of the "circuit-breaker" approach are:

1. Tax relief is based on ability to pay.
2. Local government does not lose part of its tax base.
3. A wide range of variation is available.
4. Renters can be included in the formula.
5. The cost of tax relief can appear in the State budget for review by the Legislature.

Preferability of "Circuit-Breaker" to Conventional Homestead Relief

"Circuit-breaker" systems of property tax relief appear to be preferable to the older types of programs of homestead exemptions as administered in some States. Outright exemptions reduce the yield of local taxes from property, change the distribution of taxes, often make the tax burden inequitable, and may give relief to less needy taxpayers. Assessment levels that vary by community and even within a given community can change the value of many exemptions. The total tax value of exempt properties is not known in most States which have adopted outright homestead exemptions, because such properties are not usually assessed. Consequently, the "circuit-breaker" system, a relatively new approach to tax relief, has many advantages over conventional exemptions, since it deals directly with the tax liability and not with assessed valuations.

Desirable Expansion of "Circuit-Breaker" Relief in Maine

On the basis of need, it would appear that the first priority of expansion of the "circuit-breaker" system of tax and rent refunds should be a more generous allowance for elderly residents of relatively low income; a second priority should be an expansion of similar, though possibly more limited, benefits to all other residents of low income; and a third priority should be general property tax relief. All too many elderly persons with low fixed incomes are living in Maine homesteads which are costing them more and more each year in property taxes and which are deteriorating because the occupants are physically unable to make necessary repairs and too poor, in many cases, to buy the necessary repair materials, let alone hire the labor. In addition to this, the current constant increase in the cost of food, medicine, fuel, and clothing requires an increasing proportion of Maine's elderly to skimp on the necessities of life.

Although the legislation suggested in 1969, adopted in 1971, and amended in 1973 represents a progressive attempt to help the elderly householder of low income, it appears necessary to review this legislation in light of the activities of other States, the needs of the residents of Maine, and the availability of funds.

The Background of Maine's Current "Circuit-Breaker" Legislation

For many years the Governor and legislative leaders of the State of Maine have recognized the growing problems faced by elderly residents of low income. In the Governor's "Special Message on Human Resources to the 104th Legislature" on February 4, 1969, Governor Kenneth M. Curtis said:

> For many years we have recognized the sad plight of elderly, retired citizens, living on small fixed

> incomes that are constantly eroded by rising property and sales taxes. I believe it is now time to act. Consequently, I have recommended in my budget funds for the enactment of legislation providing property tax relief for the elderly householder, 65 or over, with a household income up to $3,000."

As a result of enlightened leadership on the part of the Governor and members of the Legislature, landmark legislation for Maine was passed in 1971 through "The Elderly Householders Tax Relief Act" (1971, Chapter 503, Section 1). This legislation was further amended and broadened in 1973, with an increase in the household income allowed beneficiaries, a means of computing an allowance for eligible persons living in rented quarters, and several other changes. Comparative details are listed in Table I.

As Table I indicates, the liberalized features of the Amended Act of 1973 were accomplished at a relatively low per capita cost, based on an estimate of approximately 1,000,000 Maine residents. The per capita cost for fiscal 1972-73 under the relief act of 1971 was only $1.67, while the per capita cost for 1973-74 under the amended act is estimated to amount to only 73 cents more, or about $2.40 per capita.

Organization of Discussion in the Following Parts of This Report

The three following major sections of this report will examine some alternative methods which may be used by the State of Maine to help meet the increasing homestead costs incurred by Maine residents, especially the elderly and others of low income. The major areas of discussion are as follows:

Part III - Expanding and Supplementing the "Circuit-Breaker" Legislation for the Elderly in Maine;

Part IV - Expanding and Supplementing the "Circuit-Breaker" Legislation to Include All Low-Income Residents;

Part V - Evaluating Homestead Tax Relief Proposals as Compared to the Recommended "Circuit-Breaker" Legislation.

Table I

DETAILED PROGRAM FEATURES OF THE ELDERLY HOUSEHOLDERS TAX RELIEF ACT OF 1971 COMPARED TO THE AMENDED ACT OF 1973

The Relief Act of 1971	The Amended Act of 1973
Beneficiaries and Description	
Homeowners and renters, age 65 or older for males, 62 or older for females. (At least 35% of household income must be attributable to the claimant).	One member of the homeowner's or renter's or renter's household must have attained the age of 62, and no less than 35% of the householder's income must be attributable to that member of the household.
Income Ceiling	
$4,000. (In addition, net assets, including the homestead, must not exceed $30,000).	$4,500 for single persons or $5,000 for two or more in a household. (In addition, net assets, excluding the value of the homestead, must not exceed $20,000).
Tax Relief Formula	
Relief equal to 7% of the difference between household income and $4,000, limited to the total property tax levied or 20% of the rent paid, but no claim of more than $280 will be granted.	Relief not to exceed $400, limited to the total property tax levied or 25% of the rent paid solely for the right of occupance exclusive of charges for any utilities, services, furniture, furnishings, or personal property appliances furnished by the landlord, and computed according to the following scale:

Household Income Not in Excess of:	Relief Equal to Property Taxes or Rent Equivalent in Excess of the Following Householder's Share of the Total Cost:
$1,000	2% of the Householder's Income
$2,000	$ 20 + 4% of excess over $1,000
$3,000	$ 60 + 8% of excess over $2,000
$4,000	$140 + 12% of excess over $3,000
$5,000	$260 + 16% of excess over $4,000

The Relief Act of 1971	The Amended Act of 1973
Per Capita Cost	
$3.5 million was set aside, presumedly for biennial costs. Expended for fiscal 1972-73 was $1,674,925 or $1.67 per capita, based on approximately 1,000,000 Maine residents.	Appropriation for 1973-74 amounted to $2,395,924, or about $2.40 per capita.

PART III

Expanding and Supplementing the "Circuit-Breaker" Legislation for the Elderly in Maine

While the recent legislation enacted by the 106th Legislature and signed into law on July 5, 1973, is in many ways an improvement on the 1971 Act, entitled "The Elderly Householders Tax Relief Act," as seen through a comparison of details listed in Table I, some changes in the law could make it possible for more of the low-income elderly to continue living in their present homes, since there is ample evidence that this is better for them than moving them into boarding homes when they are still physically able to care for themselves. Many of these groups, however, will also require supplemental assistance to keep their homesteads in a livable condition. Therefore, in addition to desirable changes in the current "Elderly Householders Tax and Rent Refund Act," suggestions will be made concerning alternative forms of legislation which would assist elderly persons of low income in getting essential renovations or repairs so that their homesteads could be maintained in a livable condition.

Recommendation 1: Expand the "Elderly Householders Tax and Rent Refund Act." (Annual Cost: $2.88 Million).

In order to make the current "Elderly Householders Tax and Refund Act" (as amended in 1973) of greater benefit to more of Maine's low-income elderly, especially those near or below the "poverty line" of income, it is recommended that the current law be somewhat liberalized and expanded. The specific areas that are recommended by ESCO for liberalization or expansion at an annual estimated cost of $2.88 million include the following:

Recommendation	Estimated Annual Cost
A. Eliminate the Section 6111 requirement that "no less than 35% of the household income is attributable" to the elderly person filing the claim	$ 3,000
B. Eliminate the net asset test for eligibility	48,150
C. Increase the maximum eligible household income to $7,000	374,900
D. Revise the scale of percentage of income at each of the various income levels to be paid by the taxpayer for property tax before benefits would apply	2,406,000
E. Raise the maximum benefit to $500	50,000
F. Simplify the calculation of "gross rent" to aid the elderly householder.	0
	$2,882,050

These points are discussed in some detail in the following paragraphs.

A. <u>Eliminate the Section 6111 requirement that "no less than 35% of the household income is attributable" to the elderly person filing the claim.</u>

The Section 6111 requirement that "no less than 35% of the household income is attributable" to the elderly person filing the claim should be eliminated. This would benefit some 20 applicants at a minimal cost of approximately $3,000. This cost is estimated from returns of the current reporting year (deadline October 15, 1973) which exceeded the 35% requirement.

The benefit derived from its elimination would exceed the cost since the tax return can be simplified from 3 columns to one, resulting in easier filing by the applicant and a reduction in administration expense by the Bureau of Taxation.

Maine is the only state that has seen fit to include a limitation of this sort. As has been noted before, elderly persons who are physically able to care for their own needs, or who can get along with minimal care from members of their own family, benefit greatly by remaining in their own homes rather than being moved into boarding homes or nursing homes, usually at substantial expense to the State.

Since State support in a boarding home or nursing home is relatively expensive, every effort should be made to encourage the maintenance of the elderly in their own homes. One way to do this is to provide some encouragement and incentives to persons who are willing to move into their parents' homes to provide care for the old people. Removal of the 35 percent household contribution clause would be a step in the right direction, and the State would still be protected from abuse by the limitation on total household income which is required by the "circuit-breaker" formula that has been previously described.

B. <u>Eliminate the net asset test for eligibility</u>. Only one other State in the nation applies a net asset test for eligibility. Nearly every State considers the income test sufficient to determine the need for eligibility.

If an elderly resident has a substantial amount of assets invested in savings institutions, annuities, or stocks and bonds, the interest and dividends received will tend to raise household income to the point where the elderly householder is ineligible for property tax relief.

In Maine, however, many rural householders have acquired, over a period of years, woodlots which are separate from the homestead property. Since they are not a part of the parcel of land on which the homestead is located, they have to be considered as part of the non-homestead assets, the total value of which must not exceed $20,000 if an elderly householder is to be eligible for relief. Although such woodlots probably cost very little when they were first purchased, their theoretical market value today may be sufficient, in many cases, to increase the net assets of a low-income elderly householder to the point where he would be ineligible for tax relief under the current law. On the other hand, several years might be required before pulp or timber would be ready for cutting, a period during which his asset would be tied up with no income from the investment.

The net assets test, therefore, works a hardship on such landowners. In some cases, it may drive them to a forced sale from which they will realize only a fraction of the true worth of their property. Some elderly householders may even be driven to sell their homesteads as well as their outlying woodlots because there may be a better market for the entire property than for the half-grown woodlot parcels by themselves.

The elimination of the net asset test for eligibility would cost an estimated $48,150 annually. As of October 15, 1973, the Bureau of Taxation had rejected some 214 applicants because they had net assets in excess of the $20,000 maximum allowable. The Bureau estimates that there are probably another 107 homestead owners who might apply if the ceiling on net assets were dropped. In other words, approximately 321 homestead owners with net assets worth more than $20,000, but incomes of $5,000 or less, would become eligible if the ESCO recommendation were adopted. Based on the average rebate of $150 per applicant, the cost to the State would be approximately $48,150.

Overall, the net asset test is basically undesirable because (a) it is confusing and (b) it is unnecessary when there is an income test. The only relevant test of need, therefore, should be household income. The Maine law, with its ceiling of $400 in benefits and its sliding scale which provides greater proportional benefits to those of very low income and much smaller benefits to those above the poverty level, provides an excellent foundation for further legislative refinements, but the limitation based on assets should be abolished.

C. <u>Increase the maximum eligible household income to $7,000.</u> At the first glance, this recommendation, with an estimated annual cost of $374,900, might seem too generous. In comparison to the cost of a flat homestead tax rebate, it amounts to very little and it would provide a measure of property tax relief to a group of Maine citizens of moderate income who are currently faced with inflated living costs without any corresponding increase in income. Approximately 2,300 elderly residents of Maine have incomes ranging from $5,001 to $6,000. Under the ESCO recommendation, as Table II indicates, such heads of households would be required to pay, on an average, a property tax (or rent equivalent) of $204 before they would be eligible for any relief. Another 1,150 elderly heads of households with incomes ranging between $6,001 and $7,000 would be required to pay, on an average, a property tax (or rent equivalent) of $325 before they would be entitled to relief under the ESCO recommendation.

Other State legislatures, notably that of Wisconsin, have recognized the need to provide a moderate amount of property tax relief for residents with incomes ranging upward to $7,000. Householders with incomes ranging between $5,000 and $6,000, on a U. S. average (as of the 1970 census), pay an average of 6.2% of their gross income in property taxes. This appears to be a disproportionate amount. The ESCO proposal, therefore, suggests 3.7% as a more equitable share for the elderly householder in this income bracket to pay. For those with higher gross incomes ranging between $6,000 and $7,000, ESCO suggests that an elderly householder be required to pay not more than 5% of his income for property taxes. On the basis of national averages, as shown in Table II, legislation implementing this ESCO recommendation would mean that the typical elderly householder with an income of about $5,500 would be entitled to a tax refund averaging $137, and the householder with an income of $6,500 would be entitled to a tax refund averaging $52.

Table II

EFFECT OF INCREASING

THE MAXIMUM ELIGIBLE HOUSEHOLD INCOME TO $7,000

Description	Income of $5,000 to $6,000	Income of $6,000 to $7,000	Total (If Applicable)
U. S. Average Tax as Percent of Income	6.2%	5.8%	n.a.
Average Amount of Property Tax	$341	$377	n.a.
ESCO Proposal: Percent of Income Paid Before Benefit Applied	3.7%	5.0%	n.a.
Reasonable Tax for Householder with Income at Middle of Bracket	$204	$325	n.a.
Elderly Householder's Tax Refund (Average Amount)	$137	$ 52	
Number of Elderly Affected	2,300	1,150	3,450
Annual Cost to the State of Maine, Based on the Estimates Above	$315,100	$ 59,800	$374,900

Notes:

Only 3.8% of Maine's elderly are between $5-6,000 of income and only 2.0% of elderly are between $6-7,000 of income; approximately 63% of these own their own homes and are therefore eligible for a property tax benefit.

Includes renters; estimate that 28% of elderly are renting and 63% of elderly are homeowners.

Assuming full participation; presently 30% do not take advantage of the tax relief.

Figures were adjusted to include those 62-65 who would also benefit under current Maine Law.

So that the computation of partial property tax refunds to elderly householders with annual incomes between \$5,001 and \$7,000 may be made as simple as possible, the ESCO recommendation is that householders with incomes between \$5,001 and \$6,000 be required to pay \$150 plus 11% of their excess income over \$5,000 as their householder's share of property taxes before they should become eligible for benefits. Similarly, householders with incomes between \$6,001 and \$7,000 should be required to pay \$260 plus 14% of their excess income over \$6,000 before eligibility. In actual practice, these schedules would cause the householder's share to come very close to the percentage of gross income suggested in the preceding paragraph. Table III, on the following page, presents the recommended schedules in tabular form, as a continuation of the schedules recommended by ESCO for elderly householders in the low income brackets.

D. Revise the scale of percentage of income at each of the various income levels to be paid by the taxpayer for property tax before benefits would apply. The federal Office of Economic Opportunity on October 16, 1972, defined the poverty level income of a non-farm family of two persons as \$2,900, effective October 10, 1973. The poverty level for a farm family of two persons was similarly defined as an income of \$2,465 or less. Since an income of \$2,000 is substantially below the poverty level of either a farm family or a non-farm family, ESCO recommends that elderly householders with household incomes of \$2,000 or less be eligible for complete refunds of all homestead taxes, or rental equivalents, paid by such householders, up to the maximum permissible limit.

Table III

ESCO RECOMMENDATIONS FOR A MODIFIED SCHEDULE
FOR PROPERTY TAXATION REFUND BENEFITS
FOR ELDERLY HOUSEHOLDERS IN MAINE
COMPARED TO THE SCHEDULE OF THE AMENDED ACT OF 1973

Household Income Not In Excess of:	Relief Equal to Property Taxes or Rent Equivalent in Excess of the Following Householder's Share of the Total Cost — According to the 1973 Legislation	According to the ESCO Recommendation
$1,000	2% of the Householder's income	$ 0
$2,000	$20 plus 4% of the excess over $1,000	$ 0
$3,000	$60 plus 8% of the excess over $2,000	2% of the excess over $2,000
$4,000	$140 plus 12% of the excess over $3,000	$20 plus 5% of the excess over $3,000
$5,000	$260 plus 16% of the excess over $4,000	$70 plus 8% of the excess over $4,000
$6,000	No relief allowed	$150 plus 11% of the excess over $5,000
$7,000	No relief allowed	$260 plus 14% of the excess over $6,000

Table IV

ILLUSTRATIONS OF MAXIMUM PROPERTY TAXES
TO BE PAID BY HOUSEHOLDERS OF SELECTED INCOMES BEFORE RELIEF
ACCORDING TO THE 1973 LEGISLATION
AS COMPARED TO THE ESCO RECOMMENDATIONS

Household Income of No More Nor Less Than:	Current Maximum Property Tax to Be Paid by Householder Before Relief	ESCO Recommendation for Maximum Property Tax to Be Paid by Householder Before Relief
$ 500	$ 10	$ 0
$1,500	$ 40	$ 0
$2,500	$100	$ 10
$3,500	$200	$ 45
$4,500	$340	$110
$5,500	No relief allowed	$205
$6,500	No relief allowed	$330

Note: All computations above are based on data from Table III.

Table V

ESTIMATE OF ADDED COSTS INCURRED BY ADOPTION
OF ESCO RECOMMENDATIONS FOR A MODIFIED SCHEDULE
FOR PROPERTY TAXATION REFUND BENEFITS
FOR ELDERLY HOUSEHOLDERS IN MAINE

Household Income Levels	Average Added Per Capita Cost	Estimated Number of Households	Total Additional Annual Cost
$1,000 or less	$ 10	5,700	$ 57,000
$1,001 to $2,000	$ 40	10,100	404,000
$2,001 to $3,000	$ 90	6,700	603,000
$3,001 to $4,000	$155	4,700	728,500
$4,001 to $5,000	$236	2,600	613,600
TOTAL ADDITIONAL ANNUAL COST FOR INCOME LEVELS LISTED			$2,406,100

Note: Estimated additional annual costs for partial property tax refund benefits for elderly households with incomes ranging from $5,001 to $7,000 are discussed on pages 16 to 18 and are displayed in Table II of this report.

As indicated by Table III, the 1973 Legislation requires an elderly householder with an income of $1,000 or less to pay the first 2% of his income for property taxes before becoming eligible for any property tax refund. An elderly householder with an income of precisely $2,000 is required to pay $60 for property taxes before eligibility starts. Although householders of moderate or better incomes might consider such unrefundable property tax payments very small, the problem of finding enough cash to make tax payments of even this modest size works a definite hardship on families with incomes below the poverty level. An elderly couple with an annual income of only $2,000 can make average expenditures of only $38.46 per week. To such persons a property tax payment of $60 represents all the money they have to spend for approximately eleven days out of the year.

As Table IV indicates, an elderly couple with an income of only $2,500 must pay, according to the current 1973 Legislation, $100 in property taxes before they become eligible for any refund. Under inflationary conditions, especially those connected with mounting household fuel costs, the amounts required for property tax payments before eligibility for refunds need to be modified. Current schedules and the ESCO recommendations for modifications at various income levels are listed in Tables III and IV.

Table V, which carries the statistical interpretation of data in Tables III and IV one step further, provides estimates of the additional annual cost of meeting the ESCO recommendations for more liberal property tax relief at the various income levels where a measure of eligibility is provided under current law. The "Average Added Per Capita Cost" in Table V is derived by subtracting the "ESCO Recommendation" listed in the right hand column of Table IV from the "Current Maximum" listed in the middle column. The "Estimated Number of Households" is statistically derived from 1970 U. S. Census data. The multiplication of the "Estimated Number of Households" by the "Added Per Capita Cost" gives the "Total Additional Annual Cost" for the implementation of the ESCO recommendations at each of the household income levels.

As Table V indicates, approximately 15,800 households of elderly Maine residents with below-poverty-level incomes of $2,000 or less would be freed from any unreimbursed property taxes if the ESCO recommendations were implemented, and the added annual cost to the State would be approximately $461,000 for this group.

Implementing the ESCO recommendations for liberalized benefits for the next group, with household incomes ranging from $2,001 to $3,000, would require an added annual State expenditure of $603,000 and benefit some 6,700 additional households with incomes below or close to the poverty level.

For some 4,700 households with incomes between $3,001 and $4,000 the added benefits recommended by ESCO would cost $728,500 annually, while the additional costs for liberalized benefits for about 2,600 households of elderly Maine people with incomes ranging between $4,001 and $5,000 would amount to some $613,600.

The total added annual State expenditures required to implement the entire schedule of ESCO recommendations listed in the right hand column of Table III would amount to about $2,406,100.

E. <u>Raise the maximum benefit to $500</u>. The current trend of assessing homesteads at fair market value works a hardship on a number of elderly Maine householders who have lived for years in attractively located rural homes that may have been built by their ancestors more than a century and a half ago, and that therefore now possess a highly inflated market value as property that can be developed into "second homes" for out-of-state executives. Property of this sort without extensive modern improvements has sold at a modest price until recently, but current market values may force the property taxes substantially above the $400 reimbursement ceiling allowed by the 1973 Legislation.

On the basis of applications from elderly householders for property tax refunds, as analyzed on October 15, 1973, approximately 500 householders would be eligible for increased reimbursements if the ceiling for maximum benefits were raised to $500. The estimated annual cost to the State would be $50,000.

The increase to a ceiling of $500 has been recently enacted by the States of Wisconsin and Michigan, while the State of Vermont, confronted by even greater increases in the fair market value of rural property than Maine, has removed the ceiling completely. Since it is the intention of ESCO to model many of its proposals on legislation which has been pioneered by other States and which has proved to be economically sound as well as progressive, the increase from a $400 to a $500 maximum benefit is recommended for Maine.

The theory of placing a reasonable limit on the refund benefit is wise, but the current limit appears to be unrealistically small for many elderly Maine residents of the lower income brackets, particularly those who have lived in the same homes for many years. The principal benefit would be for those whose rural homes are architecturally attractive and located in places where land values have increased rapidly during recent years, but some city dwellers would also benefit, because many of them also have to pay very substantial taxes on rather modest homesteads in neighborhoods where market values have recently increased.

F. Simplify the calculation of "gross rent" to aid the elderly householder. This ESCO recommendation involves no added expense to the State. In fact, it will probably reduce clerical work in the State's computation of precisely how much to allow in the way of benefits for elderly householders who live in heated or furnished rental quarters. The current "Elderly Householders Tax and Rent Refund Act" states in Section 6103, subsection 1-A:

> "Gross Rent" means rental paid at arms-length solely for the right of occupancy of a homestead, exclusive of charges for any utilities, services, furniture, furnishings or personal property appliances furnished by the landlord as part of the rental agreement, whether or not expressly set out in the rental agreement.

Most tenants pay a flat weekly or monthly rent. This rent may include some of the items excluded by the above definition. It is difficult for these applicants to separate the amount paid for excluded items from the "gross rent" on which the refund is based. It is, therefore, recommended that the following table be used:

1. When the tenement does not include utilities or furnishings, the householder should be allowed 25% as the share of the rent to be applied to property tax. (This is how the current law is applied.)

2. When winter heating and/or other major utilities are included, the applicant should be allowed 20% as the share of rent to be applied to property taxes.

3. When utilities and furnishings are both included, as in the case of a furnished, heated apartment, then the applicant should be allowed 15% as the share of rent to be applied to property taxes.

Breaking down the categories in this way will eliminate the guesswork now involved in determining the "gross rent" where utilities and/or furnishings are included in a total rental charge and thus also reduce the problem of "policing" those applicants who underestimate the amount paid for the excluded items. In addition, the different percentages are rationally related to the amounts actually paid out in overall living expenses. A person whose rent does not include heat or furnishings will have to pay out additional sums for these items; thus 25% of his gross rent paid will often amount to approximately 20% of his household costs when heat is included in the rent and 15% when both major utilities and furnishings are included.

Recommendation 2: Supplement the "Circuit-Breaker" Legislation for the Elderly in Maine with Funds for Needed Household Rehabilitation. (Annual Cost: $3.0 Million)

As mentioned earlier, supplemental legislation appears to be needed to assist elderly, low-income homeowners when they are faced with the need of major repairs to keep their homestead in livable condition. A recent Vermont report points out the typical case of a senior citizen who had occupied a modest home for more than 20 years:

> Because of his low income during his working years, the home he owns represents his major tangible asset. He has reached the age sixty-five, finally rid of the financial burden of a mortgage incurred years ago, only to have his income drastically reduced by retirement. Now, his even lower income may not be sufficient to keep up with the ever increasing burden of property tax, repairs, maintenance and upkeep of the possession he has worked so long for. Depreciation, blight, and obsolescence begin to take their toll. This is born out by the fact that studies indicate that "nearly twice as many homes owned and occupied by older persons are in poor physical condition than is true of younger homeowners.[1]

Programs of low-cost rehabilitation, with grants for low-income elderly homeowners, should be developed. Suitable programs would help elderly residents keep their homes livable and free from unnecessary hazards to their health or safety. They should be enabled especially to keep their roofs, windows, doors, floors, and steps in good repair, for it is reported that "of all accidental deaths, 26% happen to people 65 and over . . . and more than 43% of these accidental injuries occur in and about the

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1. ". . . And Hope for a Better Day," ESCO Research Inc., submitted to the Office of the Governor by the Vermont Interdepartmental Council on Aging, March 1971, p. 124.

house, with falls as the leading cause."[2]

Through development and implementation of low-cost loans and outright grant programs by federal agencies, problems of senior citizens' homes can be corrected. Loan and grant programs would allow correction of deterioration, obsolescence, decay, and needs for special equipment such as handrails in bathrooms, non-skid floors, stair rails, or safe heating and cooking equipment. These programs, if they involved even the use of outright grants, would be cheaper than the present system under which the senior citizen is moved to an institution when his home is outmoded. This move to an institution could increase the probability of public assistance support at a much higher cost than in his own home.

<u>ESCO recommends that the State Legislature appropriate $3.0 million to be used on a priority basis to enable low-income elderly householders to correct deterioration, obsolescence, and decaying conditions which tend to make their homes hazardous and ultimately uninhabitable</u>. These funds should be used on an experimental basis during fiscal 1974-75. Upon completion of the experimental period an evaluation and a report should be made to the special session of the 107th Legislature. The evaluation and recommendations might include suggestions for discontinuation of the program, revision, or possibly further expansion of this program of rehabilitation grants to the elderly.

It is specifically recommended that these funds be allocated proportionally to all Maine counties based on the number of

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2. <u>Ibid</u>., p. 322.

low-income elderly living in each county. Recommendations for financing individual projects should be made by staff members from the Senior Citizen Centers in each county within the State. The Bureau of the Elderly, with the aid of the Maine State Housing Authority, would be responsible for establishing a funding priority based upon need.

Many retired persons in Maine have sufficient skill in simple carpentry and household repairs so that they could replace rotting steps, floor boards, gutters, etc., provided they could be enabled to buy the necessary material. It is therefore recommended that these types of grants be included as part of the $3.0 million experimental program of rehabilitation.

In instances where an aging householder is unable to make the needed repairs, these services should be provided. Whenever possible, an effort should be made to support a "handyman" service similar to the services provided by the specially trained poor in Lincoln county. Utilizing this type of program, which is described more fully below, not only reduces the cost of repairs but gives employment to low-income people. In many areas of the State it might be the only method by which some of the minor repairs might be performend, since contractors are seldom interested in small contracts because of the limited number of skilled craftsmen and the high cost of estimating and performing the needed repair work.

The Lincoln County program, currently funded by the State Department of Health and Welfare, makes available to elderly families such services as repairing windows, porches, and steps, doing minor plumbing, and making simple electrical repairs. These services are often performed by low-income people who are provided with necessary training at State expense.

The State of Kentucky, utilizing a combination of State and federal funds, is currently engaged in a demonstration project of this nature, training unemployed men in home repair work and then employing them in making improvements to deteriorated housing. Local residents in the Kentucky project are formed into committees to determine the homes that should be given priority. Low-income families of all age groups are eligible for "handyman" project consideration in Kentucky, but a large proportion of those receiving benefits are the elderly.

Recommendation 3: Subsidize a Reasonable Proportion of Heating and Utility Costs for Low-Income Elderly Householders. (Annual Cost: $6.75 Million)

The State Legislature should subsidize a reasonable proportion of the cost of basic telephone service, heating and cooking fuel, and electricity needed for the well-being of elderly householders whose household incomes are near or below the poverty level.

It is estimated that subsidizing one half of the cost of basic telephone service, heating and cooking fuel, and electricity for such elderly householders would cost the State approximately $6.75 million annually. This estimate is based on a total average household cost of $600 for such utilities. One half this amount, or $300, multiplied by an estimated 22,500 households of elderly people with household incomes ranging from less than $1,000 to not more than $3,000, amounts to $6.75 million.

The need for a telephone in the building in which an elderly person lives is essential, if only for the social contact to the outside world, not to mention calls for medical, ambulance, or other emergency assistance. Yet, a recent study indicates that nearly one quarter of older households are without telephones. The cost of other necessary utilities may also be so great that elderly persons of low income may be forced to skimp on food or clothing in order to pay their fuel and utility bills. In the case of elderly households of very low income, "circuit-breaker" subsidies of as much as 50 percent of the reasonable basic cost of a telephone, fuel, and electricity are recommended.

The program has the advantage of not being directly linked with tax relief. However, in considering such a program, the Legislature should take into consideration the difficulty of administration.

Recommendation 4: Provide State Guarantees Which Will Eliminate the Need for Utility Deposits by the Elderly. (Annual Cost: $20,000)

It is recommended that the State of Maine guarantee the payment of any uncollectible accounts owed by elderly, low-income householders to telephone, gas, and electric companies.

The State guarantee would do away with the current customer deposit requirement in such cases and eliminate the hardship imposed on many elderly persons who must now make advance payments of from $30 to $50 in deposits before they can be provided with utility services.

The common policy of the utilities sets deposits at approximately two months prospective billing or $15, whichever is higher. Since the elderly poor have limited incomes and no permanent employment, utility deposits are usually required when such persons move into a rented apartment. An elderly person moving to a new location is normally faced with deposits for telephone and electric service amounting to at least $30. If there is a gas stove or a gas space heater, the total required for utility deposits may be greater than $50.

If the State of Maine should guarantee payment of uncollectible bills owed by the indigent elderly to the utilities, this guarantee could replace the requirement for utility deposits in such cases. It is estimated that approximately 5% of the elderly in Maine are currently required to make utility deposits at average cost of $40 for two or more utilities. On the basis of this estimate, the State of Maine would be required to guarantee $300,000. Composite reports from various utility representatives indicate that the utilities are able to collect all but about 6% of their total billing to households in the category described. Accordingly, it is estimated that the total annual cost to the State to reimburse utilities for uncollectible bills incurred by the elderly would be no more than $20,000.

Recommendation 5: Institute a Rent Supplement Program for Low-Income Elderly Tenants. (Annual Cost: $17.0 Million)

Elderly householders in Maine, as well as in other parts of the nation, are finding it increasingly difficult to rent adequate housing at rental rates they can afford. The Federal Housing Administration has proposed that 25 percent of a householder's income is a reasonable rental rate. More than half of the elderly householders in Maine receive less than $2,500 in annual income. This amounts to less than $209 per month, and 25 percent of this allows about $52 or less for monthly rental expenses. Adequate quarters for $52 or less per month are almost impossible to obtain. Accordingly, a high proportion of our elderly live in substandard housing, many without central heating, and some without adequate inside plumbing. They cannot pay enough for their rental units to make it possible for their landlord to pay taxes and other overhead expenses and still have enough left for needed repairs. Therefore, unless some way can be found to increase the rental income received from the low-income elderly, their tenements will continue to deteriorate.

It is recommended by the ESCO staff that elderly householders be required to pay no more than one fourth of their income for rent and that they be reimbursed for the total amount of rent paid in excess of the 25 percent level of their income. The Bureau of Elderly Services and the Maine Housing Authority should have the responsibility of assuring the State Legislators that the rental rates being charged are in line with comparable rental units in the immediate area of the State.

The practice of enabling the landlord to charge a reasonable rental rate for his property would encourage many of the owners of substandard housing units to improve their property. In some cases it would be a stimulus to landowners to renovate older homes, making available apartments for elderly householders.

ESCO recommends that $17.0 million be appropriated for fiscal 1974-75 in order to improve the existing quality of rental units and make it economically feasible for landlords to provide more adequate housing units for the low-income elderly residents of Maine.

PART IV

Expanding and Supplementing the "Circuit-Breaker" Legislation to Include All Low-Income Residents

Providing property tax relief for elderly householders in Maine serves only a portion of the needy in the State. In Maine, where 14 percent of all persons are living below the poverty level and also living in housing that is often dilapitated or seriously inadequate, the legislature should carefully consider expanding the "circuit-breaker" legislation to all low-income households in Maine, regardless of the age of the head of the household.

Maine might emulate the action taken by a number of State Legislatures by providing "circuit-breaker" legislation for the benefit of all low-income households. Each of the States described later in this part of the report have revised their earlier "circuit-breaker" laws or have introduced completely new legislation to help make the property taxes reasonable for all low-income people and not just the elderly.

Recommendation 6: Expand the "Elderly Householders Tax and Rent Relief Act" to Include All Low-Income Residents of Maine (Annual Cost: $17.7 Million)

One approach the Maine Legislature might take to aid all low-income families would be to amend Maine's "Elderly Householders Tax and Rent Refund Act" to provide "circuit-breaker" benefits for all low-income householders regardless of age. It is estimated that this expanded legislation might aid approximately 118,200 householders at a total annual cost to the State of Maine of $17.7 million.

Consideration might also be given to the possibility of simplifying the computation of the rebate schedule of the Maine law by adopting a plan somewhat similar to that recently introduced in Wisconsin. The new Wisconsin law is discussed in some detail in the latter part of this section of the report. It provides an 80 percent refund of property taxes, with a $500 ceiling, for families with household incomes of not more than $3,500 annually. For householders with incomes above $3,500 but not more than $5,000, the Wisconsin plan limits the refund to 80 percent of the amount by which the property taxes exceed 14.3 percent of household income in excess of $3,500.

<u>An Alternative Plan Takes Family Size into Consideration</u>.

Since most elderly households consist of only one or two people, family size rarely presents a factor which warrants special consideration. Low-income families of younger people, however, frequently include a number of dependent children. The following tax relief proposal (1) would determine a reasonable property tax for all low-income householders by a mathematical formula that would take into consideration the size of the family, (2) would be consistent with a progressive level of taxation, and (3) would be easy to compute.

$$\text{Reasonable Prop. Tax} = \left[\frac{\text{Family Income}}{\text{Poverty Level Income}} \text{ times } .0625 \right] \text{ times Family Income.}$$

The "Poverty Level Income" in the formula would be obtained from Table VI, which sets poverty-level standards for non-farm

Table VI

SCHEDULE OF POVERTY LEVEL INCOMES

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Effective as of October 10, 1973

Number of Persons in Family	Non-Farm Family Income	Farm Family Income
1	$2,200	$1,870
2	$2,900	$2,465
3	$3,600	$3,060
4	$4,300	$3,655
5	$5,000	$4,250
6	$5,700	$4,845
7	$6,400	$5,440
8*	$7,050	$5,990

*For each person after 8, add $650 for non-farm and $550 for farm.

Source: OEO Instruction #6004-ID, October 16, 1972, effective as of October 10, 1973.

and farm families of various sizes. The ".0625" (6¼%) factor could be made larger or smaller according to the judgment of the legislature. It is inserted in this illustrative formula because 25% of a low-income household's income is considered a reasonable proportion to cover the cost of rental quarters, because the "Elderly Householders Tax and Rent Refund Act" considers 25% of "gross rent" as the equivalent of the property tax on the rented quarters, and because 25% of 25% is 6¼%.

Since the "Family Income" in the formula above is divided by the appropriate "Poverty Level Income," the "Reasonable Property Tax" which a family would be expected to pay before eligibility for refund benefits would be relatively small for a family whose income was much below the "Poverty Level Income" for a family of that size. On the other hand, it would be much greater than the "Poverty Level" 6¼% of income in the case of a family whose income was substantially above "Poverty Level."

An illustration will help clarify this matter. For instance, Table VI indicates that "Poverty Level" for a non-farm family of four is an income of $4,300. According to the preceding formula, a family of this size with an income of only $3,000 would be eligible for a refund of any homestead property tax it paid in excess of $130.81, or 4.36% of the family income. On the other hand, a family of the same size with an income of $5,000 would be eligible only for a refund of the portion of its property tax that exceeded $363.37, or 7.27% of its $5,000 family income.

Whether a plan like the one above, or some modification of the Wisconsin plan, or an extension of the "Elderly Householders Tax and Rent Refund Act" to cover all low-income families is considered, a ceiling on the maximum refund should be established, preferably $500, as in the case of the Wisconsin plan or the ESCO recommendations for supplementing the benefits of the "Elderly Householders Tax and Rent Refund Act."

Maine Residents with Incomes Below the Poverty Level Need "Circuit-Breaker" Relief.

The 1970 U. S. Census has revealed that the incidence of poverty in Maine was greater than the national rate and greater than that of any other State in New England. Preliminary data indicated that 14 percent of all persons in Maine are living below the poverty level. The average household income for Maine families is about $7,000, but that average is heavily weighted upward by the higher levels of income in the urbanized centers of southwestern Maine. Such counties as Waldo County and Washington County contain a disproportionate share of families of low income. For instance, 59 percent of all the families in Washington County, including large families with many children, are making less than the State average income.

Inadequate housing is also a problem. The overall quality of housing in Maine has been reported to be generally poorer than housing in other northern States. In Maine 21.5 percent of the families in rural areas live in housing that lacks plumbing facilities and a little over 17 percent of rural homes still lack the convenience of having their water piped into their homes. Despite this poor quality of Maine housing, current federal housing programs appear to have little impact in correcting these conditions. One problem with the federally funded housing programs is that, with one exception, the programs only slightly affect people with incomes under $5,000 per year. One must note that 22 percent of Maine people do not earn enough to qualify for these programs, a problem to which the Maine Housing Authority is addressing itself.

Recent "Circuit-Breaker" Legislation Has Been Passed by Other States.

Since the problems faced by low income people with inadequate housing are not peculiar to the State of Maine, many of the States in the country have endeavored to resolve these problems in a variety of different ways. Five States have enacted legislation during the past few years to assist all low-income families in their respective States. These States which have enacted expanded "circuit-breaker" legislation most recently are Michigan, New Mexico, Oregon, Vermont, and Wisconsin. Some of the features of their various circuit-breaker legislation are briefly described below.

The Michigan "circuit-breaker" adopted in 1973 aids all households. The major emphasis of this legislation has been to meet the needs of the low-income households in Michigan regardless of the age of the head of the household. The Michigan "circuit-breaker" legislation gives a tax credit or cash refund for all or a portion of the property tax paid by the householder which exceeds 3.5 percent of his or her household income.

Table VII

STATES HAVING HOMESTEAD RELIEF FOR ALL AGES*

STATE	INCOME CEILING	TAX RELIEF FORMULA	MAX. CREDIT	PER CAPITA COST
Michigan	None	If excess taxes are above 3.5% of income tax credit of 60% of excess tax paid. (100% for elderly)	$500	$27.53
New Mexico	$6,000	Credit based on All State and local taxes paid, varying with number of personal exemptions claimed on Federal Income Tax.	$133	$ 1.88
Oregon	None	3% of income below $1,500 -----to----- 7% of income above $8,000.	$400 $100	N.A.
Vermont	None	Tax excessive if over following % of income: 0 - $3,999 4% 4 - $7,999 4.5% 8 - $11,999 5.0% 12 - $15,999 5.5% 16 - 6.0%	None	$23.38
Wisconsin	$5,000	Refund 80% of the property tax for households with incomes below $3,500. Above $3,500 refund 80% of amount above 14.3% of household income.	$500	N.A.

*"Information Bulletin," Advisory Commission on Intergovernmental Relations, Bulletin No. 73-6, Washington D.C., July 13, 1973.

Senior citizens are entitled to a tax credit or cash refund of all property tax paid in excess of 3.5 percent of their income, with a maximum credit or refund of $500. All other households are entitled to a tax credit or cash rebate of 60 percent of the property taxes paid which exceeds 3.5 percent of the household income. The maximum amount which a household can receive in any one year in the form of tax credit or cash refund is $500.

New Mexico revised its "circuit-breaker" law in 1973. The revised law gives each property-tax payer a credit of up to $133 per household. The amount of the tax credit depends upon the household income and the number of personal exemptions filed by the head of the household on his or her federal income tax form. Families who rent housing in New Mexico do not benefit under this revised law.

Vermont revised its pioneering legislation in 1973. The revised legislation was designed to give property tax relief to all Vermonters, but the practical benefits will be proportionately greater for low-income households.

One of the unique features of the Vermont plan is the method used to determine the amount of property tax relief that a household will receive. The Vermont "circuit-breaker" law uses a sliding-scale formula to determine the amount of relief. For those households which have an income of $3,999 or less, the "circuit-breaker" cuts in at the 4 percent level. This means that a household that reports income below $4,000 will receive a tax credit or cash refund for all property tax that has been paid in any one year which exceeds an amount equal to 4 percent of the household income. In households where the income is between $4,000 and $7,999, the tax credit or cash refund is that amount which exceeds 4.5 percent of the household income. In households where the income is between $8,000 and $11,999, the "circuit-breaker" applies to property taxes paid which exceed 5 percent of household income. The rate of 5.5 percent is applied to household incomes between $12,000 and $15,999. Finally, all household incomes above $16,000 receive a property tax credit for all property taxes paid in excess of 6 percent of the household income.

Oregon legislation, instituted in 1972, aids all homeowners. Although the law was designed to aid all homeowners, the tax relief formula used by the Oregon legislature is of more benefit to homeowners of low incomes. Tenants in Oregon, like people who rent their homes in New Mexico, receive no direct assistance under this legislation. The Oregon law, in many ways like that of the State of Vermont, uses a percentage formula to determine the benefits which are to be received. A householder with a household income of less than $1,500 may apply for a tax credit, up to a maximum of $400, for that amount of property tax paid which exceeds 3 percent of his or her household income. A household with over $8,000 in income can receive a property tax credit, up to a maximum of $400, for that amount paid to the local government that exceeds 7 percent of household income. It is important to note that the sliding scale, coupled with the

$400 maximum tax credit or cash rebate, makes this bill more beneficial to the low-income people in Oregon.

Wisconsin has recently liberalized its "circuit-breaker" legislation to benefit nearly all residents with less than $5,000 in household income. The new legislation, enacted in August 1973, eliminated the previous requirement that a claimant be 62 years of age or older. The only important requirements, save those of household income, were as follows:

1. The claimant must be the head of a household aged 18 or older before the end of the year for which the claim was made.
2. The claimant, if younger than 62, must not have been claimed by another person as a dependent for income tax purposes during the year of the claim or any of the two previous years.
3. The claimant must not already have become the recipient of general relief from the State or a subdivision thereof.

The 1973 Wisconsin law also increased the amount of tax credit or cash refund that a low-income household might receive. If the household income was $3,500 or less during the year for which the claim was made, the refund or tax credit would amount to 80 percent of the property tax or rental equivalent paid, up to a ceiling of $500. If the claimant's household income was more than $3,500 but not more than $5,000, the claim would be limited to 80 percent of the amount by which the property taxes or rent equivalent would exceed 14.3 percent of household income in excess of $3,500. The maximum amount of tax credit or refund, however, would be limited to $500.

Prior to the enactment of the 1973 Wisconsin legislation, the University of Wisconsin's Institute for Research on Poverty had published a study which demonstrated the need of broadening legislation for property tax relief to cover not only the elderly but low-income households of all ages. Although some of the recommendations of the Wisconsin research team were incorporated in the legislation that was enacted, three important recommendations failed to meet legislative approval during the 1973 session. The three recommendations had to do with the following modifications of policy:[3]

1. Adjusting the measurement of household income to take account of family size. (Since it costs considerably more to raise a large family, the gross household income is of little value in making a determination of household well-being. A welfare ratio, computed by dividing the family income by the poverty threshold income for a family of the size in question, would provide a more accurate determination of need.)

2. Including intrafamily transfers as part of household income for family members not sharing a homestead. This would also include the extension of eligibility to persons who, according to the 1973 law, would be excluded because they had been claimed as income tax dependents during any of the two previous years.

3. Pooling incomes of all related individuals in a homestead as household income, rather than counting just the income of husbands and wives. This would also include adding imputed rent for non-family members sharing a household.

The adoption of recommendations like these would do much to remove certain practical inequities, but it might be difficult to frame the necessary legal wording to insure that the spirit of the recommendations would be carried out without too many technical difficulties. The legislation which was actually

3. Marc Bendick, Jr., "Institute for Research on Poverty Discussion Papers," Madison, University of Wisconsin, July 1973, p.16

enacted did not take care of some of these practical inequities, but it did have the advantage of simplicity and clarity, requiring no complicated arithmetic on the part of claimants, and making possible a relatively simple tabular listing of refunds or tax credits to meet all practical needs.

Property Tax Relief for All Low-Income Tenants Should Be a Part of the Expanded Maine "Circuit-Breaker" Legislation

Since so many low-income residents of Maine are unable to afford their own homes but have to live in rented quarters, a rebate should be made for that portion of their rent which is attributable to property taxation. In general, the recommendations for modifications in the 1973 law providing rent refunds for elderly householders should be applied to all low-income residents, as follows:

A. When the tenement does not include utilities or furnishings, the tenant should be allowed 25 percent as the share of rent to be applied to property tax.

B. When winter heating and/or other major utilities are included, the tenant should be allowed 20 percent as the share of rent to be applied to property tax.

C. When utilities and furnishings are both included, as in the case of a furnished, heated apartment, then the tenant should be allowed 15 percent as the share of rent to be applied to property taxes.

PART V

Evaluating Homestead Tax Relief Proposals as Compared to the Recommended "Circuit-Breaker" Legislation

Current Homestead Tax Laws in Several States

Several southern States, specifically Oklahoma, Louisiana, Florida, and Mississippi, offer homestead exemptions which provide that the first $1,000 or more of the assessed value of a homestead be exempted from property taxation. A durable by-product of the 1930 depression years, such homestead exemption offers precisely the same amount of property tax relief, whether the owner is a millionaire or a person of extremely low income, provided, of course, that the assessment valuation is equitably administered at the same rate of market valuation in every municipality throughout the State.

From a practical point of view, homestead exemptions raise general property tax rates, because it is difficult for most States which offer such exemptions to make an adequate provision to reimburse local municipalities for their loss in property tax revenues, and the constantly increasing costs of municipal services consequently have to be met through increases in the rates on the portion of the property which is subject to tax.

Homestead exemptions, as enacted by these southern States, offer no relief to the low-income householders who must rent their homes.

For these reasons, the trend of recent years has been "circuit-breaker" legislation of the type which has been described in the preceding section of this report.

Although general homestead relief is not recommended, the salient points of the homestead relief laws of the southern States which have been mentioned above are described briefly in the following paragraphs.

The Oklahoma law most closely resembles the early homestead acts. In Oklahoma the first $1,000 of assessed homestead property value is exempted from property taxation. No provision has been made to reimburse the local municipalities for their loss in property tax revenues.

Louisiana and Florida have similar legislation. The States of Louisiana and Florida have passed similar legislation to that of Oklahoma. The major difference in these three state laws is the assessed value upon which taxes are exempted. In Louisiana the first $2,000 of property evaluation is exempted from property taxes and in Florida the first $5,000 of evaluation on each homestead is exempt from property taxes. As is the case in Oklahoma, no provision is made by either Louisiana or Florida to reimburse the local municipality for lost property tax revenue.

Mississippi legislation includes partial compensation to municipalities for their revenues lost by the exemptions. The Homestead Relief Act in Mississippi provides that each homestead shall be exempted from property taxes on the first $5,000 of property valuation. Each municipality then receives a relatively small amount from the State for each homestead unit that is exempted by that municipality. At the time the law was enacted, the State refund was probably adequate, but no provision has been made in the law to compensate for the rising costs of local government or the greater municipal costs of cities which have to provide broader and more expensive services than those normally provided by communities of small population.

Some Alternative Homestead Tax Relief Proposals for Maine

Representative McTeague's proposal for homestead tax relief. State Representative Patrice N. McTeague, D-Brunswick, proposed LD 1894, a bill to provide homestead tax relief, on April 30, 1973. His legislative document was designed to exempt every homeowner in Maine of property taxes on the first $5,000 of assessed value on their home, and if the homestead was a house trailer the excise tax would also be refunded. The estimated annual cost to the State, if the McTeague bill became law, was $23 million.

The purpose of the bill described in LD 1894 was to: 1. Relieve and reduce the heavy and inequitable burden of the real estate tax on homeowners; 2. Encourage home ownership; 3. Equalize the burden of real estate taxation between residents of different municipalities; and 4. Improve the equity of assessing practices.

Under the McTeague proposal the State would repay each municipality any revenues lost by them through the homestead exemption program.

Senator Brennan's $2,000 homestead exemption proposal. State Senator Joseph E. Brennan, D-Portland, has proposed a $2,000 homestead tax exemption program to aid all Maine homeowners.

The proposal advanced by Senator Brennan has been estimated to cost the State approximately $12 million per year.

In the fall of 1973 Senator Brennan expressed his feelings about the need for property tax relief for Maine residents when he said, "Maine people who live in their homes year round need much more tax relief than they are now receiving . . . . By giving an abatement for resident homeowners we can make a start towards progressive property taxation."

Recommendation 7: General Homestead Relief Is Not Recommended for Maine Residents.

TThe disadvantages of general homestead exemption laws, as compared to modern "circuit-breaker" legislation, indicate that any bill providing general homestead relief would be a step backward. Many elderly couples of low income live in old farmhouses that they inherited from their parents, places that were worth less than $3,500 during the depression but that currently have a fair market value in excess of $35,000 at today's inflated prices. Such families need homestead tax relief far more than executives earning substantial salaries and living in homes of similar market value. A homestead exemption law provides just as many dollars of tax relief for the rich as for the poor homeowner in any given town.

Homestead relief bills also have difficulty in excluding persons who may live during working days in Massachusetts or some other nearby state, but who maintain a home in Maine not only for summer vacations but also for weekend living during the fall and winter months. Although such bills may stipulate at least six months of residence during the year, it is almost certain that many out-of-state families will find ways to claim that they are primarily residents of Maine and entitled to homestead relief. The four southern states which provide homestead relief accordingly exempt all owner-occupied homes, including seasonal dwellings.

Varying assessment practices in Maine municipalities would also make such a law highly inequitable. In some municipalities in Maine, a $20,000 house is valued at less than $4,000 for property tax purposes, while some other municipalities set assessment valuations at approximately fair market value. Until uniform State assessment by trained assessors can be established, this situation will continue to exist.

"Circuit-breaker" legislation, which is explained in the opening section of the body of this report, provides a modern and equitable way to reduce the excessive burden of property taxes on those of low income. Under today's conditions, as income mounts, residents tend to pay and smaller and smaller proportions of their expendable income on property taxes. Few wealthy persons today care to live in huge houses which require the employment of several servants. They tend to spend their wealth on travel and to invest as much of their surplus income as possible in municipal bonds or similar securities whose proceeds escape taxation under federal income tax regulations.

It is far better, then, to extend "circuit-breaker" legislation to cover a broader range of citizens, first by providing benefits for all householders of low income, and then raising the income ceiling to provide some benefits for those of moderate income, if sufficient alternative sources of State funds can be provided to pay for such benefits.

Rent Subsidies for Tenants Are Difficult to Provide under Any General Homestead Relief Legislation

Since so many low-income residents of Maine are unable to own homes but have to rent their living quarters, some form of rent subsidy, such as that described in the previous section of this report, should have priority over the provision of homestead tax relief for the affluent. "Circuit-breaker" legislation, like that already enacted for elderly persons of low income, provides an equitable solution for this problem, but no State that has enacted general homestead relief legislation has been able to incorporate relief for tenants in its general homestead relief law. It is, of course, possible that some formula might be devised, but the expansion of "circuit-breaker" legislation to benefit all low-income residents appears to be far preferable as an alternative.

If the Legislature of the State of Maine should decide to enact a general homestead exemption bill, rather than enacting broadened "circuit-breaker" legislation similar to that now in effect in Wisconsin, it is suggested that another bill should be enacted to provide a measure of assistance to Maine residents who live in rented quarters. Renters of more than 90,000 housing units would benefit, as Table V indicates. It has been 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 106th Legislature.

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 current biennium, after which the annual amount required would decrease each year until the program ended on June 30, 1979.

Expanding Maine's "Circuit-Breaker" Legislation Appears to Be the Preferable Alternative to Any Other Form of Homestead Tax Relief.

The pattern for such expansion has been exemplified by the 1973 legislation of the State of Wisconsin, which broadened the scope of previous legislation quite similar to Maine's current "Elderly Householders Tax and Rent Relief Act." The Wisconsin example, explained in some detail in Part IV of this report, appears to provide an excellent model which could be adapted by the Legislature of Maine to meet the needs which have been discussed in this report.

PART VI

General Administrative Recommendation

Recommendation 8: Administer the "Elderly Householders Tax and Rent Refund Act" within the Bureau of Elderly Services. (Annual Cost: $60,000)

Since the 106th Legislature has established the Bureau of Elderly Services to coordinate the many services available to the elderly in Maine, ESCO recommends that the administration of the "Elderly Householders Tax and Rent Refund Act" be transferred from the Bureau of Taxation to the Bureau of Elderly Services.

It has been estimated by the Bureau of Taxation that the Administrative costs of this program for fiscal 1973-74 will approximate $44,000, not including the cost of the supervision. It is therefore recommended that an appropriation of $60,000 be made to the Bureau of Elderly Services to enable this office to administer this successful program in fiscal 1974-75.

One of the major reasons for the ESCO recommendation revolves around the inability of the Bureau of Taxation to reach the senior citizens in all parts of the State from a central office in Augusta. Currently the Bureau of Taxation does not maintain field offices throughout the State of Maine, and this lack of local assistance makes it difficult for the elderly to receive personal local services.

On the other hand the new Bureau of Elderly Services is directly associated with senior citizen organizations in all areas of the State. Since these organizations are normally staffed and supported by senior citizens themselves, they are proving to be very effective in their outreach to their peers. The Bureau of Taxation has recognized this fact and has found their cooperation to be very helpful, but it would appear that they could be of even more effective service if the actual administration of the "Elderly Householders Tax and Refund Act" could be handled by the Bureau of Elderly Services.

The following summary of the Elderly Householders Tax and Rent Refund program has been prepared by the Bureau of Taxation. This summary explains the type of activities and staff needed to administer this important program.

Summary of Elderly Householders
Tax and Rent Refund Program
by the Bureau of Taxation
October 24, 1973

1. Annual Time Span of Program. The filing period for the program is August 1 through October 15, annually. Routine preparatory work involves procurement and distribution of application forms and related information (see paragraph 2, below) and brief training sessions with representatives of referral agencies (see paragraph 3, below). These activities are carried out in the period from June 1 through August 1, and are part-time only.

During the filing period terminating on October 15, from 17,000 to 21,000 applications will be received. The processing of these applications (see paragraph 4, below) involves desk review to check completeness and accuracy; follow-up by means of form letters, or referral to an outside agency, when necessary;

and entry of the applications as corrected and verified into the computer. The time span for this activity is August 1 through November 15. During this period full-time attention by a supervisor and 3 clerks is necessary, together with a moderate amount of time involved in computer entry.

Little activity exists in the period November 15 through June 1,

2. Procurement and Distribution of Forms and Related Information. Copy for the application form, incorporating any statutory changes, should be in the hands of the printer by July 1. A revised general information bulletin should also be prepared by that date. In order to provide adequate distribution, approximately 50,000 application forms should be obtained; with several thousand general information bulletins or sheets. Finally, copies of the law itself are useful to a limited degree, although not essential.

A copy of the application form is mailed, through use of computer printed labels, to all applicants of the previous year. In addition, supplies of the application form are furnished to all municipal offices, and to cooperating referral agencies. Mailing lists for this purpose are available.

3. Referral Agencies. Because of the lack of field offices and the impracticability of attempting to reach individuals in all parts of the State from a central office in Augusta, assistance on a cooperative basis has been provided by the State agency concerned with the elderly, and by senior citizen organizations throughout the State.

The latter provide local assistance to applicants in completing application forms; and also provide direct contact with applicants in clearing up questions as to defective applications. In order to insure that representatives of these agencies are properly informed, brief training sessions are arranged prior to the filing period, at which the supervisor of the program instructs local agency representatives in the basic requirements of the law.

4. Processing of Applications. On receipt, applications undergo a desk review for mathematical accuracy and completeness. Mathematical errors which can be corrected without further inquiry are made, and the corrected returns (together with those requiring no correction) are then entered into the computer. Generation and mailing of checks is automatic.

When applications indicate on their face that no payment is in order, the applicant is so informed by letter.

When applications are so faulty that further inquiry is necessary, the problem may be cleared up by a telephone call. If not, the application is forwarded to the nearest referral agency, which then gets in touch with the applicant to clear up the problem.

5. Reaching Eligibles. One of the problems with the program has been reaching those who may be eligible for grants. Once an applicant files, he will receive an application form the following year. In addition, newspaper advertising has been utilized prior to the start, and prior to the close, of the filing period. Municipal officials and welfare officials

are generally aware of the program. Considerable local publicity is also generated by the agencies concerned with the problems of the elderly.

6. Summary. In brief, the administration of the program involves a supervisor and 3 clerks for portions of the year, computer in-put operators for a short period, and computer time.

The program involves part time activity from approximately June 1 to August 1, and full time activity from August 1 to November 15, annually.

Administrative costs of the program for 1973-74 are expected to approximate $44,000, not including the cost of the supervisor.

PART VII

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