Below you will find an overview of the Governor's proposed budget as presented by our MMA staff. I provide this information so you as a voter can make any comments and concerns to your representatives. Any comments I have are in bold and italicized.

Governor LePage's proposed state budget for the FY 2016-2017 biennium was released on Friday. A description follows of its major elements that, if enacted as proposed, would impact Maine's towns and cities and the property taxpayers that support local government. We hope that municipal officials will review this summary, review the proposed budget directly, and then start a conversation with their colleagues and state legislators to begin shaping the municipal response.

Overview. There is a lot in this budget proposal. Of central concern to local government, the Governor is proposing to eliminate the municipal revenue sharing program and eliminate the homestead property exemption for homeowners under the age of 65, while doubling the homestead exemption for homeowners 65 or older. To partially compensate for those significant cuts and shifts in property tax relief, the proposals would expand the municipal tax base in two ways. Interactive telecommunications personal property (telephone, Internet, etc.) would become subject to municipal rather than state taxation. Also made subject to municipal taxation would be 50% of the value of tax exempt institutions exceeding $500,000 in value, excluding governmental property and churches.

The breadth and quality of the tax base is very important to municipal governments. As welcome as the Governor's tax-base proposals may be, however, the take-and-give in the proposed budget is a lopsided swap.

It is important to evaluate all elements of the proposal in the same currency. The revenue sharing program in its currently decimated state distributes $60 million to the towns and cities for the purpose of reducing their respective property tax rates. To generate $60 million in revenue by applying the statewide average property tax rate would require a tax base of over $4 billion in taxable value. In comparison, the telecommunications tax base is in the range of $600 million. A preliminary review suggests the exempt property tax base being offered is in the $1.5 billion range after setting aside all exempt institutions under $500,000 in value, further subtracting the first $500,000 in value from the remaining institutions, and then cutting what value remains in half.

In other words, if the decimated revenue sharing program is worth a dollar, the Governor is proposing to take that dollar away from municipal government and give something like 50 cents back.

Here are the full details of the Governor's proposed budget, identified by the lettered section of the budget document where they are found:

Part L. Elimination of Municipal Revenue Sharing. If revenue sharing was allowed to operate as designed in law, $158 million would be distributed to the towns and cities during FY 2016 to provide generalized property tax relief. Under the Governor's proposal, for the next fiscal year (July 1, 2015 – June 30, 2016), the revenue sharing distribution would approximate the current year's distribution at

$62.5 million. After the final monthly distribution of that allocation in July 2016, the program would be entirely eliminated. Over the biennium, the phase-out and elimination of municipal revenue sharing will provide the Legislature with $250 million for other state funding priorities. ***The bottom line is that the State will spend another 250 million of your money and you have no say how it is spent like you do with local control.***

Part F. Homestead Exemption Changes. The current homestead property tax exemption is valued at $10,000, with the state reimbursing the municipalities for 50% of the lost tax revenue. Beginning with the upcoming tax year (April 1, 2015), the Governor is proposing to eliminate the exemption for all homesteads owned by persons under the age of 65. The proposal would double the value of the homestead exemption for homesteaders 65 years old or older, to $20,000. The rate of municipal reimbursement for the exemption would remain at the 50% level. Somewhere around 175,000 to 200,000 Maine households with owners under the age of 65 would lose their property tax benefit under this proposal.

Part E. Taxing Tax Exempt Property. This change to tax law would take effect on April 1, 2016 and would not apply to churches or tax exempt property owned by any government. As proposed, if the aggregate value of tax exempt property under the same ownership within the municipality exceeds $500,000, the property would be entitled to a 50% exemption (rather than 100%) with respect to the aggregate value exceeding $500,000. Although there are several categories of exempt property potentially affected, the proposal would primarily impact just the larger "charitable" corporations and the "literary and scientific" institutions. According to a preliminary review of the Municipal Valuation Return Statistical Summary as published by Maine Revenue Services, this expanded tax base will potentially be available to about one-third of the municipalities in Maine. For some of those 150 (approximate) towns and cities, the expanded tax base would be significant; for others, not so much. Approximately 350 towns are not hosting large enough exempt institutions for this proposal to expand their tax base, especially throughout the umbrella of Maine, including Aroostook, Franklin, Oxford, Penobscot, Piscataquis, Somerset, Washington and Waldo counties. ***In simple terms it means about $160.00 tax increase at the present mill rate. Millions across the State to have Augusta spend it as they see fit, thus increasing your property taxes.***

Part D. Transfer of Tax Jurisdiction for Telecommunications Property. Also taking effect for municipal purposes in the tax year beginning April 1, 2016, this proposal repeals the state's excise tax on two-way or interactive telecommunications personal property. Much of this type of property is bolted onto the cell towers located along the major highways and throughout the state. (The municipalities have always had tax jurisdiction over one-way telecommunications property, which was first generation cable t.v. infrastructure.)

Repealing the state's jurisdiction opens up this type of property to municipal taxation. The budget bill's fiscal note suggests the state will lose $8.25 million each year of the biennium under this proposal. Under current law, the state's excise tax rate that is applied to the value of this property is the applicable property tax rate for the municipality where the property is located. Accordingly, there is apparently $600 million (approximately) worth of this type of property in various municipalities across the state, all of which are apparently known to Maine Revenue Services as the state agency that "discovers" the property and applies the appropriate municipal mill rate. Under the Governor's proposal, when this property is discovered by the municipal assessors, it will yield a little over $8 million in tax revenue each year to that group of municipalities in the aggregate. ***It will take some major work to figure this out for Union but being a small town I would expect the tax to be minimal.***

Part G. BETR to BETE Conversion. As he did two years ago, the Governor is proposing to convert all the property currently enrolled in the Business Equipment Tax Rebate program (BETR), which is fully liable to taxation, into the Business Equipment Tax Exemption program (BETE), thus making it exempt. There are a few changes from the original 2013 proposal:

- Since 2008, the only type of property that can be enrolled in BETR is retail personal property. This proposal would close off new enrollment of any property whatsoever in BETR. Since retail property is not eligible for the BETE program, this proposal represents a policy shift away from providing property tax benefits to retailers.

- The conversion of BETR property to exempt status would be accomplished over a 4 year period.

  - On April 1, 2016, 25% of the value of BETR-enrolled property would become exempt from taxation.

  - On April 1, 2017, 50% of that value would become tax exempt.

  - On April 1, 2018, 75% of that value would become tax exempt.

  - On April 1, 2019, 100% of all BETR property would be exempt from taxation.

- The retail personal property currently enrolled in the BETR program that would be converted to exempt status during this 4-year period would lose its tax exempt status on and after April 1, 2025.

The impacts of this proposal are complicated. Generally speaking, it results in municipalities losing 50% of the tax revenue associated with BETR-enrolled property when it is converted to exempt status. Because this type of property is often part of tax increment financing agreements at the local level (TIFs), the financial impacts can be especially negative for municipalities with "municipally-supported" TIFs and similarly negative for the owners of the property in the circumstances of "credit enhancement" TIFs. ***In four years the Town will lose 50% of the existing revenue, may be good for business.***

Parts ZZ, DDD and KKK. General Assistance Changes. Discussed in greater detail below, there are many other significant tax policy changes in the Governor's budget proposal. There are also many components of the proposed budget that convey impacts to local government even though they are unrelated to tax policy.

In Part ZZ of the proposed budget, laws would be repealed that allow people with non-citizen or alien status to be eligible for SNAP (formerly "food stamps") benefits, Supplemental Security Income and Temporary Assistance for Needy Families (TANF) benefits. Following up on that change, Part DDD creates a categorical General Assistance ineligibility for a class of aliens. The proposal includes three exceptions to the general rule of ineligibility for aliens, apparently to comport with federal law.

In Part KKK, the General Assistance reimbursement formula is substantially redesigned. First, there would be a cap on reimbursement. A determination would be made of each municipality's average distribution of General Assistance benefits over the last six years. Under this proposal, the state would be obliged to reimburse no more than 50% of that amount. The reimbursement would be issued for 90% of all municipal claims up to 40% of the six-year average. At that point, the reimbursement rate would drop to just 10% of claims until the state's 50% obligation was met, at which point reimbursement would stop. ***This is a penalty to Towns like Union who have been very frugal with GA, the Towns that have not will be eligible for more reimbursement and simply have to be frugal like we already are. They will probably not see any impact while we may have to pay a larger share. The idea to curtail welfare is good, I think there is some room to reward those of us who are already doing so.***

Parts U and QQ. Efficiency Incentives. Part U of the proposed budget appropriates $5 million for each year of the biennium to operate the Fund for the Efficient Delivery of Local and Regional Services, which is presumably a reprise of the Fund of the same name that was created when the voters adopted the "55%" citizen initiative (Question 1-A) in 2004. That Fund was heavily abused by the Legislature during its short four years of life, before the system to capitalize the Fund was repealed in 2009. Part QQ appropriates $5 million annually for the parallel Fund for the Efficient Delivery of Educational Services. That Fund was also created when the voters adopted Question 1-A in 2004, but almost immediately repealed by the Legislature. ***It looks like this idea will help us, if ,and I say if again, it passes with other reforms. We are already collaborate with other towns on many services.***

Part C. Funding for K-12 Education. Continuing with education policy, Part C of the proposed budget appropriates $964 million as the state share of the total amount the Essential Programs and Services school funding model (EPS) calculates as necessary for FY 2016. That appropriation represents a 2% increase over the current year's contribution of $944 million. The total amount of money – both state and local – the EPS model identifies as necessary is $2.085 billion, which puts the proposed state share at 46.25%, down from the current year's share of 46.8%. In short, the proposed appropriation moves away from, rather than toward, the 55% standard adopted by the Legislature 30 years ago and the voters 10 years ago. As a result, the required local share for FY 2016 is set higher than the current required local share, at 53.75%. To meet the local share burden, the mill rate expectation is set at 8.44 mills, up from the current 8.10 mills. The recent history of the required "mill rate expectation" is provided in this table.

Fiscal Year	Mill Rate Expectation
2007	7.6
2008	7.44
2009	6.79

2010	6.69
2011	6.96
2012	7.5
2013	7.8
2014	7.86
2015	8.10
2016 (proposed)	8.44

55% for education has never been met but if they work up to that and the schools do not increase spending by the same amount we should see some reduction as the local level.

Parts H, I, J and K. Comprehensive Tax Reform. The H – K Parts of the Governor's proposed budget accomplish a comprehensive tax reform that borrows from the comprehensive reform efforts attempted, respectively, in 2007, 2009 and 2014. The budget documents indicate that in round numbers the sales tax changes would generate an additional $620 million over the biennium and the income tax changes would result in a drop in state revenue from those lines in the $750 million range, with the reduction in income tax revenue expanding in subsequent biennia. As noted above, the elimination of the municipal revenue sharing program would "save" the state budget $250 million over the 2016-2017 biennium and over $300 million in subsequent biennia.

The difference between the previous reform efforts and the Governor's is that the Governor's focuses primarily on balancing the different burdens between the sales tax and income tax in the current code, without any robust effort to balance the state's overreliance on the property tax. An expansion of the relatively new "property tax fairness credit" within the income tax code is included, but when the elimination of the revenue sharing program is taken into account, along with the elimination of the homestead property tax exemption for 175,000 to 200,000 Maine households, the bottom line impact will be negative for the broad majority of property taxpayers.

Sales. Parts H and I include a comprehensive expansion of the sales tax base as well as adjustments to the sales tax rates.

With respect to the base, at least 6 major new categories would be added to the list of taxable services, including recreation and amusement services, installation, repair and maintenance services, personal services, domestic and household services, personal property services and professional services. Certain exemptions for business-to-business transactions are included with the broad expansion to the sales tax base. In addition, a collection allowance would remit to retailers 0.5% of the sales taxes collected to cover their administrative costs, up to a maximum $1,000.

The various sales tax rates would be modified as follows:

Retail Category	Formerly	Currently	Proposed for 1/1/2016
General sales	5%	5.5%	6.5%
Meals	7%	8%	6.5%
On premise liquor	7%	8%	6.5%
Lodging	7%	8%	8%
Sht. Term auto rental	10%	10%	8%
Service providers	5%	5%	6%

The devil will be in the details of the final product.

Estate. Part J in the tax reform package eliminates the estate tax in two steps. Under current law, the first $2 million in any estate is exempt from the application of the estate tax. For the 2016 income tax year, the exemption threshold would be increased to $5.5 million, and for the 2017 tax year, the estates would be entirely exempt.

Income. Part K winds down the state's income tax rates and increases certain pension deductions and "fairness credits". This summary will not attempt to capture all the details Here are the highlights:

- The highest marginal individual income tax rate is currently 7.95 %. It would be reduced to 5.75 % over a 4 year period.

- The highest marginal corporate income tax rate is 8.93%. It would be reduced to 6.75% over a 4 year period.

- The pension deduction for non-military pensions would be increased from $10,000 to $35,000 over a 5 year period. Military retirement plan benefits would be made 100% exempt beginning in 2016.

- As part of the broad expansion of the sales tax base, Maine residents would be given a refundable "sales tax fairness credit" within the income tax code. The credit would be valued at either $250 or $500 depending on the number of exemptions claimed on the return, and the credit would be phased out for single-filers exceeding $15,000 in income and $30,000 for taxpayers filing married joint returns.

- The existing property tax fairness credit would be increased by lifting the cap on the amount of property taxes that can be claimed for the credit, up to $5,000 for taxpayers filing married joint returns. The credit would also be increased by covering 100% of the property taxes exceeding 6% of the household income rather than just 50% as is the case under current law. Finally, the maximum benefit would be increased from $600 to $1000 for individuals under 65 and from $900 to $1,500 for individuals 65 years old or older. ***When I heard this first I thought all income tax would be eliminated but it does not look like that is the case just another reduction.***

Parts M, Z and BB. Three Incidental Policy Changes.

• Part M of the proposed budget would change the way the “LD 1” property tax levy limit growth factor would be calculated. Under current law, the growth factor is a combination of the “10-year average real growth in total personal income” plus the actual growth in new property value in each municipality, measured as a percent. Under this proposal, the unique growth percentage of each municipality would no longer be a factor in the calculation. The growth factor would be the same for every town and city, calculated as the 10-year average nominal (rather than real) growth in total personal income. “Nominal” growth is not adjusted for inflation as is “real” growth. For example, the most recently calculated average real growth in total personal income was calculated as .86%. If calculated as nominal growth, it would have been 3.25%

• Every municipality is mandated to appoint a municipal fire warden. Part Z simply increases the state subsidy for municipal fire wardens from $100 per year to $400 per year.

• Part BB implements several changes to the law governing the forest management plans that landowners with property enrolled in the Tree Growth tax program are required to procure and update every 10 years in order to remain in the special and favorable Tree Growth tax category. Specifically, Part BB would:

o Require the plan to specifically identify the type, nature and timing of the forest management activities recommended by the forester,

o Require Tree Growth landowners to have a copy of the plan in their possession for auditing purposes,

o Allow Maine Forest Services to continue its auditing program of randomly selected parcels, which was initiated as a pilot program in 2012,

o Create municipal penalties in the form of reduced Tree Growth reimbursement if the municipality fails to provide timely reports to Maine Forest Services or fails to act in response to Maine Forest Services’ recommendations to withdraw noncompliant parcels, and

o Establishes a landowner penalty to cover the circumstance of parcels being withdrawn from the program by Maine Forest Services’ post-audit recommendations, which would be a 10-year “back taxes” penalty; that is, the difference between what the landowner would have paid in taxes over the last 10 years if the property had not been enrolled and the amount of Tree Growth taxes actually paid.

As these bills become written and more details are available I will attempt to pass it along to all of you on the list serve.