Executive Summary of the Commission to Study the Growth of Tax-Exempt Property in Maine's Towns, Cities, Counties and Regions

The Commission to Study the Growth of Tax-exempt Property in Maine's Towns, Cities, Counties and Regions was established in the first regular session of the 117th Legislature (1995 Resolves 47) The Commission was charged with studying the following:

- The rate of growth in tax-exempt property as a percentage of all taxable property in a town, city, county or regions;
- The use of service charges and payments in lieu of taxes and their impact on nonprofit entities;
- The history and rationale for each property tax exemption and whether that rationale continues to be valid; and
- Any other issues that are related to tax-exempt property in Maine's communities that the commission determines appropriate.

The Commission to Study the Growth of Tax Exempt Property in Maine's Towns, Cities, Counties and Regions was hampered by both the severe time constraints and the absence of adequate data. Since neither of these factors seemed remediable, the body decided at its initial meeting to avoid abstract and more philosophical discussions about tax exemption and to concentrate on the development of a short manageable piece of legislation that would provide municipalities in Maine with the option of recovering some of the lost revenues that have resulted from the exemption of property taxes. The proposed legislation builds upon the current law in 36 MRSA §652, sub-§1, ¶L by broadening the current provision in statute in which municipalities are given the option of assessing service fees on a very limited classification of tax exempt property. The legislation as proposed substantially broadens that provision, giving municipalities the option of assessing a direct benefit service charge on a larger number of tax exempt entities

Not all members agreed with this approach, but most, with differing degrees of reservation, did participate in the development of the legislation offered in this report--legislation that would allow municipalities to impose a limited system of fees on tax exempt properties for direct benefit services provided by the municipality to the tax exempt entity. **(Please see the minority reports, <u>appendices A and B</u>, for the dissenting views on this matter.)** The legislation proposed in this report is by no means a complete answer to the problems which tax exemption creates; all members of the Commission are in agreement on this point. It is, however, a useful step in the direction of tax fairness and equity between tax exempt and non-exempt tax payers in a municipality.

At the last meeting of the Commission, a number of more general points were raised, and discussed briefly. Though not the main focus of Commission activity over the last two months, there was remarkable consensus with respect to these points. A number of these points raised goals or objectives that seem capable of being achieved by modest legislative changes. Other of the points raised will require further study by another Commission, the Legislature's Joint Standing Committee on Taxation, or Bureau of Taxation. The Commission urges that some official body by appointed to study these issues and report back to the full legislature its findings and recommendations. Building upon the work of the present Commission seems not only useful but it is the only way to fully and comprehensively address the range of problems that tax exemption creates. The general points raised, which were almost unanimously agreed to, are as follows:

- The Legislature should require that local assessors revalue all tax exempt property no less frequently than at five year intervals.

- In Maine, the property tax accounts for 48% of total state and local tax revenues, this compares with a national average closer to 30%. A level of reliance on the property tax approaching the national average should be a goal over the next several years. Items to be considered should include:

    - State reimbursement of 100% of local property tax revenues lost due to Tree Growth exemptions;

    - Restoration of municipal revenue sharing to 1991 levels;

    - Increased state funding of local education costs;

    - Local option taxes to fund municipal services, including local option sales, income, excise, and meals and lodging taxes.

- There are clear indications that the impacts are not shared and fall particularly hardest on certain municipalities. Much of this results from State policy on where to locate state facilities and services, while a related cause is that non-profits tend to locate in municipalities acting as regional service centers. The Commission discussed the need to further examine what the State can and should do to address tax burden inequities created by the present random clustering of non-profit and tax exempt properties across the State. Suggestions offered by individual commission members include the following:

- ◊ The imposition of percentage or dollar caps on the exemption for certain classes of tax-exempt properties;
- ◊ Reimbursement by the State of municipal property tax revenues lost due to new construction or conversion of tax-exempt properties;
- ◊ The imposition of a fractional mil rate on State-owned improved properties;
- ◊ An adjustment of State funding formulas; and
- ◊ The Establishment of a mechanism of relief for property tax payers whose level of property tax exemption exceeds 20% of all property.

The Commission made no effort to choose among these options; they reserved this judgment for the Legislature. The Commission does recommend, however, that the Legislature begin immediately, to correct the fiscal consequences of the unequal distribution of tax exempt properties. The State level of government must begin to share in a meaningful way the high, and increasing, fiscal burdens of property tax exemption.