Piecing Together the Budget Impacts

Updates & New Data

The process of analyzing the impacts of the Governor’s proposed FY 2016–FY 2017 biennial General Fund budget on Maine’s 492 municipalities is similar to working on a challenging jigsaw puzzle. After dumping all the pieces on the table, the sorting, organizing and analysis begins. Soon themes and snapshots of the larger picture emerge, and although the process is occasionally frustrated by an elusive piece, with patience and perseverance the final product is assembled into its whole. Unfortunately, at times the picture is not very pretty.

Although MMA staff has not yet fit enough pieces together to see how this budget will impact municipalities on a community-by-community basis, the borders are securely in place. With the assistance of dozens of municipal officials from across the state and from the preliminary state agency information provided to the Appropriations Committee, progress is being made on the internal sections of the budget puzzle. This week the elements of the budget concerning the reduction and repeal of the revenue sharing program, expansion of municipal taxing authority and the funding for K-12 education became clearer.

Revenue Sharing. As proposed by the Governor, in FY 2016 the amount of revenue sharing to be distributed to communities is $62.5 million, which is 40% of the statutorily required $158 million. The Governor is also proposing that 18 months from now the revenue sharing program will be forever repealed. According to budget documents prepared by Maine Revenue Service, the reduction in these broad-based tax resources long dedicated to local government is $155 million in FY 2017, growing to $161 million in FY 2018 and $167 million in FY 2019. For comparison purposes, that $580 million loss in supportive revenue over the four-year period is comparable to the total annual property tax levy of the 274 communities comprising Aroostook, Franklin, Oxford, Piscataquis, Somerset, Waldo and Washington counties.

To help quantify the impacts on a community-by-community basis, the Appropriations Committee worked with MMA’s 70 member Legislative Policy Committee (LPC) to craft a detailed spreadsheet that included each municipality’s share of the $580 million loss. This process included a high level of engagement with municipal officials from all four corners of the state, who provided invaluable feedback on how the loss in revenue sharing would impact their communities.

In brief summary, this tax restructuring package would:

- Relinquish from state jurisdiction and give over to the municipal tax base the value of telecommunications personal property
- Give to the municipal tax base approximately 50% of the value of relatively large-scale, privately owned tax exempt properties
- Eliminate the homestead property tax exemption for approximately 220,000 of Maine homesteaders that are under the age of 65 while doubling the exemption for homesteaders 65 years of age or older
- And, eliminate the municipal revenue sharing program

Although there are obviously elements of this package of great concern to Maine’s municipal leaders, the opportunity for the Maine Legislature to redesign, modernize, recalibrate and rebalance the state’s tax code is a once-in-a-lifetime opportunity, and the Association’s Legislative Policy Committee recognizes it as such.

With respect to the final outcome, however, the support of the municipal community will be guided by a number of principles rooted in sound tax policy. The municipal effort will be to constructively engage in the legislative process in order to ensure that the final product is sound, fair and equitable for all Mainers.

Governor LePage’s Proposed Comprehensive Tax Reform Package

MMA’s 70 member Legislative Policy Committee (LPC) convened for its first business meeting of 2015 on Thursday this week to review the early-printed bills of this legislative session and stake out MMA’s position on each. The initiative that commanded the LPC’s closest attention was the package of interconnected proposals in Governor LePage’s proposed state budget for the FY 2016-2017 biennium that could fairly be characterized as comprehensive tax reform. The reform package includes Parts D, E, F, H, I, J, K and L of the budget bill.

In brief summary, this tax restructuring package would:

- Significantly expand the sales tax base, restructure and, on balance, generally increase sales tax rates, and provide a “sales tax fairness tax credit” to Maine residents through the income tax code.
- Significantly reduce state income tax rates, expand the income tax brackets and repeal an array of income tax credits.
- Significantly expand the “property tax fairness credit” within the income tax code so that it matches or better-than-matches the former “Circuitbreaker” property tax relief program which the income tax credit replaced two years ago.

(continued on page 2)
municipality-by-municipality basis, MMA has generated and posted on its website a spreadsheet (http://goo.gl/Ea3MDg) that projects the distribution of municipal revenue sharing for FY 2016. Using a methodology that assumes the model used to distribute revenue sharing to municipalities in FY 2015 (July 1, 2014 to June 30, 2015), the data show the revenue sharing distribution to each community at the $62.5 million level, as proposed by the Governor, and at $158 million level, which is the distribution required by current law.

**Taxing Exempt Properties.** One of the elements of the Governor’s budget that has received much media attention is the proposal to limit certain nonprofit organizations’ property tax exemption. As described in the Jan. 16, 2015 edition of the Legislative Bulletin, this proposal would make 50% of the value of property assessed over $500,000 and owned by charitable and benevolent corporations, literary and scientific institutions, and certain other categories of privately owned exempt properties taxable, excluding governmental properties and churches. According to Richard Rosen, Acting Commissioner of the Department of Administration and Finance, municipalities statewide are projected to raise at least $65 million under this proposal, and possibly as much as $95 million in property tax revenue.

We are unable to corroborate the Administration’s projections. According to the information printed in the 2013 Municipal Valuation Return Statistical Summary, statewide charitable-and-benevolent and literary-and-scientific exempt property is valued at $4.5 billion. Even assuming that one-half of the reported exempt value would be taxable (an overly generous assumption) and applying a statewide municipal mill rate of 14.74, at most municipalities would generate $33.6 million in new-source revenue, or just half the amount of the current revenue sharing distribution. Levying the property tax on the entire value of exempt property in these categories, rather than just 50% of that value, would generate more approximately the current revenue sharing distribution of $62 million.

Based on the information provided to MMA by 39 municipal tax assessors, it is likely that the total revenue raised by the expanded authority would fall somewhere in the $40 million range. Furthermore, the expanded tax base would be available to about 20% of Maine’s 492 towns and cities. Eighty percent of the municipalities in the state would gain little or nothing out of this proposal.

As shown in the table on pg. 3, the municipalities that host $2.8 billion worth of privately owned exempt properties — 66% of the statewide total — calculate that the expanded taxing authority would raise $26.0 million in new-source revenue. Using the data collected from these communities to project the statewide impacts, it appears the Governor’s proposal would allow approximately 100 municipalities to generate $40 million annually in new-source revenue statewide. Since many of these uniquely purposed tax exempt corporations would be eligible for special assessing consideration under the “income approach” to value, the $40 million estimate may be overstated.

**Telecommunications property tax base.** Detailed impact data on the Governor’s other municipal tax base expansion proposal, which transfers the two-way telecommunications property tax base to the municipalities, is still unavailable. As of Thursday of this week, Maine Revenue Services had not yet responded to MMA’s request for data. In order to assess the true municipal impacts of this proposal, that information is needed. Staff remains hopeful that the data will be forthcoming.

**BETR to BETE Conversion.** The Governor’s proposed budget seeks to convert the taxable property currently enrolled in the Business Equipment Reimbursement Program (BETR) to tax exempt status by requiring its enrollment into the Business Equipment Tax Exemption Program (BETE) over a four-year period. The financial implications of this conversion are complicated to track, especially when the converted property is also part of a municipal Tax Increment Financing district.

Although it is safe to assume that municipalities (and their property taxpayers) with high concentrations of property enrolled in the BETR program will be bearing the brunt of the conversion proposal, all municipalities will be affected when approximately $3 billion of taxable property becomes exempt and the state valuations of municipalities shift more suddenly than otherwise would be the case. In next week’s edition of the Legislative Bulletin, we hope to have the data necessary to illustrate the impacts by showcasing a couple of communities as representative samples.

**Education Funding Update.** On Wednesday this week, the Commissioner of the Department of Education, Tom Angelides, met with the members of the jointly convened Appropriations Committee and Education and Cultural Affairs Committee to receive a briefing on the education related elements of the Governor’s budget. During that presentation it was revealed that a portion of the state’s $964 million contribution to K-12 education would be used to fund both the state and local share of charter school funding. In addition, Commissioner Angelides provided more detailed information regarding a proposal to capitalize and implement the Efficiency Fund for the Delivery of Educational Services. The appropriation for this program would be $5 million for each year of the biennium. The purpose of the fund is to provide start-up costs to school districts seeking to merge, or to merge “back office” operations, including the office of the superintendent.

In reference to the table on page 3:

Please note that a version of the table produced in last Friday’s Legislative Bulletin has been updated to reflect projected FY 2016 revenue sharing impacts, rather than FY 2015. This table also includes an amended impact analysis provided by the Town of Gorham.
## Impacts of Tax Exempt Taxation Proposal (Expanded Survey Results)

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<tr>
<th>Town</th>
<th>Revenue from Partial Exemption</th>
<th>FY 2016 Rev Share at $62.5 M</th>
<th>FY 2016 Rev Share at $158 M</th>
<th>Partial Exemption vs. $62 M Rev Share</th>
<th>Partial Exemption vs. $65 M Rev Share</th>
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| Total          | $26,257,722                     | $26,198,020                  | $66,320,157                 | $59,702                                | $(40,062,435)                         |
Highway Fund Budget – Initial Snapshot

Along with the proposed General Fund biennial budget, Governor LePage’s FY 2016-17 Highway Fund budget was publicly released on Jan. 9. As proposed, the bill appropriates and allocates $620.6 million in FY 2016 in state, federal and other-source revenues and $680.4 million in FY 2017.

Of particular importance to municipal government is the Highway Fund budget’s allocation to the Local Road Assistance Program (LRAP). For about the last 70 years, approximately 10% of the Department of Transportation’s (DOT) Highway Fund budget for roads and bridges was distributed to municipalities to provide financial support for the maintenance and/or capital construction municipalities provide to the state-local transportation network. During the last legislative session, lawmakers permanently reduced that municipal share of Highway Fund revenues by 10%, beginning in FY 15. Projections at the time were that the revenues annually distributed to municipalities would decrease from $24.1 million to $21.4 million under this cut-back to the towns and cities. According to the current Highway Fund Budget, the actual change was from $23.5 million in FY 2014 to $20.3 million in FY 2015. The allocations are budgeted at $20.2 million for FY 2016 and $21 million in FY 2017. In summary, the Legislature has taken about $3 million per year formerly dedicated to local and state-aid roads and redirected those funds to DOT’s budget.

The $1.3 billion biennial Highway Fund also funds, in part, services provided by the Departments of Administrative and Financial Services, Environmental Protection, Public Safety, and the Secretary of State’s Office. Although Highway Fund revenues account for a portion of the total budget, whether to restrict or expand revenues is up to the Legislature. Finding more sustainable sources of revenue, as well as securing a Highway Fund bond, will be an underlying theme throughout the Committee’s debates on the budget bill. The substance of Highway Fund budgets has a tendency to evolve over time and future editions of the Legislative Bulletin will keep you posted on the latest developments.

LEGISLATIVE HEARINGS

Note: You should check your newspapers for Legal Notices as there may be changes in the hearing schedule. For the Legislative Events Calendar, see the Legislature’s web site at http://www.mainelegislature.org/legis/calendar/. If you wish to look up schedules by Committee, go to http://www.mainelegislature.org/legis/bills/phwkSched.html.

Monday, February 2nd
Taxation
Room 127, State House, 10:00 a.m.
Tel: 287-1552
LD 29 – An Act To Establish a Local Option Real Estate Transfer Tax.
LD 49 – An Act To Exempt from Excise Tax Certain Vehicles Used by Persons with a Disability.

Tuesday, February 3rd
Inland Fisheries & Wildlife
Room 206, Cross State Office Building, 1:00 p.m.
Tel: 287-1338
LD 22 – An Act To Require Removal of Mooring Equipment.

Wednesday, February 4th
Education & Cultural Affairs
Room 202, Cross State Office Building, 1:00 p.m.
Tel: 287-3125
LD 19 – An Act Regarding Special Education for Students Enrolled in a Home Instruction Program.
LD 44 – Resolve, To Direct the Department of Education To Train School Personnel To Implement Dyslexia Awareness and Student Accommodation Policies.

Environment & Natural Resources
Room 216, Cross State Office Building, 1:00 p.m.
Tel: 287-4149
LD 105 – An Act To Enhance the Competitiveness of Maine’s Biomass Facilities by Exempting from Waste Handling Fees Certain Construction and Demolition Debris.

Insurance & Financial Services
Room 220, State House, 1:30 p.m.
Tel: 287-1314
LD 24 – An Act To Create a Public State Bank.
LD 46 – An Act To Allow Municipal Boards of Appeal To Grant Setback Variances for Certain Hardships Caused by Prior Owners of the Property.
IN THE HOPPER

(The bill summaries are written by MMA staff and are not necessarily the bill’s summary statement or an excerpt from that summary statement. During the course of the legislative session, many more bills of municipal interest will be printed than there is space in the Legislative Bulletin to describe. Our attempt is to provide a description of what would appear to be the bills of most significance to local government, but we would advise municipal officials to also review the comprehensive list of LDs of municipal interest that can be found on MMA’s website, www.memun.org.)

Appropriations & Financial Affairs

LD 108 – An Act To Authorize a General Fund Bond Issue for Riverfront Community Development. (Sponsored by Rep. Saucier of Presque Isle; additional cosponsors.)

This bill sends out to the voters a proposed $25 million riverfront community development bond issue to be distributed as grants to municipalities and nonprofit organizations for the purpose of developing or restoring public parks, walkways and other public spaces along river corridors, rehabilitating dilapidated shoreline areas in downtowns, restoring native fisheries and river ecosystems, etc.

Education & Cultural Affairs

LD 128 – An Act To Allow a School Administrative Unit To Implement a Firearm Safety Education Program for Elementary School Students. (Sponsored by Rep. Picchiotti of Fairfield; additional cosponsors.)

This bill directs the Department of Education (DOE) to develop guidelines for a standardized program of firearm safety education for elementary school students and authorizes school boards to adopt and implement a firearm safety education program as part of the school’s curriculum in accordance with the DOE guidelines. If implemented in the school system, the school must ensure that every elementary school student completes the program.

LD 131 – An Act To Amend the Laws Related to Public Funding of Charter Schools. (Emergency) (Sponsored by Rep. Hubbell of Bar Harbor; additional cosponsor.)

This bill establishes in detail how the public charter schools must be funded using the formula in the Essential Programs and Services school funding model to determine the total allocation of funds to be provided through the General Purpose Aid to Local Schools (GPA) distribution rather than as a mixture of GPA funds and locally allocated funds, as is required under current law. The bill also places a one-year moratorium on the authorization of any additional virtual public charter schools and directs the Maine Charter School Commission to review the virtual public charter school models in other states and report back to the Legislature with a recommendation for a model best serving the academic and developmental needs of Maine students.

Environment & Natural Resources

LD 105 – An Act To Enhance the Competitiveness of Maine’s Biomass Facilities by Exempting from Waste Handling Fees Certain Construction and Demolition Debris. (Sponsored by Sen. Libby of Androscoggin Cty; additional cosponsors.)

Current law prohibits the imposition of a solid waste disposal fee on construction and demolition debris (C&DD) or residue from the processing of construction and demolition debris at C&DD landfill sites under 6 acres in size. This bill limits that prohibition so that it would only apply when the debris or residue from the processed C&DD is used for the purpose of supplying required daily cover.

Judiciary

LD 136 – An Act To Clarify That the Medical Records of Applicants for Disability Variances Submitted to Municipal Boards of Appeal Are Not Public Records. (Sponsored by Rep. Monaghan of Cape Elizabeth.)

This bill provides that documents submitted to a municipal board of appeals or a municipal code enforcement officer that describe or verify the disability of a person who is seeking a variance from municipal zoning ordinances in order to accommodate the disability are not public records under the state’s Freedom of Access Act.

Labor, Commerce, Research & Economic Development

LD 117 – An Act To Require the Prevailing Wage To Be Paid on All Public Works Projects for Which State Funding Is Used. (Sponsored by Sen. Patrick of Oxford Cty; additional cosponsors.)

Current law provides that the payment of prevailing wages must be provided for “public works” projects, including public schools and all other types of construction, highway, bridge, sewer, waterworks, etc. “which may be let to contract by the State” when the cost of such a contract exceeds $50,000. This bill removes the exemption for contracts valued at less than $50,000.

State & Local Government

LD 106 – Resolution, Proposing an Amendment to the Constitution of Maine To Increase the Length of Terms of Senators to 4 Years. (Sponsored by Sen. Dutremble of York Cty; additional cosponsors.)

This resolution would send out to the voters a proposed amendment to the state’s Constitution that would extend the term of all State Senators from 2 years to 4 years beginning with senators elected in 2016.

Taxation

LD 116 – An Act To Expand the Use of Tax Increment Financing Revenue. (Sponsored by Sen. Cyrway of Kennebec Cty; additional cosponsors.)

This bill adds to the list of allowable uses of tax revenue generated within Tax Increment Financing districts to include the costs of providing vital public services as long as no more than 50% of the TIF revenue is used to pay those costs and those costs are paid with TIF revenue for no more than 2 years within the duration of the TIF agreement. Vital services are defined as fire and rescue, law enforcement, waste disposal and local road improvements.

LD 118 – An Act To Authorize Municipalities To Refund Amounts Collected in Excess of Tax Liens. (Emergency) (Sponsored by Sen. McCormick of Kennebec Cty.)

This emergency bill authorizes but does not require a municipality to disburse to the former owner (or the former owner’s successors, heirs or assigns) the “excess funds” that may be obtained as a result of the sale of tax acquired property. The “excess funds” are defined as the amount obtained by the sale of the tax acquired property less the value of all tax liens, recording fees, notice fees, court costs, and related property disposal costs.

Veterans & Legal Affairs

LD 104 – An Act To Increase Gaming Opportunities for Charitable Veterans’ Organizations. (Sponsored by Sen. Patrick of Oxford Cty; additional cosponsors.)

This bill allows a veterans’ organization to operate up to 3 slot machines on its premises provided the premises have been: (1) owned, rented or leased by the organization for at least 2 consecutive years, (2) serve as the administrative headquarters of the organization, and (3) are located in a municipality that has, by referendum vote, approved the operation of slot machines within the municipality. 30% of the net slot machine income generated by a qualifying veterans’ organization must be distributed as follows: 10% to the state’s Gambling Control Board, 10% to the host municipality, 8% to the state’s General Fund, and 2% to gambling addiction prevention and treatment programs.

(continued on page 6)
to make sure the final product of the tax reform effort initiated by the Governor delivers the following results:

- Stimulates economic activity and demographic growth.
- A sales tax code that is synchronized with a modern retail economy.
- Increases stability of state revenue.
- Significantly increases balance in burden among the state’s three major taxes (sales, income and property),
- An exportation of the tax burden as may be reasonably achieved.
- No significant reduction in the current level of tax code progressivity.
- A protection of Maine’s property owners from any shifts in burden onto the property tax.
- And, the retention and restoration of the municipal revenue sharing program or the adoption of policy that in an equivalent way provides municipalities access to resources to provide the array of local services mandated by state government.

It is a tall order, perhaps, but the Governor has put the ingredients of comprehensive tax reform on the table for the Legislature’s consideration. Although the municipal community may not agree with all the ingredients in the Governor’s recipe, or in some cases their respective proportions, the very fact that the Legislature has been given this task to undertake is both positive and exciting, and the municipal community wants to engage.

**HOPPER (cont.)**

LD 145–An Act To Amend the Verification and Certification Process for Direct Initiatives and People’s Veto Referenda. (Sponsored by Rep. Russell of Portland; additional cosponsors.)

With respect to the signature gathering process to petition the Legislature for a citizens’ initiative or peoples’ veto, current law requires the collected signatures and petitions to be verified as accurate by the respective municipal election clerks in the municipalities where the people signing the petition reside. This bill gives that duty over to the Secretary of State’s Office, using the central voter registration system. The bill further provides that the Secretary of State must conduct an audit of the verification and certification process by sending a random sampling of 10% of the petitions received to be reviewed for accuracy by the appropriate municipal clerk or registrar.