

Maine's Dubious Odyssey into the Funding of Local Government

by Peter Mills

Despite recent reforms to Maine's school funding formula (as were enacted by the legislature in the last session), State Senator Peter Mills argues that the formula will not be truly "fixed" until we address the municipal side of property tax inequities. To that end, he prescribes some tough medicine for Maine policymakers to relieve the disproportionate tax burden on Maine's service center communities. Among other things, he suggests we consider repealing some of the exemptions that exclude a quarter of all property from taxation, permitting service centers to adopt local option taxes, and injecting the state's limited revenue sharing funds into just those municipalities with intolerable tax burdens that remain unmanageable through local resources.  Moreover, Mills asserts that the state "cannot relieve inequity by trying to carpet bomb the property tax." He calls for an end to expensive and unfocused measures that sprinkle the state's revenue too broadly. With income tax rates among the highest in the nation (and a sales tax soon to be reduced), Mills argues that our failure to address property tax inequities squanders the state's limited resources and places the state's future economic competitiveness in jeopardy.

INTRODUCTION

One hundred years ago, Maine and its subdivisions depended almost entirely on the property tax to fund government at all levels. Towns as collecting agents were directed to add several mills to local tax bills and remit the proceeds to Augusta to support functions of the state.

Today, the flow is reversed. In 1952, the legislature passed a sales tax, and in 1969 an income tax. Although initially adopted for the state's self-support, about half of these revenues are now remitted to local governments to relieve the property tax. In many local budgets, state-supplied revenue overshadows the significance of the property tax itself.

Money from the state is delivered to towns and school districts or given back directly to property taxpayers under a variety of different schemes. The dominant system is General Purpose Aid to Education, a matrix of funding relationships defined by a formula that sometimes breaks down under pressure to solve municipal issues unrelated to teaching children.

When all of the state's revenue sharing and rebate systems are identified, quantified and held up to light, it is difficult to conclude that there is any general or unifying theme that can pass muster as consistent policy. In reviewing and critiquing these systems, this article makes the case that raw necessity and simple equity ought to be the guiding principles for justifying state expenditures on local government. To go beyond merely squanders revenue and elevates state taxes in a way that threatens the competitiveness of Maine's economy in the national marketplace.

SCHOOL FUNDING, REVENUE SHARING AND REBATES

State relief for the property tax is delivered in four primary ways: General Purpose Aid; municipal revenue sharing; road assistance; and an assortment of rebate payments to taxpayers.

School subsidies consume every third dollar of state taxes. In Fiscal Year 2000 the state will spend for the benefit of K-12 schools a total of \$778 million out of a state budget of \$2.4 billion. No other department of state government claims a greater share of the general fund.

It requires \$1.6 billion a year to run Maine's 726 public schools through 286 local governing units. Five percent is from federal funds; the remainder comes about equally from state and local sources. The state share is largely from sales and income taxes,

the local share from property taxes. School funding is, by far, the state's largest property tax relief program for municipalities.

The second largest is general revenue sharing which distributes \$92 million per year to towns, about one-eighth of what is provided through school funding. The state treasurer is directed by law to siphon off 5.1% from all sales and income taxes directly into a municipal revenue sharing pool and remit only the remaining 94.9% to the general fund. The municipal pool is then distributed each month to all 494 Maine communities and the Unorganized Territories under a formula with two variables: population and local property tax rate (adjusted to state equalized valuations).

If two communities have the same population but the adjusted local tax rate is twenty mills in one town and only ten mills in the other, then the town with twenty mills receives twice as much money from the pool. While this is a gesture toward equity, it needs to be emphasized that every town receives a substantial subsidy, even those whose property wealth justifies no need for assistance.

The third largest program is state road assistance, which will supply \$22 million to local government in Fiscal Year 2000. The Department of Transportation (DOT) distributes money based on the number of winter and summer roads in need of maintenance. In recent years the DOT has directed that some of the money be devoted to capital improvement programs rather than routine upkeep.

Other programs distribute money as direct relief for property owners while permitting the towns to collect all or most of the tax. These include a rapidly growing Business Equipment Tax Reimbursement program (costing \$42 million this year and more than \$50 million next), a circuit breaker refund for low-income homeowners and renters (costing \$26 million), a new state-funded homestead exemption for the first \$7,000 of value in a residence (costing \$43 million), and a tree growth program to shelter woodlands from development (costing \$5.5 million).

LOCAL DEPENDENCE ON THE PROPERTY TAX

In total revenue, towns collect or receive roughly \$1.5 billion (not including school funding). Their major sources are \$1.2 billion from property taxes, \$130 million from vehicle excise taxes, \$92 million from revenue sharing, and \$22 million from DOT road assistance. Towns provide \$775 million to local schools, contribute \$60 million to county government, and spend about \$700 million on their own municipal services.

So long as education is controlled locally, the first layer of support for public schools will come from the property tax; that is how towns raise money. Although they have other small sources of revenue, the property tax is the only tax which local governments control. Maine does not permit its towns to tax sales or income.

Maine has \$70 billion dollars worth of taxable property. Tax rates in populated regions range from seven or eight mills in rich coastal towns and some rural plantations to 27.3 mills in Lewiston. The state average is 17.34 mills (1.734% of value), yielding \$1.2 billion dollars annually from property taxes.

For other sources of revenue, towns have no power to set rates and thus no control over what they earn. The vehicle excise tax, for instance, is the second largest supply of money for municipal government. It produces \$130 million, or about 10% of locally raised funds. The rate for this tax is set by law (at 24 mills for new cars) so that the amount paid on any vehicle is the same wherever the tax is collected. The effect of the tax varies widely. In rural Jackman, 21% of local tax receipts are based on trucks and cars; whereas in Jay, which has a paper mill to tax but fewer logging trucks, only 4% comes from vehicles.

THE DISTRIBUTION OF PROPERTY WEALTH

The most important thing to know about the value of real estate is the unevenness of its distribution. Only 40% of the state's taxable property is residential. The remaining 60% is industrial, commercial and recreational property that is distributed randomly from town to town. Some towns have so much of it that 90% of their taxes are paid by people and companies who don't live there.

By contrast, many other towns collect nearly all of their revenue from local homes because there is nothing else to tax—no paper mill, no lakefronts, and no impressive coast lines. When it comes to supporting children in school, the difference in capacity from the top of the scale to the low end is staggering. Many towns have ten times as much property per pupil as others do. These differences occur through accidents of geography with no one to blame.

One of the most revealing documents regularly produced by state government is a listing by the Department of Education of all 286 school units ranked in sequence to show the amount of property valuation behind each pupil. The differences are dramatic. While it demonstrates in part the existence of "two Maines," not all poor districts are in the north, nor all rich in the south. Among the poorest are Berwick and Sanford. Among the wealthiest are Carrabasset Valley and Rangeley.

Many wealthy towns, notably those on the coast, have more than a million dollars in property value to support each child in school. To raise \$5,000 for a child's education in Southport (valuation \$2.4 million per child) would require a tax rate of just over two mills. (In fact, they raise 3.73 mills.) In the less fortunate Aroostook town of Woodland, it would take sixty mills to raise \$5,000 and over ninety-one mills to raise the \$7,821 that is actually spent by Southport.

Wealth is not confined to the coast. The entire northern forest, consisting of 10.5 million acres in the Unorganized Territory, supports only 1,300 children in school. The tax for education is five mills. Thus, 50% of the land mass of the state is taxed at only five mills for education while the other half averages 11.07. The education tax in the Unorganized Territory is about fifty cents per acre for raw land. Although the Territory is administered by the state as though it were a gigantic municipality, it is not treated as one of Maine's 286 school units and therefore does not participate in General Purpose Aid. Attractive tax rates in the Unorganized Territory have tempted small towns like Madrid to deorganize and turn themselves over to the state and the county for further governance, giving up local control for favorable taxes.

If it were not for state school subsidies, our poorer towns would be bankrupted by the burden of education. Woodland, near Caribou, with 305 children to educate has only \$83,000 in property value behind each child. It receives about \$1.1 million in state aid to supplement the \$325,000 it is able to raise locally by taxing itself at nearly thirteen mills. Even with high taxes and a large subsidy, it is able to spend only \$4,070 per child, \$1,100 less than the state average. If Woodland were on its own without subsidy, and if it elected to tax itself at sixty-two mills in order to raise the state's average expenditure of \$5,150 per child, it would, in theory, take only sixteen years to confiscate all the property in town to educate children. There are many children living in towns with less than \$150,000 in valuation per child:

Glenburn	739 students
Van Buren	532 students
Greenbush	338 students
Mars Hill	463 students
Mechanic Falls	556 students
Medway	352 students
Princeton	199 students

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If there were no state subsidy, each of these towns would require a tax of thirty-four mills just to raise the state average expenditure of \$5,150 per student. While property tax rates in Maine peak out at twenty-seven mills (in state-equalized rates), in New Hampshire there are towns whose rates rise to forty or fifty mills precisely because the state provides no school funding subsidy. The New Hampshire Supreme Court has declared such excessive reliance on local funding to be unconstitutional, as have other states.

In Maine many school districts link rich towns with poor towns. These combinations are encouraged by the school funding subsidy, which is calculated on the basis of what the district is entitled to as a whole. A wealthy town standing alone might receive very little subsidy, but when it joins with a poorer neighbor, the new district benefits not only from economies of scale but also from a subsidy based on blended wealth.

Unfortunately, when the valuation differences are extreme, it is advantageous for the wealthy neighbor to remain aloof rather than to subject its tax base to the district's burden. Carrabasset Valley, Rangeley Plantation and West Forks, for instance, find it preferable to pay tuition on the order of \$6,000 per student rather than to tax themselves at three times that rate by joining a neighboring district. To join the district would cost an additional \$12,000 per child; but in such wealthy towns this would require only three or four mills of added tax.

THE SERVICE CENTER PROBLEM

While there are great differences among towns in their capacities to raise revenue, there are equally significant variations in demands for municipal services. In some rural towns with dirt roads, no police force and a volunteer fire department, it is possible to pay for nearly all services entirely from miscellaneous revenue (vehicle excise taxes, state revenue sharing and road assistance), without relying on the property tax at all (in such towns it is primarily for schools that a tax bill is issued).

By contrast, in more centralized towns and cities, often called "service center communities," the tax for municipal services may equal or exceed the bill for schools. These are towns where people visit shopping centers, receive medical care, borrow from banks, take college courses, shop for cars and appliances, go to court, buy insurance, file deeds, and seek legal advice. Many of these towns are county seats. They have full-time fire fighters, a round-the-clock police force, a public library, professional street crews and a management staff at city hall.

Service center communities are not necessarily large and metropolitan; many are small but functionally set apart. Most have other towns around them with populations dependent on services from the center. Property tax rates in the central communities are often more than double what they are in the surrounding towns. Smaller centers like Houlton, Mars Hill, Eastport and Mexico, for example, all have property tax rates in excess of twenty-four mills, just as do the larger centers of Portland, Lewiston, and Auburn.

In such communities we find concentrations of tax-exempt property for which services are provided without compensating taxes to pay for them. In the aggregate, about 15% of Maine property is tax-exempt (\$11 billion out of \$81 billion). While over half of the exemptions are for government (U.S., state and municipal), exempt properties also include colleges, churches, fraternal halls, hospitals and medical facilities. Twenty-seven percent of Lewiston is tax exempt, 40% of Brunswick, 49% of Orono, 21% of both Portland and Waterville, 24% of Presque Isle, 25% of Machias, and 22% of Calais.

In stark contrast are the satellite towns where exempt property is negligible, often just a small church, a town office and a few graveyards. The tax base for many small and peripheral Maine towns includes 99% of all the property within their borders.

While it is true that residents of service center communities directly benefit from the value of the added services provided to them (trash pick up, concerts at city hall, prompt response for heart attacks, etc.), the doubling of their tax burden undoubtedly exceeds the value of whatever they receive in return. Why else would so many of their residents be escaping to the suburbs?

To support schools, towns throughout the state impose an average property tax of 11.07 mills. Under the influence of the school funding formula, the rate of tax for schools does not vary greatly from this norm except in the wealthiest communities that can pay for education at rates of only a few mills. Among the large majority of towns closer to the median, a school unit is regarded as making a poor effort if it assesses only nine mills; at thirteen mills, its residents are said to be making a large sacrifice for education.

On the municipal side, by contrast, rates vary from zero mills to fourteen, depending on many variables: the cost of services required to run the town; the amount of exempt property; the presence of industrial or recreational property to inflate the tax base; and the revenue available from other sources, notably the vehicle excise tax, road assistance and revenue sharing.

As the above description highlights, there are property tax inequities of all sorts that come to bear on school funding. Many of them, such as service center issues, are not solvable through the formula; but service center towns, with their demographic power, think nothing of making demands on the school funding formula to solve their unrelated problems.

While the legislature's Taxation Committee reviews property tax issues year after year, it remains politically stymied to address them competently. This failure increases pressure on the Education Committee, where the school funding formula becomes the focus of perpetual adjustment amid futile and misguided efforts to fill tax policy voids.

THE K-12 FORMULA IN OVERVIEW

The education funding formula is the state's most significant effort to bring equity to the funding of local government. At its core the formula is driven by two variables among school units: the number of students and property valuation. If the formula were left at that—if the state's money were distributed simply in proportion to valuation per pupil—we might then be spared the annual spreadsheet battles and the agony of benighted debate that pass for public service on the Education Committee. While such a formula might not be entirely fair, it would at least be comprehensible—and that, in the long run, is just as important.

Unfortunately, the formula is not simple. It has dozens of refinements, wrinkles and modifications that make it difficult to grasp and that often hinder equity even though justified in equity's name.

To begin with, General Purpose Aid is really four subformulas blended into one another using algorithms that are fathomable by very few human beings, and which are calculable only by computers operated by management information specialists. It is no wonder that so many legislators confine their analysis to a quick glance at spreadsheets defining their hometown entitlements.

To understand public school aid, it is important to put the four formula components into scale and then complete the picture by including teacher retirement costs the state pays directly and outside the formula. Appropriations for Fiscal Year 2000 are:

Category	Amount	Percentage
1. Operating costs	\$325.89 million	52.5%
2. Program costs	\$208.55 million	33.6%
3. Debt service subsidy	\$56.15 million	9.0%
4. Adjustments (direct costs)	\$30.10 million	4.9%
Sub-total	\$620.69 million	100.0%
Add a hold-harmless provision	\$3.78 million	
Total General Purpose Aid	\$624.47 million	
Add:		
Teacher pension costs	\$150.00 million	
Retired teacher health insurance	\$3.46 million	
Total support for K-12 from state funds	\$777.93 million	

COMPONENTS OF K-12 FUNDING

The components of the formula and the teacher retirement appropriation may be outlined as follows:

Operating costs

Operating costs are the normal and generic expenses encountered by every school district, including the salaries for regular teachers, the cost of maintaining buildings and paying utilities. This is the category regarded as the essence of General Purpose Aid, yet it accounts for only 52% of General Purpose Aid and is the last of the four elements to receive an increment when money is added to the formula. The other three components are funded first while operating costs are adjusted last to absorb what remains of the total appropriation.

This category is based on the premise that every district should spend at least \$4,020 per child—this year's "per-pupil guarantee"—on normal operating costs. The per-pupil guarantee

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is raised through a combination of state and local funds with every school unit required to generate a local share. To the extent that a school unit's required share falls short of \$4,020, the state pays the difference as the operating cost subsidy.

Amounts raised by the district in excess of its local share are optional and do not diminish the state's contribution. However, if the district fails to raise its local share, it loses \$1 of subsidy for each dollar of shortfall.

The local share for each district is based on two weighted factors: 85% on its property tax capacity and 15% on its median household income. The taxing capacity of each school unit is measured by property valuation per student. Municipal property assessments are adjusted to 100% of market value for uniformity throughout the state.

Each district's local share is determined by reference to a mill rate known as the "statewide local share." Set this year at 6.67 mills, this figure is used to calculate what all districts must raise on a statewide basis to arrive at the aggregate local share of operating costs. Because of formula intricacies having to do with minimum subsidy calculations, 6.67 is not equivalent to the mill rate required to produce the local share of any single district. The actual mill rate for most districts is above seven.

The statewide local share and the per-pupil guarantee are the two major determinants of equity under the current formula. When appropriated funds are held constant, raising either of these variables shifts money from rich districts to poor. Under provisions passed in 1999, a schedule was set for raising both variables for Fiscal Year 2000 and for each of the three years that follow, not with the intent of reducing what any wealthy district presently receives, but with the hope of distributing newly appropriated money in a way that will increase equity to poor districts as time goes on.

If a district has sufficient property wealth (approximately \$700,000 in valuation per child) so that its local share calculation raises more than the per-pupil guarantee, then the district is given a minimum subsidy, roughly equivalent to 5% of average costs. Forty-five of the 286 districts are wealthy enough to receive only

the minimum. The aggregate cost of minimum subsidies is just under \$1 million, which is regarded by most observers as a suitable price for requiring these districts to supply the data necessary to manage the system. However, one might ask why the state must also pay their teachers' pensions.

The formula is further modified by injecting a 15% weighted factor for relative household income that adjusts the amount calculated under the tax capacity analysis. In the end, this controversial modifier significantly dilutes equity in the formula. Rich districts receive more and poor districts less.

An extreme example makes the point. If a hypothetical school unit had zero taxing capacity (a total absence of taxable property), then it would need a state subsidy for the full \$4,020 of the per-pupil guarantee because it would have no other source of revenue. However, if the district has an average household income rating, then its subsidy is reduced by 15% to only \$3,417, even though the town can raise no money of its own. It can only tax property, not income; in this simple example, it has no property to tax.

Program costs

Program costs are special expenses that vary significantly from one district to another. For that reason, they are subsidized separately on the basis of each unit's actual costs as reported from two years before. Representing about one-third of General Purpose Aid, they include:

- a. Early childhood programs
- b. Special education (local)
- c. Special education (tuition & board)
- d. Transport operations
- e. Vocational education
- f. Approved bus purchases

The state subsidizes program costs in two modes (depending on whether the costs fall above or below a threshold that is calculated by applying a circuit breaker mill rate to the district's

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taxable real estate). The mill rate is 1.21 for Fiscal Year 2000. The bottom layer of costs, those below the threshold, are subsidized based on a percentage calculated by analyzing historical operating costs. The calculation of this percentage (which is zero for wealthy districts) preserves a portion of a former foundation cost system that was otherwise repealed in 1995.

Above the circuit breaker threshold, the state subsidizes 100% of program costs without any limit on the subsidy, even if the district is wealthy. Because program costs are “expenditure driven,” most districts have an incentive to allocate costs into this category whenever discretion or accounting flexibility permits.

When there is not enough money appropriated to pay for 100% of the state’s program subsidy, the state reduces—by a fixed percentage—the total amount payable to each district. Because poor districts lack the taxing capacity to recover the lost revenue, this “percentage reduction” method of balancing the program account is significantly detrimental to them.

As new funds were added to the formula for Fiscal Year 2000, the percentage reduction factor was dropped from 21% to 15.88%, which is a significant step toward equity for poor districts. Still, it also benefitted some wealthier districts with high program costs because they, too, will receive larger subsidies. Districts favored by the change include both metropolitan centers with high special education costs and rural schools with high transportation expenses.

Debt Service

Debt service includes costs for approved capital projects and certain leases. They represent about 9% of General Purpose Aid. The state subsidizes debt service in a way that is parallel to program costs, with the exception that debt service subsidies are given only for projects that are approved by the state under a weighted priority system.

As with program costs, a qualifying district receives a more substantial subsidy for debt service costs above a circuit breaker threshold (.5 mills for Fiscal Year 2000). With new regional high schools costing upward of \$25 million, it is becoming increasingly common for wealthier school units to penetrate the threshold when they qualify for new construction projects.

Adjustments

“Adjustments” are direct costs paid by the state to the extent of the available appropriation. This category, representing about 5% of General Purpose Aid, includes the cost of educating state wards, state agency clients and pupils in out-of-district placements. Some of these costs are passed through from other departments, such as Human Services or Corrections.

Among the adjustments, the expense for out-of-district placements is perennially controversial. For each out-of-district placement of a special education student, the state distributes to the district funds to pay for a portion of that year’s costs, which exceed three times the normal cost for educating the pupil; it does this each spring. Because the appropriation is always less than what is needed, the district must account for the shortfall under its program costs, a portion of which is subsidized two years later under the program section of the formula.

Teacher Retirement Costs

Completely outside the General Purpose Aid formula, the state pays 100% of the employer’s share for teacher pensions plus 30% of health insurance costs for retired teachers. These retirement payments are significantly more beneficial to wealthy districts than to poor because pension contributions are directly proportional to teacher pay, which is much higher in wealthy districts.

When this subsidy is added to the funds appropriated for General Purpose Aid, teacher retirement costs comprise more than one-fifth of the total amount provided by the state for K-12 education. In effect, 20% of the state’s K-12 subsidy system counteracts the tax-equity purposes which underlie the remaining 80%.

TO FIX THE EDUCATION FUNDING FORMULA

Everyone familiar with the school funding formula keeps a list of things to change. I recommend the following:

1. If the four categories of General Purpose Aid are preserved—as probably they should be—then detach

them from each other and appropriate funds to each separately under simple formulas that are kept as parallel as possible. This way policymakers can see clearly how funds are being spent.

2. For program and debt service costs, allow the circuit breaker thresholds to float upward so that only those districts with the greatest need will qualify for full reimbursement. Subsidies below the threshold levels should be based on the same percentages as for operating costs.
3. Reduce—but do not eliminate—the percentage reduction factor for program and debt service costs. While the current 15.88% discount is too high, a continuing contribution from local funds is appropriate in order to discourage districts from dumping costs into these favored categories. Such costs will be better controlled if the district puts some of its own money toward them at every level of the reimbursement scale.
4. Substitute a straight “local share mill rate” for the very complex “statewide local share” calculation. Continuing to elevate this minimum mill rate may be necessary to ensure that locally raised funds are suitably matched to the state’s own contribution.
5. Follow through on commitments to raise the per-pupil guarantee to suitable levels as appropriations are raised in future years.
6. Resist the temptation to hold all districts harmless at every turn in the road. If a school unit is losing pupils and gaining valuation, then it must sacrifice subsidy. While losses may be dampened or cushioned, they should not be indefinitely postponed.
7. Strike the income factor from the operating cost formula to eliminate its dilution of property tax equity.
8. Put the normal cost component of the teacher retirement contribution (6% of salary) onto district payrolls so it will be accounted for under the formula. The unfunded liability component (about 12% of payroll) should be paid by the state.
9. Require that property in wealthy districts be taxed at a minimum mill rate for education. While we must

respect that Maine’s attempt at a uniform property tax for education was repealed by popular vote in 1976, we can still recognize how absurd it is that so many major property holdings in Maine are being taxed at five mills or less while the average is 11.07.

Above all else, the formula must be made simple. Equity and simplicity are not at cross purposes. It is entirely feasible to produce a formula that preserves the beneficial essence of the present system while excoriating the layers of algorithms we have allowed to accumulate under layers of change.

Complexity works to the advantage of insiders by destroying the capacity of citizens and legislators to comprehend policy. What people cannot understand, they are compelled to ignore. We have enough experts on night hunting and lobster trap vents. We need more who understand how one-third of the budget is spent. We will have such people as soon as the formula is rewritten in plain terms with its principles suitably distilled.

TOWARD A “GRAND UNIFIED THEORY”

We must recognize that the school funding formula is only a limited measure for property tax relief. Even though the state provides half the funding for public education, the management of schools remains a fiercely protected local prerogative. The Department of Education does not manage school systems. Thus, even though it seems strange to say so, state school funding is more about taxes than education.

Still, the formula is a limited instrument of tax policy. It cannot resolve, nor even competently address, the municipal side of property tax inequities. If the state continues with its “eyes wide shut” to the burdens of our service center communities, then we can hardly blame them for flexing their considerable power to distort the formula in ways that will benefit them to the detriment of more needy districts. Maine needs a “Grand Unified Theory” to pull together its disparate policies toward funding local government.

Service center communities do have genuine and significant problems that the state has not addressed. They also have demographic strength and political power. However, when these districts must choose between tackling tax exempt institutions or teasing out concessions from the school funding formula, their political energy is channeled to the formula. We must address the problems of service center communities, not only because they

deserve it, but also because we must prevent them from dipping into school funds at the expense of children in poor districts.

There is no easy way out of this. We have to approach municipal tax problems like adults and tell people some bad news. There will be losers. Someone new may have to be taxed. Some subsidies will be reduced. We cannot solve property tax inequities by indiscriminately broadcasting state revenue to all communities at once. There are some difficult changes we can embrace:

- In our service center communities, we can repeal some of the exemptions that exclude a quarter of all property from taxation. Perhaps we should deny exemptions for some and impose fees on others, at least for the value of the services they receive—as represented by the non-educational component of the community tax bill.
- We can permit service centers to adopt local option taxes to relieve their property tax dependency. We can free these communities to exploit their own commercial strengths by giving them flexibility to design tax systems for themselves.
- The state can inject its limited revenue sharing funds into just those municipalities with intolerable tax burdens that remain unmanageable through local resources. Since the education side is already subsidized, perhaps revenue sharing should be distributed only in proportion to the non-education mill rate. In any case, we should stop squandering state funds on wealthy towns with total mill rates under twelve.

In recent years we have adopted a number of expensive, broad and unfocused measures; they share the single virtue of being politically inoffensive. We seem unable to bear the thought of taxing anyone new. It is easier simply to sprinkle money in all directions at once as though we were blessed with an inexhaustible supply. Consider the following examples:

- As mentioned above, municipal revenue sharing—although proportional to local tax rates—is nevertheless delivered to all Maine communities, rich and poor alike.

- Under the Business Equipment Tax Reimbursement (BETR) program, state funds are sent to all eligible businesses in all communities without addressing the issue of need or return on investment. Much of the money is simply doled out to shareholders of the world's largest corporations.
- Maine's homestead exemption (passed in 1998) is delivered to all Maine homeowners without regard to whether relief is needed. Large portions of the refund are lost to the federal government through reduction of itemized deductions on the homeowner's tax return. Thousands of well-off people receive insubstantial benefits at great aggregate cost to the state.
- Road assistance money from the Department of Transportation is distributed to towns on the basis of certain highway categories. Much of the money is received by towns with very low mill rates. The program has little to do with need and nothing to do with adjusting relative tax burdens.

We cannot relieve inequity by trying to carpet bomb the property tax. The state's revenue arsenal is not up to the task. The state is already recycling half its tax receipts back to local governments. Further, under pressure from municipalities to relieve the property tax and under lobbying from business to sustain the expanding BETR program, the percentage of recycled revenue is growing every year under pleas from educators to expand school funding.

We have superior laser-guided ordinance available. Our best example is the circuit breaker program for low-income renters and homeowners, which annually distributes a small fund of state money in direct proportion to each recipient's tax burden and need. It is the lowest cost of all our programs and the one that provides the greatest good on the ground.

With Maine's sales tax soon to be reduced to a moderate 5%, we are becoming more reliant than ever on the income tax to sustain state government. While many states have dropped income tax rates in response to recent upswings in the economy, our rates remain among the highest in the nation. States do not enjoy the same freedom to tax income as the United States government has.

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Few people abandon American citizenship when the federal income tax is raised by a few percentage points.

Among the states, by contrast, citizens may flow at will. The problem of rate competition is acute. An elevated income tax drives out highly paid management personnel, entrepreneurs, and wealthy retirees and dries up venture capital from all sources, including non-residents.

When we lose managers and investors, we lose the wages, the spending and the taxes that their money can leverage. When we lose retirees, we lose not only their income taxes while they live, but also their estate taxes when they die. High income tax rates produce a brutally compound impact on the state's economy and the general revenues to the state itself.

Some will point out that property taxes can have a similar impact, but who can seriously argue against equity in taxation? If the owner of a ski condo or a salt water cottage is taxed at only seven mills, will an increase to twelve mills make such a difference? Will the Elks close down if the assessor sends a tax bill to the lodge?

It is not my purpose to argue that aggregate state subsidies to local government are too high. It is merely to point out that our systems of distribution are defective. With the state spending over a billion dollars a year to achieve property tax equity, we have a right to expect better results. A town should not be required to tax itself in excess of twelve mills to achieve only a substandard school system. A service center community should not have to collect twelve mills and more just to provide required services to its residents. These communities and their taxpayers deserve better treatment.

Property owners in our service center communities are consistently taxed at twenty-four mills or more, while owners of coastal and forested property are taxed at only seven or eight mills. Yet a large portion of the state subsidy money continues to flow into towns with low to moderate mill rates or directly to taxpayers in such communities.

For far too long, Maine has been a prodigal partner to its local governments. The state has been inexcusably careless in defining its relationships with municipalities, school units and those who pay property taxes. Maine's revenue sharing programs squander the state's own limited resources to poor effect. Much of the money for local schools is distributed without sufficient regard for meeting needs or relieving the highest burdens. And all the while, we avoid politically difficult reforms that would build capacity for service center communities to stand on their own. The state cannot continue to raise revenue for local government without tailoring our programs to do exactly what is needed to achieve equity—and precious little more. 🐉



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