

**TESTIMONY OF  
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation  
Hearing Date: *May 6, 2025*

LD 1795 – “*An Act to Change the Calculation for Municipal Service Charges for Tax-exempt Organizations*”

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Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good afternoon. My name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Neither For Nor Against LD 1795, “*An Act to Change the Calculation for Municipal Service Charges for Tax-exempt Organizations.*”

This bill expands the service charges that a municipality may impose on institutions and organizations that own tax-exempt property for the costs of providing municipal services to the property.

Under the existing version of 36 M.R.S. § 508, a municipality may only impose a service charge on owners of residential property (except student housing or parsonages) that are totally exempt under 36 M.R.S. § 652 and are used to provide rental income. The service charge is calculated based on the actual costs to the municipality to provide municipal services and is further limited to 2% of the annual revenue of the exempt organization.

This bill expands the group possibly covered by service charges by removing the existing residential property/rental income requirements as well as increasing the limits on the service charges by changing the calculation of the limit

from being based on the organization's revenues to the property's assessed value. The limitation of the municipality's service charge authority is changed from 2% of the institution's or organization's gross revenue to 20% of the property's assessed value. These provisions would take effect January 1, 2027.

While the service charge is calculated based on the actual cost of providing municipal services to the exempt property, the highest property tax rates in Maine do not generally exceed 3% of assessed value, whereas this bill limits the charge to 20% of assessed value. This may result in some significant service charges and be considered unfair by affected entities.

Ultimately, expanding the ability for municipalities to impose service charges should be part of the broader property tax review study, and although the Administration is open to considering such changes, there are concerns relating to the specifics of this bill.

While the administrative costs of this bill are unknown at this time, any fiscal impacts can be absorbed under current budgetary allotments.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.