

**TESTIMONY OF  
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY  
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Education and Cultural Affairs  
Hearing Date: *May 9, 2025, Friday at 10:30 A.M.*

LD 1892 – “*An Act to Establish Procedures for School Construction Projects*”

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Senator Rafferty, Representative Murphy, and members of the Education and Cultural Affairs Committee – good morning, 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 1892, “*An Act to Establish Procedures for School Construction Projects.*”

This bill would establish the Maine Public School Financing Authority and the School Construction Debt Service Fund, which would receive gaming activity revenue, adult use cannabis excise and sales tax revenue, cigarette and tobacco products excise tax revenue, lapsed balances in the General Fund, and federal funds, which would be used to provide funding for school construction projects. Further, the bill establishes the Authority “as a body corporate and politic and a public instrumentality of the State.” This testimony is limited to Sections 8 through 11 of LD 1892, which detail the tax revenue transfers to the School Construction Debt Service Fund.

It is important to note that Part E of the Governor’s Biennial Budget proposal would raise the excise tax on cigarette and tobacco products as well as the adult use cannabis sales tax in order to pay for General Fund appropriations. Dedicating some or all of this additional revenue to the proposed School

Construction Debt Service Fund will reduce revenues available for balancing the General Fund.

Turning to technical concerns, the bill should be amended to specify the timing and sequence of required revenue transfers. As written, the bill would require annual transfers to the fund beginning in FY 26-27 of “the first” \$5 million to \$40 million of specified tax revenue. The bill should clarify whether the revenue for transfer would be collected in the prior fiscal year—the phrase “the first” could suggest that, beginning each fiscal year, the specified revenue is intended to be held and not transferred to the General Fund as it is received until the transfer amount is reached. Other revenue transfer provisions instead redirect a percentage of tax revenue to a special fund on a periodic (for example, monthly) basis.

Additionally, after the current 12% of the sales and use tax revenue collected on sales of adult use cannabis and adult use cannabis products is transferred to the Adult Use Public Health and Safety and Municipal Opt-In Fund, 5% of the remaining sales tax revenue is transferred to the Local Government Fund before being deposited into the General Fund (see 30-A M.R.S. § 5681(5)). The bill should provide the sequence for the cascade of the sales tax revenue transfers to the School Construction Debt Service Fund and Local Government Fund.

While excise taxes can be an important source of a diversified revenue system like the General Fund, cigarette taxes in particular are a declining source of revenue and as such an unreliable dedicated revenue stream.

The fiscal cost estimate is not available at this time.

The estimated administrative costs are not available at this time.

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