

**Testimony of Kirsten LC Figueroa, Commissioner  
Department of Administrative and Financial Services**

**Before the Joint Standing Committees on  
Appropriations and Financial Affairs  
and Taxation**

**“An Act Making Unified Appropriations and Allocations for the Expenditures of  
State Government, General Fund and Other Funds and Changing Certain  
Provisions of the Law Necessary to the Proper Operations of State Government for  
the Fiscal Years Ending June 30, 2023, June 30, 2024 and June 30, 2025”**

**February 8, 2023**

Good afternoon, Senator Rotundo, Representative Sachs, and members of the Joint Standing Committee on Appropriations and Financial Affairs; Senator Grohoski and Representative Perry and members of the Joint Standing Committee on Taxation. I am Kirsten Figueroa, the Commissioner of the Department of Administrative and Financial Services. I am here today to testify in support of the fiscal year 2024-2025 biennial budget bill, LD 258, specifically those items on today’s agenda relating to the Department of Administrative and Financial Services, the State Board of Property Tax Review and the Office of the State Treasurer.

This budget advances the Governor’s guiding belief that to build a stronger, more prosperous state where opportunity is available to all, we must invest in the infrastructure that supports the people of Maine, our greatest asset.

That is why this budget proposal strengthens the very things that Maine people rely on every day to succeed, building on the strong success of the currently enacted budget and the last legislative session to tackle Maine’s greatest challenges.

We have governed cautiously and in a fiscally prudent way over the past four years, making sure that – even in the hardest of times during the pandemic – we lived within our means. This budget proposal continues that practice.

We look forward to the discussions over the next several months as we outline each initiative and impact of the proposed investments.

## **State Board of Property Tax Review**

The **State Board of Property Tax Review (0357)**, page A-573, is an appellate body that hears appeals of cases involving property valuation, tax exempt status decisions, land classification decisions (Tree Growth; Farm and Open Space), municipal valuations established by the Property Tax Division of Maine Revenue Services, mine site valuations and homestead exemptions.

The Board is established to hear and determine tax abatement appeals involving nonresidential properties with an equalized valuation of \$1,000,000 or more and appeals arising under: 1) the tree growth tax law (36 MRSA, §571 et seq.); 2) the farm and open space law (36 MRSA, §1101 et seq.); 3) mine site cases (as provided in 36 MRSA, §2865); 4) Working Waterfront designations (36 MRSA, §1131 et seq.); and, 5) municipal valuation appeals (36 MRSA, §272). The baseline budget for the Board includes funding for two limited period positions established in Public Law 2021, chapter 635. The Legislature approved funding a Director and an Office Specialist I as limited period positions as we evaluate the appropriate structure of the Board and catch up on cases. We have filled the positions, which are authorized and funded through June 8, 2025. Director Phil St. Onge is in attendance today.

Decisions by the Board impact local tax issues and municipalities need timely decisions. Roughly a year ago, the Board had a backlog of 54 cases. They have closed 22 of those cases either through settlement, stipulation, or hearing. And they have 25 cases scheduled for hearing or ready to be scheduled for hearing. The Board is currently hearing 2-4 cases a month. The statute requires that parties attempt mediation before scheduling a hearing; there are 5 cases in the process of mediation.

There are no new initiatives in this program.

## **Department of Administrative and Financial Services**

The Department of Administrative and Financial Services (DAFS) consists of ten bureaus, a handful of boards and commissions, and more than 1,200 employees serving the public and all three branches of state government.

The Department has a broad range of responsibilities. We serve as the principal fiscal advisor to Governor Mills, prepare the state budget, coordinate the financial planning and programing activities of state agencies, prepare the financial records of the state, and advise the Maine Legislature on the economic status of the state and financial statutes of state government.

Additionally, DAFS oversees all aspects of: human resources, including employee benefits, contract negotiations, recruiting, retaining, training and performance; information technology services, including cyber security, data management, application development, project management, technology infrastructure, accessibility, and network services; maintenance, repairs and capital improvements of state-owned buildings and grounds; leased space; procurement, contracting and vendor management; state postal services; surplus property; tax collection, tax law and tax policy; and fleet management.

Various internal services for state agencies are provided by the Department, including review of accounting transactions and procedures and the implementation of account controls. We also administer the state's lottery operations, medical and adult use cannabis programs, and the sale of distilled spirits within Maine's borders.

DAFS employees are respected as conscientious stewards of the State's assets: fiscal, human, physical and technical. We are valued for the professional expertise we provide that ensures State departments and agencies efficiently, effectively, and economically fulfill their important missions for the people of Maine. We lead and collaborate with open doors, open minds, and open hearts.

Today's testimony relates to tax related initiatives as proposed in the biennial budget. The State's Tax Assessor, Jerome Gerard, and Dr. Michael Allen, the Associate Commissioner for the Office of Tax Policy, are both in attendance.

### **Bureau of Revenue Services Fund (0885)**

On page A-17 is the **Bureau of Revenue Services Fund**. This is an Internal Service Fund that contains the revenue and expenditures associated with scanning, imaging and collections services performed by Maine Revenue Services (MRS) on behalf of other Maine state agencies. The expenditures within this Program are supported entirely by the agencies for whom work is performed. The annual allocation in this program is \$151,720.

There are no new initiatives in this program.

### **County Tax Reimbursement (0263)**

On page A-22 is the **County Tax Reimbursement** program. Through this program, MRS collects motor vehicle and watercraft excise taxes from residents in the Unorganized Territory and redistributes the funds to the respective county governments to be used for services provided in the Unorganized Territory. The annual allocation for this Other Special Revenue account is \$2 million.

There are no new initiatives in this program.

### **COVID Pandemic Relief Payment Program (Z237)**

Moving to **page A-23**, the **COVID Pandemic Relief Payment Program**, was established in Public Law 2021, chapter 635. This nation leading inflation relief program aimed to help residents of the State respond to the economic fallout of the COVID-19 pandemic, including rising costs due to pandemic-induced inflation and supply chain effects. These payments returned more than \$747 million of the state's surplus via \$850 checks to nearly 876,000 eligible Maine people. The allocation in the program was intended to be one-time.

There is one initiative in this program reducing the allocation to \$0.

### **Elderly Tax Deferral Program (0650)**

On **page A-25** is the **Elderly Tax Deferral Program**. Start-up funding for this program was included by the Legislature in Public Law 2021, chapter 483, the Maine Jobs Plan. The purpose of the program is to reimburse municipalities for the lost property tax revenues associated with the program. The intention is for the program to be self-supporting. The program provides a loan that can cover the annual property tax bills of income-eligible Maine people who are ages 65 and older or permanently disabled who cannot afford to pay them on their own. The program requires repayment of the loan once the property is sold or becomes part of an estate. The allocation in this program is \$843,870 in fiscal year 2023-24 and \$500 in fiscal year 2024-25.

There are no new initiatives in this program.

### **Homestead Property Tax Exemption Reimbursement (0886)**

On **page A-28** is the baseline budget of \$97,580,000 annually for the **Homestead Property Tax Exemption Reimbursement** program. The purpose of the program is to offset the effect on local property tax revenues arising from the municipal exemption of certain homestead property of qualified Maine residents. Reimbursement of at least 50% of the tax revenue lost by municipalities as a result of new property tax exemptions is mandated by Article IV, Part Third, Section 23 of the Maine Constitution.

There is one initiative in this program that provides an appropriation of \$5.92 million in fiscal year 2024 and \$10.92 million in fiscal year 2025. This increase is necessary to conform with Public Law 2021, chapter 398, Part PPPP, (please note that the blippie says PPP, but should say PPPP), which requires a 3% increase per year until the State reaches

100% reimbursement thereby, increasing the current 70% rate of reimbursement to municipalities for the homestead exemption to 73% in fiscal year 2024 and 76% in fiscal year 2025. There is also a 1% increase in the account for the expected increase in the number of homestead property tax exemption applications that will be filed as permanent residents 65 years of age or older apply for the property tax stabilization program enacted by Public Law 2021, chapter 751, An Act To Stabilize Property Taxes for Individuals 65 Years of Age or Older Who Own a Homestead for at Least 10 Years.

### **Maine Board of Tax Appeals (Z146)**

The **Maine Board of Tax Appeals**, page A-33, is an independent board within DAFS, established July 1, 2012, and not subject to the supervision of Maine Revenue Services. The board provides taxpayers with a fair system of resolving their controversies with MRS and ensures due process. The General Fund baseline budget is \$359,103 in fiscal year 2024 and \$372,569 in fiscal year 2025. The budget includes 2 Appeals Officer positions and 1 part time administrative assistant position. There is also an allocation for an Other Special Revenue Fund of \$45,000 in each year.

There is one initiative in this program increasing General Fund All Other appropriations by \$4,750 in fiscal year 2024 and \$5,000 in fiscal year 2025 to fund the Board's share of the cost of the financial and human resources service center.

Additionally, **Part M** relates to this program. This Part limits the jurisdiction of the Board of Tax Appeals to matters where the amount in controversy is \$500,000 or less. More on this in the language testimony to come.

### **Mandate BETE — Reimburse Municipalities (Z065)**

On page A-35 is the baseline budget of \$20,500 per year for the **Mandate BETE — Reimburse Municipalities** program. The purpose of the program is to reimburse municipalities for state mandated costs related to implementation and administration of the Business Equipment Tax Exemption as required under Article IX, Section 21 of the Maine Constitution and the Maine Revised Statutes, Title 30-A, section 5685. Reimbursement of at least 90% of the cost of additional expenditures incurred by municipalities as a result of new or expanded State programs is mandated by Article IX, Section 21 of the Maine Constitution.

There is one initiative in the program that provides an appropriation of \$6,000 in fiscal year 2024 and \$7,500 in fiscal year 2025 to reflect an increase in exemption requests being submitted under the program.

## **Property Tax Stabilization (Z368)**

On page A-38 is the **Property Tax Stabilization** program. Public Law 2021, chapter 751, An Act To Stabilize Property Taxes for Individuals 65 Years of Age or Older Who Own a Homestead for at Least 10 Years, allows a permanent resident who is at least 65 years of age and has owned a homestead in Maine for at least 10 years to stabilize their property tax at the amount they were billed for the homestead in the previous tax year. The law requires the State to reimburse the municipalities for 100% of the difference between the stabilized amount and the amount that would otherwise be due. The Property Tax Stabilization Fund was created to reimburse municipalities for this difference.

There is one initiative in this program that provides an appropriation of \$15 million in fiscal year 2024 and \$31 million in fiscal year 2025 for reimbursements of lost revenues to municipalities expected as a result of this program as the current law requires.

## **Property Tax Stabilization - Mandate (Z369)**

On page A-38 is the **Property Tax Stabilization - Mandate** program. The purpose of the program is to provide reimbursement to municipalities for the state mandated costs related to the implementation and administration of the Property Tax Stabilization program pursuant to Public Law 2021, chapter 751, An Act To Stabilize Property Taxes for Individuals 65 Years of Age or Older Who Own a Homestead for at Least 10 Years. Reimbursement of at least 90% of the cost of additional expenditures incurred by municipalities as a result of new or expanded State programs is mandated by Article IX, Section 21 of the Maine Constitution.

There is one initiative in the program that provides an appropriation of \$500,000 in fiscal year 2024 and \$550,000 in fiscal year 2025 for the mandated reimbursement of costs to municipalities of administering the program.

There is an offsetting deappropriation on page A-44 of \$196,250 in each fiscal year to the Bureau of Revenue Services budget related to this program reflecting the amount of funding appropriated in Public Law 2021, chapter 751 for this purpose. This gets funds into the correct account.

## **Renewable Energy Facilities Property Tax Exemption (Z296)**

On page A-41 is the baseline budget of \$1.722 million per year for the **Renewable Energy Facilities Property Tax Exemption** program. The purpose of the program is to offset the effect on local property tax revenue arising from the exemption of certain solar and wind energy equipment from municipal property tax as required by the Maine

Revised Statutes, Title 36, chapter 105, subchapter 4. Reimbursement of at least 50% of the tax revenue lost by municipalities as a result of new property tax exemptions is mandated by Article IV, Part Third, Section 23 of the Maine Constitution.

There is one initiative in this program that provides an appropriation of \$50,000 in fiscal year 2024 and \$550,000 in fiscal year 2025 to account for an increase in the number of new renewable energy projects being planned or currently under construction.

### **Revenue Services – Bureau of (0002)**

On page A-42 is the **Bureau of Revenue Services** baseline budget consisting of General Fund appropriation of \$47,287,067 in fiscal year 2024 and \$47,886,227 in fiscal year 2025 and Other Special Revenue allocations of \$11,463,848 in each fiscal year. These funds enable the Bureau to serve the citizens of Maine by administering the tax laws of the State effectively and professionally while simultaneously collecting the revenues necessary to support Maine government.

The Bureau of Revenue Services is under a lot of pressure to perform and has been challenged in recent years in meeting its core mission.

The Bureau of Revenue Services is in its third year of a four-year project to modernize its decades-old tax administration technology to better administer the State's taxes, fees, and programs. The State Tax Administration and Revenue System (STARS) project, which officially kicked off in October of 2020, has successfully completed two rollouts and is on schedule and budget to meet the next two rollouts.

To date, twenty-one taxes, fees, and programs have been converted to the new system allowing taxpayers and tax practitioners the convenience of filing and paying online using the Maine Tax Portal. Approximately 25 full-time equivalent staff have been pulled from their regular duties to work on this project.

The Bureau also oversees municipal property tax administration, including the assessment and collection of property and excise taxes for the Unorganized Territory. The Bureau conducts the annual State Valuation process that is used to calculate county taxes, establish municipal and school bond debt limits, and determine education funding and revenue sharing.

To give you some perspective on the volume of work that is accomplished by this staff, these are just a few “by the numbers” statistical highlights covering fiscal year 2022.

- Responsible for the administration of **48** taxes and refund programs
- Collected revenues of more than **\$6 billion**
- Processed more than **2 million** tax returns
- Responded to more than **575,000** requests for assistance from the public
- Issued refunds totaling more than **\$660 million**

In addition to this “regular” work, from November 2021 through November 2022, the Bureau was primarily responsible for the implementation of the COVID Disaster Payment program and the COVID Pandemic Relief Payment program. In November and December of 2021, the Bureau issued \$149.6 million in COVID Disaster Relief payments to nearly 525,000 eligible individuals. From June 2022 through January 2023, the Bureau issued more than \$744 million in COVID Pandemic Relief payments to nearly 876,000 eligible individuals.

And, as you know, with the recently enacted Public Law 2023, Chapter 1, the Bureau will issue \$450 Winter Energy Relief payments to approximately 876,000 eligible individuals. This work will be done by the Income/Estate Tax Division within the Bureau during the Individual Income Tax filing season. The first payments were issued the last week of January 2023, and all payments are expected to be processed by the end of March.

The next 12 initiatives, which impact the General Fund, are intended to address staffing issues at the Bureau. I would like to discuss them with you slightly out of the order they are presented in the budget document. I believe you will get a clearer picture of the situation if they are presented by operational division.

I would like to skip forward to page **A-45** to discuss position changes for the Property Tax Division. The Property Tax Division within the Bureau oversees municipal property tax administration, including the assessment and collection of property and excise taxes for the unorganized territory. As previously mentioned, the annual State Valuation process is used to calculate county taxes, establish municipal and school bond debt limits, and determine education funding and revenue sharing, and the Division is responsible for this State Valuation process. The Division also administers various tax and reimbursement programs, including commercial forestry and telecommunications excise taxes, real estate and controlling interest transfer taxes and the Business Equipment Tax Exemption and Business Equipment Tax Reimbursement programs.



There are three initiatives on page A-45 (the 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> initiatives) to provide funding for the proposed reorganization of the Property Tax Division within the Bureau. The reorganization is intended to better align the Property Appraiser, Senior Property Appraiser, Principal Property Appraiser, Tax Section Manager, and Taxation Division Assistant Executive positions with the actual duties performed.

The current positions are collectively responsible for determining tax liabilities, advising municipal officials and taxpayers, and enforcing tax laws through reviews and audits of municipal records. These job duties more closely align with the duties of the Revenue Agent, Senior Revenue Agent, Principal Revenue Agent, and District Tax Auditor Manager classifications that are utilized in other divisions of the Bureau for similar work. These three initiatives appropriate \$297,228 in fiscal year 2024 and \$286,531 in fiscal year 2025 in the Personal Services line category to reclassify 22 full-time and three part-time positions.

Moving back to page A-42, there is one initiative (first initiative) in the Property Tax Division that appropriates \$425,532 in fiscal year 2024 and \$442,400 in fiscal year 2025 for Personal Services and All Other costs to establish four Senior Revenue Agent positions within the Property Tax Division: two positions in the Unorganized Territory section and two positions in the Municipal Services section.

The Revenue Agent series of classifications is part of a training program that allows a Revenue Agent to automatically promote to Senior Revenue Agent upon completion of specified competencies. The program emphasizes career growth and advancement based on ability, not vacancies. As such, all Revenue Agent positions are currently funded at the Senior Revenue Agent level. Employees must complete the training program and demonstrate predefined competencies before becoming eligible for promotion. The training program takes 18 to 24 months to complete. I will discuss this training program in greater detail later on in my testimony.

Agents in both sections split their time annually between their duties within their respective sections and conducting state valuation reviews. With the addition of new exemptions and the increase in tax increment financing by municipalities, the State Valuation reviews are increasingly complex, take longer to complete, and require more of the agents' time each year. This shift, in addition to other changes discussed below, requires the additional four positions to ensure work is completed and statutory deadlines are met.

As mentioned, the first two new positions are in the Division's Unorganized Territory section. Since 2015, six municipalities have deorganized and become part of the Unorganized Territory, with an additional municipality expected to join for tax year 2023.

This has created increased work for the office-based agents who answer calls, process deeds, and monitor and administer the current use program participants in the Unorganized Territory. Similarly, increased sales and building activity in the Unorganized Territory in recent years has resulted in the need for an additional employee to do routine building inspections and discover and list property in the Unorganized Territory.

The other two new positions are for the Division's Municipal Services section. The addition of two complex programs -- the Elderly Tax Deferral Program last year and the Property Tax Stabilization program this year -- plus the State Valuation shift mentioned above, has stretched existing resources. The additional positions are needed to administer the Bureau's portion of the new programs as well as answer questions, draft and maintain forms and guidance, and provide assistance to assessors, municipalities, and the public.

Next, I would like to move to the Income/Estate Tax Division within the Bureau. The Income/Estate Tax Division is responsible for the administration of nine taxes and numerous reimbursement programs and tax credits, most notably the student loan repayment credit, property tax fairness credit, sales tax fairness credit, and earned income tax credit.

The Individual Income Tax Unit within the Division is staffed with 24 full-time equivalent positions. In fiscal year 2022, the Unit provided direct taxpayer assistance in the form of 56,317 telephone calls, 24,529 emails, 5,375 other written correspondence and reviewed over 470 petitions for reconsideration of assessments. The staff also conducted taxpayer outreach and participated in tax preparer education programs like the State Tax Symposium, Tax Practitioner Institute, Maine Association of Professional Accountants, Northern New England Society of Enrolled Agents, NH Chapter National Association of Tax Professionals, Volunteer Income Tax Assistance/American Association of Retired Persons, Cash Coalition of Maine, and various agencies on aging, legal groups, and community action programs. And the Division helped the Department of Health and Human Services to promote benefit programs to thousands of Maine's most vulnerable residents.

Over the past four years, the number of individual income tax returns filed has increased by more than 17%; nearly 12% alone for tax year 2021. The statistics below represent the number of returns filed through December 31 of the past seven calendar years.

Calendar Year	Returns Filed	Year over Year Increase
2021	864,528	11.87%
2020	772,818	2.16%
2019	756,513	2.85%
2018	735,543	2.09%
2017	720,481	2.35%
2016	703,915	1.75%
2015	691,520	

During fiscal year 2022, there were more than 763,600 individual income tax returns filed, of which 72% claimed a refund. Approximately 54,300 returns were manually reviewed and fraudulent refund claims of \$49,942,431 were identified. Staff reviews of non-fraudulent returns resulted in \$11,085,167 in tax, interest, and penalties being assessed for under-reporting.

Changes to Maine's income tax laws over the years have significantly increased the complexity and volume of work. Each legislative initiative that impacts the individual income tax return creates some level of complexity and administrative burden, but generally does not warrant requesting a full-time position in the cost impact. Collectively, those changes add up, creating a deficit in staffing to make needed changes, update guidance documents, and provide the level of service Maine taxpayers deserve.

The next four initiatives, beginning at the bottom of page A-42 establish one Public Service Manager II position, 2 Tax Section Manager positions, 2 Senior Tax Examiner positions, and 5 Tax Examiner positions to support the Income/Estate Tax Division. The four combined initiatives include an appropriation of \$1,054,244 in fiscal year 2024 and \$1,095,518 in fiscal year 2025 for Personal Services and All Other costs.

As with the Revenue Agent classifications mentioned above, the Bureau makes significant investments in staff in the Tax Examiner series of classifications, including specialized training on relevant laws and audit techniques. Institutional knowledge and experience in the classifications are necessary to respond to increasingly complex tax administration and auditing. As such, the Bureau needs to attract and retain qualified Examiners and provide opportunities for continued career growth and advancement. Public Law 2021, c. 398, Part P authorized the creation of a new Tax Examiner III classification and the implementation of a training progression program that allows an employee to automatically promote from Tax Examiner I to Tax Examiner II and Tax Examiner III upon completion of specified competencies. As such, all Tax Examiner positions are currently funded at the Tax Examiner III level.

Continuing on page A-43 is one initiative to establish one Office Specialist I Supervisor position and 2 Office Specialist I positions in the Operations Processing Unit within the Bureau. The Unit staff are responsible for providing customer service through examination, review, and processing of various state tax forms and by responding to taxpayer inquiries. The Office Specialist I staff members correct errors on Maine tax returns, handle inbound and outbound telephone calls and emails, process new taxpayer registration applications, and provide login and technical Maine Tax Portal assistance.

As the Bureau of Revenue Services continues to automate, routine inquiries from taxpayers previously handled by subject matter experts are being shifted to the Operations Processing Unit staff. The transition of work allows the subject matter experts the opportunity to provide better customer service for the more complex tax issues but creates a need for more Office Specialist positions to handle the routine inquiries.

This work is currently being supported by State employees and contract staff. The goal is to cover the full-time work with State employees and supplement the high peak seasonal work with contract staff. The Unit is staffed with nine full-time equivalent State employees and is supplemented with approximately 16 equivalent contracted staff. In fiscal year 2022, the Unit provided direct taxpayer assistance in the form of 26,360 telephone calls and 6,804 emails. The Unit also corrected 13,749 tax returns and set up 17,961 new tax account registrations.

Due to the current and increasing volume of work, additional full-time staffing will benefit Maine taxpayers by reducing work backlogs in suspended returns, refund processing, and new taxpayer registrations.

The initiative includes an appropriation of \$245,097 in fiscal year 2024 and \$258,576 in fiscal year 2025 that includes Personal Services and All Other costs.

Next, I would like to turn back to page A-45. There is one initiative (5<sup>th</sup> initiative on the page) that includes an appropriation of \$375,381 in fiscal year 2024 and \$381,481 in fiscal year 2025 in the Personal Services line category to expand the current Revenue Agent to Senior Revenue Agent training program to include a second career ladder from Senior Revenue Agent to Principal Revenue Agent. As information, this initiative also includes a Highway Fund appropriation of \$26,481 in fiscal year 2024 and \$26,805 in fiscal year 2025 in the Personal Services line category. The accompanying statutory language is found in **Part L**.

As mentioned earlier in my testimony, the Revenue Agent classification is part of a training program that allows an employee to automatically promote to Senior Revenue Agent upon completion of specified competencies.

Institutional knowledge and experience in the Revenue Agent series of classifications are necessary to respond to increasingly complex tax administration and auditing.

As such, the Bureau needs to attract and retain qualified Revenue Agents and provide opportunities for continued career growth and advancement. The Bureau makes significant investments in staff in the Revenue Agent series of classifications, including specialized training on relevant laws and audit techniques.

In recent years, the Bureau has experienced high turnover at the Revenue Agent level. This initiative would increase retention of highly trained staff through the expansion of the career ladder training program, promoting growth and advancement based on ability. At the top end of the classification, Principal Revenue Agents, are the most highly skilled audit positions. In addition to conducting the most complex audits, the Principal Revenue Agents are tasked with training and onboarding new Revenue Agents and providing instruction and support throughout the training program.

This initiative expands on the existing Revenue Agent to Senior Revenue Agent training program by adding a second step on the career ladder from Senior Revenue Agent to Principal Revenue Agent. Employees in the Senior Revenue Agent classification will automatically promote to Principal Revenue Agent upon completion of specified competencies. All affected positions will be fully funded at the Principal Revenue Agent level.

There are two staffing initiatives beginning on page **A-45** for the Office of Tax Policy within the Bureau.

By statute, the Office of Tax Policy (OTP) is responsible for providing economic and legal policy analysis on tax issues; oversight of tax legislation review; providing revenue forecasting analysis to the Revenue Forecasting Committee; the preparation of tax expenditure reports; the establishment of policy criteria reflected in bureau rules and advisory rulings; and related public relations.

The first initiative (last one on **page A-45**) appropriates \$10,183 in fiscal year 2024 and \$10,708 in fiscal year 2025 for the reorganization of one Public Service Coordinator I position to a Public Service Coordinator II position. The reclassification reflects the needed broadening of expertise and duties of the OTP Staff Attorney to address the increasing number, complexity, and range of tax policy matters handled by the Office.

The focus of this position is in-depth research, analysis, drafting, communications, and advice. This position will supervise the new position in the next initiative.

The second initiative, at the top of **page A-46**, appropriates \$102,748 in fiscal year 2024 and \$108,561 in fiscal year 2025 to establish one Public Service Coordinator I position. The new position will be responsible for organizational, tracking, and basic background research work. Together, those two positions will have primary responsibility for selected annual tax bills; project management with the MRS Divisions for preliminary drafting of bills, bill summaries, memoranda, and testimony; tracking tax legislation and legislative reports through all stages; flagging key issues for OTP Tax Policy Counsel and the Associate Tax Policy Counsel, and ensuring timely submission of reviewed and approved final versions of those documents for DAFS, the Office of the Governor, and the appropriate Legislative Committees. This reorganization addresses OTP's increasing workload and better aligns the wide scope of OTP work with the corresponding training, skills, and experience levels of its staff.

Moving back to pages **A-43** and **A-44**, the next four initiatives are appropriations needed to meet statutory requirements enacted by the 130<sup>th</sup> Legislature. The amounts requested in the following initiatives were identified in each of the applicable fiscal notes when the bill was enacted.

The first is a General Fund appropriation of \$1,300 in fiscal year 2024 and \$1,350 in fiscal year 2025 to reimburse municipalities 50% of the amount of lost property tax revenues resulting from the exemption of central labor councils from property tax as required by Public Law 2021, chapter 410, An Act To Improve Maine's Tax Laws by Providing a Property Tax Exemption for Central Labor Councils. Reimbursement of at least 50% of the tax revenue lost by municipalities as a result of new property tax exemptions is mandated by Article IV, Part Third, Section 23 of the Maine Constitution.

The second initiative provides a one-time General Fund appropriation of \$22,000 in fiscal year 2024 for computer programming to add lines to the individual income tax and fiduciary income tax returns. The All Other costs are required as a result of enactment of Public Law 2021, chapter 707, An Act To Reinstate and Increase the Income Tax Deduction for Contributions to Education Savings Plans.

The third initiative provides a one-time General Fund appropriation of \$66,000 in fiscal year 2024 for computer programming to add lines to the individual, fiduciary and corporate income tax returns related to tribal exemptions as required by Public Law 2021, chapter 681, An Act To Enhance Tribal-State Collaboration, To Revise the Tax Laws Regarding the Houlton Band of Maliseet Indians, the Passamaquoddy Tribe and the

Penobscot Nation and To Authorize Casinos, Off-Track Betting Facilities, Federally Recognized Indian Tribes and Certain Commercial Tracks To Conduct Sports Wagering.

The fourth initiative provides a one-time General Fund appropriation of \$33,000 in fiscal year 2024 for computer programming to add lines to the individual, fiduciary and corporate income tax returns related to a refundable income tax credit for qualified paper manufacturers as required by Public Law 2021, chapter 482, An Act To Revitalize Maine's Paper Industry through the Establishment of an Income Tax Credit for Paper Manufacturing.

Continuing on page A-44, are two initiatives related to technology. Public Law 2019, chapter 343, Part O authorized the Department of Administrative and Financial Services, Office of Information Technology and the Bureau of Revenue Services to enter into financial arrangements for the acquisition, licensing, installation, implementation, maintenance and support of computer hardware, software and other systems to support the operations of the tax collection system of the Bureau.

As mentioned earlier in my testimony, the Bureau is in its third year of a four-year project to modernize its decades-old tax administration technology. I feel compelled to reiterate, the State Tax Administration and Revenue System (STARS) project has successfully completed two rollouts and is on schedule and budget to meet the next two rollouts. To date, twenty-one taxes, fees, and programs have been converted to the new system allowing taxpayers and tax practitioners the convenience of filing and paying online using the Maine Tax Portal.

This first initiative appropriates \$5,829,950 in fiscal year 2024 and \$6,496,058 in fiscal year 2025 to meet the debt repayment schedule.

The second initiative reduces \$2 million in fiscal year 2025 in the Other Special Revenue Funds due to the decommissioning of legacy collections systems.

The reduction represents costs of \$1.1 million associated with the data warehouse collections initiative and \$900,000 in collections and other technology projects.

The last initiative on **page A-44** is an appropriation of \$3,550 in each fiscal year for the increased costs of the economic models for the State Economist and the Office of Tax Policy. The increased cost is shared by the Bureau of Revenue Services and the Office of the State Economist. This represents the Bureau's portion of the increased costs. A corresponding increase is included in the **Office of the Commissioner (0718)** account found on **page A-37**.

The final initiative for the Bureau, found at the top of page A-45, reflects the funding needed for MRS' share of the financial and human resource service center. Service Centers within DAFS provide centralized accounting, payroll, budgeting and human resources services to departments and agencies. Service Centers are established as an internal service fund intended to recoup their costs through billings to departments and agencies for services provided. The Service Centers expenses are higher due to negotiated and benefit changes to Personal Services as well as increases in operational costs. This recoupment process results in increased billing rates to departments and agencies.

### **Snow Grooming Property Tax Exemption Reimbursement (Z024)**

On page A-48 is the baseline budget of \$26,880 per year for the **Snow Grooming Property Tax Exemption** program. The purpose of this program is to reimburse municipalities for property tax revenue lost as a result of the exemption for trail grooming equipment registered with the Department of Inland Fisheries and Wildlife. Reimbursement of at least 50% of the tax revenue lost by municipalities is mandated by Article IV, Part Third, Section 23 of the Maine Constitution. The snow grooming equipment is purchased by local snowmobile clubs and used to maintain Maine's snowmobile trail system.

There is one initiative in this program that provides an appropriation of \$3,120 each year for the expected increased registration costs associated with this program.

### **Tree Growth Tax Reimbursement (0261)**

On page A-55 is the baseline budget of \$10.8 million per year for the **Tree Growth Tax Reimbursement** program. The purpose of this program is to help moderate municipal property tax rates for municipalities that experience reduced valuations due to the mandated use of lower current use values in place of higher ad-valorem values under the Maine Tree Growth program. The reduced valuation on forestland causes a general shift in local tax burden to non-classified property because the lower taxable valuation base produces a somewhat higher property tax rate.

Unlike other property tax reimbursement programs, the Tree Growth Tax Reimbursement program is authorized by the Constitution before the amendment mandating at least 50% reimbursement by the State, which means we can adjust this program differently than others. Currently, the State reimburses municipalities for revenue loss associated with the program. For tax year 2021, there were approximately 3.6 million classified acres included in more than 24,000 parcels in municipalities statewide reimbursed through the program. Although not reimbursed through this program, there are an additional 7.5 million acres of classified forestland in the Unorganized Territory.



Increased activity in the real estate market of the last several years has resulted in significant land value increases statewide, creating a widening gap between the Tree Growth values, which are not increasing nearly as fast, and the assessed values, resulting in additional tax revenues lost by the municipalities.

As a result, there is one initiative in the program that provides an appropriation of \$1,200,000 in fiscal year 2024 and \$2,400,000 in fiscal year 2025 to fund this gap.

#### **Unorganized Territory Education & Services Fund – Finance (0573)**

On page **A-55** is the **Unorganized Territory Education & Services Fund**. This Fund disburses tax revenue assessed on Unorganized Territory properties to the counties that provide services to the Unorganized Territory. The Office of the State Auditor is the fiduciary of the Fund and the Bureau collects the revenue and makes the distributions on behalf of the State Auditor. The annual allocation in this fund is \$26,091,788 per year.

There is one initiative in this program that provides an allocation of \$908,212 in fiscal year 2024 and \$2,908,212 in fiscal year 2025 for anticipated growth in county taxes and the cost of county services.

#### **Veterans Tax Reimbursement (0407)**

On page **A-56** is the baseline budget of \$1.26 million annually for the **Veterans Tax Reimbursement** program. The purpose of this program is to diminish the effects on local property tax burdens arising from the municipal exemption provided for estates of qualified veterans and certain survivors of a deceased veteran who are eligible based on the qualifying service of that veteran. Reimbursement to municipalities for at least 50% of the lost property tax revenues associated with the exemption is mandated by Article IV, Part Third, Section 23 of the Maine Constitution.

There is one initiative in this program that provides an appropriation of \$40,000 in fiscal year 2024 and \$140,000 in fiscal year 2025 to accommodate anticipated reimbursements based on the expansion of the exemption in the Veteran's Tax Exemption Reimbursement Program enacted in Public Law 2021, chapter 682, An Act To Expand Eligibility for the Veterans' Property Tax Exemption.

## **Veterans' Organizations Tax Reimbursement (Z062)**

On page **A-56** is the baseline budget of \$44,800 annually for the **Veterans' Organizations Tax Reimbursement** program. The purpose of this program is to reimburse municipalities for the loss in property tax revenue associated with the property tax exemption granted to veterans' organizations. Reimbursement of at least 50% of the tax revenue lost by municipalities is mandated by Article IV, Part Third, Section 23 of the Maine Constitution.

There is one initiative in this program that provides an appropriation of \$5,200 each year for the expected increase in reimbursements to municipalities.

## **Waste Facility Tax Reimbursement (0907)**

On page **A-57** is the baseline budget of \$10,920 annually in the **Waste Facility Tax Reimbursement** program.

The purpose of this program is to reimburse municipalities for the loss in property tax revenue as a result of the exemption provided to certain waste storage facilities. These facilities are constructed solely for the storage of manure and other wastes generated by animal production. Eligible facilities must have appropriate plans filed with the Department of Agriculture, Conservation, and Forestry. Reimbursement of at least 50% of the tax revenue lost by municipalities is mandated by Article IV, Part Third, Section 23 of the Maine Constitution.

There is one initiative in this program that provides an appropriation of \$4,080 in fiscal year 2024 and \$5,080 in fiscal year 2025 based on the calculated amount needed for reimbursements.

## **Part L**

**Part L** is on **page 20** of the language document. As previously discussed, this Part authorizes the State Tax Assessor to implement a program to develop the expertise of Senior Revenue Agents. Upon successful completion of the program and demonstration of prescribed competencies, employees in this classification may immediately progress to the Principal Revenue Agent classification. Until achievement of these benchmarks, compensation will be at the Senior Revenue Agent level. The changes will improve the ability of the Bureau of Revenue Services to attract and retain capable agents in order to respond to the increasing complexity of tax administration and auditing.

## **Part M**

**Part M** is found on **pages 20 and 21** of the language document. As mentioned earlier, this Part limits the jurisdiction of the Board of Tax Appeals to matters where the amount in controversy is \$500,000 or less. Currently, taxpayers may appeal to BTA or Superior Court when the controversy is over \$1,000 – without an upper limit. A review shows that cases where the controversy exceeded \$500,000 resulted in 65% being appealed to Superior Court de novo. De novo review means a new trial, without any deference to the findings of fact or law made by the prior decision maker. These cases are more complex and BTA does not have the resources or rules available to it that are available through the Maine court system.

## **Part WWW**

**Part WWW** is on **page 56** of the language document. Part WWW is standard language that recurs biennially and is submitted to recognize the various tax expenditures that are included in Maine law.

Tax expenditures are defined in Title 36, Section 199-B of the Maine Revised Statutes as any provision of state law that results in the reduction of tax revenue due to the special exclusions, exemptions, deductions, credits, preferential rates or deferral of tax liability. The Maine State Tax Expenditure Report, which is prepared biennially, is available online. <https://www.maine.gov/revenue/taxes/tax-policy-office>

Leaving Maine Revenue Services, but staying with tax items.

## **Office of the Treasurer of the State**

The Municipal Revenue Sharing program, which exists to stabilize the municipal property tax burden and to aid in financing municipal services, is divided into two programs.

The State Municipal Revenue Sharing (I) program and the Disproportionate Tax Burden (II) Fund. The Office of the Treasurer of the State processes both Revenue Sharing I and II payments. The monthly revenue sharing pool is funded by a transfer of a percentage of sales, service provider, personal and corporate income tax receipts. Municipalities receive funds according to a set formula that relies on state valuation, tax assessment and population.

## **Disproportionate Tax Burden Fund (0472)**

The **Disproportionate Tax Burden Fund**, more commonly known as Revenue Sharing II, can be found on page A-638 of the budget document. There is one initiative in this program to reflect the December 2022 Revenue Forecast. The adjustment increases the allocation by \$3,735,358 in fiscal year 2024 and \$5,232,019 in fiscal year 2025. This will result in total allocation of \$53,609,916 in fiscal year 2024 and \$55,106,577 in fiscal year 2025.

## **State – Municipal Revenue Sharing (0020)**

The **State – Municipal Revenue Sharing** program, also known as Revenue Sharing I, is on page A-641. The baseline budget of \$183,498,229 represents the budgetary authorization for revenue sharing at 5%. There is one initiative in this program to reflect the December 2022 Revenue Forecast.

The adjustment increases the allocation by \$14,941,439 in fiscal year 2024 and \$20,928,079 in fiscal year 2025. This will result in total allocation of \$198,439,668 in fiscal year 2024 and \$204,426,308 in fiscal year 2025.

The total allocation for municipal revenue sharing, the combination of these two accounts, will be \$252,049,584 in fiscal year 2024 and \$259,532,885 in fiscal year 2025.

## **Maliseet Sales Tax Fund (N952)**

On page A-639 is the **Maliseet Sales Tax Fund** program. The Fund was established by Public Law 2021, chapter 681, An Act To Enhance Tribal-State Collaboration, To Revise the Tax Laws Regarding the Houlton Band of Maliseet Indians, the Passamaquoddy Tribe and the Penobscot Nation and To Authorize Casinos, Off-Track Betting Facilities, Federally Recognized Indian Tribes and Certain Commercial Tracks To Conduct Sports Wagering, as an Other Special Revenue account to be administered by the Treasurer of State. The annual allocation in this program is \$500 per year.

There is one initiative in this program that provides an allocation of \$5,000 in each year for the purpose of returning sales tax revenue to the Houlton Band of Maliseet Indians for sales occurring on Houlton Band Trust Land as required by the Maine Revised Statutes, Title 36, chapter 213, section 1815.

### **Passamaquoddy Sales Tax Fund (0915)**

On page A-639 is the **Passamaquoddy Sales Tax Fund** program. The Fund is established as an Other Special Revenue account to be administered by the Treasurer of State for the purpose of returning sales tax revenue to the Passamaquoddy Tribe as required by the Maine Revised Statutes, Title 36, chapter 213, section 1815. The annual allocation in this program is \$17,607 per year.

There are no new initiatives in this program.

### **Penobscot Sales Tax Fund (Z360)**

On page A-670 is the **Penobscot Sales Tax Fund** program. The Fund was established by Public Law 2021, chapter 681, An Act To Enhance Tribal-State Collaboration, To Revise the Tax Laws Regarding the Houlton Band of Maliseet Indians, the Passamaquoddy Tribe and the Penobscot Nation and To Authorize Casinos, Off-Track Betting Facilities, Federally Recognized Indian Tribes and Certain Commercial Tracks To Conduct Sports Wagering, as an Other Special Revenue account to be administered by the Treasurer of State. The annual allocation in this program is \$500 per year.

There is one initiative in this program to provide an allocation of \$5,000 per year for the purpose of returning sales tax revenue to the Penobscot Nation for sales occurring on Penobscot Indian Territory as required by the Maine Revised Statutes, Title 36, chapter 213, section 1815.

### **Property Tax Relief Fund for Maine Residents (Z285)**

The **Property Tax Relief Fund for Maine Residents** is on page A-485. This program was created through Public Law 2019, chapter 448, An Act To Return Funds to Maine Property Tax Payers. The allocation was intended to fund expenses necessary to provide property tax relief payments of at least \$100 to property taxpayers when such an amount accumulated in this fund. Between January and April of 2020, checks totaling \$32,224,504 were delivered to 309,851 Maine property taxpayers, basically zeroing out the account.

There is one initiative in this program reducing the allocation to \$0.

This concludes my testimony. Thank you. I am happy to answer any questions you may have.