

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

Before the Joint Standing Committee on Taxation
Hearing Date: *January 25, 2024*

LD 1454 – “*An Act Regarding the Distribution of Revenue from the Real Estate Transfer Tax*”

Senator Grohoski, Representative Perry, 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 Against LD 1454, “*An Act Regarding the Distribution of Revenue from the Real Estate Transfer Tax.*”

This bill changes the distribution of revenue from the real estate transfer tax beginning in fiscal year 2023-24 to provide that, after transferring sufficient funds to the Maine Energy, Housing and Economic Recovery (Recovery) Fund to meet Maine State Housing Authority's (MSHA) obligations relating to bonds issued or planned to be issued by MSHA, all remaining revenues received by the State would be distributed entirely to the Housing Opportunities for Maine (HOME) Fund. In addition, for fiscal years 2025-26 to 2030-31, as long as the revenue to the Authority does not fall below fiscal year 2021-22 levels, 50% of the remaining funds received in the HOME Fund must be used to support new low-income housing.

First, I'd like to highlight that the bill seeks to make changes to distributions for fiscal year 2023-24, which is already more than halfway completed. The bill should be amended to clarify whether the intention is to retroactively change the distributions already made or to instead go into effect for a future fiscal year.

Note also that the section of law that this bill seeks to change, 36 M.R.S. § 4641-B, has been amended since this bill was introduced. Last session, the Legislature created the Housing First Program to help address the problem of chronic homelessness in the State. That program was funded, in part, through changes in the distribution of revenues received from the real estate transfer tax. Under the bill that created the Housing First Fund, P.L. 2023, c. 412, beginning for fiscal year 2025-26, the revenues from the real estate transfer tax are split 50/50 between the Recovery Fund and the HOME Fund.

For the 50% sent to the HOME Fund, at least 25% must be used to support the creation of new low-income housing. The other 50% of real estate transfer tax revenue must first be used to cover MSHA's obligations related to bonds it has issued or plans to issue, with the remaining amount split 50/50 between the General Fund and the Housing First Fund.

The changes in this bill, at minimum, need to be harmonized with the changes made to section 4641-B that were passed into law last session. However, this bill as drafted does not provide for any distributions to either the General Fund or the Housing First Fund. This would effectively eliminate a significant portion of the funding for the brand-new Housing First Program, while also resulting in a significant loss of revenue to the General Fund of approximately \$19.5 million in fiscal year 2024-25 and around \$10 million per year thereafter. The changes the Legislature made to the transfer tax distribution structure last session have not even fully gone into effect. For that reason, along with the substantial loss in revenue to the General Fund, the Administration is opposed to the bill.

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.