

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

Before the Joint Standing Committee on Taxation
Hearing Date: *February 7, 2024*

LD 2162 – “*An Act Regarding the Homestead Property Tax Exemption and the
Property Value Reassessment Process*”

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Peter Lacy, Staff Attorney with the Office of Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD 2162 - “*An Act Regarding the Homestead Property Tax Exemption and the Property Value Reassessment Process.*”

The bill makes changes to two existing property tax programs. First, the bill provides an additional \$15,000 homestead exemption for properties with an assessed value of less than \$100,000, with the additional exemption to be reimbursed 100% by the State. In addition, the bill makes changes to the working waterfront program, changing the types of property that would be eligible for the program, increasing the reductions in value for eligible properties, and allowing delayed payment of a withdrawal penalty in certain circumstances.

Regarding the homestead changes, passage of this bill would create a significant tax cliff for homeowners whose homesteads are near the \$100,000 threshold, where a small change in value could result in a significant increase in taxes. It also creates a disproportionate benefit, where a homestead valued less than \$100,000 would receive a 40% or more reduction in value, while a homestead valued at more than \$100,000 would receive a reduction of less than 25%.

For the working waterfront program, it is unclear from the language of the bill the intent of many of the changes, although it appears to be broadening the eligibility for the program in ways that may or may not be consistent with the original purposes of the working waterfront program. In addition, the emergency preamble means that there is a possibility that the changes for both the homestead exemption and working waterfront program could be implemented for the property tax year beginning April 1, 2024, which would create significant administrative issues for MRS and for municipalities in setting budgets and committing taxes.

MRS has a number of additional technical concerns regarding the language of the bill, which we will be happy to further discuss with the Committee at the Work Session.

Property tax relief is important, and in the last 5 years the State has increased both school and revenue sharing funding, expanded the homestead exemption, and significantly increased targeted property tax relief through the Property Tax Fairness Credit. However, enactment of this bill will increase the complexity of an already complex group of property tax relief programs. In addition, the bill would require a significant increase in funding to reimburse municipalities for the expanded homestead exemption, with a preliminary fiscal impact estimated to be approximately \$8 million per year.

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.