

## **Testimony - LD 2207 - An Act to Establish Municipal Cost Components for Unorganized Territory Services to Be Rendered in Fiscal Year 2024-2025**

### **Presented to the Joint Standing Committee on Taxation**

**Nancy V. Bodine, Fiscal Administrator of the Unorganized Territory  
Office of the State Auditor**

Senator Grohoski, Representative Perry, and distinguished members of the Joint Standing Committee on Taxation, my name is Nancy Bodine and I serve as the Fiscal Administrator for the Unorganized Territory. I am here today to testify in support of LD 2207 - *An Act to Establish Municipal Cost Components for the Unorganized Territory Services to be rendered in Fiscal Year 2024-2025*. This legislation is presented annually in compliance with Title 36, Chapter 115: *The Unorganized Territory Educational and Services Tax*.

Unorganized Territory (UT) property taxpayers receive municipal type services from State agencies and from their counties within the Unorganized Territory Tax District, which was created by legislation in 1977. This legislation established a special purpose tax district in order to coordinate, contract and provide municipal type services to the UT because there is no local incorporated government to contract with or to provide municipal services. The majority of the UT is physically remote, rural, and represents approximately one half of the State of Maine land area. It is a challenge to provide these municipal services to the small population of less than 9,000 residents and businesses scattered across this large area of Maine. (reference UT map on page six)

This bill funds the municipal services provided to the UT residents and taxpayers. LD 2207 contains the proposed FY25 UT municipal service budgets from six State agencies and 12 counties that have been summarized and drafted for presentation to the legislature. All costs associated with the UT municipal services are funded by UT assessed and collected property taxes.

The UT municipal services provided by State agencies and counties are known as the Municipal Cost Components (MCC). The total UT budget falls into the following categories:

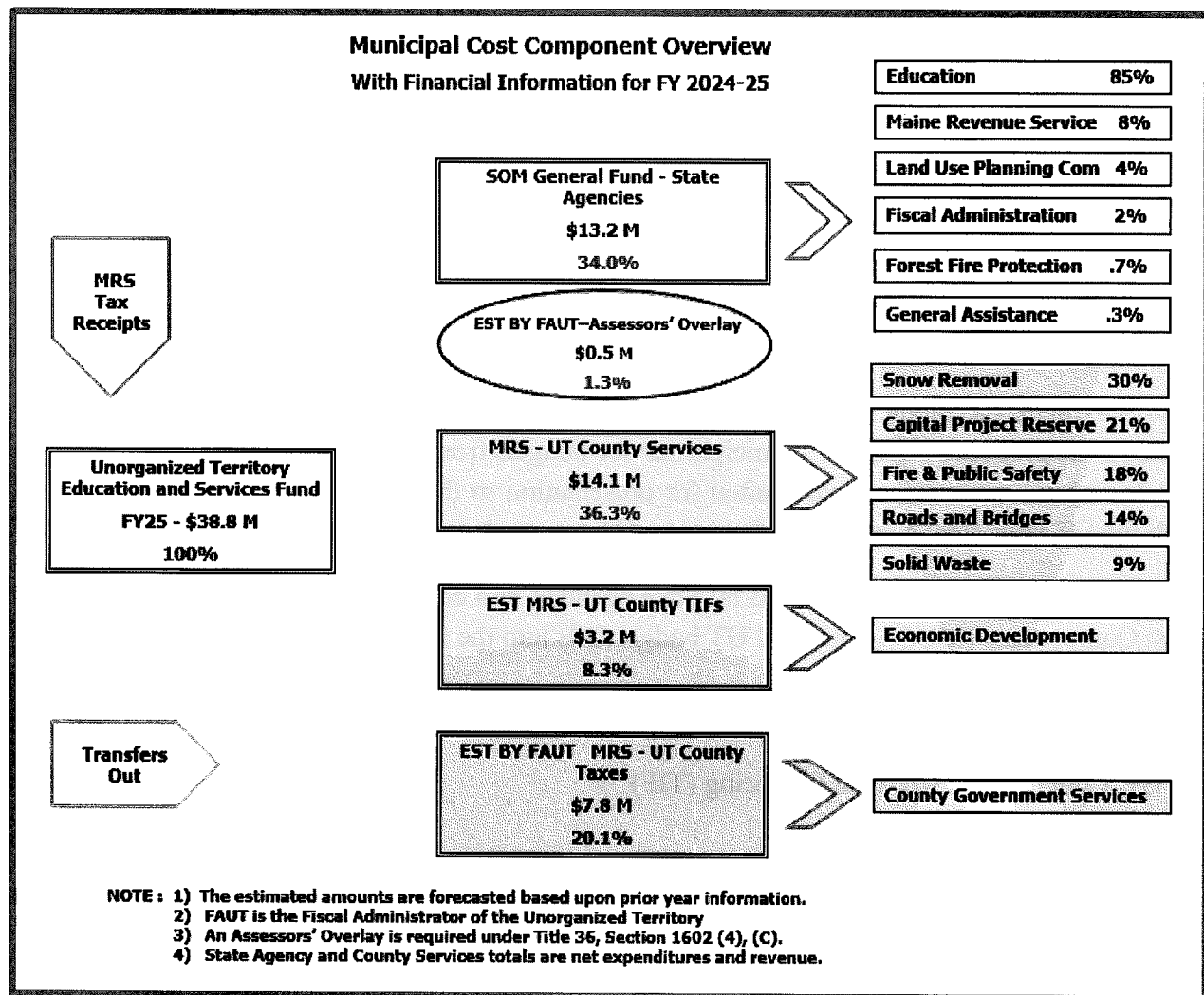
- 1) State Agency Services,
- 2) County Services,
- 3) County Tax Increment Financing (TIF)
- 4) County Taxes

Overall, the total estimated FY25 Municipal Cost Component legislative funding request, before county taxes and overlay, is \$30,538,188, which is \$1,773,580 or 6.2% higher than the budgeted amounts enacted for FY24.

The process chart on the next page illustrates the flow of taxpayer payments into the Unorganized Territory Education and Services Fund (UTES) and the distribution of these payments into the various municipal cost components. The process starts with legislative approval of the requested

funding in support of the UT. The Maine Revenue Service (MRS) State Tax Assessor (STA) applies this funding data to the MRS UT assessed property valuations to calculate mill rates and to prepare and issue the UT taxpayer bills. MRS then collects and deposits the UT property tax into the UTES fund. UT property tax revenues are transferred dollar for dollar into the State General Fund for all State agency expenditures related to services provided to the UT residents and taxpayers. Upon notification from the STA, the Fiscal Administrator of the Unorganized Territory (FAUT) transfers funds to MRS for payment to the counties who provide municipal services to the UT residents and taxpayers.

### An Overview of the MCC Process



### 1) State Agency Services Budgets

The total FY25 State Agency budget of \$13,207,224 increased by \$449,122 or 3.5% from the FY24 State agency budget. The primary reason for this increase is the Education budget increase of \$1,555,763 or 11.0% and the MRS increase of \$161,235 or 12.7% offset by the additional revenue transfer of \$1,001,346 available from the UTES Fund Balance. The available UTES funds are the result of an accumulated tax overlay balance and the less than budget, actual State agency spending, which was held in reserve for the school renovations and MRS personal service FY24/25 Biennial budget initiatives.

### 2) County Services Budgets

FY25 total County Services budgets increased by \$1,162,507 or 9.0% from the FY24 budget. The leading service categories contributing to the increase are:

- Roads and Bridges - \$208,965 or 8.8%
- Snow Removal - \$346,968 or 6.9%
- Solid Waste - \$162,394 or 11.1%
- Fire Protection & Public Safety (FP&PS) - \$242,931 or 8.2%
- Capital Reserve - \$534,150 or 14.8%
- County Revenues & Fund Balance - \$490,548 or 15.3%

The four counties with budget increases from FY24 to FY25 of greater than 9.0% or greater than \$150,000, and the impacted major service categories are:

- Aroostook County – Roads and Bridges \$37,848, Capital Reserves \$215,000
- Lincoln County – Capital Reserves \$50,350
- Piscataquis County – Snow Removal \$94,526, Capital Reserves \$95,000
- Somerset County – FP&PS \$49,873, Capital Reserves \$154,000

### 3) County TIF Budgets

MRS has estimated the FY25 budget for County TIF at \$3,189,868 which is \$161,951 or 5.3% above the amount that was estimated for County TIF in FY24. The budget for the County TIF will be complete when mill rates are finalized in July.

### 4) County Tax Budgets

Although County Taxes for the UT are not included in the annual MCC legislation, they are included in the mill rate calculations for the UT Tax District, and they are paid from the UTES Fund. The FY25 County Taxes fund sheriff services, jail operations, district attorneys, probate courts, registry of deeds, and treasury operations within each county. Due to the large land area of the UT, which spreads across 12 Maine counties, the UT is one of the largest payers of county taxes in Maine. The County Tax budget is estimated to increase \$329,688 or 4.4% from FY24 to FY25.

### **Trends, Comments, and Uncertainties**

The Total FY25 estimated tax commitment **before** county taxes and overlay shows an increase of \$1,773,580 or 6.2% from FY24. Since 2020, this tax commitment has increased by a total of \$3,113,702 which is an average annual growth of \$622,740 or 2.3%.

#### **Economic Factors:**

- Inflation between 2010-2020 averaged 1.7%, compared to a 4.7% average in 2021 (174% increase), 8.0% average in 2022 (70% increase), and 4.1% average in 2023 (-49% decrease). Inflation in December 2023 of 3.4% decreased to 3.1% for January 2024 (-9% decrease).
- Fuel costs have increased an average of 35% from the average 2021 rate of \$3.02/gal to an average of \$4.08/gal for 2022. The 2023 average rate of \$3.59/gal is a 12% decrease.
- Workforce shortages and wage expectations are having an impact on the renewal of various service contracts.

#### **State Agency:**

- The three EUT schools are older structures and require significant repair and renovations. Site evaluations are nearing completion with phase one and two costs included in the budget and funding requests. The UT education capital budget includes the purchase of one school bus on an annual basis. Tuition is under review.
- The MRS budget includes the impact of the FY24/25 Biennial budget initiatives to reorganize property appraiser positions into revenue agent positions.
- LUPC funding is based on State Valuation which increased by 13.1% for the UT.

#### **County Service:**

- Roads & Bridges – FY25 increase 8.8%, five-year average 8.3%
- Snow Removal – FY25 increase 6.9%, five-year average 7.2%
- Solid Waste – FY25 increase 11.1%, five-year average 7.0%
- Fire Protection & Public Safety – FY25 increase 8.2%, five-year average 20.2%
- Excise Tax Revenue – FY25 increase 3.8%, five-year average increase 2.6%
- Capital Reserve – FY25 increase 14.8%, five-year average increase 10.1%

#### **County Taxes:**

- During the 2015 Legislative Session, the Board of Corrections that oversaw county jails was disbanded and counties resumed full control of their county jails.
- Due to the uncertainty of state funding support for jail operations, the cost of county jails may rest exclusively on property tax funding. The need for facility repair and renovation has been raised as a funding concern.
- The Public Safety services provided to the UT by the County Sheriff departments are beginning to experience constraints due to staffing shortages and a shift in State Police resource support.

#### **Deorganization:**

- There are no deorganizations being considered.

This concludes my testimony on LD 2207. Thank you for the opportunity and I am happy to answer any questions the committee may have.

Respectively Submitted,

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**Attachment – State of Maine Map - Unorganized Territory**  
**★ Education in the Unorganized Territory – Elementary Schools**

