

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

Before the Joint Standing Committee on Taxation
Hearing Date: *April 2, 2025*

*LD 1112 – “RESOLUTION, Proposing an Amendment to the Constitution of
Maine Requiring Not Less Than 90 Percent State Reimbursement for Residential
Real Estate Property Tax Exemptions and to Establish a Minimum Homestead
Exemption”*

Senator Grohoski, Representative Cloutier, and members of the Taxation 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 Against LD 1112, *“RESOLUTION, Proposing an Amendment to the Constitution of Maine Requiring Not Less Than 90 Percent State Reimbursement for Residential Real Estate Property Tax Exemptions and to Establish a Minimum Homestead Exemption.”*

For context, the Maine Constitution requires the State to reimburse municipalities for at least 50% of the revenues lost as a result of property tax exemptions enacted after 1978. Under 36 M.R.S. § 685, the State currently reimburses municipalities for 76% of revenue lost as a result of the current \$25,000 Homestead Exemption.

This resolution proposes to amend the Constitution of Maine to require the Legislature to reimburse municipalities for not less than 90% of the lost property tax revenue associated with residential real estate exemptions extended to veterans of the Armed Forces of the United States and persons who are legally blind and for

qualifying homesteads of permanent residents of this State. The resolution also establishes the minimum homestead exemption at \$50,000.

The fiscal implications of this bill are still under review, but they would significantly increase the annual reimbursement issued to municipalities for revenues lost as a result of residential property tax exemptions. The homestead exemption alone would cost approximately \$100 million or more on an annual basis.

The Administration is opposed to L.D. 1112 because – even putting aside the tax policy and technical issues involved in this Constitutional Amendment – the amendment would significantly limit the ability of the Governor and Legislature to enact a balanced budget during periods of declining revenues. Limiting the flexibility of policymakers to adjust revenues and expenditures during periods of financial stress could impact the State even when revenues are strong because it is an important factor used by bond rating agencies in evaluating the State's credit worthiness.

Turning to the technical concerns with the bill, the proposed language refers to the “residential real estate” of veterans, while the veteran's property tax exemption applies to the “estate” of veterans, which includes both real and personal property.

The bill title also does not reflect the full scope of the Resolution – i.e., constitutionally mandated revenue sharing at 5%. If revenue sharing is raised above 5%, this bill appears to prohibit a future reduction in revenue sharing below the new level. The wording of this requirement, however, is unclear.

Furthermore, the inflation adjustment uses the consumer price index instead of the chained consumer price index used by other tax inflation adjustments. This

difference increases the complexity of tax inflation adjustments. This proposed constitutional amendment would also create a disparity between the Homestead Exemption and other residential property tax exemptions, none of which are adjusted by inflationary indexes.

Turning to the legal and statutory concerns, unlike the other portions of the provision, the proposed constitutional amendment does not include dates or timing for implementation of the new increased State reimbursement. This may cause confusion and should be clarified.

The administrative costs of the bill are under review.

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.