

Testimony – LD 1584 - An Act to Establish Municipal Cost Components for Unorganized Territory Services to Be Rendered in Fiscal Year 2025-26

Presented to the Joint Standing Committee on Taxation

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Office of the State Auditor**

Senator Grohoski, Representative Cloutier, and distinguished members of the Joint Standing Committee on Taxation, my name is Harold Chip Jones, and I serve as the Fiscal Administrator for the Unorganized Territory. I am here today to testify in support of LD 1584 - An Act to Establish Municipal Cost Components for Unorganized Territory Services to Be Rendered in Fiscal Year 2025-26. 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 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. Most of the UT is 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 Attachment 1 UT map)

This bill funds the municipal services provided to the UT residents and taxpayers. LD 1584 contains the proposed FY26 UT municipal service budgets from six State agencies and 12 counties that have been summarized and drafted for presentation to the legislature. (Not all counties submit a UT budget). All costs associated with the UT municipal services are funded by UT assessed and collected property taxes.

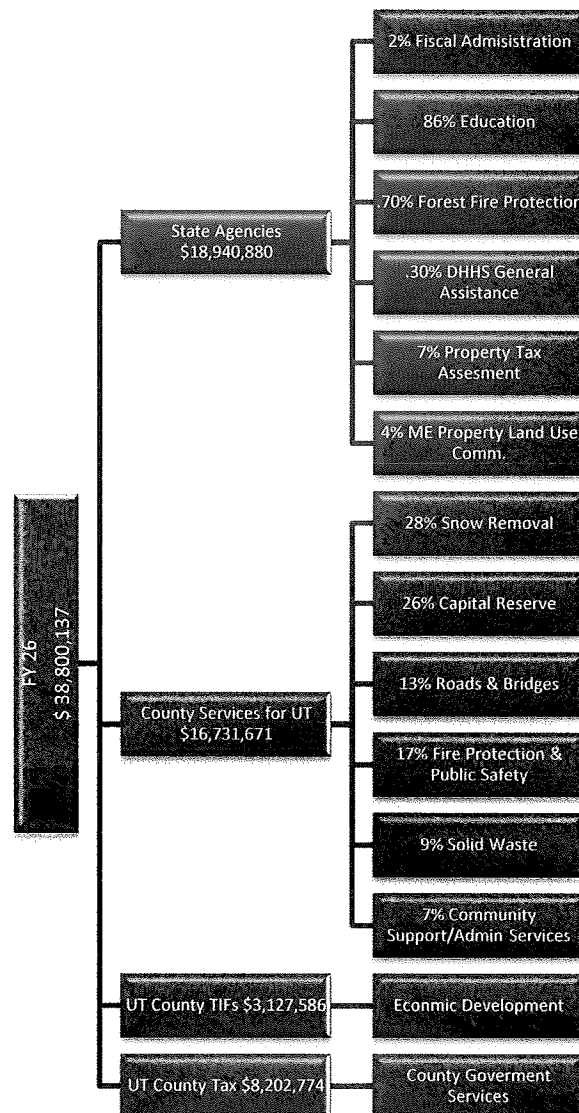
The UT municipal services provided by State Agencies and Counties are known as the Municipal Cost Components (MCC). The total UT budget falls into the following categories:

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

Overall, the total estimated FY26 Municipal Cost Component legislative funding request, before county taxes and overlay, is \$33,824,82 which is \$3,286,632 or 10.7% higher than the budgeted amounts enacted for FY25.

The process chart below 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.

MCC Process Chart



1) State Agency Services Budgets

The total FY26 State Agency budget of \$18,940,880 increased by \$664,497 or 3.6% from the FY25 State agency budget. The primary reason for this increase is the Education budget increase of \$630,664 or 4.03% for Special Education and the LURC increase of \$71,883 or 9.88%. The LURC budget is set by an equal to .014% of the most recent State Evaluation.

2) County Services Budgets

FY26 total County Services budgets increased by \$2,590,575 or 18.32% from the FY25 budget. The leading service categories contributing to the increase are:

- Roads and Bridges - \$159,535 or 6.3%
- Snow Removal - \$345,151 or 6.4%
- Solid Waste - \$116,432 or 7.2%
- Fire Protection & Public Safety (FP&PS) - \$259,982 or 7.9%
- Capital Reserve - \$1,527,059 or 40.6%

The four counties with budget increases from FY25 to FY26 of greater than 9.0% or greater than \$150,000, and the additional funds that impacted major service categories are:

- Franklin County – Capital Reserves \$1,071,340 and Fire & Public Safety \$143,564
- Oxford County – Capital Reserves \$475,000
- Piscataquis County – Fire & Public Safety \$71,475, Snow Removal \$131,600
- Somerset County – Roads & Bridges \$ 50,171, Capital Reserves \$70,000

3) County TIF Budgets

MRS has estimated the FY25 budget for County TIF at \$3,127,586 which is \$62,282 or 2% below the amount that was estimated for County TIF in FY25. 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 FY26 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.

Trends, Comments, and Uncertainties

MRS Tax Rates

The Total FY26 estimated tax commitment **before** county taxes and overlay shows an increase of \$2,513,097 or 14.1% from FY25. Since 2020, this tax commitment has increased by a total of \$6,436,443 which is an average annual growth of \$1,287,289 or 9.2%.

Economic Factors:

- Inflation between 2014-2024 averaged 2.6%, 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).
- Fuel costs have increased an average of 4% from 2014 to 2024. The average 2021 rate of \$3.02/gal to an average of \$4.08/gal for 2022. The average rate of \$3.58/gal is a 4% increase from 2014.
- Materials continue to be unstable in pricing and are having an impact on the increasing the renewal of various service contracts.

State Agency:

- The EUT operates three schools that have 101 students and tuitions 743 students to other schools. The UT education capital budget includes the purchase of one school bus on an annual basis. EUT schools or students also receive no General-Purpose Aid and education is solely funded by the UT taxpayer.
- The MRS budget includes the reduction of the FY26 Biennial budget initiatives to reorganize staffing hours to more appropriate work levels.
- LUPC funding is based on State Valuation which increased by 13.1% for the UT.

County Service:

- Roads & Bridges – FY26 increase 6.3%, five-year average 10.5%
- Snow Removal – FY26 increase 6.4%, five-year average 7.8%
- Solid Waste – FY26 increase 7.2%, five-year average 8.6%
- Fire Protection & Public Safety – FY26 increase 7.9%, five-year average 13.6%
- Excise Tax Revenue – FY26 increase 9.3%, five-year average increase 4.8%
- Capital Reserve – FY26 increase 40.6%, five-year average increase 8.5%

County Taxes:

- The Counties spend on average 49% of their Budget on the Jails within the county
- Due to the uncertainty of state funding support for jail operations, at least 80% of the cost of county jails rest exclusively on property tax funding.
- 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 is no deorganization being considered.

This concludes my testimony on LD 1584 Thank you for the opportunity and I am happy to answer any questions the committee may have at the will of the Chair.

Respectively Submitted,

Harold Chip Jones

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Attachment 1 – State of Maine Map - Unorganized Territory Schools
★Connor & Edmunds Consolidated School – Kingman Elementary Schools

