To: Senator Nicole Grohoski,
Representative Kristen Cloutier,
and all members and staff of
The Joint Standing Committee on Taxation

From: The Urbanist Coalition of Portland

Subject: **LD 1464** — *An Act to Provide for an Alternative Municipal Property Tax Assessment Rate*

Date: April 28, 2025

We members of the Urbanist Coalition of Portland (UCP) are interested in property taxes in Maine and Maine's towns because both the revenue and the incentives taxes create affect our goals: to solve the housing crisis, to make Portland a denser and more walkable city, and to improve non-automobile transportation options in the Greater-Portland area. We appreciate that other goals may be appropriate for other regions, but the status quo of property taxes in Maine offers towns little flexibility.

For that reason we endorse the bill LD 1464, sponsored by Representative Marc Malon, *"An Act to Provide for an Alternative Municipal Property Tax Assessment Rate"*. Here we will mostly address how we hope to see the proposed alternative assessment mechanism used in urban areas like Portland, but broadly-speaking the bill gives towns more choices for how to tax, or not tax, real estate.

It is already common practice in some towns to assess the value of real estate as the sum of two components: First the value of the area of land and its location, and second the value of *"improvements"* (most often buildings) on the land. It's broadly understood that state law currently requires that both of these be taxed at the same mill rate. LD 1464 will allow towns to split those taxes (the land value tax and the tax on improvements) apart from each other and adjust them individually.

"Land value tax" is the name for the tax assessed on the the value of the land itself, and there's good reason to prefer it over taxes on improvements. The revenue from taxes is necessary, but most taxes induce *deadweight loss*: less of the taxed stuff is produced or purchased than society would otherwise deem cost-effective because the tax inflates the cost. Land value tax has no such side effect because (with negligible exceptions) land is neither created nor consumed. In contrast, improvements to land are built at great expense; they are sold, and eventually they are consumed (depreciated). Taxes on improvements certainly induce deadweight loss: anyone deciding whether or what kind of house to build on a lot must factor the taxes on that house into their cost assessment. We are currently fighting a housing crisis, and an unintended side-effect of our property tax system is that it disincentivizes building houses!

As a somewhat concrete example, consider the owner of a $\frac{1}{10}$ acre lot with a single-family home on it. Recent changes make it permissible for them to build an accessory dwelling unit on some of the remaining space. Such construction would be a substantial investment; although the owners may have personal uses in mind, it's always illustrative to evaluate such investments in dry financial terms as sketched out in Table 1. With no tax on buildings, the owner might expect to recoup their investment in eight years, but a 1.5% tax on the building adds about 10% to the recoupment time. Under the status quo, and for a fixed town budget, the town in question has no choice about applying this disincentive to development. LD 1464 would give towns exactly such flexibility.

As a more concrete example, compare two properties in Portland, 165 Washington Ave and 89 Anderson St, described in Table 2. They are separated by $\frac{1}{3}$ mile, and have similar amenities and zoning. 89 Anderson is a larger, newer, building containing dozens of residential units, a restaurant, and a

	status quo	*only land value tax*
Mill rate	0.015	0.000
Upfront costs	$160,000	$160,000
Taxable value of new structure	$128,000	NA
Estimated revenue (per year)	$22,800	$22,800
Estimated maintenance (per year)	$3,150	$3,150
Marginal tax (per year)	$1,920	$0
Net revenue	$17,730	$19,650
Break-even time	9.02 years	8.14 years

Table 1: Time to recoup the investment of a backyard ADU under different tax regimes.

	165 Washington Ave	*89 Anderson St*
Uses	Warehouse & Storage	59 Units of Housing Restaurant Gear Hub Bike School Parking for each unit
Lot area	66,673 ft^2	23,348 ft^2
Land value	$363,600	$260,400
Building value	$741,500	$10,852,000
Annual tax	$14,355	$144,350

Table 2: Use and taxation of two comparable properties in Portland (before proposed re-development).

business serving local bicyclists. The lot at 165 Washington is about three times the size, but contains only a warehouse. The warehouse is presently empty; hopefully this lot will be redeveloped soon! The current use of 89 Anderson is much more in line with the goals expressed by Portland's comprehensive plan and recent re-zoning: it has mixed-use multi-family housing with density appropriate to its location on a transit corridor. At the same time, re-development of 165 Washington to match the usage of 89 Anderson will incur a matching tax burden, about ten times what the owner is currently paying. LD 1464 would give Portland the ability to re-structure their property taxes to avoid punishing exactly the kind of development they're seeking!

By shifting some of the tax burden from buildings to land, towns will be able to incentivize better use of land. There may not be a one-size-fits-all ideal ratio between the two mill rates. Eventually some municipalities may heavily favor land value taxes over taxes on buildings; likely many others will never use the new options afforded by LD 1464. Used appropriately, land value tax will be a powerful, elegant, and fundamental tool for solving the housing crisis and encouraging efficient market-based land use.

Thank you for considering LD 1464, and we hope you can recommend it to pass in the larger legislature.

——Mako Bates and peers at
The Urbanist Coalition of Portland
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