City of Sanford

From the Desk of
Steven R. Buck
City Manager

Memo

To: City Council
Subject: Sanford Manager's Report for March 21, 2017
Date: March 21, 2017

In lieu of the typical Manager's Report, attached is information pending for a Public Hearing before the Committee on Taxation at the State Legislature on Wednesday, March 22, 2017 centered on State Municipal Revenue Sharing. State Municipal Revenue Sharing is set forth in Law as M.R.S.A. Title 30-A §5681. It provides a distribution of the State collected broad-based taxes of income tax, corporate tax, and sales tax via a proportional formula back to Municipalities. The Legislative Findings are as follows;
Title 30-A **§5681. State-municipal revenue sharing**
1. Findings and purpose. The Legislature finds that:
A. The principal problem of financing municipal services is the burden on the property tax; and
B. To stabilize the municipal property tax burden and to aid in financing all municipal services, it is necessary to provide funds from the broad-based taxes of State Government.

This Law is over 40 years old and has been based upon a 5% Tax Burden Fund until recent legislative actions stemming back to 2008 began to either take specific distributions from the Fund and or reduced the percent distribution from 5% down to the current 2%. These reductions were taken at a time of severe economic downturn in our State, and in our Municipalities, and were a disproportionate taking and or impact upon Property Taxes.

Currently there are no less than 5 Bills targeted to adjust and or restore State Municipal Revenue Sharing. The Bills being heard on march 22, 2017 are;

LD 74, *An Act To Realign the State-Municipal Revenue Sharing Distribution.* This "concept draft" bill proposes to realign the percentage of revenue from the sales and income taxes that is transferred monthly from the General Fund to the Local Government Fund under state-municipal revenue sharing.

LD 133, *An Act To Support Lower Property Taxes by Restoring State-Municipal Revenue Sharing.* This bill restores the percentage of state sales and income tax revenue dedicated to the municipal revenue sharing program to its historical level of 5% over a three year period. The current but temporarily established level of 2% is increased by the bill to 3% for FYL 2018, 4% for FY 2019 and 5% for FY 2020 and thereafter.

LD 492, ***An Act To Restore Revenue Sharing.*** This bill is designed to restore the percentage of state sales and income tax revenue dedicated to the municipal revenue sharing program to its historic 5% level rather than the temporary 2% level that was enacted into law in 2015. The bill ramps up to the 5% level over a three year period by restoring the 5% standard in law more or less immediately but authorizing the state to “transfer” specific amounts of revenue out of the revenue sharing program and into the state’s General Fund for the remainder of FY 2018 and throughout FY 2019.

LD 875, ***An Act To Reduce Property Taxes.*** This bill repeals and replaces the law governing the distribution of municipal revenue sharing. The bill establishes a threshold full value property tax rate of 10 mills in order to receive any revenue sharing. For those municipalities with a full value mill rate over 10 mills, the bill creates an additional adjustment to the distribution that advantages those municipalities with a current mill rate that is less than the previous 5-year average property tax rate and disadvantages municipalities with a current mill rate that is greater than the previous 5 year average. The bill establishes the total distribution at the historical 5% of state sales and income tax revenue, except that for the FY 2018-2019 fiscal year, the distribution is fixed at 2% of those revenues.

LD 887, ***An Act To Provide Relief to Maine Property Taxpayers*****.** This “concept draft” proposes to change the method for providing property tax relief through the state-municipal revenue sharing system by providing benefits directly to property tax payers through a state tax credit rather than through distributions to municipalities. The maximum an individual taxpayer could receive would be 80% of the individual's annual property tax bill. The maximum a corporate taxpayer could receive would be 40% of its annual property tax bill. The credit would be calculated as a percentage of the total revenue sharing funds based on a taxpayer's annual bill, the percentage of total revenue sharing funds attributable to the municipality where the taxpayer's property is located and the taxpayer's annual property tax liability as a percentage of annual property tax liability statewide.

I am seeking Council authorization to submit the attached Testimony before the Committee on Taxation on March 22nd, 2017 in support of the restoration of State Municipal Revenue Sharing as set forth in **LD 133,** ***An Act To Support Lower Property Taxes by Restoring State-Municipal Revenue Sharing,*** known as the multi-year ramp up Bill. It will restore by 1% per year Revenue Sharing from the currently reduced 2% to 3% for FYL 2018, 4% for FY 2019 and 5% for FY 2020 and thereafter.

City of Sanford, Maine

Office of the City Manager

919 MAIN STREET, SANFORD, MAINE 04073
(207) 324-9173 FAX (207) 324-9124

City Manager
Steven R. Buck

Testimony in Support of the Restoration of State Municipal Revenue Sharing
LD 133, *An Act To Support Lower Property Taxes by Restoring State-Municipal Revenue Sharing*

Senator Dana Dow, Chair
Representative Ryan Tipping, Chair
Senators and Representatives of the Committee on Taxation

My name is Steven R. Buck, City Manager of Sanford and I have testified before State Legislative Committees numerous times over the 40 plus year history and relationship of State Municipal Revenue Sharing as set forth in M.R.S.A Title 30-A §5681. The State Legislature finds that: 1. The principal problem of financing municipal services is the burden on the property tax; and 2. To stabilize the municipal property tax burden and to aid in financing all municipal services, it is necessary to provide funds from the broad-based taxes of State Government. Nothing in those two Legislative Findings, as set forth in law, has changed, <u>nothing</u>.

I have testified using data and graphs showing the benefits of Revenue Sharing, the detrimental impacts when raided and reduced, and the need to stabilize the Law around Revenue Sharing. To date, those approaches have not produced the necessary results to prevent the State Legislature from exacerbating the detrimental impacts due to the deterioration of the relationship that is State Municipal Revenue Sharing. So let me sum it up in a few short paragraphs.

Municipalities are Political Subdivisions of the State. As such, we can only tax pursuant to the Authority granted to us by you, the State Legislature. Municipalities must provide an overwhelming number of services within Our State financed predominantly by Real Property Taxes as the Legislature has eroded State Municipal Revenue Sharing, eroded Personal Property Taxation via BETR and BETE, and various other State Granted Exemptions that are granted by the State yet partially reimbursed only to be fully financed through additional property taxation. These are all examples of Tax Shifts targeted for specific purposes at a given time yet absent the necessary review that is Comprehensive Tax Reform, beyond today’s scope.

As Political Subdivisions of the State, Municipalities comprise the State. We are your Component Units in services rendered, in governance, and yes in the economic development that results in the collection not only of Property Taxes but also of the Broad-based Taxes of Personal Income Taxes, Corporate Taxes, and Sales Taxes. As the Component Units that make up the State, one would expect a common interests would produce the best results; A Partnership. The State has proven itself to be a poor partner in economic development.

As Municipalities are the State's greatest partners in Economic Development, we (Cities and Towns) implement our State's development strategies while building and maintaining the public infrastructure necessary to support such development. The State receives a disproportionately greater benefit from this development than do the Municipalities. The State receives 100% of the new personal income taxes generated from these new jobs. The State receives 100% of the new corporate taxes generated from these businesses. The State receives 100% of all new sales taxes generated from this growth. Yet, the State only proposes to distribute just 2% of these Broad-based Taxes back into the Partnership that is State Municipal Revenue Sharing. Cities and Towns are left, at most, with an increased Real Property Tax Assessment only on the bricks and mortar and at best 50% of the Personal Property Tax on new manufacturing and other qualifying Personal Property. Today's economy is NOT one of bricks and mortar. It is of technology and intellectual property. It is about e-commerce and services. The days of Advalorem Taxation on bricks and mortar being the sole source of taxation that would provide for municipal services is gone. I reiterate; the days of taxing physical facilities, the former industrial revolution, is a bygone error.

And the relationship of increased Real Property Valuation has upon the State's formulations of Municipal Revenue Sharing and Essential Programs and Services is that the new increased valuation will REDUCE both of these current distributions adversely. As a Municipality's valuation increases, it reduces the State's distributions from Broad-based Taxation further to Cities and Towns. In Sanford's case for every New Property Tax dollar we gain in revenue, our combined distributions through Revenue Sharing and EPS will be reduced by $0.46 cents on the dollar. It's paramount to having a 46% tax on Net New Property Valuation. All of this occurs while the State has reduced distributions from Sales Tax, Income Tax, and Corporate Taxes from 5% to 2%. Is this a Partnership that works in today's economy, or any economy for that matter?

It is time for the State Legislature to first restore Revenue Sharing at least to the 5% distribution that was the 40-year partnership. It is time for the Legislature to modernize its view on the equalization of the overall tax burden and balance the three-legged stool of Property Taxes, Income Taxes, and Sales Taxes and reduce the over-reliance of Property Taxes as the primary funding mechanism of municipal services.

The principal problem of financing municipal services is the burden on the property tax. We have been through two State Taxpayer revolts via Referendums on this disproportionate burden. Your constituents are now well informed.

To stabilize the municipal property tax burden and to aid in financing all municipal services, it is necessary to provide funds from the broad-based taxes of State Government.

These Findings hold true and are self-evident.

Respectfully submitted,

Steven R. Buck

Steven R. Buck
Sanford City Manager