

# Path to Prosperity

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## Maine Property Taxpayers Should Have Paid \$188 Million Less (10%) in Property Taxes in 2008

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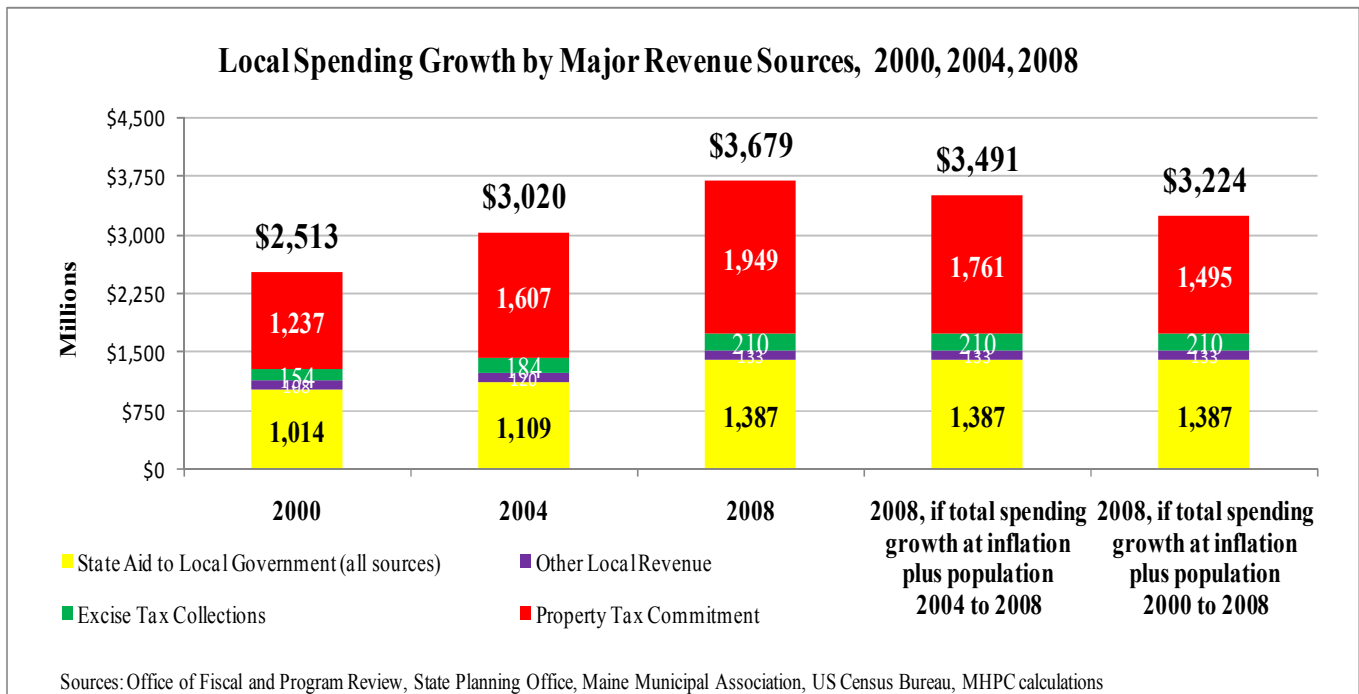
As a result of huge spending increases at the local level and a failure to pass along increased state aid, property taxpayers paid \$188 million more in property taxes than they should have in 2008.

In June 2004, Maine voters passed a ballot initiative requiring the State to increase its share of K-12 education spending to 55 percent. The Maine Municipal Association drafted and championed this initiative with the promise that such increased aid to local governments would result in a 15% reduction in property taxes.

After voters approved the measure, Governor Baldacci and the Maine Legislature dramatically increased state aid to local education and collectively increased all state aid to local governments by \$278 million to almost \$1.4 billion in 2008 from \$1.1 billion in 2004, according to the legislature's Office of Fiscal and Program Review.

Fueled by this ramped-up state subsidy, local spending skyrocketed. From 2004 to 2008, total local spending from all revenue sources climbed 22 percent, to \$3.7 billion from \$3 billion. This spending hike was much faster than inflation plus population growth (16%) and personal income growth (19%) for this same period. This means that Mainers' property tax burden actually got worse, not better, during this time of dramatically increased state subsidies to local government.

By contrast, spending increases in the first part of the decade were slower at just 20 percent, still much faster than inflation plus population growth (13%) but slower than personal income growth (22%), as shown in Table 1 below.



Given the growth rate in state aid and other local revenue sources, including the vehicle excise tax, if local governments had increased spending more responsibly from 2004 to 2008, property taxpayers should have paid \$188 million less in property taxes in 2008 than they did. 2008 property tax rates would have been 10 percent lower, and would have grown at about half the rate of personal income for this same time period, resulting in real property tax relief.

That property tax relief could have taken the form of an 89 percent cut in the excise tax. If local spending had increased more responsibly from 2004 to 2008 and property tax collections remained at their actual 2008 levels, automobile excise taxes could have been reduced by \$187 million, an 89 percent cut.

Mainers have needed responsible spending on the local level for far longer than just the last four years. If local spending increases had grown responsibly at inflation plus population growth from 2000 to 2008, then property taxes in 2008 would have been \$454 million lower (23 percent), as shown in Chart 1.

Or put another way, if local spending had increased more responsibly from 2000 to 2008, all automobile excise taxes could have been eliminated (\$210 million) and property taxes would still have been \$244 million less (13%) than actual 2008 collections.

Recent history shows that regardless of how much additional cash the Maine Legislature sends to local governments, if local spending doesn't grow at a more responsible rate, property and auto excise taxpayers will never realize long-promised relief.

<b>Total Spending by Revenue Source, 2000, 2004, 2008</b>					
	<b>2000</b>	<b>2004</b>	<b>2008</b>	<b>Change, 2000 to 2004</b>	<b>Change, 2004 to 2008</b>
<b>Total Local Spending (all local revenue + state aid)</b>	\$ 2,513,173,634	\$ 3,019,513,698	\$ 3,678,766,319	20%	22%
<b>Property Tax Commitment</b>	\$ 1,237,064,726	\$ 1,606,744,178	\$ 1,949,418,185	30%	21%
<b>Excise Tax Collections</b>	\$ 153,856,399	\$ 184,381,062	\$ 210,000,000	20%	14%
<b>State Aid to Local Government (all sources)</b>	\$ 1,014,487,883	\$ 1,108,792,259	\$ 1,386,635,164	9%	25%
<b>Other Growth Indexes</b>					
<b>State General Fund Expenditures</b>	\$ 2,317,138,580	\$ 2,584,232,096	\$ 3,083,642,125	12%	19%
<b>Increase in Inflation plus Population Growth</b>				11%	16%
<b>Increase in Personal Income</b>				17%	19%

Sources: Office of Fiscal and Program Review, State Planning Office, Maine Municipal Association, US Census Bureau, MHPC calculations

**Methodology:** All figures are taken from the Office of Fiscal and Program Review, except as noted. The 2008 excise tax collections figure was provided by the Maine Municipal Association. The 2008 property tax commitment figure was calculated by the 2007 Municipal Valuation Report with 2007 property tax commitment trended forward by 3.9%, as reported by the State Planning Office for 2008 property tax increases as part of its February 2009 LD 1 status report.

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**Path to Prosperity** is a special series of publications by The Maine Heritage Policy Center which focus on Maine's overspending and the resulting tax burden that threaten long-term, stable, sustainable prosperity. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

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