THE MAINE HERITAGE POLICY CENTER

We the people of Maine...

A failed program

REVENUE SHARING

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Programs to lower property taxes should benefit homeowners — not government offices.

Governor Paul LePage 2015, State of the State Address

Encouraging Responsibility

Maine is at a critical juncture on its path towards economic prosperity.

This year, for the first time in decades, legislators have a chance to enact a bold and substantive budget that makes formative changes to the way our government operates.

With voters in November resoundingly supporting Republicans who campaigned on a message of financial responsibility and integrity, lawmakers in Augusta have a real opportunity to make good on their promises of reform and change.

Maine can finally adopt financially responsible policies that not only encourage limited and honest government, but also empower Maine individuals and families and afford them every opportunity for success.

We can break free of expensive and wasteful government programs, and instead put our money towards securing a better future for ourselves, and our children.

Or, we can head in a different direction.

We can continue to spend above our means, waste precious resources, and skate from crisis to crisis without ever moving our economy forward.

We can abandon any hope of economic growth and development by continuing with the old wasteful and careless policies that have squeezed every inch of economic vitality out of our great state.

One of the best examples of this type of reckless and antiquated government policy is Maine's Revenue Sharing program.

Intended to stabilize municipal property taxes and provide relief to Maine's property owners, Revenue Sharing has predictably fallen short of accomplishing its goal.

Rather than keep property tax rates down, and lessen the burden on Maine's property owners, the program has only enabled cities and towns to increase their budgets, and spend above their means.

In his budget proposal, Governor LePage has rightfully called for the elimination of the Revenue Sharing program, and has encouraged Maine municipalities to streamline their own budgets to reflect this historic change.

As it should, this proposal has generated a considerable amount of discussion, and has become one of the most talked-about aspects of his budget.

However, notably absent from the discourse on Revenue Sharing is any empirical evidence on whether or not the program has been effective.

Both sides of the discussion have yet to provide legitimate data on whether or not property tax rates have been kept lower as a result of Revenue Sharing, and whether the program is worth keeping.

This report will provide clear and convincing evidence that the Revenue Sharing program has failed to provide any relief to property taxpayers, and is doing little to prevent property tax increases.

MHPC's goal is to shed light on this important issue, and ensure that Maine continues down the path towards economic responsibility and prosperity.

Patrick Marvin
Policy Analyst

An Introduction to Revenue Sharing

First implemented in fiscal year 1973, Revenue Sharing is a Maine program that re-distributes state revenue to cities and towns across Maine.

At the time of Revenue Sharing's inception, Maine was overcome with a wave of pressure from municipal governments, as cities and towns urged the state to relieve the property tax burden and allow local governments to adequately serve their citizens.

Many cities and towns were dramatically increasing their local budgets, and beginning to provide services such as police, fire, and rescue operations. Several municipalities were beginning to pay their local government employees, and were also allocating more and more of their budget towards education.

Revenue Sharing was thus adopted by the legislature, and as stated in Maine statute, is intended to "stabilize the municipal property tax burden and to aid in financing all municipal services."

Although it is referred to as a single program, Revenue Sharing actually consists of two separate funds, commonly known as Revenue Sharing I and Revenue Sharing II. Each of these funds receives and distributes funds in a different manner, and is subject to different laws and restrictions.

Revenue Sharing I

The larger and older of the two funds, Revenue Sharing I is also known as the Local Government Fund, and was created by PL 1971, c. 478.

State law mandates that on no later than the 10th day of every month, the State Controller should transfer five percent of all "Revenue Sharing" taxes from the General Fund to the Local Government Fund.

"Revenue Sharing" taxes are all taxes found under Title 36, Parts 3 and 8 and under Title 36, section 2552, subsection 1, paragraphs A – F and L, and include:

- The corporate income tax
- The individual income tax
- The sales and use tax
- A part of the service provider tax
- The franchise tax on financial institutions

However, starting in FY 2010, the Revenue Sharing program was reformed to limit the amount of revenue that was distributed through the program. While the five percent transfer rate went untouched, a new provision stipulated that each fiscal year, a set dollar amount should be transferred back from the Local Government Fund to the General fund. These set dollar amounts are as follows:

- $25,383,491 in FY 2010
- $38,145,323 in FY 2011
- $40,350,638 in FY 2012
- $44,267,343 in FY 2013
- $73,306,246 in FY 2014
- $85,949,391 in FY 2015

The Local Government Fund is then distributed to municipalities by the State Controller on no later than the 20th day of every month.

The methodology that determines the amount that each municipality receives from the Local Government Fund is as follows:

Full Value Mill Rate = Tax Assessment / State Valuation

Revenue Sharing I Municipal Number = Full Value Mill Rate x Population

Percent of Revenue Sharing I fund received by a Municipality = Revenue Sharing I Municipal Number / Sum of all Revenue Sharing I Municipal Numbers

Revenue Sharing II

First utilized in FY 2001, Revenue Sharing II is also known as the Disproportionate Tax Burden Fund. It was created by PL 1999, c. 741, and is intended to further aide those cities and towns who are most burdened by the property tax.

After receiving $3.6 million in startup funds, Revenue Sharing II is now funded in part by direct transfers from the General Fund.

The yearly dollar amounts of these transfers is shown below:

- $2,000,000 in FY 2010
- $2,500,000 in FY 2011
- $3,000,000 in FY 2012
- $3,500,000 in FY 2013
- $4,000,000 in FY 2014 and beyond

Revenue Sharing II is also funded by transfers from Revenue Sharing I. Maine statute dictates that a certain percentage of Revenue Sharing I must be transferred to Revenue Sharing II each fiscal year. The transfer percentages are as follows:

- 15% in FY 2010
- 16% in FY 2011
- 17% in FY 2012
- 18% in FY 2013
- 19% in FY 2014
- 20% in FY 2015 and beyond

This fund is also distributed to municipalities on the 20th day of every month by the State Controller. The formula for determining the amount that each municipality receives from the Disproportionate Tax Fund is as shown below:

Full Value Mill Rate = Tax Assessment / State Valuation

Revenue Sharing II Municipal Number = (Full Value Mill Rate – 10 Mills) x Population*

Percent of Revenue Sharing II fund received by a Municipality = Revenue Sharing II Municipal Number / Sum of all Revenue Sharing II Municipal Numbers

**Number cannot be less than 0.*

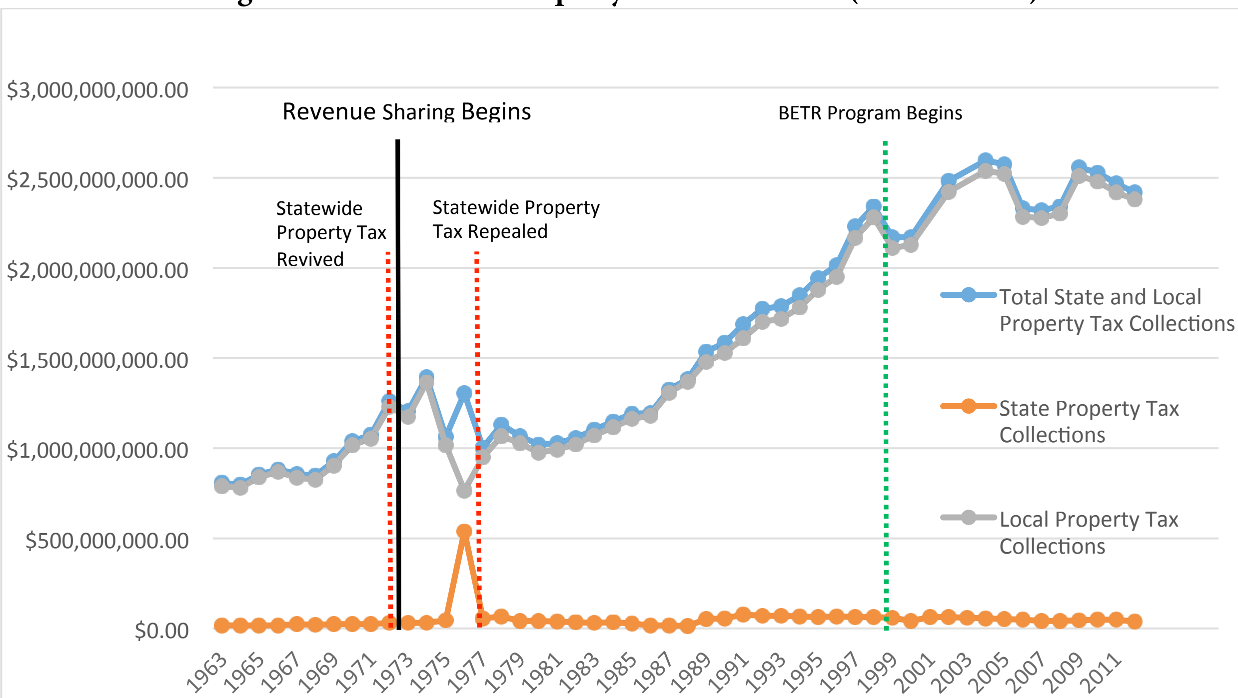
Property Tax Collections

As noted previously, one of the primary, and arguably most important goals of the Revenue Sharing program is to stabilize the municipal property tax burden.

Successfully achieving this goal, and stabilizing the property tax burden, would result in property tax collections remaining constant, or even decreasing over time as municipalities are able to rely more and more on Revenue Sharing funds.

However, as shown below in Figure 1, that has clearly not been the case.

Figure 1. Total Maine Property Tax Collections (2015 Dollars)



Total property tax collections have been steadily increasing over time, and even adjusted for inflation, have more than doubled since the inception of the Revenue Sharing program.

Aside from the brief period between 1973 and 1977 when the statewide property tax was revived, local property taxes have consistently made up the bulk of Maine's total property tax collection. Increases in the local property tax have been the primary reason for the increase in total property tax collections, as state property taxes have not increased significantly.

Why Are Property Taxes Increasing?

While Revenue Sharing has clearly failed to stabilize or decrease property taxes, several variables have contributed to total property tax increases. These variables include the total state valuation, the Maine economy, as measured by Maine's GDP, government expenditures, and state and local property taxes.

A correlation analysis was conducted to examine the relationship between property tax collections and the above mentioned predictors. Figure 2 summarizes the bivariate correlation results, with the figures representing the degree of correlation.

The closer the figure is to 1, the stronger the correlation. Positive numbers represent a positive correlation, and negative numbers represent a negative correlation. Also, any figure above approximately .700 represents a very strong relationship.

Figure 2. Correlation Results

Variable	Correlation with Total State and Local Property Tax Collections	Correlation With Total Local Property Taxes
Total State Valuation	.867**	.870**
Maine GDP	.954**	.953**
Total State and Local Property Tax Collections	1	.993**
State Property Tax Collections	0.081	-0.041
Local Property Tax Collections	.993**	1
Total State and Local Government Expenditures	.971**	.967**
State Government Expenditures	.966**	.958**
Local Government Expenditures	.966**	.965**

***Correlation is significant at the .01 level (2-tailed).*

Several important conclusions can be drawn from the data above. First, state property taxes do not have a significant relationship with either total state and local property tax collections or local property collections. This mirrors the findings in the previous graph in Figure 1.

Second, local property tax collections appear to be the primary determinant of total state and local property tax collections. This also confirms the results of the graph in Figure 1.

Third, total state valuation, which still has a very strong correlation with both total state and local property taxes and total local property taxes, has a weaker correlation compared to the other independent variables. While many assert that property tax collections have been increasing simply due to increases in the value of real estate, or increases in the number of properties, this analysis shows that other factors have a more significant relationship.

Finally, our analysis demonstrates that the total of state and local government expenditures has a stronger relationship with both dependent variables than almost every other independent variable. This means that although other factors are important and have a strong relationship with property taxation, government spending at the state and local level is the primary predictor of property taxes.

It should be noted that the result of this analysis does not definitively prove causality, nor does it imply an order to any relationship.

Although it can be assumed from a historical examination of budget negotiations and spending patterns that government expenditures and other factors usually influence property taxes, and not the other way around, the results of this analysis merely measures correlations between variables, and do not prove causality.

Revenue Sharing

Proponents of Revenue Sharing are quick to assert that the program allows cities and towns to rely less on property taxes for funding.

They claim that without Revenue Sharing, property taxes would be higher, and hardworking Mainers and property owners would be forced to shoulder more of a burden.

Therefore, a bivariate correlation analysis was conducted to examine the relationship between Revenue Sharing and total property tax collections. The results of this analysis are below in Figure 3.

Figure 3. Correlation Results

Variable	Correlation with Total State and Local Property Tax Collections	Correlation With Total Local Property Taxes
Revenue Sharing	.838**	.850**

***Correlation is significant at the .01 level (2-tailed).*

Although Revenue Sharing has a very strong relationship with both total state and local property tax collections, and total local property tax collections, these relationships are still weaker than others presented in Figure 3.

While Revenue Sharing is still a very good predictor of property tax collections, other variables, such as government expenditures, are more important and have a stronger relationship with property taxation.

However, the most important conclusion that can be drawn from this data is that Revenue Sharing has a *positive* relationship with property tax collections. In a positive relationship, when one variable increases, the other variable also increases. Similarly, when one variable decreases, the other also decreases.

This means that when the amount dedicated to Revenue Sharing increases, property tax collections actually *increase*.

This in direct contrast to the claims made by proponents of Revenue Sharing, who maintain that the program leads to less reliance on the property tax. As shown by this analysis, the Revenue Sharing program does not lead to property tax relief, and actually appears to make things worse.

Where Do Revenue Sharing Funds Go?

Revenue Sharing is clearly not being used to provide property tax relief.

Therefore, the funding it provides must either be going towards increased expenditures by cities and towns, or it must be going into savings accounts and saved for the future. Given the low probability that cities and towns across Maine are hoarding Revenue Sharing funds, this hypothesis was discounted, in favor of the belief that Revenue Sharing funds are simply being spent in an irresponsible manner.

To analyze the relationship between local spending and Revenue Sharing, and explore whether or not Revenue Sharing simply leads to cities and towns spending more money, a bivariate correlation analysis was conducted. The results are shown below in Figure 4.

Figure 4. Correlation Results

Variable	Correlation with Local Government Tax Expenditures
Revenue Sharing	.845**

***Correlation is significant at the .01 level (2-tailed).*

This data also suggest there is a very strong (and positive) relationship between Revenue Sharing and local expenditures.

As Revenue Sharing funds increase, and towns have more money in their budgets, local spending also increases, meaning that property taxpayers see absolutely no benefit from the Revenue Sharing program.

Critics will counter that there likely are other variables that factor into this equation, and that Revenue Sharing is not really the independent variable in any of the mentioned relationships.

Although it is true that this analysis cannot prove causality, and cannot definitively rule that Revenue Sharing causes property tax or spending increases, it can nonetheless prove that there is *not* a causal relationship.

This analysis clearly shows that there is no evidence of an inverse relationship between Revenue Sharing and property tax collections, and that more Revenue Sharing does not lead to lower property taxes.

Conclusion

The data presented above clearly demonstrates that contrary to the goals of the Revenue Sharing program, property tax collections have been steadily increasing and have not stabilized.

Revenue Sharing does not lead to lower property taxes, nor does it provide any relief at all for Maine taxpayers.

In reality, the program is actually correlated with property tax increases, **meaning that as Revenue Sharing funds increase, the property tax burden also increases.**

As municipalities receive more funding, they are unable to resist their uneconomical urges, and unfortunately they send this money right back out the door, instead of using it to subsidize programs that are already in existence.

Our analysis also shows that there are several factors that have a strong relationship with the rise of property taxes in Maine. These factors include the Maine economy, the value of real estate, and state and local expenditures.

Each of these factors has a stronger relationship with property taxes than Revenue Sharing, proving that although well-intentioned, Revenue Sharing does not get at the heart of the problems with the property tax system.

Revenue Sharing was designed to allow towns and cities to continue administering their existing services without placing an undue burden on property taxpayers. But sadly, it has not been used in this manner, and has been abused by several lavish and wasteful cities and towns across Maine.

The funds devoted to Revenue Sharing should be used to provide real and substantive relief to Maine taxpayers.

Now is the time for Maine lawmakers to recognize the failures of the Revenue Sharing program, and lend a helping hand to the citizens of Maine.

Author

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Methodology

Total state valuation data was derived from municipal valuation return statistical summaries, which are made available by Maine Revenue Services. A statistical summary is produced for each year, and provides great detail about the valuation of Maine property.

Data on the Maine GDP was obtained from the Bureau of Economic Analysis.

Revenue Sharing totals were obtained through the Maine Treasury, which tracks monthly expenditures for both of the Revenue Sharing funds.

All the data on property taxes and government expenditures was obtained from the U.S. Census Bureau. By distributing surveys and contacting local and state governments every five years, and by examining official records every year, the U.S. Census Bureau is able to produce an accurate measure of tax collections and government expenditures.

About The Maine Heritage Policy Center

Revenue Sharing: A Failed Program *is a special publication of The Maine Heritage Policy Center that focuses on the Revenue Sharing program in Maine. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.*

The Maine Heritage Policy Center is a 501 (c) 3 nonprofit, nonpartisan research and educational organization based in Portland. The Maine Heritage Policy Center formulates and promotes free market, conservative public policies in the areas of economic growth, fiscal matters, health care, education, constitutional law and transparency – providing solutions that will benefit all the people of Maine. Contributions to MHPC are tax deductible to the extent allowed by law.

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