



To: Joint Standing Committee on Taxation
From: Brenda Peluso, Director of Public Policy
Date: April 1, 2013
RE: Testimony Against LD 936: An Act To Authorize Municipalities To Impose Service Charges on Tax-exempt Property Owned by Certain Nonprofit Organizations, and LD 562, An Act Related to Service Charges in Lieu of Property Taxes on Tax-exempt Property

Senator Haskell, Representative Goode, and members of the Taxation Committee: I am Brenda Peluso, the Director of Public Policy for the Maine Association of Nonprofits, a membership organization representing almost 800 nonprofit organizations, voluntarily working together to improve their organizations' ability to serve their communities. Our membership is comprised of 501(c)(3) & (c)(4) organizations from all regions of the state, representing all mission areas – Mental health, anti-poverty, museums, libraries, environmental, and educational organizations. Our membership represents about a third of the entire charitable nonprofit sector and like the entire sector is predominantly made up of very small businesses. 88% of charitable nonprofits have annual budgets under \$500,000.

We are sympathetic to municipal fiscal pressures caused by high-reliance on property-tax revenue, the unequal distribution of tax-exempt properties, and a host of other issues; however, we are opposed to efforts, such as LD 562 & LD 936, that impose taxes or service charges (whatever name is given them) on nonprofit organizations in order to relieve some of these pressures. Nonprofits earn their tax exemptions every day in the following ways:

- 1) By dedicating themselves to the public good. Taxing nonprofits does not produce a net gain for the communities they serve. By diverting a nonprofit's public serving resources to fund a municipality's public service, we simply rearrange resources without improving overall service.
- 2) By reducing the burdens of government and offsetting expenditures that would otherwise be made from tax revenues. Nonprofits leverage large numbers of volunteers and private funding to supplement tax revenues to promote the common good in partnership with local, state & federal governments.
- 3) By giving up profits, privacy, and politics in pursuit of their missions. Nonprofit organizations cannot distribute profits for personal benefit, they must invest any surpluses in furthering their missions. Nonprofits provide substantial financial and strategic information through their annual 990 tax forms and formative documents. Nonprofits also are not allowed to engage in partisan politics, including candidate elections. Limited lobbying is allowed, or I wouldn't be here today, but the restrictions are significant.

For all these reasons, nonprofits are different from the for-profit sector and have been granted favorable tax treatment that can be traced back to colonial days.

While no time is a good time to reduce the resources nonprofits have to serve their communities, now is a terrible time. The most recent report by the Nonprofit Finance Fund, paints a gloomy picture for nonprofits even amid signs of economic recovery. The key findings of the report include:

- More than half said they were unable to meet demands for assistance last year, and even more groups expect to struggle to do so this year.
- One in four groups are running so close to the bone that they had less than 30 days' cash in hand. 42% ended 2012 with a deficit.
- Thirty-nine percent of the charities said their financial situation is so challenging they plan to change the principle ways they raise and spend money.

We have analyzed reports issued by six legislative review committees assembled to study property tax exemption over the past 50 years and in summary, the committee reports consistently reflect a central tension in the property tax debate: the desire to value and support the vital public role served by the various nongovernmental service organizations versus the strain on municipalities and other taxpayers that have high levels of tax exempt property.

The debate today is not unlike the many debates that have happened in the past 50 years. We urge members of the taxation committee to seek ways to alleviate municipal fiscal pressures, especially those of Maine's service centers, that don't impose further costs on nonprofits. In these difficult economic times where demand for nonprofit services is up and the resources to provide those services has been severely reduced through decreases in all funding sources from individuals to state and federal government contracts, it is especially important to refrain from raising taxes on this important sector of our society.

Thank you for this chance to comment and I'm happy to try and answer any questions.