Maine Municipal Association

60 COMMUNITY DRIVE
AUGUSTA, MAINE 04330-9486
(207) 623-8428
www.memun.org

Testimony of the Maine Municipal Association

In Opposition to
LD 1629, *An Act To Protect the Elderly from Tax Lien Foreclosures*

January 25, 2018

Senator Dow, Representative Tipping and members of the Taxation Committee. My name is Kate Dufour and I am providing testimony in opposition to LD 1629 on behalf of the Maine Municipal Association and at the direction of its 70-member Legislative Policy Committee.

Municipal officials strongly oppose LD 1629. As proposed, the bill amends the existing pre-foreclosure and post-foreclosure process for property taxpayers 65 years of age and older in a manner that makes the foreclosure process far more complicated and administratively burdensome, increases the chances of errors and results in the unfortunate consequence of shifting greater property tax burdens on all other property owners in the community.

Municipal officials believe the existing foreclosure process is appropriate and fair. The current process requires municipal officials to notify and work with delinquent property taxpayers for 18 months before deciding whether or not to acquire property for the nonpayment of taxes. The goal is to keep residents in their homes and the property on the tax rolls, with the action of last resort resulting in the sale of tax acquired property.

LD 1629 seeks to amend the current process by mandating that municipal officials take additional steps in the tax lien foreclosure process. For example, at least 90 days before a pending foreclosure, municipal officials are required to identify delinquent property taxpayers 65 years of age and older, and offer to assist those homeowners in applying for a property tax abatement. Regardless of the homeowner's ability to pay the taxes due, the municipality is then obligated to offer the owner a "reasonable" repayment plan for the portion of the tax that is ineligible for an abatement. If an agreement cannot be reached on the repayment schedule the municipality must engage a qualified mediator to negotiate a repayment schedule, with 50 percent of the mediator's fee added to the tax lien.

Additionally, during the pre-foreclosure phase municipal officials are mandated to take on the roles of financial advisor and social worker. Under the terms of LD 1629, municipal officials must inform the homeowner about the option of a reverse mortgage, whether or not the property owner would benefit from or qualify for such an option. Municipal officials are also required to contact the Maine Department of Health and Human Services if at any point during the pre-foreclosure process a municipal official or employee "has reasonable suspicion to believe that the property owner has a physical or mental condition that interferes with the owner's ability to have business dealings."

If an installment repayment plan is established and a senior homeowner becomes more than 30 days delinquent on that plan, the municipality may foreclose on the property. However, if a senior homeowner is living in the tax acquired home and it is the owner's sole residence, the municipality is prohibited from selling the property until the value of the municipal lien exceeds 50 percent of the assessed value of the property. For example, a municipality would be prohibited from selling a tax acquired home assessed at $150,000 until the back taxes owed equaled $75,000. To put this provision of LD 1629 into perspective, assuming the statewide average mill rate of $15.85/$1,000 is assessed on $150,000 residence, a former homeowner could occupy the tax acquired property for an additional 30 years.

LD 1629 also includes changes to the post-foreclosure process that impact all homeowners, regardless of age.

As proposed, tax acquired property must be listed for sale and sold by an independent licensed broker. The property may not be sold for less than its assessed value, unless an appraisal conducted by a licensed appraiser demonstrates that the fair market value of the property has decreased. Furthermore, the municipality or the purchaser of the property is prohibited from evicting the former owner from the property until after the sale is complete and any repurchase rights extended to the former owner have expired.

Although under existing law municipalities may voluntarily adopt ordinances that require excess proceeds from the sale of a tax acquired property to be returned to the previous owner, LD 1629 mandates that outcome.

That being said, municipal officials are sympathetic to the property tax burden issue raised in LD 1629. Of the three major taxes – property, sales and income - used to pay for state and local government services, the property tax carries the greatest burden. In 2007 the property tax contributed 42% of the total revenues raised by the three taxes. In 2016, property tax revenues generated 45% of the total revenue. The ever increasing pressure placed on Maine's property taxpayers needs to be addressed.

Municipal officials believe that rather than making it more difficult for communities to collect property taxes, the Legislature should work on adopting initiatives that directly reduce the burdens placed on property owners.

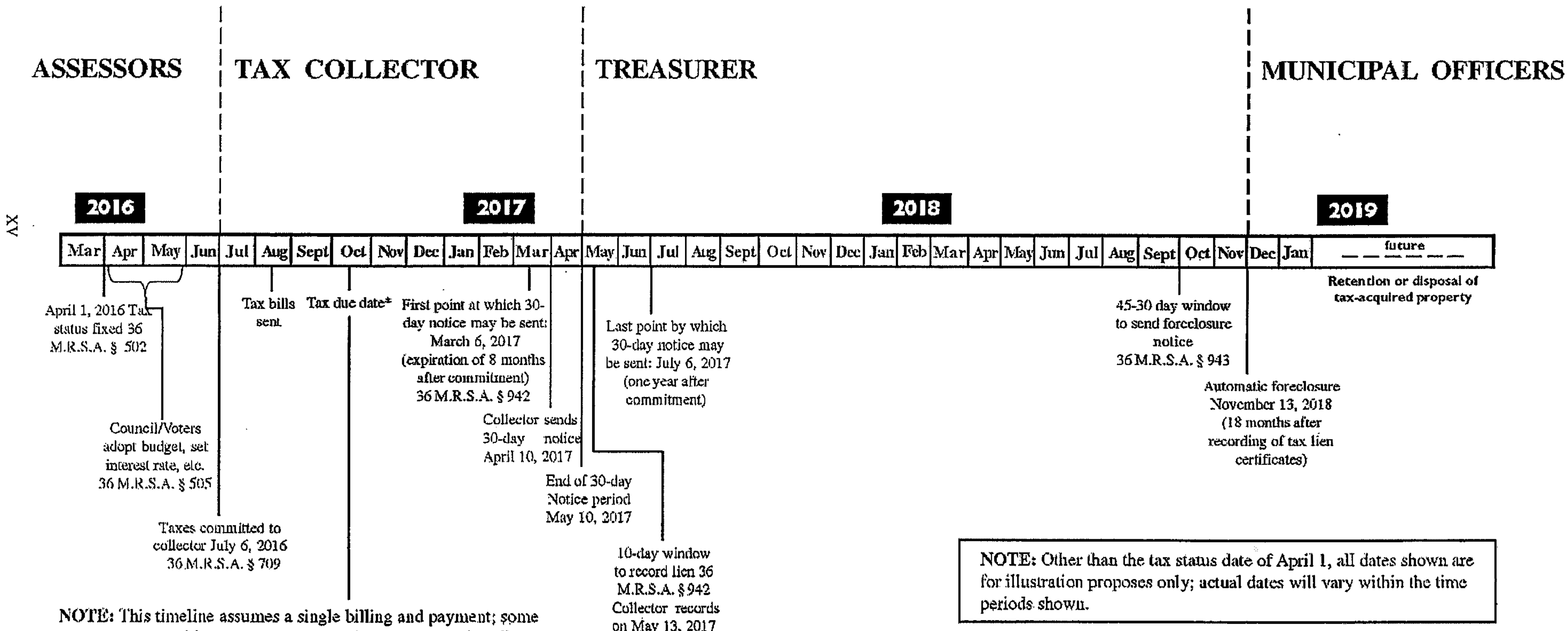
For example, the Legislature should fund LD 1196, *An Act To Assist Seniors and Certain Persons with Disabilities in Paying Property Taxes,* which seeks to reinstate the state funded and administered property tax deferral program. Under the program, the property taxes owed by a qualifying household would be paid by the state directly to the municipality. In exchange, the state would hold a non-foreclosing lien on the home until the property is ultimately sold or transferred and the state is reimbursed for the taxes paid. The bill also includes eligibility standards that are not only based on age, but also based on means, including household income and value of liquid assets.

The Legislature should honor its commitment to fund a greater share of the Homestead Exemption program. In 2017, the Legislature increased the municipal homestead exemption from $15,000 to $20,000, but delayed the scheduled increase in state reimbursement. If the state had implemented the 62.5% reimbursement rate, municipalities would have experienced a reduction of $36 million in property tax revenue. However, by reducing reimbursement to 50%, municipalities lost $48 million, resulting in an additional $12 million shift to the property taxpayers.

Finally, and most importantly, the Legislature should restore funding for the Municipal Revenue Sharing program from 2 percent to 5 percent of state sales and income tax revenue. Between FY 2010 and FY 2018, nearly $580 million of the state sales and income tax revenue that should have been distributed to communities under the municipal revenue sharing program was instead used to fund state priorities.

Thank you for your attention to this important municipal issue.

Tax Collection Time Line



NOTE: This timeline assumes a single billing and payment; some communities structure payment in two or more installments.

NOTE: Other than the tax status date of April 1, all dates shown are for illustration proposes only; actual dates will vary within the time periods shown.

Tax Mix (2007-2016)

	$ Tax Revenue				% of Total Tax Revenue		
Year	**Property**	**Income**	**Sales**	**Total**	**Property**	**Income**	**Sales**
2007	1,876,244,644	1,537,786,028	1,020,864,253	4,434,894,925	42%	35%	23%
2008	1,955,410,009	1,627,982,772	1,035,157,942	4,618,550,723	42%	35%	22%
2009	2,004,979,062	1,508,523,695	974,636,315	4,488,139,072	45%	34%	22%
2010	2,047,787,605	1,473,328,488	954,025,264	4,475,141,357	46%	33%	21%
2011	2,100,857,920	1,624,280,132	976,359,279	4,701,497,331	45%	35%	21%
2012	2,175,579,309	1,666,335,184	1,029,513,306	4,871,427,799	45%	34%	21%
2013	2,267,190,093	1,693,849,829	1,036,887,515	4,997,927,437	45%	34%	21%
2014	2,344,821,945	1,589,045,886	1,156,331,624	5,090,199,455	46%	31%	23%
2015	2,426,941,238	1,690,744,229	1,243,585,749	5,339,137,260	45%	32%	23%
2016	2,484,989,765	1,680,180,057	1,319,061,916	5,484,231,738	45%	31%	24%

Sources: Maine Revenue Services, Municipal Valuation Return Statistical Summaries
Maine Revenue Forecasting Commission Reports

Prepared by the Maine Municipal Association.

Revenue Sharing FY 10 to FY 18

Fiscal Year	Statutorily Required	Actual Receipts	Difference
2010	131,202,116	112,092,617	(19,109,499)
2011	124,479,621	89,209,367	(35,270,254)
2012	134,350,000	94,000,000	(40,350,000)
2013	138,102,675	93,835,332	(44,267,343)
2014	138,306,246	65,000,000	(73,306,246)
2015	146,678,003	60,728,612	(85,949,391)
2016	156,424,711	62,569,884	(93,854,827)
2017	155,174,541	64,469,816	(90,704,725)
2018	164,527,742	68,211,097	(96,316,645)
Total	1,289,245,655	710,116,725	(579,128,930)

Source: Maine Office of the Treasurer