

**CARIBOU ADMINISTRATION
25 HIGH STREET
CARIBOU, ME. 04736**



MEMO

TO: Caribou City Council Members
FROM: Penny Thompson, City Manager
DATE: February 10, 2025
RE: City Manager's Report

Tonight's City Manager's report will focus on other budgets which also have an impact on the tax bill that will go out this summer.

The Maine Municipal Association Legislative Bulletin from January 31, 2025, had an excellent article titled "Taxes, Taxes, Read All About It". I have enclosed it in tonight's packet.

There is also a 1-pager about how Article # 14 of the RSU#39 Warrant impacts the municipal tax bill.

The final page discusses County Tax and a refresher on how the annual tax rate is calculated.

Since the municipal budget is being discussed in great detail, it is important for citizens to know that municipal spending represented less than half of their 2024 property tax bill.

Suggested Action:

No action is required. This is informational only.



LEGISLATIVE BULLETIN

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Taxes, Taxes, Read All About It

As part of the committee orientation for the 132nd Legislature, the Joint Standing Committee on Taxation invited representatives from Maine Revenue Services (MRS) to present an overview of property taxes and related tax relief programs to Maine property owners.

Municipal officials know that establishing a tax rate starts with the local budgeting process. Once town meeting voters or city council members approve a budget, finance officials take out pencils and calculators and get to work calculating the property taxes—less available other source revenues—needed to fund local government services. The formula for calculating a municipal mil rate consists of two components. The adopted budget, divided by the municipal valuation, equals the mil rate. In a perfect world where the pressures placed on school, county and municipal budgets do not increase and values remain neutral, a community's

mil rate would not change.

Recent market fluctuations have caused significant value changes, requiring municipal assessors to revalue tax bases and adapt their practices to reflect those increases as directed by statute. Returning to our perfect world, if values increase and the budget remains neutral, mil rates would typically go down, reflecting little change in the tax bill. However, any increase in the budget, even if the mil rate goes down, will result in an increased tax bill.

To help legislators understand this process, MRS explained a wide range of topics including local budgets and assessments; the authority of assessors and how the role of assessor can be different across municipalities; the “be all, end all” tax year date of April 1; how property taxes are assessed in the Unorganized Territory; current use tax programs like Open Space and Tree Growth; mandated

reimbursements; tax increment financing; personal property taxes and the Business Equipment Tax Refund (BETR) and Business Equipment Tax Exemption (BETE) programs; property tax deferral programs; and a summary of approaches that other states have taken to reduce property taxes in their jurisdictions.

The following questions were posed by committee members and offered insight into what information is necessary to enable legislators to make informed decisions about tax policies that impact the Maine property taxpayers. The following breakdown poses answers to these questions and is a combination of MRS replies to committee members and MMA staff commentary.

Does property tax only go to county, school and municipal operations? MRS staff confirmed that indeed, it does. Additionally, the assessments provided by the county and school departments are

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Taxes, Taxes, Read All About It...cont'd

non-negotiable. There is little municipal control or input into county and school department budgets. Those assessments are considered an invoice and placed in the blue payable folder like any other bill. Yes, they must be approved as part of the budget, and it is infrequent that they're not.

However, in recent months, voters have rejected school budgets more often than in recent memory which is the only way the invoice can be amended. With non-negotiable expenses for school and county services, local officials must work diligently to create the municipal portion of the budget in a responsible manner that adequately balances the provision of services without overburdening the taxpayers. It is not an easy task and is not always possible. Municipalities are obligated to pay for educating all students and county jails are increasingly used as de-facto mental health and substance use treatment facilities. It is important to remember this point when raising concerns about rising property taxes. Often, lowering property taxes means cutting or reducing local services.

Why did local valuations jump and how is that impacting tax bills? The pandemic property buying trend began the market frenzy that continues to escalate home prices. If municipal values don't keep in step with state valuations, which are based on sales data, then a municipality's sales ratio changes. MRS auditors work with municipal officials every year to determine the community's sales ratio. The goal is to assess the property to maintain a ratio of 100%, meaning a municipality's valuation is equal to the state's valuation. If that ratio drops from 100% then exemption values drop. Recognizing that assessments will not always hover around 100% of market value, the statutes provide a range allowing for municipal assessment ratios that are between 70% and 110% of the market value.

When a community's assessment falls out of this acceptable range, or as statute requires, every ten years, municipalities must conduct a revaluation of the taxable base. Revaluations triggered by

these conditions have been all over the news recently and are incorrectly being blamed for the increases in property taxes. Remember, the purpose of a revaluation is to bring the ratio back to 100% when compared with the state valuation and returning the exemptions back to full value. When that happens and the tax bill increases, that increase is directly related to additional spending in either county, school, or municipal services.

What happens in smaller, rural communities where sales data are limited, and sometimes inflated, when the ratio is negatively impacted? Are there safeguards for those taxpayers impacted by such a small number of sales? Every community is required to complete an annual sales ratio analysis in coordination with the MRS auditor. For circumstances like this one, MRS may use a longer timeframe of sales to even out the numbers. During all audits, MRS staff are only making calculations using arms-length residential sales and always exclude high and low outlier sales. Recently, those outliers have become the norm. By extending the timeframe of the analysis, from 12 to 18 months for example, the hope is that the figures will be less inflated.

Under what circumstances might a property value change, outside of a reevaluation? A municipality's assessor has independent authority to make and approve assessments. In some communities this is the Board of Assessors, who also serve as the selectboard. In other communities, the municipality contracts with a certified assessor who completes assessing tasks throughout the year but is not a town employee. This assessor may contract with more than one community. In larger municipalities, the assessor is often a full-time municipal official tasked with completing assessment work for that single community. Statutes require that assessors ensure properties are valued at the highest and best use, except for parcels enrolled in current use programs. To guarantee that calculation, assessors consider market fluctuations, improvements to properties, sales data, and other

factors as directed by MRS. It is this daily work that helps municipalities maintain that 100% sales ratio. It is also the reason why one taxpayer's bill may increase a bit this year, but a neighbor's may not.

Our fixed-income seniors are really struggling with increasing property taxes. What tools are available to help them? Personal real estate exemptions, like the homestead and veterans' exemptions, can reduce the taxable value of an eligible taxpayer's property. This reduction results in a lower tax bill and the municipality receives reimbursement for a percentage of the lost tax revenue. Many seniors may qualify for the Property Tax Fairness Credit although it requires filing an income tax return. In addition, the state offers a Property Tax Deferral Program and through the adoption of an ordinance, municipalities may offer a similar program.

MRS also provided information from other states and the approaches they are using, or proposing, to address assessment and taxation fairness. Those approaches include tax limitations; split-rate taxation; a statewide property tax; local authority to impose service charges, targeted local option sales taxes; and regionalization and consolidation of services. It was implied that some of these approaches may be presented to the members of the Taxation Committee in the coming months as possible solutions to the over-reliance on the property tax to fund local government services.

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Reflections on RSU#39 Article 14 and how it impacts the Municipal Tax Bill

The State of Maine, Department of Education discloses school spending by providing copies of all school department funding calculations in the form of ED 279 Reports on their website:

<https://neo.maine.gov/doe/neo/eps/public/ed279.aspx>

The State of Maine dictates how the education budgets are organized and presented:

<https://legislature.maine.gov/legis/statutes/20-A/title20-Asec1485.html>

One source of revenue for the schools is characterized as additional local funds, if any, approved pursuant to:
<https://legislature.maine.gov/legis/statutes/20-A/title20-Asec15690.html>

By going to page 4 of the 2025 ED 279 report for RSU#39, Caribou would be expected to raise \$2,707,911. (For 2026, that number is \$2,698,945.)

You can view the RSU#39 budget book for the 2024-2025 school year here:

https://core-docs.s3.us-east-1.amazonaws.com/documents/asset/uploaded_file/2159/EARSU/4934311/Booklet_24-25.pdf

Page 16 shows that the State funding formula shows that Caribou needed to raise \$2,707,911 with **Article 12**. (This agrees with what is shown on form ED 279.)

Page 17 shows that the RSU#39 Board of Education recommended that an additional \$2,429,561 be raised with **Article 14**. That became \$2,519,561 at the District Budget meeting with the \$90,000 added from the floor at the District Budget meeting held at CPAC.

The voters of Caribou need to pass **Article 12**, as its passage appropriates the funding required to leverage the state money. With the passage of **Article 14**, the RSU#39 raises funds over and above what the state requires.

From various resources, I have compiled this history of **Article 14** funds for RSU#39:

The RSU 24-25 book shows Article 14 as \$2,519,561

The RSU 23-24 book shows Article 14 as \$1,472,211

The RSU 22-23 book shows Article 14 as \$ 847,737

The RSU 21-22 book shows Article 14 as \$ 641,083

The RSU 20-21 warrant shows Article 14 as \$ 568,965

The RSU 19-20 draft book shows Article 14 as \$ 444,580

The City Council has no control over the warrant presented by the school department because it is an RSU and not a department of the City. State statute requires that the Municipal Officers countersign the warrant and raise the funds to pay the approved warrant.

<https://legislature.maine.gov/legis/statutes/20-A/title20-Asec1352.html>

The RSU#39 will have a District Budget meeting. The date, location, and time will be determined by the RSU. The date is tentatively set for Wednesday May 21, 2025.

Caribou has never turned down the school budget but did come close in 2024 with a vote of 468 yes, 419 no and 7 blank. The vote on this year's budget will be Tuesday June 10, 2025.

Reflections on the County Tax and how it impacts the Municipal Tax Bill

The Aroostook County budget is apportioned to all areas of Aroostook by the equalized state valuation. It includes amounts to operate county operations which is a distinct and separate budget from the county jail budget. Caribou is third, behind the Unorganized Townships & the City of Presque Isle for County taxes assessed.

The County Commissioners and the County Finance Committee work to prepare and approve these budgets. Last year, the County transitioned to a fiscal year and accordingly invoiced for 18 months of County Tax. The City of Caribou is paying in three equal installments. There is no interest charged for this option.

The assessors for the City must raise the amount billed to the City by the County. **The Caribou City Council has no authority to amend the budget approved by the County.**

In 2024, the City of Caribou portion of the 12-month County tax was \$905,531 and the one-third portion of the special 6-month County tax was \$138,615. A total of \$1,044,146 was raised with the 2024 municipal tax bill. This was 10% of the total amount raised from 2024 Caribou property taxes.

County Budget information can be found here:

<https://aroostook.me.us/information/budgets/>

County Tax information can be found here:

<https://aroostook.me.us/information/county-tax/>

County Finance Committee information can be found here:

<https://aroostook.me.us/pdfs/finance-committee/>

The County Commissioners have two budget work sessions scheduled, and the finance committee has one budget work session scheduled for their next 12-month budget. The Public Hearing on the budget is scheduled for Tuesday May 13, 2025.

Calculating the Municipal Tax Bill

To determine the amount to be raised from property taxes, combine the amounts for the City municipal appropriations, RSU#39, and the City's portion of the County Tax Bill, and divide by the taxable valuation in Caribou (both real estate and business personal property).

Using the most recent 2024 tax year as an example: The total taxable valuation in Caribou was \$474,701,499. The amount of tax for commitment was: \$10,158,612. For 2024, $\$10,158,612 / \$474,701,499$ produces a tax rate of .0214 or a "mil rate" of 21.4. If you are wondering, a "mil" is 1/1000 of valuation or \$474,701.499, so a "mil rate" of 21.4 means the City raised 21.4 "mils" ($\$474,701.499 \times 21.4 = \$10,158,612$).