

August 22, 2019

Memorandum for Record

**RE: Assessor's clarification on Why Orrington's Property-Owners Will See an Increase in Their Property Taxes This Year**

Property taxes have been with us since colonial times when a person's wealth could be measured in the amount of property a person owned. Although it is our oldest form of taxation in Maine, the property tax still remains widely misunderstood. As the fundamental structure of our economic system has evolved from an agricultural economy to a manufacturing economy to the services-based economy, the patterns of ownership have changed and the property tax has become quite regressive because it is no longer necessarily based on a person's wealth or ability to pay.

Both real (land and buildings) and personal property (tangible equipment, fixtures, machinery, etc.) are subject to taxation, unless they are exempted by law or subject to another form of taxation, such as the excise tax for motor vehicles and boats. Since home furnishings are largely exempt from personal property taxes, the property tax bill for most Maine homeowners is based on the value of the land, the house, and the outbuildings.

Assessors are required by law to "ascertain as nearly as may be the nature, amount and value as of the first day of April of the real estate and personal property subject to be taxed" ... "this means that if on the 1<sup>st</sup> day of April you own property that is subject to taxation, then you are liable to pay those taxes to your municipality."

The Maine Constitution says that property shall be assessed at its "just value." The courts have interpreted "just value" to mean fair market value or in other words "what the property is worth." A property's worth is commonly looked at as "what a willing buyer would pay a willing seller" for a particular piece of property.

To implement the Constitution requirements that real estate be assessed at its "just value," and in recognition of the tremendous difficulty and costs to a municipality to maintain "just value" assessment, the Maine Legislature enacted assessing standards that municipalities must meet. State of Maine Revenue Services Property Tax Division's latest annual visit was in June 2019, and the overall rating was Excellent. The Orrington Tax Assessing Department continues to performed the assessing function in full compliance of the Maine Constitution and Rules established under 36 M.R.S.A §328.

It's no news that our state has been in a massive economic transition. Marked by the early textile mill closures years ago in Lewiston and Biddeford, and continuing in Millinocket, Bucksport and beyond, the dramatic decline in the papermaking industry has left thousands of people looking for new jobs in the shadows of the mills that once promised lifelong work.

- The Penobscot Energy Company (PERC) has laid off more than 20% of its workforce, due in part to losing contracts with communities that chose to send waste to another new facility that likely won't be fully operational until the end of this year. On April 9, 2018, PERC laid off 17 of its 75 employees. The layoffs came eight days after PERC lost close to 130 of its community contracts. PERC's contracts with dozens of communities expired on March 31, 2018, with the expectation that Fiberright would be able to take over on April 1, 2018, but the \$69 million facility is still months from completion.

### Why Did My Taxes Go UP?

One of the ongoing costs of owning a home is paying property taxes. These monies are essential for funding local governments and schools, but they can also add hundreds or thousands of dollars to a homeowner's tax burden. Understanding what causes property taxes to rise can help you anticipate future payments and budget accordingly.

The assessor's office does not determine the total amount of taxes collected in your community, the tax rate, or your taxes. The assessor's primary responsibility is to find the fair market value of your property, so that you pay only your fair share of taxes. The amount of tax you pay is determined by multiplying your TAX RATE by your property's ASSESSED VALUE. Your tax rate is determined by all your taxing authorities – town or county, school districts, and other. Your taxing authorities determine how much tax is needed to provide all the services you enjoy.

As market value change, in general so do assessed values. Market values change because the property has changed or because market conditions have changed. The assessor must estimate the market value of each property, no matter how big or small. Each year, the assessor reviews your property for changes and then revalues the property depending on current market conditions.

- Home Improvements Increase Assessed Value

Home-improvement projects big and small trigger reassessments to your property's value. In fact, they're one of the most common causes of a higher property tax bill. If a home-improvement project adds square footage to your home, that will almost certainly boost your home's assessed value, which is a good thing for your home as an investment. But it also means you can expect a bigger tax bill when your home is reassessed.

- State and Local Budget Decision

When your state and local governments decided to cut or fund a public service that is subsidized by property taxes, you might see that reflected in your assessment. Maybe they're aiming to better the public school systems, or the local roadways. Even if you don't use the service, you might pay for it in property taxes. If the state decides to cut funding for those services, your local government has to pull the money from somewhere, and that could mean higher property taxes too.

**Orrington's Tax Rate increased this year from 13.90 to 15.90. This was due in part to a loss of \$24.8 M of the Town's Valuation concerning the assessment review of The Penobscot Energy Recovery facility and increases of the Town's costs for items listed below. In order to mitigate a larger increase in the Tax Rate, we were able to make use of additional budget cuts and used \$275,000 of the undesignated fund balance. There was no increase in the Tax Rate due to the cost of the new public safety building.**

- County Tax increased from \$471,746 to \$551,380 or a 16.9% increase;
- Municipal Appropriation from \$2,593,288 to \$3,445,710 or a 32.9% increase;
- TIF Financing Plan from \$353,433 to \$347,500 or a reduction of 2.0%;
- Local Education from \$6,849,242 to \$7,252,287 or a 5.9% increase.