Dealing with excessive assessments: The Maine Land Bank and Community Preservation Program

by
David R. Hill, Yarmouth
and
Bette Tellinghuisen, Cumberland

Tax reform: Not "if" but "when"

Tax reform has been on the collective mind of Maine's legislature for at least ten years. The conventional wisdom was that "this is the year" that the legislature would finally attack and solve this most vexing of fiscal issues. Whether the political will truly exists to slay this dragon remains to be seen, at least at the time of this writing.

The basic tenets of tax reform have been well-established with a fair degree of consensus around what comprises comprehensive tax reform: Stability and predictability; spending that doesn't outstrip revenues, a better distribution among property, sales and income taxes; a more equitable school funding formula; and, most elusive, fairness for all.

Knowing that the devil is in the details, the legislature has been grappling with the many facets of Maine's tax structure and what has emerged so far is a recognition and definition of the many pieces of the jigsaw puzzle that need to be correctly merged to yield what will be known as "comprehensive tax reform."

A new danger

One of these pieces is relatively new and just recently acknowledged as an issue worthy of consideration. Over the past ten years or so, certain lands in Maine have become increasingly desirable. Many reasons for this phenomenon have been advanced, among them the desire for a safe and stable investment with a better rate of return than is available in the volatile stock market.

Located across the state, these lands include coastal properties, land along rivers and lakes, and properties with scenic vistas. As these lands are sold at rapidly increasing prices to those with the ability to pay, the valuations of similar properties (as dictated by law) rise in concert.

Normally, the increases would be balanced by declining mill rates, resulting in equivalent property taxes, all other things (including municipal spending) being equal. But these desirable properties seldom comprise all land in a single town. The result is that the tax burden is shifted from more slowly appreciating properties to the more desirable and faster appreciating properties in a town. And with the accompanying rise in municipal and educational costs and the drop in mill rates, those whose taxes have been held constant haven't noticed the shift. But those who have seen their property taxes double, triple and even quadruple in fewer than ten years have certainly noticed.

Maine's Constitution requires that all properties be taxed at "just value" which the courts have determined to mean "fair market value" or what the property would sell for in a transaction between a willing buyer and a willing seller. Property taxation has its roots in the agrarian economy of hundreds of years ago, when property was used to generate income and was, therefore, a measure of the owners' ability to pay taxes.

That is no longer the case in today's service- and technology-based world. While there is often a correlation between land value and an owner's ability to pay taxes, it is far from universal. And in a situation where land values rise at unexpected rates, a person's ability to pay the associated taxes is certainly challenged.

Why the concern?

Some people, legislators included, have termed this "a good problem to have." After all, the landowner has the potential to enjoy windfall profits. And this may be true for those who consider their land to be an investment. Certainly, many have happily reaped the benefits of buying low and selling high.

But many others view their land differently, particularly if the land is involved in the generation of income, such as in the case of farmers, fishermen and other small business people. Their land is not only their livelihood, but also their heritage and their legacy. Many people want the right to choose to die in the very house in which they were born. They want to be buried in the family cemetery plot located on the homestead. At the risk of being over-dramatic, this is such an emotionally fraught issue that wars have been fought over land ownership and control.

To these people, unanticipated and unaffordable increases in property taxes are tantamount to a government eviction notice and are far from "a good problem to have." They are not willing sellers, nor do they wish or intend to become willing sellers.

Legacies received are intended by many to be continued. Many people want to pass their land, homes and businesses on to the next generation. This is far from "dynasty building," as has been suggested by some. This is the continuity that makes our society work and provides cohesiveness in an otherwise fragmented world.

People whose parents struggled to pay their property taxes often find that they are even less well equipped to do so when the land passes on to them. With lower incomes, college loans and other debts, young people can't afford to assume ownership of family property (residential and/or business) or to purchase property in the communities where they were raised. They are forced to sell the family homestead and live elsewhere, often out of state.

But the problem goes beyond the individuals and families involved. It extends to the communities, particularly the small towns affected by bloated assessments. When families are forced to move due to unaffordable property taxes, the community loses its character and becomes faceless. In the case of small, isolated areas, the very survival of the community is threatened. The desirable properties become the domain of the "beautiful people" and parts of the town may become exclusive seasonal enclaves with restricted access that had once been unrestricted.

Much has been made of preserving the "working waterfront," a legitimate and worthwhile goal which we actively and enthusiastically support. But what good is a working waterfront if those working the waterfront can't afford to live anywhere nearby? If their only neighbors are super-rich mansion dwellers who are repulsed by the odor of bait or whose tranquility is disturbed by boat engines being started at daybreak? If the hardware store and barber shop in the village have been replaced by a Starbucks and a tanning salon?

One "solution" to the problem is to sell a portion of one's land to pay the taxes. Usually, this takes the form of taking the land out of agricultural production and turning it over for residential development, directly contributing to the problem of "sprawl" in the state and adding more to the cost of municipal services and education budgets than the additional tax revenues paid by these developments. Who makes up the shortfall? Other members in the community who neither create the shortfall nor benefit from the increased expenses.

It has been said that Maine's state seal features the marine and agricultural industries, and that these businesses deserve to be protected, and so they do. But the seal also features the human beings plying these trades and these people, indeed all people, also deserve to be protected.

How to deal with such a "good problem"

And so a new wrinkle has been added to the taxation picture. What used to be an anecdotally rumored problem has become a reality – people are literally being taxed out of their homes. Through letters, telephone calls, e-mail and personal testimony, the legislature has heard the anguish of the people who have fallen prey to wild assessments and tax shifts and has indicated a willingness to address the problem, along with all the other problems associated with current tax policy.

But runaway assessments are not easily addressed. For example, cutting municipal and education spending directly or through consolidation might ease the burden slightly, but certainly not enough to reverse the pressure to sell. Even if spending (and consequently taxes) could be reduced by 10% or even 20%, this if far from sufficient to reverse tax increases in the 100% to 300% range. The inevitable is only postponed, and briefly, at that.

Likewise with the circuit breaker program. Currently, the tax relief is capped at only $1,000. That may be of some assistance this year, but when the assessments double yet again, the $1,000 won't go very far. If, as has been proposed, the relief is increased to $2,000, the situation would be improved slightly, but only for lower income families. And if the property they acquired happens to have become a rapidly appreciating property that now doubles or triples their property tax liability, the increased relief is completely ineffective. Middle income households are still left out in the cold.

The Homestead Exemption is the most insulting of all. By exempting a maximum of $7,000 of taxable value, a taxpayer in a town with a $20.00 mill rate saves all of $140 a year. Again, increasing this exemption will do little to ease the burden, which will only continue to worsen in the future.

The "good problem" of escalating assessments and the unfair tax burden caused by them can be solved only by addressing the very root of the problem – the assessment itself.

The beginnings of a grassroots effort

When the Town of Cumberland performed its second revaluation in five years, shorefront properties that had doubled in value five years ago doubled again. Properties worth $100,000 in 1992 were suddenly worth $400,000 and taxed accordingly.

Properties in the rest of town also went up, but only about 25%. The result? The tax burden was shifted from the rest of the town to the now highly desirable shorefront properties, with associated tax increases of three to four times the 1992 level.

Since most of the shorefront in Cumberland is located on Chebeague Island, this small fishing community of about 350 year-round residents was rightfully shocked by the impact it was being asked to absorb. There was talk of a tax revolt or secession and Chebeague received a considerable amount of press, such that the problem of skyrocketing assessments became known as the "Chebeague problem." Of course, the problem is far more widespread than that.

Citizens of Chebeague Island and Harpswell found each other pondering solutions to this dilemma. Independently, a Chebeague resident and a Harpswell resident suggested developing a program for landowners loosely patterned after the state's Tree Growth Program. Others grasped this idea and developed what has become the Maine Land Bank and Community Preservation Program. As with the problem that spawned the solution, it was dubbed the "Chebeague Plan," reflecting its humble place of origin.

The plan that evolved is a combination of Limited Market Value (currently in place in thirteen other states) and Maine's agricultural and open space tax law. A base value for the land only will be established equal to the 1997 assessment adjusted to 100% using an appropriate adjustment ratio. For recently purchased land, the purchase price will be used or, if that cannot be determined, the fair market value of the land will be used.

Increases in the property assessment base value will be limited to two percent (2%) per year or to the increase in the consumer price index, whichever is smaller. Decreases in property assessment could happen at any time.

If circumstances change and an owner chooses to sell land banked property, a significant penalty will have to be paid before the property can pass with clear title. This could amount to as much as 30% of the difference between the purchase price and the Land Bank value. There may be lesser penalties for sales to unrelated buyers when these transactions are at less than full market value and buyers wish to remain in the Land Bank Program

Land will remain in the program if transferred or sold to a direct relative or bequeathed to anyone. There will be no recapture penalty as long as the land remains banked. As proposed and reflected in accompanying tables, the recapture penalty translates to approximately sixteen times the annual tax relief. For properties with values rising more than about 4% annually, the penalty exceeds the life to date tax savings plus interest for well over a 100 year period! It is this penalty which provides funding for the program and makes it sustainable and self-supporting.

This proposal was drafted based upon public input obtained from over a dozen public meetings held around the state between October, 2002 and March, 2003.

How it works

The details of the Maine Land Bank and Community Preservation Program will be found in the text of the proposed bills and amendment, which are posted at www.MaineLandBank.org.

The best way to explain the mechanics of the proposal is by example, using actual numbers for a real property. In the table below, the 1997 assessed value of a particular property was about $78,000 for the land, $62,000 for the building, for a total of $140,000 with an associated property tax of $2,500.

Five years later the town performed a revaluation and, accurately based upon sales of comparable properties in the area, the land had risen in value to $215,000, up 177%. The house had appreciated 22% to $76,000 for a total assessment of $291,000. Because the average assessment increase was 45% for all properties in town and this property's assessment had jumped 108%, the resulting tax burden here increased overnight by 89% to almost $5,000.

If the town were to perform another revaluation and present trends were reflected, the 2003 taxes would increase another 17% *in one year* to $5,600 and this excludes any budget increases.

If the land were enrolled in the Land Bank program in 2002, however, the following would happen. The tax assessor would look back five years to the land value at that time (adjusted to 100% valuation). Since inflation has been greater than 2% annually, the assessment of the land would increase from that base value by 2% per year to a current assessed value of $86,000. The building value would be assessed as before. The resulting property tax would be about $2,500, similar to what it was five years earlier, and less than half its current bloated assessment based tax.

If the owner opted out of the program, he would have to pay a penalty of over $53,000, a very steep price for a $3,000 tax savings. It is this withdrawal recovery penalty that makes the program self-funding.

	1997	**2002**	**2003**		
	Actual	**Actual**	**Current**	**Land Bank**	**Penalty**
Land	$ 77,690	$ 215,220	$ 263,868	$ 85,776	
Building	62,305	75,803	78,836	78,833	
Total	139,995	291,023	342,704	164,609	
Tax	2,520	4,760	5,594	2,553	**$ 53,425**

The table below shows data for the same property over the long term. In fewer than twenty years, taxes will rise from $1,600 to almost $20,000, an increase of well over 1,000%. Under the Land Bank proposal, taxes will have increased less than 100% and will remain predictable and affordable forever**. This is sustainable, reasonable, and effective property tax relief.** But the potential cost for this tax relief to an owner who withdraws from the program is steep – almost a quarter of a million dollars in seven years and nearly $150,000 more than the life-to-date tax savings plus interest.

	1992	**1997**	**2002**	**2003**	**2010**
CURRENT STRUCTURE					
Value	$ 88,443	$ 139,995	$ 291,023	$ 342,704	$ 1,161,085
Tax	1,636	2,520	4,760	5,594	19,913
MAINE LAND BANK					
Value				164,609	182,084
Tax				2,553	3,028
Penalty				53,425	230,621

Answering the critics

"Shifts taxes to people not in the program" – Unlike repeated tax shifts that result from reassessments and recur periodically, any shifting due to the program is temporary. As recovery penalties materialize, any shift is mitigated and mill rates drop. The program pays for itself. In the meantime, the tax increase to non-participants is limited to between 2% and 4% depending on participation levels and this declines as penalties are paid. Any initial increase could be considered a temporary contribution to the greater good, that being the preservation of a vital and vibrant community and empowering friends, neighbors, and relatives to remain in the community.

"Benefits rich summer people from out of state" – Probably the most contentious piece of Maine Land Bank is its proposed inclusionary nature. Like assessment practices and every other current use provision in tax law, Maine Land Bank does not discriminate against any class of landowner. We believe that seasonal residents and seasonal business owners are active and contributing members of Maine's communities and should be afforded the equal chance to remain in their homes and businesses (seasonal though they may be) as much as anyone else. And with 82% of second homes owned by Mainers, excluding such properties would hurt many Mainers.

"It's a band-aid that doesn't address the real problem, which is spending" – Spending may indeed be a problem in Maine and cost cutting through consolidation or program cutbacks perhaps should be a part of the tax reform solution. Savings of 10%, 15%, or even 20% are not much comfort, however, to people who have endured multiple tax increases of 100%, 200% or more and can look forward only to more of the same. We believe that Governor Baldaccci's statement that "property-tax relief can come only through systemic changes that reduce spending" fails to address a major, widespread and painful aspect of property taxation: Excessive assessments.

"It won't work in our small community" – The Maine Land Bank concept is fully scalable and volume independent. It will work equally well for communities of 1,000 as it will for towns of 100,000.

"This isn't for us – our land is actually declining in value" – While the economy has dampened the demand for land in many parts of the state, the time may come when residents will be happy to have the security of Maine Land Bank. For example, in the 1950s, land on Chebeague Island was virtually unsellable and Portland banks refused to write mortgages on "worthless island property." Times are a-changing. Those who do not currently need the protection of Maine Land Bank may well find it a welcomed haven in the future, likely sooner rather than later.

"Too much paperwork" – This was one of the first objections raised and is probably insignificant given computerized systems. It's a small price to pay for the benefits of the Maine Land Bank program.

"Open to litigation" – We recognize that care must be taken to ensure that people understand the implications of their decision to join the program and the potentially significant reduction of land sale profits. Entrants to the program should sign a declaration acknowledging an understanding of the possible future cost of tax relief.

"Few will join the program" – Desire to own land for the long term is not isolated to areas of Maine where current demand for land is high. Even if program participation is low, it will be well worth the effort to assist distressed taxpayers and to preserve fragile communities. (Please see the *Portland Press Herald* editorial from December 23, 2002, available on the Maine Land Bank website, www.mainelandbank.org.)

"Few will leave the program" – Another long term current use program, Tree Growth, experiences an average annual withdrawal rate of 5% and penalties began in the third year following enactment. The reasons for leaving the program reflect natural and normal life events – people reassess their priorities, divorce settlements force sales, heirs cannot agree on the inheritance and choose to cash out. At about sixteen times the annual tax relief, penalties from a few withdrawals have the potential to fund a great many banked properties.

"A tax break for the rich" – High property assessments are non-discriminatory and are not the domain of any single group. Substantiated in tables accompanying this report, penalties far exceed tax savings plus interest for a vast majority of properties. So the program is not a good financial investment and certainly not advantageous to those seeking to maximize their return. It is a good financial investment for municipalities who will receive the windfalls from penalties. It is a good "investment" for those having a long-term commitment to land ownership and who are vested in their communities. The penalties associated with leaving the program will be affordable for anyone as they are based on a percentage of the profit from the sale, similar to a capital gains tax.

"Doesn't do enough" – The Land Bank Program stands alone to solve the singular problem of runaway assessments. It has the potential to co-exist very well with other tax reform measures that address the other equally critical problems of Maine's tax burdens.

Flexibility

Although legislation defining the Maine Land Bank and Community Preservation Program has been proposed, there is plenty of room for the development of alternative methods for achieving meaningful tax relief for those experiencing excessive assessments. A few examples follow.

If it were the will of the legislature to exclude second homes or out-of-state owners from eligibility for the Maine Land Bank program, this could be accomplished by refining the constitutional amendment to allow differential assessments based not only on current use, but also on owner or property classification.

If there is reluctance to place a constitutional amendment before voters, then the Maine Land Bank could be accomplished as a form of the Homestead Exemption, replacing the weak and largely ineffective current law with one that has true meaning, the Extended Homestead Exemption. Extended Homestead Exemption calculates the amount of the exemption based upon the rate of increase in property assessments rather than limiting assessment growth as in the proposed Maine Land Bank. This alternative proposal may also be found on the www.MaineLandBank.org website.

If it is desired that certain business landowners, such as fishermen, farmers or small business owners, be given greater tax relief, then the look-back period could be extended to, say, ten years for working properties compared to five years for residential properties.

If it is believed that the penalties are not stringent enough to sufficiently discourage participation or rates of withdrawal would be insufficient for the program to self-fund, then a higher percentage could be applied. (The currently proposed 30% for the first ten years, sliding down to a minimum of 20% over the subsequent ten years was drawn directly from Tree Growth law and is open to revision.)

Another option here could be to base the penalty on the total of all accrued tax savings plus interest limited to 90% of the difference between land sales price and land bank value. Depending upon individual circumstances, this may result in penalties which are higher or lower than those currently proposed.

If it is felt that the penalties are too harsh, either in general or for a particular group of landowners (e.g. fishermen), then the penalties could be reduced or even waived.

If there is fear among communities that there would be a shift in taxes to non-participating landowners (forgetting the prior shifts in the other direction that caused the problem in the first place!) then the state could reimburse communities for any lost revenues, as is currently done under Tree Growth. As currently proposed, this would be a short-term reimbursement because the Land Bank program soon becomes self-funding as severe recovery penalties are paid from sales proceeds.

If it is desired to limit participation to those whose property taxes are excessive relative to income, then eligibility could be restricted to those whose property taxes consume over 8% of income, a percentage similar to Maine's highest state income tax bracket.

If there is concern that the program would be detrimental to small communities, then there could be an opt-out provision for towns under 500 people with a referendum vote at 3-year intervals. Or, for towns that choose to become a part of a Municipal Service District (as proposed by Governor Baldacci) the program could reach critical mass by serving several combined communities.

If it is believed that full assessment valuations should be used in calculations of school funding and local aid, then assessors could use the information that is readily available and part of permanent municipal records to complete certified assessment and other forms in the existing fashion. Or, if banked assessment values were preferred instead, this information, too, would be accessible as part of the permanent town records.

A great many more forms of modification are possible within the existing structure of the Maine Land Bank documents. Regardless of the specific methods employed, each of the Maine Land Bank versions and hybrids is cognizant of fiscal concerns at both the state and local level. So it remains a no or very low cost tax relief program that is funded by those who benefit. The return on investment of such a program for individuals, families and communities is incalculable.

The Maine Land Bank and Community Preservation Program is not a cast-in-stone take-it-or-leave-it proposition. It is a dynamic, flexible framework for the only program (short of Carol Palesky's tax cap proposal) that addresses the underlying problem of assessments which have increased property taxes for many far beyond the limits of reason and fairness.

As an example of how flexible the Maine Land Bank can be and the variety of tax relief that it might offer, the follow table illustrates how the program might be applied to different categories of land.

Maine Land Bank Categories And Program Parameters

(examples of what *could* be done)

Land Category	Look Back[1]	Appreciation Limit[2]	Penalty[3]
Homestead	5 years	2%	Standard
Affordable Housing	5 years	2%	Standard
Second Home	2 years	5%	Twice standard
Endangered Working Lands[4]	15 years	2%	Limited to back taxes, plus interest
Other Working Lands	10 years	2%	Limited to back taxes, plus interest

[1] Period used to define base value, i.e. the number of years prior to placement into the Land Bank program that dictates the base value for land

[2] The annual limit to appreciation (assessment increase) of land in program, if less than the rate of inflation

[3] Penalty for withdrawal from the program. Details of "standard" penalty are included in the statute

[4] Limited to working waterfront, working farmland, working woodlots

On to the Legislature

The concepts first developed in the autumn of 2002 evolved into LD 938 and LD 951 which were brought before the 121st Legislature in February of 2003 in bills sponsored by Leila J. Percy of Phippsburg. The first LD is the constitutional amendment which adds another category to the kinds of land that can be taxed based on current use. In addition to open space land, agricultural and timberlands and land for wildlife sanctuaries, the amendment would add "lands used for long-term ownership." The second LD specifies the statutes to create and maintain the Maine Land Bank and Community Preservation Program.

The Taxation Committee had over two hundred bills laid before it, most dealing with some form of tax reform. Many dealt with specific issues or groups, such as veteran exemptions, while others suggested more sweeping reforms. Only a handful were passed on with an "Ought to Pass" recommendation (with or without amendments). The vast majority were killed by an "Ought Not to Pass" judgment. About a dozen were tabled in anticipation of developing a comprehensive bill incorporating the best features of each. Ultimately, ten were carried over to the next session, including tax measures of a more specific nature, such as the bill to reinstate a milk handling fee.

The Maine Land Bank and Community Preservation bills were among the tax reform bills voted to be carried over. While a form of the proposal was included in the chairmen's recommendation, there was disagreement over the details of implementation. So it was decided that the bills would be carried over in order to (a) obtain a better idea of what other tax relief might be waiting in the wings for victims of excessive assessments and (b) allow the Taxation Committee more time to consider the details of the program.

What the future holds

As has been detailed in this paper, the Maine Land Bank and Community Preservation Program is a wide-sweeping proposal which has the potential to benefit many classes of landowners, including fishermen, farmers, small business people and other longstanding members of Maine communities.

The Maine Municipal Association's ballot initiative mandates that at least 55% of K-12 education costs be borne by the state. If this passes, property tax relief may result but, again, it will not be sufficient to provide safe harbor to those whose taxes have tripled or quadrupled recently and are expected to do so again in the near future.

For the reasons presented earlier, it is highly unlikely and, in fact, virtually impossible to expect that the problem of excessive assessments will be addressed by any tax reform measures from this session of the 121st Legislature.

The only alternative that provides any hope of effective tax relief for assessment-burdened people is Carol Palesky's Taxpayers Action Network property tax cap. While it is recognized that this draconian measure would wreak havoc with local and state governments, it is also recognized that many Mainers will do almost anything to maintain possession of the lands they cherish and to avoid being taxed out of their homes and their communities.

So those of us who have been instrumental in bringing the Maine Land Bank and Community Preservation Program from the kitchen table to the Capitol dome will persevere. We intend to expand our broad-based coalition of like-minded groups around the state and continue to ask that the people of Maine be given realistic options for the protection of their land.

But we need help. And a lot of it. Anybody who is interested in assisting us in passing this legislation, should please call David Hill at (207) 846-4664 or send e-mail to davehill@MaineLandBank.org. Visit our website at www.MaineLandBank.org, with an interactive Excel spreadsheet providing “what-if” analysis of the program and links to several articles showing editorial support for this program. We will also give PowerPoint presentations to municipalities and organizations describing the Maine Land Bank and its operation.

There is much to recommend the adoption of the Maine Land Bank and Community Preservation Program. It’s time to send a message to the citizens of Maine and to people considering moving their families and possibly their businesses to Maine that this is a state that cares about its heritage, about fairness, and about preserving all elements of an endangered way of life.

MAINE LAND BANK SCENARIOS

Overview: The following pages present two sets of tables illustrating how the Maine Land Bank and Community Preservation Program works.

The first set of four examples shows how one property owner's assessment is affected when another property having similar characteristics and located in the same community is sold. These also show what the assessment and penalties for withdrawal would be at certain intervals over the next 100 years if that same land were enrolled in the Maine Land Bank Program.

The second set of three tables presents examples of assessments and associated taxes for three properties and illustrates how taxes for non-program properties are impacted very little by the tax relief afforded program participants. They also show how non-program taxes are reduced as time progresses and the Maine Land Bank becomes self-funding and sustainable.

First Set: The same property with a 1997 land value of $165,600, building value of $128,900, and tax rate of $18 per thousand is used as the starting point in all examples. For each of the four sets of examples which represent communities, the mill rate has been adjusted in the year after the average assessment ratio drops below the 70% threshold which triggers a town revaluation. Recent historical appreciation trends are applied to future years. A 4% average annual inflation factor and no new development or growth are built into the mill rates. In all examples and mirroring Cumberland's recent experience, buildings are held at a 3% annual net assessment increase.

Results in each example or community reflect (1) an average property, (2) a fast appreciating property, and (3) a slowly appreciating property. The respective appreciation rates, synonymous with sales price increases, are reflected in the line item title.

The last line in each table is the minimum annual land sales price increase that is required in order for the municipality to at least breakeven when a Land Banked property is withdrawn within the first 100 years of Program participation. That is, the penalties paid on any banked land that appreciates at this rate or faster and is sold within the first 100 years will *always* exceed the life to date tax savings plus 6% accumulated interest. In all communities shown here, penalties from average and fast appreciating properties, which generally represent 2/3 of all properties in a municipality, are far more than their respective savings plus interest, effectively funding remaining banked properties and reducing the municipality's mill rate. Only the exceptionally slowly appreciating properties in more slowly appreciating communities fall short.

Example I reflects an 8% average annual sales price increase. This closely approximates the experiences in Cape Elizabeth, Yarmouth, and Cumberland during the most recent revaluation period. Example II with a 10% average annual sales price increase aligns with Harpswell. The remaining Examples III and IV are for illustrative purposes showing current trends in these same communities where sales prices are rising faster than historical trends and in concert with heated demand for Maine properties.

<u>**Twenty Year Comparison:**</u> While similar conclusions can be reached by comparing any year's results, let's take a look at this property's assessment twenty years from now. In 2017 and shown in shaded cells, it is readily apparent that the land valuation of this same property owned by the same business or family can be dramatically different. In Example I, this is $1.4 million for the average property, $.3 million for the slowly appreciating lot, and $8.8 million (more than 6 times greater than the average) for the fast appreciating parcel. Why? Because of "desirability" as seen in the eyes of the buyer and related market-driven assessments that result when parts of a state and parts of a community are "discovered." Even with no changes to the property and no additional services required by the same twenty-year owners, the differences in assessments and property taxes are tremendous. The resulting tax shift that accompanies this event is literally taxing people out of their businesses and their homes and driving them out of their communities. The Maine Land Bank solves that problem.

Let's look at the penalties reflected in Example I. Average-appreciating properties and fast appreciating properties generally account for about 2/3 of a community. When these banked properties are sold, whether in Yarmouth, Cape Elizabeth, or Cumberland, ***owners <u>always</u> pay all unpaid back taxes plus accumulated interest and <u>more</u> for well <u>beyond 100 years</u> into the future.*** This reduces the mill rate for all property owners. As shown in italics, the excess amount funds the tax savings and interest for remaining program participants and covers the shortfall for participants who own more slowly appreciating properties. ***<u>This</u> is what makes the Maine Land Bank self-funding. That's why it's a <u>sustainable solution</u>.***

Because penalties far exceed tax savings plus interest for ***well over a century***, it is highly unlikely that "rich" people (i.e. those with the ability to pay excessive annual property taxes and who own or will buy fast appreciating properties) would even consider taking on such a poor investment. And if they do, it is the rest of the community that benefits when they sell and pay the penalty! Only the many who find themselves on Maine property that has become increasingly "desirable," who are not "rich," but are committed to their communities and need the tax relief would consider this a viable option.

High assessments are not discriminatory and are not the domain of any single economic group in Maine. At least, not quite yet. How can you get this "good problem?" The only eligibility requirement is that you own a business property or live on land that somebody else thinks is "highly desirable." Then, to maintain that status, you must have very deep pockets to pay for the ever-increasing property taxes and tax shifts as shown in the tables on the following pages.

We understand that it may be difficult to grasp the fact that the Maine Land Bank and Community Preservation Program *can and will* fund itself. But as substantiated here, it does - quite handsomely! We understand that it may be difficult to grasp the fact that this program does not shift taxes back onto the properties that benefited from prior market-driven assessment shifts. But as substantiated here, it does not!

Example I (Similar to Cape Elizabeth, Yarmouth, Cumberland Appreciation Rates @ 7% to 8% annual average)

8% Appreciation		1997	2002	2003	2017	2022	2075	2102
Current	*Tax Rate >*	18.00	17.15	17.15	7.19	5.69	.11	.01
Land	*11%*	165,600	**283,300**	315,400	**1,418,400**	2,426,600	719,061,000	13,060,849,200
Building	*3%*	128,900	149,400	153,900	232,800	269,800	1,292,600	2,871,300
Maine Land Bank								
Average Land	*11%*		**283,300**	182,800	241,200	266,400	760,800	1,298,600
Building	*3%*		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int				2,612	153,220	280,202	16,575,281	87,540,927
Penalty				39,774	282,522	432,041	143,660,030	2,611,910,123
Excess Funding				***37,162***	***129,302***	***151,839***	***127,084,749***	***2,524,369,196***
Fast Appreciation								
Land	*22%*		**447,600**	546,100	**8,838,500**	23,889,600	902,826,630,300	193,858,561,595,000
Building	*3%*		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int				7,157	728,710	1,674,768	1,844,099,108	43,133,659,873
Penalty				108,973	2,063,344	4,724,651	180,565,173,902	38,771,712,059,275
Excess Funding				***101,816***	***1,334,634***	***3,049,768***	***178,721,074,794***	***38,728,578,399,402***
Slow Appreciation								
Land	*3%*		**192,000**	197,800	**282,100**	347,000	1,664,200	3,699,300
Building	*3%*		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int				294	11,139	18,060	545,611	2,635,987
Penalty				4,479	13,919	16,118	180,689	480,138
Excess Funding				***4,185***	***2,780***	***(1,942)***	***(364,923)***	***(2,155,850)***
100 Yr Breakeven Rate		**5.9%**						

Example II (Similar to Harpswell Appreciation Rates @ about 10% annual average)

10% Appreciation		1997	2002	2003	2017	2022	2075	2102
Current	*Tax Rate >*	18.00	15.54	15.54	6.10	3.47	.02	.02
Land	*14%*	165,600	**324,900**	371,800	**2,453,700**	4,814,000	6,095,574,495	232,026,339,880
Building	*3%*	128,900	149,400	153,900	232,800	269,800	1,292,600	2,871,300
Maine Land Bank								
Average Land	*14%*		**324,900**	182,800	241,200	266,400	760,800	1,298,600
Building	*3%*		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int				3,397	190,462	345,112	22,192,031	173,181,071
Penalty				56,684	531,984	909,531	1,218,962,738	46,405,008,254
Excess Funding				***53,286***	***340,522***	***564,419***	***1,196,770,707***	***46,231,827,183***
Fast Appreciation								
Land	*28%*		**569,000**	728,300	**23,081,700**	79,308,500	38,147,888,273,093	29,933,048,221,522,200
Building	*3%*		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int				9,808	1,147,373	2,822,367	11,929,533,750	4,214,133,483,550
Penalty				163,645	5,481,712	15,808,438	7,629,577,502,458	5,986,609,644,044,710
Excess Funding				***153,838***	***4,334,373***	***12,986,072***	***7,617,647,968,707***	***5,982,395,510,561,160***
Slow Appreciation								
Land	*5%*		**211,400**	222,000	**439,800**	561,400	7,470,624	27,925,309
Building	*3%*		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int				707	25,987	41,470	1,203,865	5,824,579
Penalty				11,743	47,649	59,011	1,341,964	5,325,340
Excess Funding				***11,039***	***21,662***	***17,541***	***138,099***	***(499,239)***
100 Yr Breakeven Rate		**5.2%**						

Example III (Appreciation @ 12% annual average)

12% Appreciation	1997	2002	2003	2017	2022	2075	2102
Current Tax Rate>	18.00	14.13	14.13	3.53	1.57	.01	.01
Land 17%	165,600	**370,000**	434,500	**4,126,919**	9,220,772	46,309,068,114	3,556,555,223,067
Building 3%	128,900	149,400	153,900	232,800	269,800	1,292,600	2,871,300
Maine Land Bank							
Avg Land 17%		**370,000**	182,800	241,200	266,400	760,800	1,298,600
Building 3 %		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int			4,140	200,719	351,975	20,484,575	512,579,359
Penalty			75,511	932,561	1,790,883	9,261,661,462	711,310,784,892
Excess Funding			***71,371***	***731,842***	***1,438,908***	***9,241,176,887***	***711,250,859,778***
Fast Appreciation							
Land 35%		**742,500**	1,002,400	**66,927,500**	300,082,700	2,424,286,208,725,200	8,006,062,364,658,680,000
Building 3%		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int			13,480	1,710,715	4,456,451	139,772,011,978	449,923,655,922,944
Penalty			245,857	16,004,709	59,963,269	484,857,241,592,883	1,601,212,472,931,480,000
Excess Funding			***232,377***	***14,293,994***	***55,506,817***	***484,717,769,580,905***	***1,600,762,549,275,550,000***
Slow Appreciation							
Land 6%		**221,600**	234,900	**531,000**	710,600	15,581,400	75,120,458
Building 3%		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int			856	25,829	39,477	1,014,299	4,915,141
Penalty			15,617	69,542	88,843	2,964,125	14,764,370
Excess Funding			***14,716***	***43,713***	***49,336***	***1,949,826***	***9,849,229***
100 Yr Breakeven	**4.4%**						

Example IV (Appreciation @ 17% annual average)

17% Appreciation	1997	2002	2003	2017	2022	2075	2102
Current Tax Rate>	18.00	11.36	11.36	.67	.18	.01	.01
Land 24%	165,600	**496,300**	618,132	**13,359,681**	40,038,707	4,521,992,516,855	1,695,989,386,702,400
Building 3%	128,900	149,400	153,900	232,800	269,800	1,292,600	2,871,300
Maine Land Bank							
Avg Land 24%		**496,300**	182,800	241,300	266,400	760,800	1,298,600
Building 3%		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int			5,816	230,441	386,607	376,454,542	136,457,074,213
Penalty			130,589	3,148,424	7,954,470	904,398,351,210	339,197,877,080,759
Excess Funding			***124,773***	***2,917,983***	***7,567,863***	***904,021,896,668***	***339,061,420,006,545***
Fast Appreciation							
Land 35%		**742,600**	1,002,500	**66,963,600**	300,284,800	2,249,384,669,297,800	8,028,736,295,558,390,000
Building 3%		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int			10,951	719,124	1,466,428	136,056,591,315	447,279,706,462,208
Penalty			245,884	16,009,550	59,985,879	485,427,382,230,512	1,603,747,602,305,740,000
Excess Funding			***234,955***	***15,294,240***	***58,537,267***	***485,740,877,116,073***	***1,605,299,979,406,960,000***
Slow Appreciation							
Land 6%		**221,600**	234,900	**531,000**	710,600	15,581,400	75,120,458
Building 3%		149,400	153,900	232,800	269,800	1,292,600	2,871,300
Accum Tax+Int			669	14,249	20,251	468,631	2,283,494
Penalty			15,617	69,542	88,843	2,964,125	14,764,370
Excess Funding			***14,922***	***55,292***	***68,592***	***2,495,494***	***12,480,876***
100 Yr Breakeven	**3.2%**						

The Maine Land Bank Program

Analysis of potential outcomes

(Using actual property value and tax information from Cumberland, Maine)

Rapid Growth Area									
	1997	**2002**							
Land Value	$91,400.00	$253,200.00		Annual land appreciation			10.0%	(currently	22.6%)
Building Value	73,300.00	93,551.00		Annual building appreciation			5.0%	(currently	5%)
Tax Value	164,700.00	346,751.00							
Total Tax	2,964.60	5,946.78							
Mill rate	18.00	17.15							
			2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Old Mill Rate without Program:			17.15	17.28	17.41	17.54	17.67	17.80	17.93
Old Mill Rate with Program:			**17.15**	**17.43**	**17.80**	**17.94**	**17.89**	**17.93**	**17.99**
Rate of New Participants in Land Bank:			3	5	2	0.05	0.05	0.05	0.05
Average Valuation Reduction:			30	30	30	30	30	30	30
Withdrawal Rate: (as % of participants)			0	2	3	5	5	5	5
Municipal Budget Percent Increase (Decrease)			9	9	9	9	9	9	9
Historical Municipal Growth Rate			9	9	9	9	9	9	9
Sales Price as Percent Over Assessment			8	8	8	8	8	8	8
New Mill Rate without Program:			**17.28**	**17.41**	**17.54**	**17.67**	**17.80**	**17.93**	**18.06**
New Mill Rate with Program:			17.43	17.80	17.94	17.89	17.93	17.99	18.05
Percent difference			**0.9%**	**2.3%**	**2.3%**	**1.3%**	**0.8%**	**0.3%**	**-0.1%**
Current Trend, Current Tax Structure									
Land Value			278,520	306,372	337,009	370,710	407,781	448,559	493,415
Building Value			98,228	103,140	108,297	113,711	119,397	125,367	131,635
Tax Value			376,748	409,512	445,306	484,422	527,178	573,926	625,050
Mill Rate			$17.28	$17.41	$17.54	$17.67	$17.80	$17.93	$18.06
Total Tax			$6,509	$7,128	$7,809	$8,558	$9,382	$10,290	$11,290
Land Bank Program									
Land Value			100,913	102,931	104,990	107,090	109,231	111,416	113,644
Building Value			98,228	103,140	108,297	113,711	119,397	125,367	131,635
Tax Value			199,141	206,071	213,287	220,801	228,628	236,783	245,279
Mill Rate			$17.43	$17.80	$17.94	$17.89	$17.93	$17.99	$18.05
Total Tax			$3,472	$3,668	$3,825	$3,949	$4,100	$4,259	$4,426
Identical property, *not in Program*			$6,568	$7,289	$7,987	$8,665	$9,454	$10,323	$11,279
Increase over current tax			$59	$161	$178	$107	$72	$33	-$11
% increase over current tax			0.9%	2.3%	2.3%	1.3%	0.8%	0.3%	-0.1%
Withdrawal Penalty		Interest rate:		8.75%					
Increase in Fair Market Value			177,607	203,441	232,019	263,620	298,550	337,143	379,771
Taxes saved (cumulative)			3,096	6,717	10,879	15,594	20,948	27,012	33,865
Penalty: Back taxes plus interest			3,367	7,600	12,790	19,037	26,525	30,319	34,435
Penalty: 30% of sale price less assessed			53,282	61,032	69,606	79,086	89,565	101,143	113,931
Penalty			53,282	61,032	69,606	79,086	89,565	101,143	113,931

The Maine Land Bank Program

Analysis of potential outcomes

(Using actual property value and tax information from Cumberland, Maine)

Slow Growth Area									
	1997	**2002**							
Land Value	$47,400.00	$61,800.00		Annual land appreciation			5.4%	(currently	5.45%)
Building Value	42,000.00	49,500.00		Annual building appreciation			3.3%	(currently	3.34%)
Tax Value	89,400.00	111,300.00							
Total Tax	1,609.20	1,908.80							
Mill rate	18.00	17.15							
			2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Old Mill Rate without Program:			17.15	17.28	17.41	17.54	17.67	17.80	17.93
Old Mill Rate with Program:			**17.15**	**17.43**	**17.80**	**17.94**	**17.89**	**17.93**	**17.99**
Rate of New Participants in Land Bank:			3	5	2	0.05	0.05	0.05	0.05
Average Valuation Reduction:			30	30	30	30	30	30	30
Withdrawal Rate: (as % of participants)			0	2	3	5	5	5	5
Municipal Budget Percent Increase (Decrease)			9	9	9	9	9	9	9
Historical Municipal Growth Rate			9	9	9	9	9	9	9
Sales Price as Percent Over Assessment			8	8	8	8	8	8	8
New Mill Rate without Program:			**17.28**	**17.41**	**17.54**	**17.67**	**17.80**	**17.93**	**18.06**
New Mill Rate with Program:			17.43	17.80	17.94	17.89	17.93	17.99	18.05
Percent difference			**0.9%**	**2.3%**	**2.3%**	**1.3%**	**0.8%**	**0.3%**	**-0.1%**
Current Trend, Current Tax Structure									
Land Value			65,137	68,655	72,362	76,270	80,388	84,729	89,304
Building Value			51,134	52,821	54,564	56,365	58,225	60,146	62,131
Tax Value			116,271	121,476	126,926	132,634	138,613	144,875	151,435
Mill Rate			$17.28	$17.41	$17.54	$17.67	$17.80	$17.93	$18.06
Total Tax			$2,009	$2,114	$2,226	$2,343	$2,467	$2,597	$2,735
Land Bank Program									
Land Value			52,333	53,380	54,448	55,537	56,647	57,780	58,936
Building Value			51,134	52,821	54,564	56,365	58,225	60,146	62,131
Tax Value			103,467	106,201	109,012	111,901	114,872	117,926	121,067
Mill Rate			$17.43	$17.80	$17.94	$17.89	$17.93	$17.99	$18.05
Total Tax			$1,804	$1,890	$1,955	$2,002	$2,060	$2,121	$2,185
Identical property, *not in Program*			$2,027	$2,162	$2,276	$2,372	$2,486	$2,606	$2,733
Increase over current tax			$18	$48	$51	$29	$19	$8	-$3
% increase over current tax			0.9%	2.3%	2.3%	1.3%	0.8%	0.3%	-0.1%
Withdrawal Penalty			Interest rate:	8.75%					
Increase in Fair Market Value			12,804	15,275	17,914	20,733	23,741	26,949	30,368
Taxes saved (cumulative)			223	495	816	1,187	1,613	2,098	2,646
Penalty: Back taxes plus interest			243	560	958	1,445	2,035	2,371	2,724
Penalty: 30% of sale price less assessed			3,841	4,582	5,374	6,220	7,122	8,085	9,111
Penalty			3,841	4,582	5,374	6,220	7,122	8,085	9,111

The Maine Land Bank Program

Analysis of potential outcomes

Static Growth Area	**1997**	**2002**	**2003**	**2004**	**2005**	**2006**	**2010**	**2015**	**2020**	**2025**
Current Tax Value	$85,300	$106,800	$112,191	$118,014	$124,303	$131,097	$164,160	$222,707	$308,667	$434,830
Current Tax	1,535	1,832	1,938	2,054	2,180	2,316	2,987	4,499	6,923	10,827
Land Bank Tax Value			112,191	118,014	124,303	131,097	164,160	222,707	308,667	434,830
In Program Tax			1,956	2,101	2,229	2,345	2,973	4,413	6,719	10,457
Not in Program Tax			1,956	2,101	2,229	2,345	2,973	4,413	6,719	10,457
Increase over program tax			0	0	0	0	0	0	0	0
Increase over current tax			17	46	50	29	-14	-86	-204	-370
% increase over current tax			0.9%	2.3%	2.3%	1.3%	-0.5%	-1.9%	-2.9%	-3.4%
Withdrawal Penalty			0	0	0	0	0	0	0	0
Slow Growth Area										
Current Tax Value	$89,400	$111,300	$116,271	$121,476	$126,926	$132,634	$158,308	$197,932	$248,064	$311,619
Current Tax	1,609	1,909	2,009	2,114	2,226	2,343	2,881	3,999	5,563	7,759
Land Bank Tax Value			103,467	106,201	109,012	111,901	124,296	141,865	162,079	185,357
In Program Tax			1,804	1,890	1,955	2,002	2,251	2,811	3,528	4,458
Not in Program Tax			2,027	2,162	2,276	2,372	2,867	3,922	5,399	7,494
Increase over program tax			223	272	321	371	616	1,111	1,872	3,036
Increase over current tax			18	48	51	29	-14	-77	-164	-265
% increase over current tax			0.9%	2.3%	2.3%	1.3%	-0.5%	-1.9%	-2.9%	-3.4%
Withdrawal Penalty			3,841	4,582	5,374	6,220	10,204	15,138	18,917	25,252
Rapid Growth Area										
Current Tax Value	$164,700	$346,751	$376,748	$409,512	$445,306	$484,422	$680,973	#######	$1,632,909	$2,554,567
Current Tax	2,965	5,947	6,509	7,128	7,809	8,558	12,391	21,222	36,622	63,606
Land Bank Tax Value			199,141	206,071	213,287	220,801	254,134	304,384	366,440	443,347
In Program Tax			3,472	3,668	3,825	3,949	4,602	6,031	7,976	10,662
Not in Program Tax			6,568	7,289	7,987	8,665	12,331	20,814	35,542	61,434
Increase over program tax			3,096	3,621	4,161	4,715	7,729	14,783	27,566	50,772
Increase over current tax			59	161	178	107	-60	-408	-1,080	-2,172
% increase over current tax			0.9%	2.3%	2.3%	1.3%	-0.5%	-1.9%	-2.9%	-3.4%
Withdrawal Penalty			53,282	61,032	69,606	79,086	128,052	201,456	278,623	422,244
Ratio of Recapture to tax relief										
Rapid Growth Area			17 to 1	17 to 1	17 to 1	17 to 1	17 to 1	14 to 1	10 to 1	8 to 1
Slow Growth Area			17 to 1	17 to 1	17 to 1	17 to 1	17 to 1	14 to 1	10 to 1	8 to 1
Static Growth Area			NA	NA	NA	NA	NA	NA	NA	NA