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Municipal Property Tax Levy Limit - Frequently Asked Questions

In January 2005, Governor John E. Baldacci signed into law LD 1: An Act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels. LD 1's goal is to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015.

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What is a Municipal Property Tax Levy Limit?

The Municipal Property Tax Levy Limit regulates the amount of money that municipalities can raise through property taxes. It applies only to property taxes used for municipal operations (road maintenance, libraries, parks and recreation, etc.). It does not apply to property taxes raised for schools, counties, TIFs, or the overlay. The limit allows a municipality to increase property taxes, but only by an amount equal to the growth of statewide personal income plus local property development within the municipality. The limit is adjusted downward if a municipality receives extra money from the State that it can use instead of property taxes.

Why does Maine have Municipal Property Tax Levy Limits?

In 2005, the Maine Legislature and Governor John E. Baldacci set a goal of lowering Maine's state and local tax burden ranking to the middle one-third of states by 2015. To achieve this, they created Municipal Property Tax Levy Limits, as well as limits on county assessments, school funding, and state General Fund appropriations. If Maine's government spending and taxes increase at a slower rate than other states, Maine's tax burden ranking will fall.

What is "LD 1?"

"LD 1" refers to the first bill, or "Legislative Document," filed with the 122nd Legislature in December 2004. The official title of the bill was "An Act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels." The bill became law in 2005. It limits the growth of taxes and appropriations made by state, county, and municipal governments, and school administrative units. The text of LD 1 is available online:

http://www.mainelegislature.org/legis/bills/bills_122nd/chapters/PUBLIC2-1.asp

There have been changes made to the law since 2005, most notably through the jail consolidation law passed in 2007. The

current laws for county and municipal limits can be found in [Title 30-A of the Maine Revised Statutes](#), the laws for the General Fund limits can be found in [Title 5](#), and the laws for school districts can be found in [Title 20-A](#).

What effect have Municipal Property Tax Levy Limits had on property tax growth?

The Office of Policy and Management reports on the effects of the Municipal Property Tax Levy Limits in January of each year. The reports are available at <http://www.maine.gov/economist/ld1/index.shtml>.

What is the Growth Limitation Factor and how is it calculated?

The Growth Limitation Factor refers to the allowable increase in a town's property tax levy. Each year, a town's Municipal Property Tax Levy Limit is calculated by increasing the previous year's limit by the Growth Limitation Factor. The Growth Limitation Factor is based on the local Property Growth Factor and the statewide Income Growth Factor.

What is the Income Growth Factor and how is it calculated?

According to LD 1, the Office of Policy and Management is responsible for calculating the Income Growth Factor, which equals the statewide average annual personal income growth from the previous ten years, adjusted for inflation. The Office of Policy and Management releases a new Income Growth Factor in September of each year following the release of revised estimates of the previous year's income growth from the U.S. Bureau of Economic Analysis.

What is the Property Growth Factor and how is it calculated?

The Property Growth Factor reflects growth in a municipality's tax base. It is equal to the value of newly taxable property in the most recent year for which data is available, divided by the total assessed value of all property in the same year. "New property," or property assessed for the first time since the last April 1st, includes newly created lots, new buildings, building additions, and new personal property. Dividing the total value of new property by the most recent total value of all assessed property in the town eliminates the impact of reassessments. New property that is tax-exempt under the Business Equipment Tax Exemption (BETE) program may also be included in the calculation when a municipality qualifies for a 'enhanced reimbursement' pursuant to Title 36, section 694, subsection 2, paragraph B. In such cases, the full value of BETE qualified property may be included in both the numerator and denominator when computing the Property Growth Factor.

What if the Property Growth Factor the municipality calculates is negative?

If the instructions are followed correctly, it is not possible to calculate a negative Property Growth Factor. The calculations do not ask municipalities to include any loss in the municipality's tax base, just the growth. This helps prevent the Municipal Property Tax Levy Limit from "ratcheting down" in municipalities that have seen a decline in taxable property. If the municipality had no newly taxable property in the most recent year, the Property Growth Factor would be 0.

How should the Property Growth Factor be calculated if the most recent assessment is not available at the time the budget is being determined?

If the assessment information as of April 1st for the current year is not available, then use the most recent year that is available.

Should Local Road Assistance Program or General Assistance funds be included in Net New State Funding?

No. State funding for the Local Road Assistance Program and General Assistance are not subject to any limit, therefore, they should not be included in a municipality's calculation of Net New State Funding. For further information see Maine Revised Statutes [Title 30-A, Chapter 223, §5721-A, sub-74](#).

Can a municipality go over its Limit? If so, how?

Yes. A municipality can go over its Property Tax Levy Limit by a majority vote of the legislative body that normally approves the budget. If the budget is approved by a referendum or at a town meeting, the vote must be by written ballot on a separate article that specifically identifies the intent to go over the Property Tax Levy Limit. If the budget is approved by a council, the limit can be increased or exceeded by a majority vote of the council. The decision of the council can be put to a referendum vote if a petition containing signatures of 10% of a municipality's registered voters is submitted to the town clerk within 30 days of the council vote. For further details see Maine Revised Statutes [Title 30-A, Chapter 223, §5721-A, sub-77](#).

What is the difference between voting to "exceed" or "increase" the Limit?

A vote to exceed allows a municipality to surpass the limit in that year but requires that year's limit to be used as the base for the next year's limit calculation, as usual. A municipality generally exceeds the limit to pay for an unexpected circumstance beyond its control, such as a natural disaster, federal mandate, or citizen initiative. A vote to increase allows the municipality to surpass the limit in that year and resets the limit so that the amount that was actually levied becomes the new limit and is used as the base for the next year's calculation.

If the Municipal Property Tax Levy Limit was calculated incorrectly, how should it be adjusted?

If the Municipal Property Tax Levy Limit was calculated incorrectly, then the limit should be recalculated using correct information. The corrected limit should then be compared to the current municipal property tax levy. If the current levy is greater than the limit, then the municipality must vote to increase or exceed the limit, or to reduce appropriations. The article must be in the following form: "Do you favor raising the levy limit of the [name of municipality] for the purpose of [insert purpose]?"

If a municipality did not calculate the Municipal Property Tax Levy Limit last year, how should this year's limit be calculated?

Each year's limit builds on the previous year's limit, so if the Municipal Property Tax Levy Limit was not calculated in any given year, the town will need to recreate the calculations for the missing year before calculating the current year's limit. For assistance, please contact the Office of Policy and Management at (207) 480-3090 or OPM@Maine.gov.

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