

Property Taxes in Mount Desert Maine

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Preface

This report is an attempt to look at the property tax situation in Mount Desert, and to what effect land conservation is having on taxes.

While many analyses focus on the tax base, this report carries the analysis through to the actual tax bill paid by a resident. To put the report's findings in context, the tax costs of conservation are compared to the tax costs of residential development. In addition, to put Mount Desert in a statewide context, Mount Desert's tax characteristics are compared to those of all organized municipalities in Maine.

The charts and tables use the most current data available. Some calculations and comparisons are shown for 1990 because they rely on U.S. Census data. Calculations that involve only tax information are done for more recent years.

It is clear that the property tax is an important concern, and this report attempts to provide some real numbers. It purposely limits its scope to the property tax and does not attempt to factor in considerations such as the quality of life, the rural character of the town, or the health of the ecosystem. The report can't answer the most important question: what is the optimal mixture of conservation and development for Mount Desert? Taxes are only one concern in the planning process. An analysis of likely tax consequences should help in the evaluation of various strategies in town, but it should not make the decision. The balance that the town chooses must involve considerations of what improves the quality of life, what citizens should do as responsible stewards of the land, what is fair, and what strengthens the community.

Many people helped in providing data and expertise used in this report: John Brushwein, Mount Desert Assessor; Edward J. Storey, Jr., Mount Desert Town Manager; Bruce Jacobson, Acadia National Park; David MacDonald and Rupert Neily, Maine Coast Heritage Trust; Larry Record and David LaDue, Maine Property Tax Division.

While I received help from many people, the analysis and conclusions are entirely my own. For the past ten years, I have been working on property tax issues as a consultant to towns, states, and non-profit organizations. I have looked at the relationship between property taxes, conservation and development in Maine, Vermont, New Hampshire, Connecticut, and New York, and I have analyzed the tax implications of specific land use options for many municipalities throughout the Northeast.

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Property Taxes in Mount Desert

I. Executive Summary

A. Purpose

The purpose of this study is to look at the property tax situation in Mount Desert, with particular attention given to the tax implications of various land conservation measures--including conservation easements, acquisition of land by a conservation organization or by government, and the preferential taxation programs of Tree Growth, Open Space and Farmland. The study was done in conjunction with a statewide effort to analyze the relationship between open land, development, land conservation and property taxes in Maine's organized municipalities.¹

B. Major Findings

- The tax rate in Mount Desert is well below the state average. The tax bill on the median-value year-round house is average for the state, even though property values are higher than average in Mount Desert and the property tax covers services such as sewer and trash pick-up that are not paid for through the property tax in most Maine towns.
- The property tax is particularly burdensome for lower-income households in Maine. The residential property tax represents about 7.3 percent of the household income of the 20 percent of the homeowners in Maine that have the lowest income; this is roughly four times higher than the percent of income that goes to pay the property tax in the wealthiest 20 percent of the households.
- The local property tax levy per capita in Mount Desert, as in most of Maine, increased at a rate exceeding the rate of inflation during the 1980s.
- Mount Desert's tax base per pupil is well above average for the state. There is a great deal of high-value property owned by non-residents who pay taxes without contributing children to educate.
- Although there are fewer non-resident-owned parcels than resident-owned parcels in Mount Desert, the total valuation of the non-resident-owned parcels is more than twice that of the resident-owned parcels. As a result, resident-owned property pays less than one third of the taxes in Mount Desert.
- Between 1980 and 1994, Mount Desert's total valuation increased 431 percent; the total valuation for all organized municipalities in Maine increased only 240 percent.
- Much of the increase in Mount Desert's valuation is due to the appreciation of property values--especially land values--rather than to new bricks and mortar.

¹ "Open Land, Development, Land Conservation and Property Taxes in Maine's Organized Municipalities," available from Maine Coast Heritage Trust, 167 Park Row, Brunswick, Maine 04011-2038. Telephone: 207-729-7366.

- Because of appreciating land values, taxes on land have been increasing more rapidly than taxes on buildings and personal property. In 1980, land made up 34 percent of the tax base and therefore paid 34 percent of the taxes. By 1994, the share of Mount Desert's taxes paid by land increased to 53 percent. During the same period, the share of Mount Desert's taxes paid by buildings and personal property dropped from 66 percent to 47 percent.
- When property is exempt from taxation, the tax that would ordinarily be paid on that property must be made up by other taxpayers. Generally, there is more exempt property value in larger towns than in smaller towns. And, more of the exempt properties in larger towns (such as hospitals, universities, government office buildings) require services. In Mount Desert, the value of property exempted from taxation, as a percent of the total value of property in town, is above average for the state. However, most of the exempt property in Mount Desert is open land which requires few services.
- When land is acquired by government or by a tax exempt organization to be conserved and permanently protected, the land is removed from the tax rolls. The exemptions given to permanently protected conservation land amounted to 61 percent of all exemptions in Mount Desert. If this land had not been exempted in 1996, the tax bill on a \$125,000 property would have decreased by about \$49--dropping from \$1,038 to \$988.
- Land enrolled in the Tree Growth program is assessed at a value that is significantly below its fair market value in Mount Desert. If the Tree Growth property were put back on the tax rolls at its fair market value, the tax bill on a \$125,000 property would have decreased by about \$7--dropping from \$1,038 to \$1,030.
- The study estimated the immediate tax consequences of five options for permanent conservation of a \$500,000 hypothetical parcel. Either fee simple acquisition of the land or acquisition of a conservation easement, by exempting all or a portion of the parcel's value, could increase taxes in town--at least in the short term--and the amount of the increase would vary. At one extreme, fee simple acquisition of the parcel by a fully tax exempt organization would result in an increase in the annual property tax bill of a \$125,000 property of \$0.87. At the other extreme, acquisition of a conservation easement on property already enrolled in the Tree Growth program would not increase taxes at all.
- On average, the Maine towns that are more developed have higher tax bills than those that are more rural. While development certainly adds to the tax base, it can also create a greater demand for school and municipal services.
- In Mount Desert, the median-value year-round house paid \$437 in school taxes in 1994. It cost the school district about \$5,000 to educate each elementary school student. This means that the median-value year-round house with one elementary student cost the school district about \$4,500 more than it paid in taxes. The difference is made up by taxes paid on other property--most significantly on property owned by non-residents.
- The towns that have the lowest taxes in Maine are those, like Mount Desert, that have the higher proportion of high value seasonal homes--not the towns that have the *most* seasonal homes.

C. Major Conclusions

- Taxes are likely to rise in the future, no matter what the town does to keep them down. This analysis is intended to help in the evaluation of the likely tax implications of various future strategies. It does not point the way to lower taxes.
- Taxes are the way to pay not only for services such as police and fire protection that are used by current residents, but to pay for long-term capital investments that will serve present and future residents. Conservation should be evaluated as an investment in Mount Desert that can maintain the current tax advantages resulting from high-value non-resident property as well as an investment that improves and maintains the quality of life of residents. Calculating the tax cost is only one part of the evaluation of whether the investment is worthy; the present and future benefits of permanently protected open land must be considered.
- Both conservation and residential growth are likely to result in tax increases. Although conservation may be less expensive to the town than residential growth, this does not mean it is better. Similarly, it does not mean that the town can choose to have one without the other. Looking at the costs of one type of land use in comparison with another is only used as a means to put the cost in perspective.
- The high-value seasonal homes in Mount Desert give the town a tremendous tax advantage. Protecting the value of this property will protect the tax advantage. Mount Desert, unlike most other towns, already has a significant amount of permanent open space that will help to keep the community as it is.
- Unlike other towns in which seasonal homes are being converted to year-round housing, Mount Desert is more likely to see year-round homes converted to seasonal homes. The non-resident-owned properties are generally more valuable and beyond the reach of most year-round residents, and even the year-round homes and vacant lots have appreciated significantly. While this may keep the property tax down, it may threaten the viability of the community.
- Taxes are only one concern in determining the future of a town. The goal should be to have the best community--not to have the lowest taxes. An analysis of the likely tax consequences should help in the evaluation of various strategies for the town, but it should not make the decision. The balance the town chooses should involve weighing what improves the larger economy (not just the tax base), what improves the quality of life, what citizens should do as responsible stewards of the land, and what is fair. The debate should not be conservation *or* development; both conservation and development are part of that balance. And it's likely taxes will rise to pay for both.

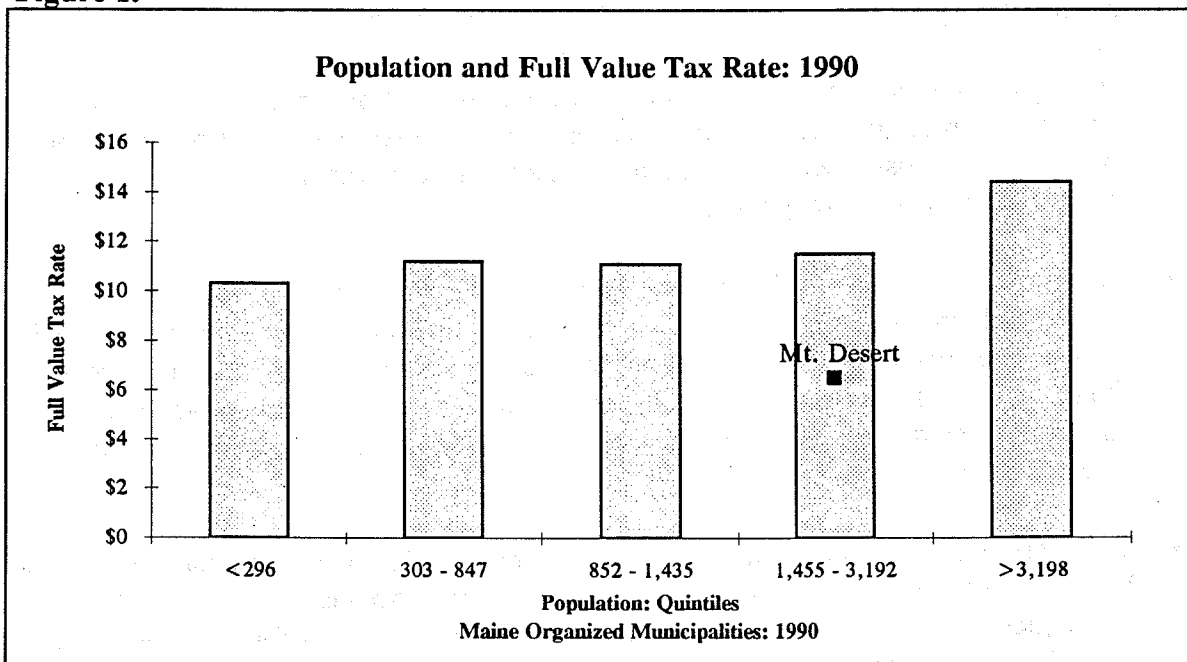
I. Mount Desert's Property Tax. Is It High?

A. Effective Tax Rate

There is no perfect way to compare taxes between towns. A fairly standard measure is the effective tax rate or full value tax rate; that is, the tax that would be paid on each \$1,000 of full value. Because towns revalue property in different years, a comparison of actual tax rates would not be fair--two towns with exactly the same budgets and the same property would need very different tax rates if one revalued all property in 1985 and the other revalued all property in 1990. The state calculates the effective tax rate for each town by creating a ratio of assessed values of properties to their actual sales prices in recent years and applying this ratio to the town's tax rate.

Mount Desert's effective tax rate is low--about 50 percent of the state average. In general in Maine, the effective tax rate is lower in municipalities in which there are fewer people to serve. All organized municipalities in Maine were ranked according to their population in 1990 and divided into quintiles--five groups with 20 percent of the towns in each group. Within each quintile, the effective tax rate in 1990 was averaged. (Figure 1).

Figure 1.²



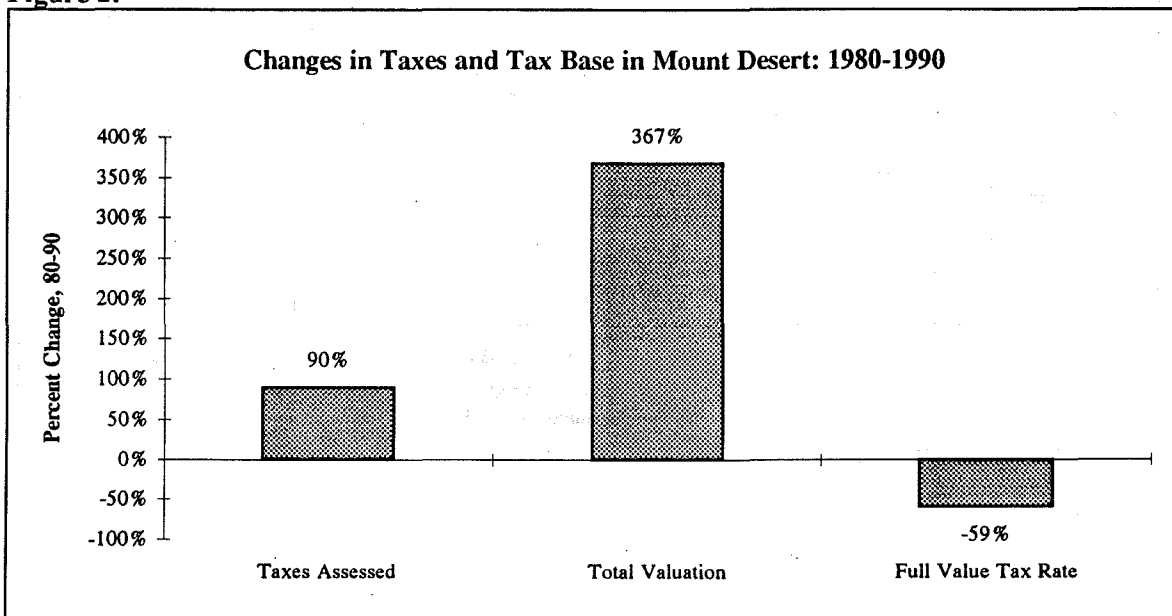
Mount Desert's effective tax rate is even lower than would be expected given the population. (Figure 1). The main explanation is that the value of property in Mount. Desert--particularly of coastal property and vacation property--is extremely high. Because of this, the ratio of full valuation to year-round population is high in Mount Desert.

² 1990 population data from U. S. Census. Effective Tax Rate in 1990 from Maine Property Tax Division.

Some taxpayers object to the use of the effective tax rate as a measure of taxation because it doesn't indicate their actual tax burden. In towns with high property values, the effective tax rate may be lower than average yet the tax bill on a modest house may be higher than average.

In addition, taxpayers correctly point out that the effective tax rate is a particularly inappropriate measure of the change in tax burden over time. In the 1980s, tax bills increased rapidly in most Maine towns. However, because property values also increased rapidly, the effective tax rate actually decreased. This situation is particularly extreme in Mount Desert. (Figure 2).

Figure 2.³



B. Tax Bill on the Median-Value House

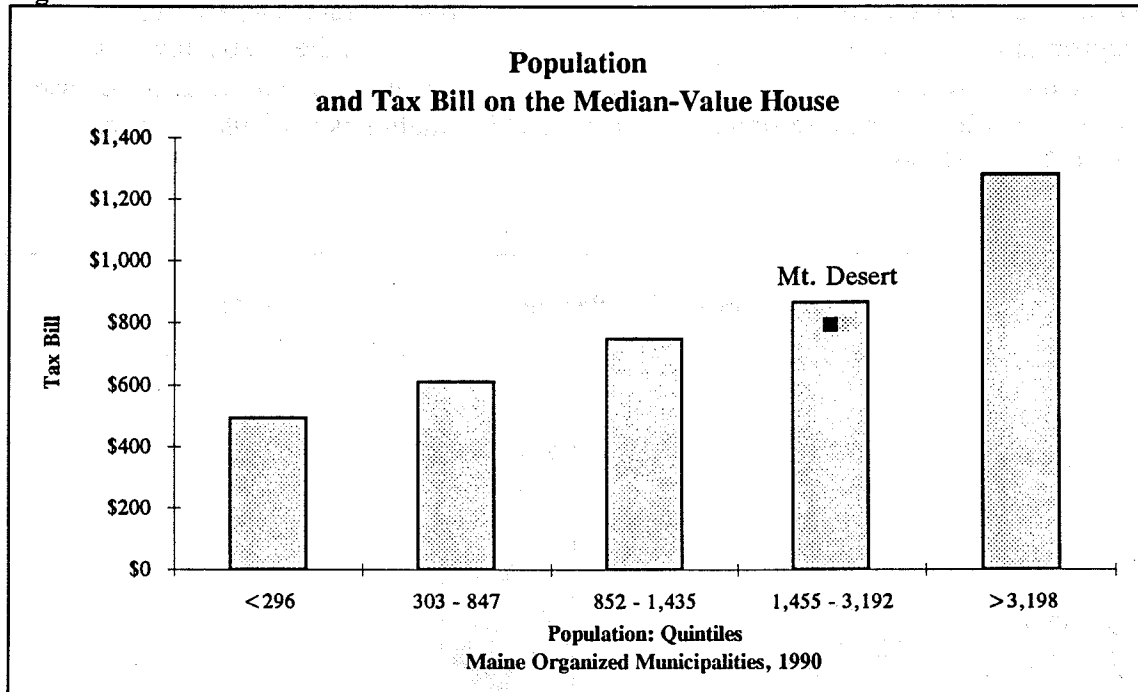
Another way to measure the tax burden in different towns is to look at the tax bill on a typical house in each town. Census data were used to determine the median-value house in each organized Maine municipality in 1990. In each town, this was multiplied by the effective tax rate to determine the tax bill on the median-value house in that town. In 1990, the tax bill on the median-value house in Mount Desert was \$793. This was very close to the state average of \$786.

In general in Maine, tax bills (as well as tax rates) are lower in municipalities in which there are fewer people to serve. In the graph below, (Figure 3), all organized municipalities in Maine were ranked according to their population and divided into quintiles. Within each quintile, the tax bills were averaged. Although Figure 1 indicated

³ Source of data on taxes assessed, effective valuation, effective tax rate: Bureau of Taxation, Property Tax Division.

that Mount Desert's tax *rate* is lower than would be expected given the population, Figure 3 indicates that the resulting tax *bill* on the median-value house is about what would be expected given the population. The combination of Mount Desert's low tax rate and high housing values result in a tax bill that is about average, given its population.

Figure 3.⁴



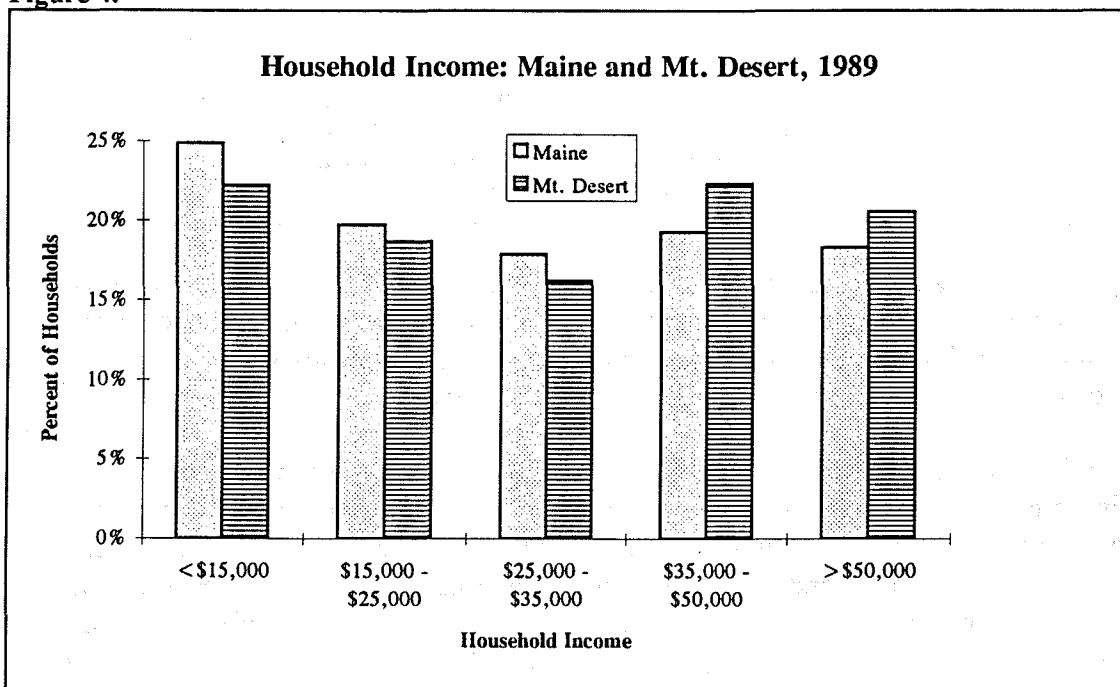
⁴ Sources of data: 1990 U.S. Census and Bureau of Taxation, Property Tax Division.

C. Tax Bill as Percent of Income

Another way to compare tax burdens between towns is to look at the relationship between tax bills and incomes.

The median household income in Mount Desert tends to be higher than that of the state as a whole. In 1994, the median household income in Mount Desert was estimated to be \$35,847--roughly 118 percent of the state median household income of \$30,388.⁵ The distribution of households in different income categories is similar to the state distribution. (Figure 4).

Figure 4.⁶

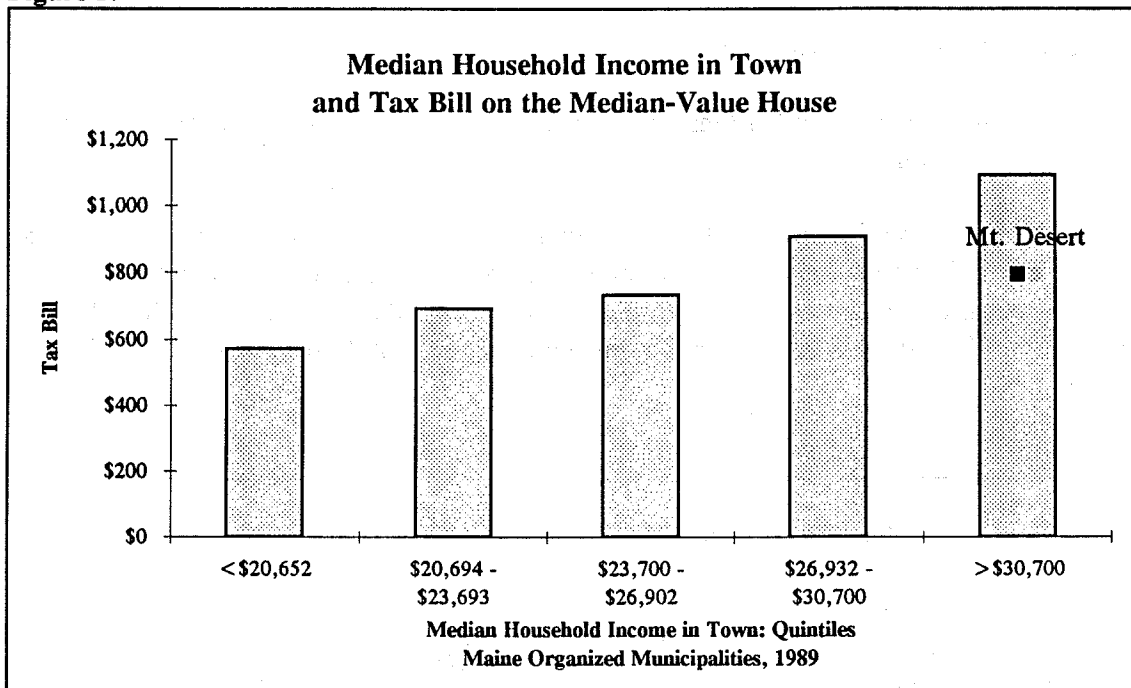


As would be expected, towns in which the residents' incomes are higher are better able to raise property taxes to spend on schools and municipal services. In general, tax bills are higher in the Maine towns in which incomes are higher. (Figure 5).

⁵ Source of data: Maine Department of Education. In 1989, the median household income in Mt. Desert was estimated to be 112 percent of the statewide median household income, according to data from the U.S. Census.

⁶ Source of data: 1990 U.S. Census.

Figure 5.⁷



But the median values tell only part of the story. Within each town, there are households with incomes that are higher and lower than the median. Because the property tax is not related to the ability to pay, the residential property tax bill represents a much larger proportion of income for some households than for others.

When the property tax was first established in Maine, it was a reasonable reflection of the ability to pay. The tax roll was once a list of most of the manifestations of each person's income and wealth—including not just real estate but also bee hives, watches, pianos, merchandise, equipment, and other personal possessions. According to General Walker, who wrote about the property tax in 1888, "the New England people of the old stock were a saving people. Whatever was earned, beyond the necessities of life, was turned into property, and presumably the most remunerative kind of property. Property thus became an index of ability, and as such formed a just basis of taxation."⁸

Over time, the property tax base has lost its close connection with income and wealth. Now the property tax is based predominantly on real estate. Because lower-income households spend a much higher proportion of their incomes on housing, the property tax takes a higher proportion of their incomes than it does of the households with higher incomes.

To look at the relationship between residential property tax and income in Maine, Maine households that owned their houses were ranked according to household income and

⁷ Sources of data: 1990 U.S. Census and Maine Property Tax Division.

⁸ From "The Bases of Taxation" in the *Political Science Quarterly*, vol. iii (1988) p. 6. Cited in History of Taxation in Vermont. 1894. Frederick A. Wood.

divided into quintiles--five groups of equal size. Within each group, the average income and the average residential property tax were calculated. The residential property tax represents about 7.3 percent of the household income of the 20 percent of the households that have the lowest income; this is roughly four times higher than the percent of income that goes to pay the property tax of the households in the highest income quintile. (Figure 6).

Figure 6.⁹

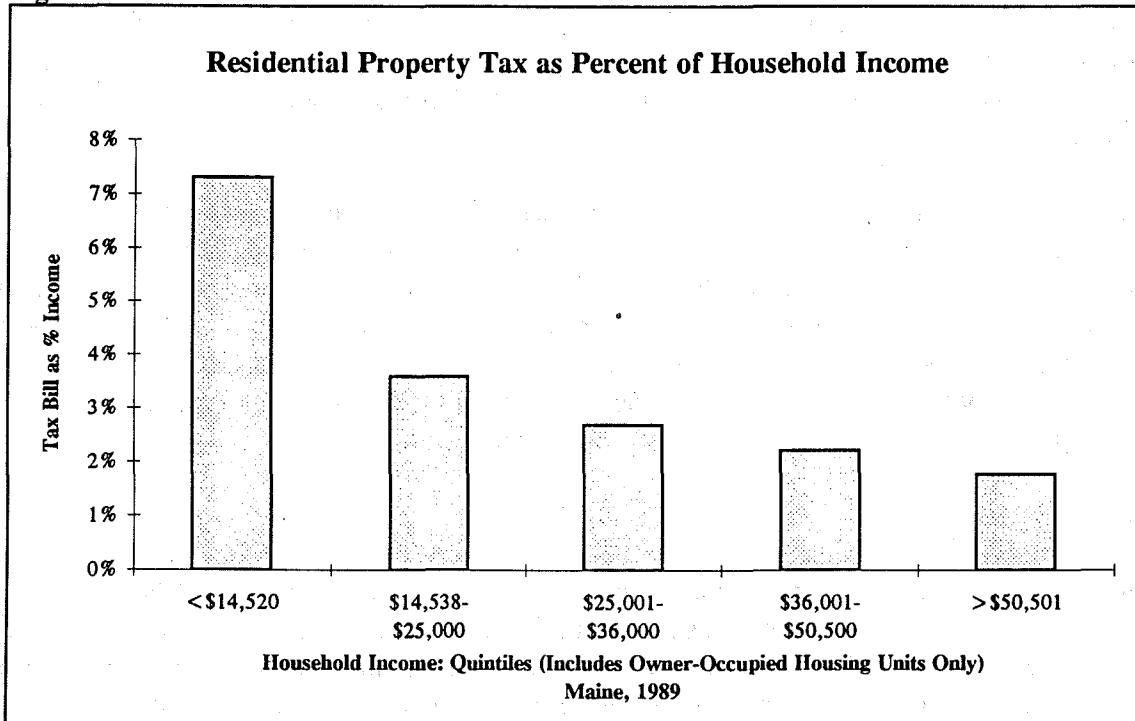


Figure 6 shows the relationship between the residential property tax and household income before any deductions, credits or rebates that may result from the income tax. There are two income tax provisions that would affect this chart:

1. Some of the lower-income households could take advantage of the Maine Residents Property Tax Program to lower their effective tax liability.
2. Because property taxes can be deducted from the federal income tax, households that itemize deductions have an effective property tax liability that is lower than that shown in the chart. The deduction would lower the effective tax liability of the higher-income households more than it would of the lower-income households because higher-income households are more likely to itemize deductions and the deduction is greater for higher tax brackets.

The basic pattern of regressivity shown in the chart would still be clear after making the two adjustments.

⁹ Source of Data: U.S. Census, Public Use Microdata Sample, 1990.

II. Determinants of Mount Desert's Property Tax Bill: Spending, Tax Base, and Exemptions

A. Spending

School spending accounts for about half of the property taxes levied in Mount Desert. Mount Desert spends slightly more than average to educate its students. In 1993-94, the cost per pupil in the towns within the Mount Desert CSD was 6 percent above the state average.¹⁰

Non-school spending per capita is above the state average in Mount Desert. In 1990, for example, Mount Desert's municipal and county property taxes amounted to \$900 per capita while the state average was \$347 per capita.¹¹ However, it is important to note that this comparison is calculated based on year-round residents only. Mount Desert provides municipal services to a much larger population including shoppers and tourists. In addition, partly to cater to the summer visitors, Mount Desert provides many services, including recreation programs, that other municipalities do not.

B. Tax Base

Mount Desert's tax base per pupil and per capita is well above average. In 1993-94, the taxable property value per pupil was about six times more in Mount Desert than it was in the state as a whole.¹² There are two reasons for this: most important, there is a great deal of high-value nonresidential property in Mount Desert that pays taxes without contributing children to educate; and Mount Desert has a high proportion of retirees and a low proportion of school children to educate.

In Mount Desert, resident-owned property pays less than one third of the taxes. Although there are fewer parcels owned by non-residents than by residents, the property owned by non-residents is more valuable, on average. The median value of a resident-owned developed parcel is \$126,400 while that of a non-resident-owned developed parcel is more than twice as much--\$264,000. Figure 7 shows the value of the developed properties owned by residents and those owned by non-residents. In the low-value categories, there are more resident-owned parcels than non-resident-owned parcels; in the high-value categories, there are more non-resident-owned parcels than resident-owned parcels.

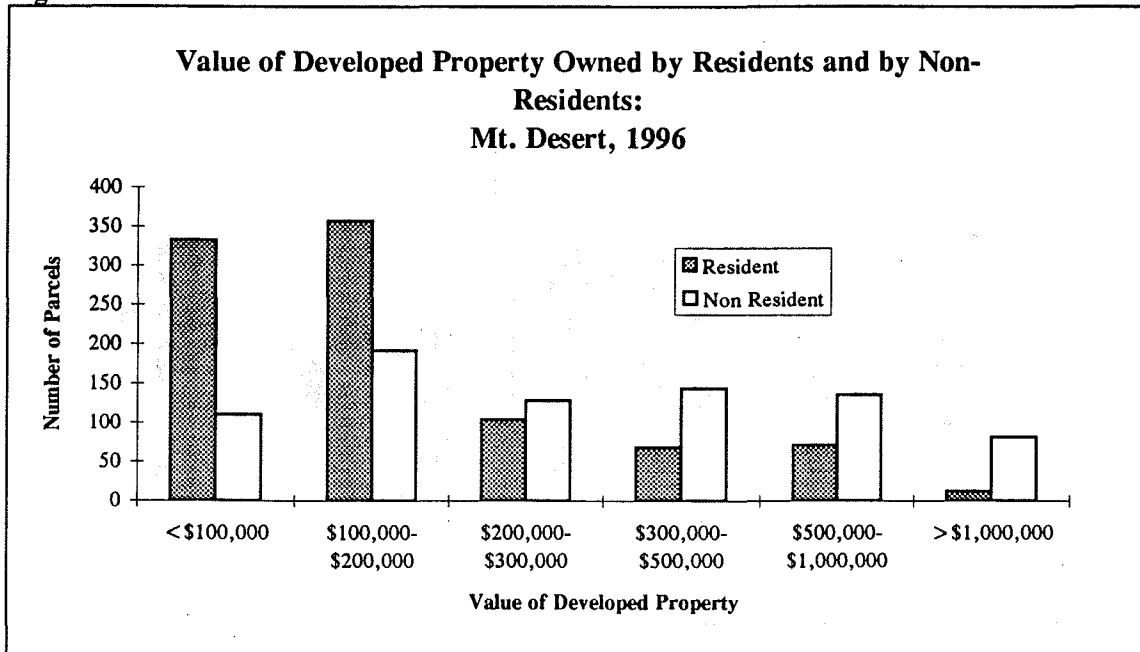
¹⁰ Data from Maine Department of Education, Division of Management Information. Per pupil cost is calculated for all elementary and high school pupils in all towns within the Mount Desert CSD.

¹¹ Based on information from the Maine Property Tax Division and Mount Desert's 1990 annual report.

¹² Effective valuation divided by average daily membership (K-12n Mount Desert was \$1.7 million. It was \$302,437 in the state as a whole. Data from Maine Department of Education, Division of Management and Information.

Although there are about 100 fewer non-resident-owned parcels, their total valuation (and therefore their tax contribution) is more than twice that of the resident-owned parcels.

Figure 7.¹³

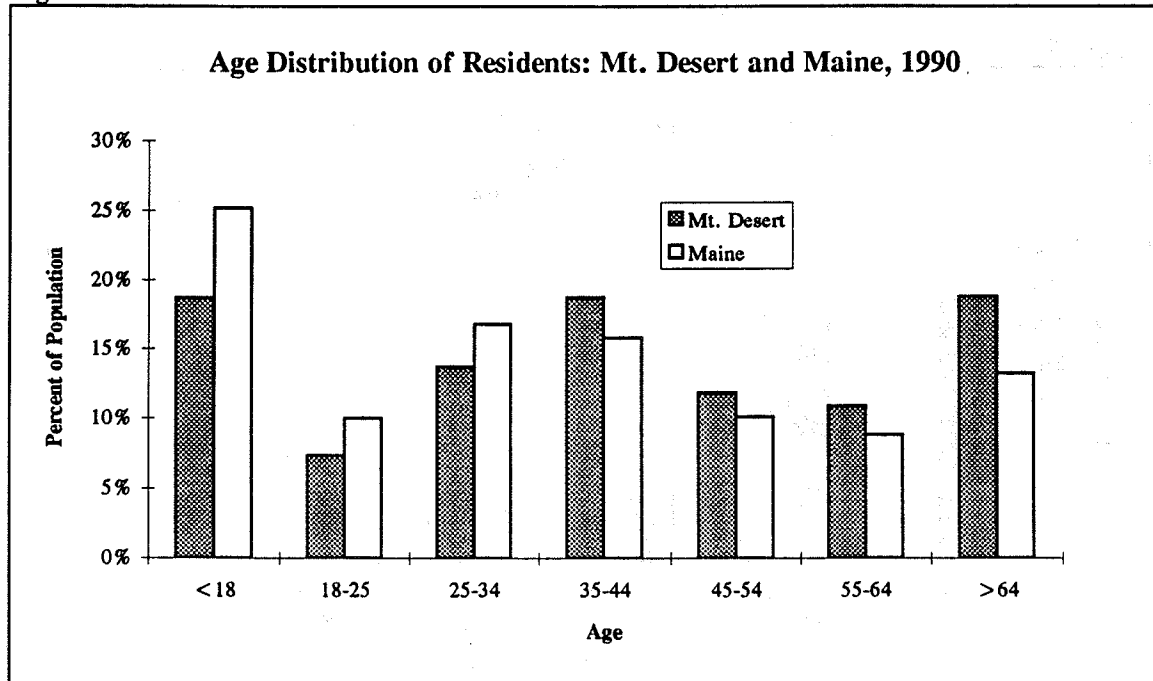


Perhaps related to property values in Mount Desert, there is a high proportion of retirees and a low proportion of children. (Figure 8). As a result, in 1990, there was only one public school child for every three year-round houses in Mount Desert; in Maine as a whole, there was one public school child for every two year-round houses. However, increasing school enrollments indicate that the proportions may have changed in Mount Desert since the 1990 Census.¹⁴

¹³ Source of data: Mount Desert Assessor's Office.

¹⁴ In 1990, there were 218 elementary students. In September of 1995, there were 281 elementary students, according to elementary school reports included in the town's annual reports.

Figure 8.¹⁵



C. State Aid to Education

Because of the high valuation per pupil, Mount Desert gets less state aid to education than most Maine towns. In school year 1994-1995, for example, the adjusted state allocation represented about 45 percent of the budgets of Maine's school districts. State aid represented only 3 percent of the total budget of Mount Desert's elementary school.¹⁶

Recent legislation has changed the state aid to education formula so that operating aid is distributed based on an index that combines the town's property wealth and income. Because Mount Desert's valuation per pupil is so high, and because the median income of Mount Desert's residents is also above average, the formula change is not likely to result in any more state aid to education to the town.¹⁷

¹⁵ Source of data: U.S. Census.

¹⁶ State aid includes foundation aid, program aid, and debt service aid. Source of Data: Maine Department of Education.

¹⁷ Based on preliminary figures from the Maine Department of Education, Division of Management and Information.

D. Exemptions

The purpose of levying a property tax is to provide for the common good. Taxes pay for services (such as police, fire, and education) as well as for facilities to be used by present and future generations (such as the Town Hall, parks, and bridges). There has been a long tradition in New England to exempt the property of organizations that are providing for the common good. In general, this includes property owned by other levels of government as well as property used for religious or charitable purposes.

Although there are certainly exceptions, the general pattern is that there is more exempt property value in larger towns than in smaller towns. This is mainly because offices of government agencies or non-profit organizations, churches, hospitals, and universities are more likely to be located in larger towns than in smaller towns. And, this type of exempt property places demands on the host municipalities. In the more rural towns a higher proportion of the exempt property is likely to be undeveloped land that requires few town services.

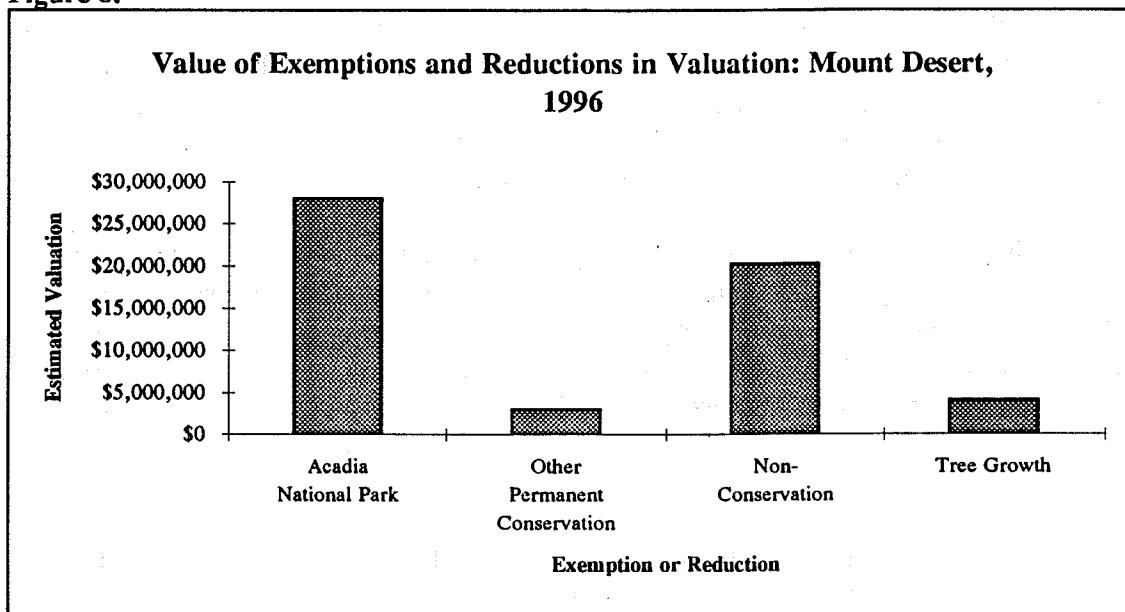
The total value of exempt property in Mount Desert is above average for Maine towns. However, as a percent of total valuation of all property, the exempt value in Mount Desert is closer to average. In total, in Maine, exempt property as reported to the state represented 14 percent of the tax base in 1990. In Mount Desert, reported exemptions represented 13 percent of the tax base. This figure includes \$28 million for federal land, which is an underestimate of the full value of Acadia National Park.

In addition to the full exemptions reported to the state, special state programs mandate that land meeting certain public goals should be taxed at a reduced value. The Tree Growth, Open Space, and Farmland Programs provide for reduced valuation of property in exchange for an agreement to manage the property according to state goals. Although there are not many properties enrolled in these programs in Mount Desert, the property that is enrolled is quite valuable and the reductions in valuation resulting from the Tree Growth Program are significant.

Figure 8 shows the 1996 value of Mount Desert's reported exemptions and reductions in four categories:

- Tree Growth
- Acadia National Park
- Permanent Conservation (which includes exemptions resulting from land acquired in fee simple by the town or conservation organizations)
- All non-conservation exemptions, including government property not held for conservation, veterans, religious, fraternal, public municipal corporations, benevolent and charitable organizations (except conservation organizations), and blind.

Figure 8.¹⁸



If all the exemptions and reductions shown in Figure 9 were put back on the tax rolls, the local tax bill on a \$125,000 property would have dropped by \$86--from \$1,038 to \$951. The annual cost each type of exemption to the owner of a \$125,000 property is: about \$7 for the reductions granted to forest in the Tree Growth Program; about \$45 for exemptions granted to Acadia National Park; about \$5 for other conservation exemptions; and about \$34 for non-conservation exemptions. These figures do not include adjustments in county tax bills.¹⁹

Although most states have exemptions for government-owned property and for property used by charitable organizations, several states have recognized that this hits some municipalities harder than others, depending on the amount of property exempted, the municipal services required by the exempt property, and the tax base of the town. By 1989, 28 states had instituted some method of compensating municipalities for state-owned property.²⁰ Maine only provides two types of payments to towns to help offset the tax loss due to exemptions:

- reimbursement for the tax loss due to the Tree Growth program, and

¹⁸ Source of data: Mount Desert Assessor's Office.

¹⁹ If Mount Desert were the only town in the county to do away with its exemptions, Mount Desert's share of the county tax levy would be reduced, at least theoretically. However, if Mount Desert were able to do away with its exemptions, other towns in the county would, too. In that case it is unlikely that Mount Desert's county tax would change much, if at all. The cost of all exemptions together is less than the sum of each exemption individually because there would be a larger valuation over which to spread the cost if all exempt property were put back on the tax rolls.

²⁰ "State Programs Compensating Local Governments for State-Owned Property, 1989." State Board of Equalization and Assessment, Albany, New York.

- reimbursement for Veteran's exemption.²¹

The Tree Growth program alone resulted in about \$4 million worth of taxable property value being removed from the tax rolls in Mount Desert. The tax loss was about \$32,000 in 1995. There was no state reimbursement in 1994 and a reimbursement of less than \$500 in 1995,²² so virtually all of the taxes are shifted to all property taxpayers in the town.

Acadia National Park results in a reported exemption of about \$28 million. This is the equivalent of about \$232,000 in annual property taxes. The federal government makes an annual payment in lieu of taxes for this land, which amounts to about \$10,000 per year.

Some of the tax "loss" resulting from exemptions and reductions in valuation may be partially offset in the following ways:

- reduced county taxes, as the town's valuation as a percent of the county valuation is reduced;
- state, federal, or other payments in lieu of taxes or reimbursements;
- penalty payments made by the landowner to the town when land is removed from Tree Growth or Open Space.

Even in combination, these three offsets do not come close to compensating Mount Desert for the taxes lost.

²¹ Article 4, Pt. 3, Section 23 of the Constitution also directs the Legislature to reimburse each municipality for not less than 50% of the property tax revenue loss suffered by that municipality during the previous calendar year because of the statutory property tax exemptions or credits enacted after April 1, 1978.

²² Taxable property value removed from the tax rolls based on data provided by Mt. Desert Assessor. Although state legislation calls for a partial reimbursement through a combination of increased state aid to education (resulting from the lower valuation) and a direct reimbursement, Mt. Desert did not receive any reimbursement in 1995 and less than \$500 in 1996. This may be the result of an error in calculation. State reimbursement information provided by Bureau of Taxation, Property Tax Division; state aid to education information provided by Department of Education.

III. Trends in Mount Desert's Property Taxes

A. Growth in Tax Base

The value of Mount Desert's tax base has been increasing at a rate exceeding the state average. Between 1980 and 1994, Mount Desert's total valuation increased 431 percent; the total valuation for all organized municipalities in Maine increased 240 percent.²³ This makes Mount Desert one of the more "property rich" towns in the state.

It is important to recognize that much of this increase is due to appreciation of property values--especially land values--rather than to new bricks and mortar. Municipal annual reports frequently mention decreases in the valuation due to new exemptions on undeveloped land and increases in the valuation due to new construction. It is surprising, then, to see that the assessed value of land in Mount Desert increased by 723 percent between 1980 and 1994, while the assessed value of buildings only increased by 425 percent during the same period--even though more land was exempted and more buildings were added.²⁴

In 1980, land made up 34 percent of the tax base and therefore paid 34 percent of the taxes while buildings and personal property paid 66 percent of the taxes levied in Mount Desert. By 1994, the share of Mount Desert's taxes paid by land increased to 53 percent while the share paid by buildings and personal property dropped to 47 percent.²⁵ If land still paid only 34 percent of the taxes, in 1994 the tax bill on a \$125,000 house and lot would have been \$188 higher than it actually was (\$1,138 versus the \$950 actual tax bill).

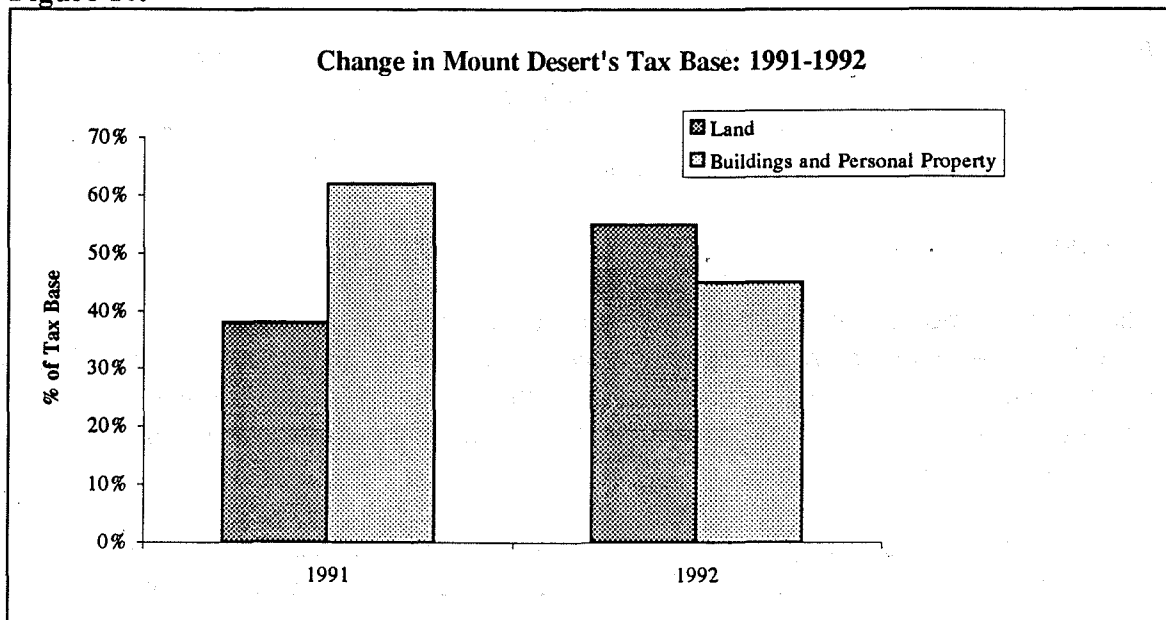
Part of the reason for this apparent contradiction is that land has been appreciating more rapidly than buildings, but the tax rolls don't take this appreciation into account until the properties are revalued. As a result, there are sudden shifts in the tax burden during a revaluation to reflect the changes in appreciation, as illustrated by Mount Desert's 1992 revaluation. (Figure 10).

²³ Effective valuation data from Bureau of Taxation, Property Tax Division.

²⁴ Effective valuation data from Bureau of Taxation, Property Tax Division.

²⁵ Source of Data: Bureau of Taxation, Property Tax Division.

Figure 10.²⁶



Another part of the explanation is that development generally increases the value of land. Not only does the developed land become more valuable, but development often increases the demand for other land and therefore the values rise.

It is likely that land will continue to appreciate faster than buildings. As one assessor put it, buildings are depreciating assets, and some buildings lose value due to functional obsolescence--as industrial processes change, some buildings are less useful than they once were. Open land, particularly coastal property, becomes scarcer and more valuable as time goes on.

It is understandable that landowners would react to this tax shift to land. Some landowners may reach the point where they can no longer afford to hold the land, so it is sold for development. Other landowners will look for options to reduce the taxes so that they will be able to keep the land open for the long term. Some of these options include enrolling the land in the Tree Growth or Open Space programs; or selling or giving away the development rights as a way to lower the assessed value of the land.

Because of the tax shift to land, the Tree Growth and Open Space programs can be seen as a means to bring the tax structure back into alignment rather than as a property relief measure.

²⁶ Source of Data: Bureau of Taxation, Property Tax Division.

B. Costs of Government

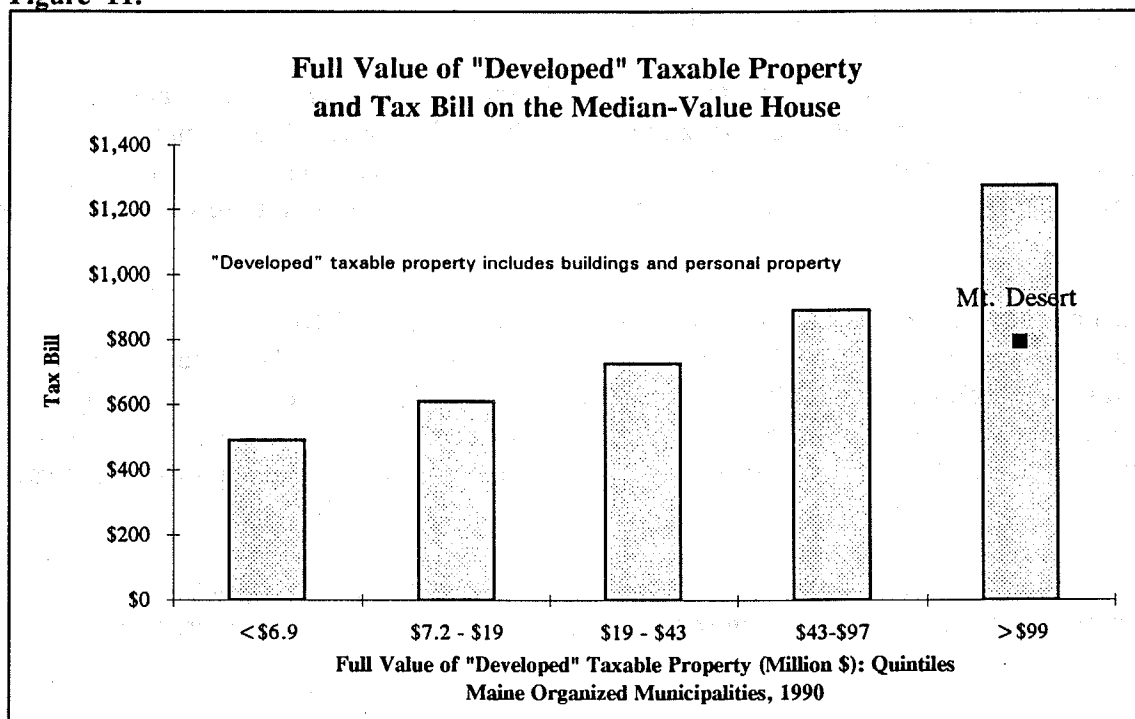
In the 1980s, the local property tax levy per capita in Maine, as well as in Mount Desert, increased at a rate that exceeded the rate of inflation. Between 1980 and 1990, the property tax levy per capita in Mount Desert increased at an average annual rate of 2 percent per year *after* adjusting for inflation.

C. Development and Property Taxes

There is a common perception that development, by adding to the tax rolls, will result in lower taxes. Although there are certainly exceptions, on average, the Maine towns that are more developed have higher tax bills than those that are less developed. While development certainly adds to the tax base, it can also create a greater demand for school and municipal services.

Maine towns were ranked according to the full value of buildings and personal property and divided into quintiles. The tax bill on the median-value house in each town was calculated and averaged for each quintile. In general, the tax bill on the median-value house was higher in the towns that had the most "developed" taxable property. (Figure 11).

Figure 11.²⁷



There are certainly different tax consequences resulting from different types of development. Year-round residents, for example, places more demands on the school

²⁷ Source of Data: Bureau of Taxation, Property Tax Division.

system than do seasonal residents. In general, *year-round* housing costs the town and school district more to service than the housing pays in property taxes. As a result, the Maine towns that have the most year-round residents tend to have higher tax bills than those that have few residents to service. (Figure 12).

Part of the explanation of this pattern is school spending. There are, on average, 0.46 public school students per occupied housing unit in Maine.²⁸ Although it varies from school district to school district, the state average spending per pupil was about \$5,300 in school year 1993-1994.²⁹ This means the average housing unit cost the average school district about \$2,400 ($0.46 \times \$5,300$). Yet, the median-value owner-occupied house paid about \$800 in school property taxes.³⁰ The difference--about \$1,600 per house--must be made up by other taxpayers. This increases the tax bills of other property taxpayers within town and of taxpayers within the state as a whole (if the town receives state aid to education).

In Mount Desert, in 1994-1995, it cost about \$5,000 to educate each elementary school student for the year. A house worth \$125,000 (about the median-value residential property in Mount Desert) would have paid \$437 in school taxes in 1994.³¹ This means that the median-value year-round house with one elementary school student cost the school district about \$4,500 more than it brought in.³² This is made up by taxes paid on other property--most significantly property owned by non-residents.

As would be expected, the Maine towns that experienced the most population growth between 1980 and 1990 also had the greatest increases in their tax bills. (Figure 12).

²⁸ According to the U.S. Census, there were 465,312 occupied housing units in Maine in 1990. According to the Department of Education, there were 213,654 public school students the same year.

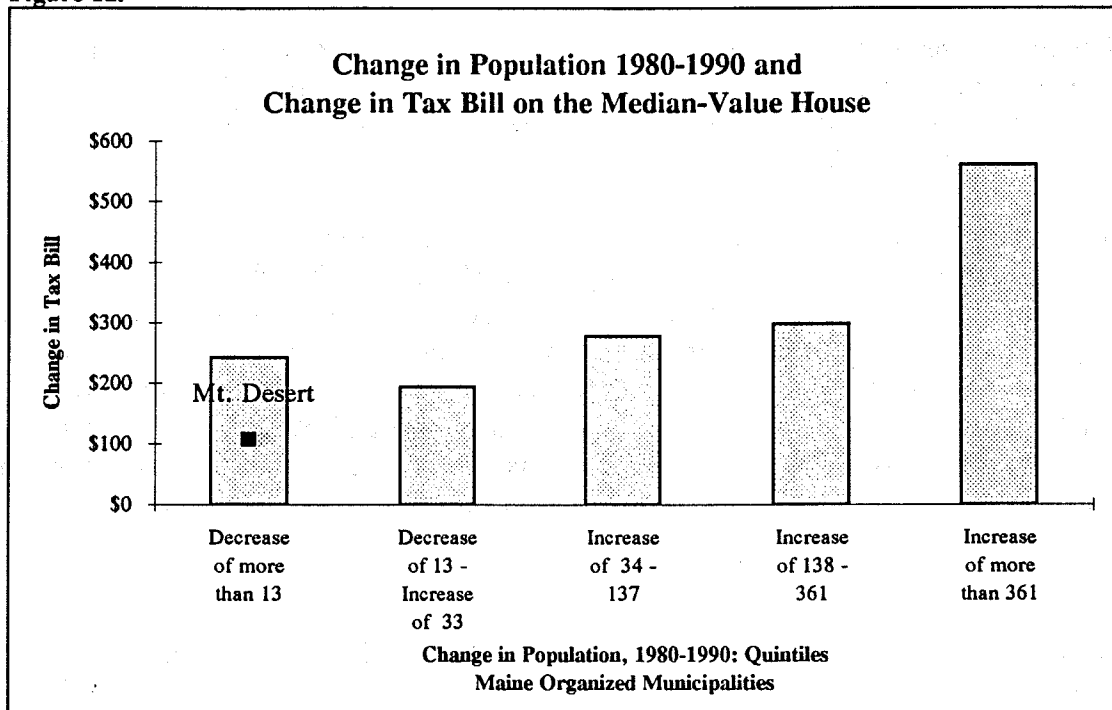
²⁹ Total state and local education expenditures 93-94 = \$1,133,666,863. this does not include special revenues or federal funding. The total number of public school students was 214,315. Source: Maine Department of Education.

³⁰ Median-value house assumed to be \$87,300, according to the U.S. Census. Average full-value mill rate for schools assumed to be 9.50 from Maine Department of Education.

³¹ Assuming 46% of the tax bill went to fund the schools.

³² Sources: U. S. Census; Maine State Department of Education; Maine State Department of Education; Maine Bureau of Taxation, Property Tax Division.

Figure 12.³³



New *seasonal* homes will generally pay more in taxes in Mount Desert than they cost the town to service. However, it is important to note that the towns that have the lowest taxes in Maine are those, like Mount Desert, that have the highest *proportion* of high-value seasonal homes --not the towns that have the *most* seasonal homes. The towns that have the *most* seasonal homes actually have higher taxes than the smaller, more rural towns in which there may be fewer seasonal homes representing a larger proportion of the total stock of housing. This may indicate that, once the "vacation industry" becomes the big business in town, the town provides more special services--from recreation programs to traffic control--to support it. In addition, these towns tend to be more commercialized and the vacation properties may be less valuable. (Figures 13 and 14).

³³ Population growth and median-value house from U.S. Census. Effective tax rate from Bureau of Taxation, Property Tax Division.

Figure 13.³⁴

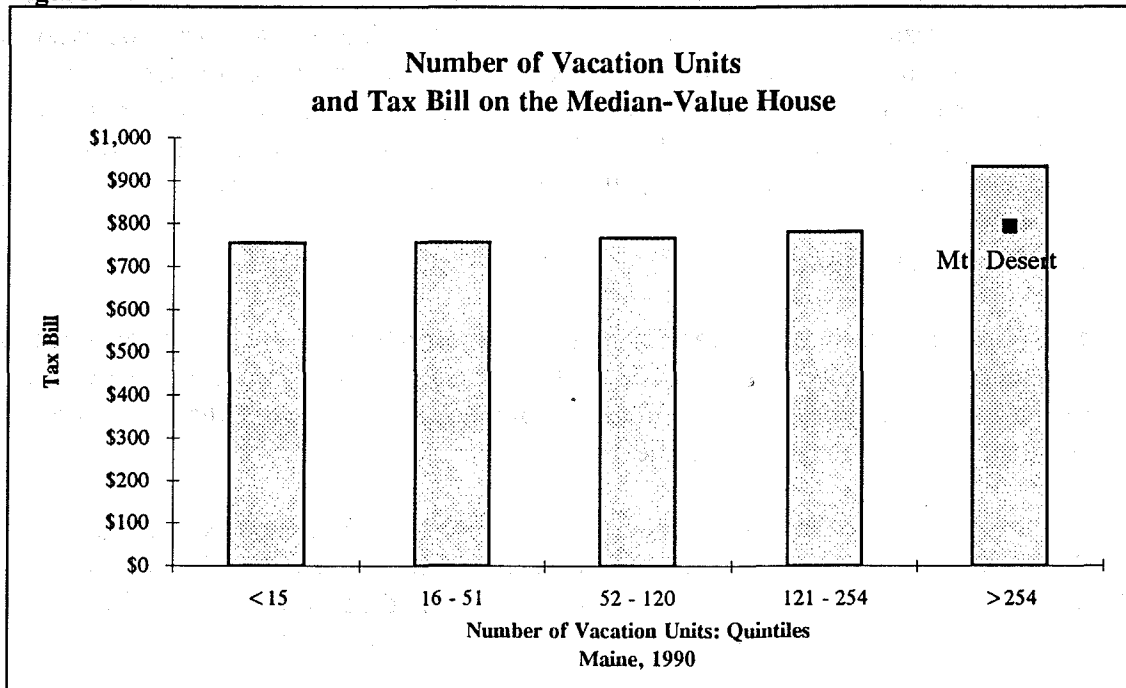
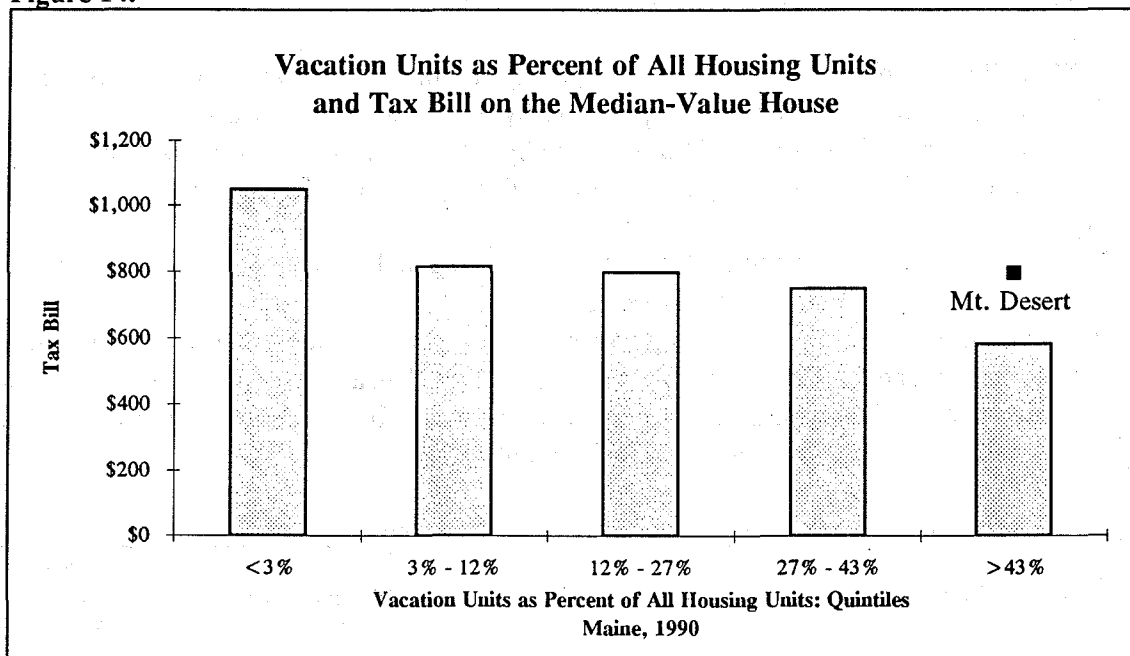


Figure 14.³⁵



³⁴ Number of vacation units and median-value house from U. S. Census. Effective tax rate from Bureau of Taxation, Property Tax Division.

³⁵ Number of vacation units and housing units from U.S. Census. Effective tax rate from Bureau of Taxation, Property Tax Division.

Although in some communities, second homes are being converted to year-round homes and therefore increasing the community's service costs, this does not appear to be likely in Mount Desert where the seasonal properties tend to be more expensive. In fact, Mount Desert's problem would seem to be the opposite: if year-round homes are purchased by non-residents, there may not be enough housing that year-round residents can afford. While this may not be a tax problem directly, it may erode the community.

D. Land Conservation and Taxes

Like a town green, a park, or a library, permanent conservation of land is an investment in the community. There may be two types of public costs associated with the conservation investment: the cost of acquisition, and the cost of taxes foregone when the value or a portion of the value is removed from the tax rolls.

If the taxpayers are asked to pay for acquisition through their property taxes, the price is explicit. In many conservation projects, however, the taxpayers are not asked to come up with the funds for acquisitions because donations, state funds, federal funds, and/or private funds are used. The cost of taxes foregone, however, is rarely calculated.

To get an idea of the magnitude of the tax shift that might result from future conservation activities, the following hypothetical scenarios were examined:

1. A \$500,000 parcel of undeveloped land, paying full taxes. (Shown for comparison)
2. Fee simple acquisition of \$500,000 property by the National Park Service.
3. Fee simple acquisition of \$500,000 property by a fully tax exempt organization.
4. Acquisition of development rights on \$500,000 property by a fully tax exempt organization.
5. Fee simple purchase of a \$500,000 property enrolled in Tree Growth and therefore assessed at \$20,000 before the acquisition.
6. Acquisition of development rights on \$500,000 property enrolled in Tree Growth and therefore assessed at \$20,000 before the acquisition. (Because the Tree Growth value does not include the value of development, there would be no change in the assessment after the acquisition of development rights.)

Figure 15: First-year tax consequences of permanent land conservation

Scenario	Taxable Value Before	Taxable Value After	Tax Loss	Payments	Tax Bill on \$125,000 Property	Change in Tax Bill on \$125,000 Property
1	\$500,000	\$500,000	\$0	\$0	\$1,037.50	\$0.00
2	\$500,000	\$0	\$4,151	\$3,196	\$1,037.70	\$0.20
3	\$500,000	\$0	\$4,153	\$0	\$1,038.37	\$0.87
4	\$500,000	\$375,000	\$1,038	\$0	\$1,037.72	\$0.22
5	\$20,000	\$0	\$166	\$0	\$1,037.53	\$0.03
6	\$20,000	\$20,000	\$0	\$0	\$1,037.50	\$0.00

The table does not account for any payments in lieu of taxes that a conservation organization may make to the town. It does not account for a slight reduction in county taxes resulting from a reduction in the town's valuation.

Much of the land that would be appropriate for permanent conservation is already partially exempted through either the Tree Growth or the Open Space program. If Tree Growth land were protected by a conservation easement, it is unlikely that the valuation would be reduced at all. (Scenario 6).

If land is protected through a conservation restriction, easement, or the purchase of development rights, the taxable value of the property may be reduced, but the land itself remains in private ownership and is taxable. Scenario 4 shows the tax consequences of this type of protection, assuming the land's taxable value would be reduced by 25 percent. If the conservation easement were acquired by Acadia National Park, rather than by a tax exempt organization, the town would receive payments nearly equal to the tax loss for twelve years.³⁶

The costs of any conservation project can be explicitly calculated, as illustrated above, to help citizens evaluate whether or not the feel that this is in the best interest of the town. The benefits, which may include recreation opportunities, environmental protection, wildlife habitat protection, preservation of scenic qualities of the town, as well as protection of the property values of landowners, should be weighed against the tax costs.

IV. Conclusions: What is the Balance?

Property taxes are likely to rise, no matter what the town does to keep them down. This analysis does not point the way to lower taxes. It does, however, help in the evaluation of the likely tax implications of various future strategies.

Taxes are only one concern in the planning process. The goal should be to have the best community--not to have the lowest taxes. Townspeople expect to pay taxes for public services and public works. Taxes are the way not only to pay for services such as police and fire protection that are used by current residents, but also to pay for an endowment for future residents, just as others paid for an endowment for current residents. Conservation may be considered part of that endowment.

In general, residential development necessitates more in services than it pays in taxes. The increase in tax rate resulting from constructing one new year-round house is likely to be

³⁶ Legislation directs the Park Service to pay 1 percent of the market value of the acquisition of land or interests in land--or the town's tax rate multiplied by the market value of the acquisition of land or interests. This would mean that in Mt. Desert, because the tax rate is less than 1 percent of value, the town should receive the town's tax rate multiplied by the market value of the acquisition. However, the reimbursement program is not always fully funded. In 1995, town's received 77 percent of the calculated amount due.

more than the increase in tax rate resulting from permanent protection of a \$500,000 parcel.

This does not mean that conservation is "better" than residential development. Conservation should be evaluated as an investment in Mount Desert, or an endowment for the future. Calculating the tax cost is part of that evaluation, and looking at the costs in comparison with the costs associated with other possible types of land use is only a means to put the cost in perspective.

Commercial development generally pays more in taxes than it costs the town to service--at least directly. However, when jobs are created beyond the needs of local residents, commercial development tends to increase the residential population, thereby increasing the budget and resulting in higher, rather than lower, tax bills. Commercial development might be appropriate in Mount Desert if the jobs are needed by current residents; commercial development that spurs residential growth is likely to be tax negative.

Balance is critical. But the balance should not be decided based purely on tax consequences. The balance should involve weighing what improves the larger economy (not just the tax base), what improves the quality of life, what citizens should do as responsible stewards of the land, and what is fair. It will not be conservation versus development; both conservation and development are part of that balance. And it's likely taxes will rise to pay for both.