**Policy/Advocacy Update – January 2015**

**Federal Legislation Update:**

* **The new Congress is in session.**
	+ Senator Susan Collins successfully is the Chair of the Appropriations T-HUD committee. She is also the Chair of the Senate Committee on again.
* **Appropriations update**: Congress passed a hybrid Continuing Resolution/Omnibus bill in December. Funding for HUD was included in it. The budget flat-funds Section 8. In most cases there will be less funding due to Sequestration. Section 8 allocations are based on the previous year’s allocation; because of this Section 8 funding in FY 15 will be close to sequestration levels. Maine used to have 4,200 Section 8 vouchers, now is it closer to 3,700 – a loss of roughly 500 vouchers.

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| **Program** | **FY2014** | **House FY2015** | **Senate FY2015** | **Final 2015** | **% Change** **FY 14 - FY 15** |
| **Housing Choice Vouchers** | **$19.1 billion** | $19.357 billion | $19.5 billion | **$19.304 billion** | 1% |
| **Homelessness Assistance** | **$2.105 billion** | $2.105 billion | $2.145 billion | **$2.135 billion** | 1% |
| **HOME** | **$1 billion** | $700 million | $950 million | **$900 million** | -10% |
| **Section 811** | **$126 million** | $135 million | $135 million | **$135 million** | 7% |
| **PBRA** | **$9.9 billion** | $9.7 billion | $9.7 billion | **$9.7 billion** | -1% |
| **Runaway Youth and Homeless** | **$114 million** | N/A | $116 million | **$114 million** | 0% |
| **SAMHSA: Homelessness Programs** | **$74 million** | N/A | $74 million | **$74 million** | 0% |

* + There is currently a bill in committee proposing an across the board 5% cut to Non-Defense Discretionary funds – this would include HUD funding.

**Policy Provisions Included:**

* **ACYF:** Report language to encourage HUD and ACYF to continue to work together to improve housing and service coordination for youth aging out of the foster care system and families engaged in the child-welfare system.(Division, G)
* **HUD:** Include FSS-FUP demonstration language that was originally included in Senate bill. Provides HUD waiver authority for certain parts of Section 8(x) to improve access to financial education and capacity for youth aging out of the foster care system. (Division K)
* **HUD:** Expanded FSS to Project-Based Section 8 owners.
* **HUD:** Permanently expands Component 2 of the Rental Assistance Demonstration. This would allow owners of Section 8 Moderate Rehab properties and Rent Supplement Properties to convert to PBVs.
* **HUD:** Extends non-profit administration of rental assistance under McKinney-Vento through 2015 (still waiting to see if HR 2790 has passed).
* **HUD:** USICH was extended through 2017.
* **National Housing Trust Fund:** On December 11th Mel Watt, Director of the Federal Housing Finance Agency (FHFA), directed Fannie Mae and Freddie Mac to begin setting aside and allocating funds to the National Housing Trust Fund. Maine would receive the state minimum allocation of $3 million each year to serve extremely low income populations. People receiving disability income likely fit into this category. The funding will go through MaineHousing. It will likely be 2016 before this funding is available.

**State Legislation Update:**

* **The new Legislature is in session.**
	+ The House Republicans gained seats, but remains under Democratic control. Representative Mark Eves was unanimously voted in again as House Speaker. The Senate is now a Republican Senate, with Senator Michael Thibodeau being voted in as Senate President. Neither the House nor Senate Republicans have a super-majority (2/3’s) needed to pass veto-proof legislation so collaboration is still needed to pass bills.
* Governor LePage released his proposed Biennial Budget on Friday, January 9th. There are proposed changes to TANF and General Assistance, as well as dramatic changes in the tax formula. The budget proposes flat-lined revenue sharing for municipalities in fiscal year (FY) 2016, and the elimination of revenue sharing entirely in FY 2017. There is also a proposal to begin taxing currently tax-exempt properties owned by non-profit organizations. (See the preliminary summary of the proposed biennial budget below. Please note that this is a preliminary analysis and is subject to change).

**The Governor‘s Biennial Budget Proposal**

* $46 million included in the budget to end waitlists for the disabled and elderly over the biennium.
	+ The Governor and DHHS Commissioner Mary Mayhew both stated that individuals with disabilities, mental illness, and the elderly are in the top goals/priorities for the State, DHHS, and is reflected in the budget.
	+ Commissioner Mayhew stated that the initiative to fund the waitlists is the most aggressive effort yet.
	+ People who are aging should be able to stay in their homes – the budget prioritizes services and supports for this.
* Consent Decree
	+ $11.6m in funding in the budget, including $1.5 in increased funding for BRAP.
* Eliminating TANF and GA for “non-citizens.”
	+ In Part ZZ of the proposed budget, laws would be repealed that allow people with non-citizen or alien status to be eligible for SNAP (formerly “food stamps”) benefits, Supplemental Security Income and Temporary Assistance for Needy Families (TANF) benefits. Following up on that change, Part DDD creates a categorical General Assistance ineligibility for a class of aliens. The proposal includes three exceptions to the general rule of ineligibility for aliens, apparently to comport with federal law.
* Change in the GA reimbursement formula.
	+ General Assistance reimbursement formula is substantially redesigned. First, there would be a cap on reimbursement. A determination would be made of each municipality’s average distribution of General Assistance benefits over the last six years. Under this proposal, the state would be obliged to reimburse no more than 50% of that amount. The reimbursement would be issued for 90% of all municipal claims up to 40% of the six-year average. At that point, the reimbursement rate would drop to just 10% of claims until the state’s 50% obligation was met, at which point reimbursement would stop.
* Comprehensive Tax Reform
	+ The H – K Parts of the Governor’s proposed budget accomplish a comprehensive tax reform that borrows from the comprehensive reform efforts attempted, respectively, in 2007, 2009 and 2014. The budget documents indicate that in round numbers the sales tax changes would generate an additional $620 million over the biennium and the income tax changes would result in a drop in state revenue from those lines in the $750 million range, with the reduction in income tax revenue expanding in subsequent biennia. As noted above, the elimination of the municipal revenue sharing program would “save” the state budget $250 million over the 2016-2017 biennium and over $300 million in subsequent biennia.
	+ Parts H and I include a comprehensive expansion of the sales tax base as well as adjustments to the sales tax rates.

With respect to the base, at least 6 major new categories would be added to the list of taxable services, including recreation and amusement services, installation, repair and maintenance services, personal services, domestic and household services, personal property services and professional services. Certain exemptions for business-to-business transactions are included with the broad expansion to the sales tax base. In addition, a collection allowance would remit to retailers 0.5% of the sales taxes collected to cover their administrative costs, up to a maximum $1,000.

The various sales tax rates would be modified as follows:

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| --- | --- | --- | --- |
| Retail Category | Formerly | Currently | Proposed for 1/1/2016 |
| General sales | 5% | 5.5% | 6.5% |
| Meals | 7% | 8% | 6.5% |
| On premise liquor | 7% | 8% | 6.5% |
| Lodging | 7% | 8% | 8% |
| Sht. Term auto rental | 10% | 10% | 8% |
| Service providers | 5% | 5% | 6% |

* + Part J in the tax reform package eliminates the estate tax in two steps. Under current law, the first $2 million in any estate is exempt from the application of the estate tax. For the 2016 income tax year, the exemption threshold would be increased to $5.5 million, and for the 2017 tax year, the estates would be entirely exempt.
	+ Part K winds down the state’s income tax rates and increases certain pension deductions and “fairness credits”. This summary will not attempt to capture all the details Here are the highlights:
		- The highest marginal individual income tax rate is currently 7.95 %. It would be reduced to 5.75 % over a 4 year period.
		- The highest marginal corporate income tax rate is 8.93%. It would be reduced to 6.75% over a 4 year period.
		- The pension deduction for non-military pensions would be increased from $10,000 to $35,000 over a 5 year period. Military retirement plan benefits would be made 100% exempt beginning in 2016.
		- As part of the broad expansion of the sales tax base, Maine residents would be given a refundable “sales tax fairness credit” within the income tax code. The credit would be valued at either $250 or $500 depending on the number of exemptions claimed on the return, and the credit would be phased out for single-filers exceeding $15,000 in income and $30,000 for taxpayers filing married joint returns.
		- The existing property tax fairness credit would be increased by lifting the cap on the amount of property taxes that can be claimed for the credit, up to $5,000 for taxpayers filing married joint returns. The credit would also be increased by covering 100% of the property taxes exceeding 6% of the household income rather than just 50% as is the case under current law. Finally, the maximum benefit would be increased from $600 to $1000 for individuals under 65 and from $900 to $1,500 for individuals 65 years old or older.
	+ Homestead exemption
		- The current homestead property tax exemption is valued at $10,000, with the state reimbursing the municipalities for 50% of the lost tax revenue. Beginning with the upcoming tax year (April 1, 2015), the Governor is proposing to eliminate the exemption for all homesteads owned by persons under the age of 65. The proposal would double the value of the homestead exemption for homesteaders 65 years old or older, to $20,000. The rate of municipal reimbursement for the exemption would remain at the 50% level. Somewhere around 175,000 to 200,000 Maine households with owners under the age of 65 would lose their property tax benefit under this proposal.
	+ Elimination of revenue sharing
		- If revenue sharing was allowed to operate as designed in law, $158 million would be distributed to the towns and cities during FY 2016 to provide generalized property tax relief. Under the Governor’s proposal, for the next fiscal year (July 1, 2015 – June 30, 2016), the revenue sharing distribution would approximate the current year’s distribution at $62.5 million. After the final monthly distribution of that allocation in July 2016, the program would be entirely eliminated. Over the biennium, the phase-out and elimination of municipal revenue sharing will provide the Legislature with $250 million for other state funding priorities.
	+ Taxing Tax exempt property
		- This change to tax law would take effect on April 1, 2016 and would not apply to churches or tax exempt property owned by any government. As proposed, if the aggregate value of tax exempt property under the same ownership within the municipality exceeds $500,000, the property would be entitled to a 50% exemption (rather than 100%) with respect to the aggregate value exceeding $500,000. Although there are several categories of exempt property potentially affected, the proposal would primarily impact just the larger “charitable” corporations and the “literary and scientific” institutions. According to a preliminary review of the Municipal Valuation Return Statistical Summary as published by Maine Revenue Services, this expanded tax base will potentially be available to about one-third of the municipalities in Maine. For some of those 150 (approximate) towns and cities, the expanded tax base would be significant; for others, not so much. Approximately 350 towns are not hosting large enough exempt institutions for this proposal to expand their tax base, especially throughout the umbrella of Maine, including Aroostook, Franklin, Oxford, Penobscot, Piscataquis, Somerset, Washington and Waldo counties.