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December 1, 2021

Senator Ben Chipman, Co-Chair  
Representative Maureen Terry, Co-Chair  
Joint Standing Committee on Taxation  
100 State House Station  
Augusta, ME 04333-0100

Dear Committee Co-Chairs:

Pursuant to Resolves 2021, ch. 93, I have enclosed a report on the activities of the stakeholder group which was convened to review municipal policies regarding the assessment of energy efficiency improvements, including heat pumps. Please feel free to contact me if you have any questions about this report.

Sincerely,

A handwritten signature in blue ink that reads "Jerome D. Gerard".

Jerome D. Gerard

Enclosure

cc: Members of the Joint Standing Committee on Taxation  
Kirsten LC Figueroa, Commissioner, Department of Administrative & Financial Services



**Report on Valuation and Assessment of  
Energy Efficiency Improvements**

**A Report Prepared Pursuant to  
Resolves 2021, ch. 93.**

**Department of Administrative and Financial Services  
Maine Revenue Services**

**December 1, 2021**

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## **I. Introduction**

L.D. 179 – Resolve, To Require a Review of Property Tax Assessment of Energy Efficiency Improvements, enacted as Resolves 2021, Ch. 93, directs Maine Revenue Services (“MRS”) to convene a stakeholder group to review municipal policies regarding the assessment of energy efficiency improvements, including heat pumps. MRS must prepare a report by December 1, 2021, that includes guidance to municipalities for determining the valuation and assessment of energy efficiency improvements, including heat pumps.

## **II. Discussion**

MRS convened a stakeholder group led by Peter Lacy, Director of the MRS Property Tax Division. The stakeholder group included staff from the MRS Property Tax Division, several municipal assessors, a representative from Maine Municipal Association, and a representative from Efficiency Maine.<sup>1</sup> The group held two remote meetings via Zoom, on October 26 and November 2, 2021. Following the meetings, MRS drafted and circulated a report amongst the group members for their feedback.

The group solicited information from multiple assessors throughout the state on the treatment of energy efficiency improvements in their municipalities, specifically on the valuation and assessment of heat pumps. These assessors also use a range of different computer-assisted mass appraisal (“CAMA”) systems to arrive at their assessed values.

A CAMA system is the tool an assessor uses to assess property values throughout a municipality. The assessor utilizes the system to determine the just value (i.e., the market value) for individual properties based on cost schedules which are specific to that municipality and the assessor’s analysis of the real estate market in that municipality. Cost schedules from one municipality are unlikely to be an accurate representation of the real estate market in a different municipality. An essential part of an assessor’s job is determining what property features contribute to just value in their municipality.

Each assessor had their own variation in methodology and utilized the CAMA system in their own way. The general practice was to include heat pumps as part of the heating or cooling system, which then factors into the overall value of the building. However, the way in which the addition of the heat pump actually influences values in each municipality was determined and applied by each assessor based on their own individual market.

Assessors in Maine are required by the Maine Constitution and Maine statutes to assess all taxable property in their municipality according to its just value.<sup>2</sup> In doing so, assessors must consider the following three approaches:

- 1) market approach – comparing the sales price of similar properties to the subject property;
- 2) cost approach – determining the replacement cost of property, minus depreciation; and

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<sup>1</sup> Additional members of the public with an interest in home energy efficiency improvements were invited, but those invited declined to participate in the work of the stakeholder group.

<sup>2</sup> See Me. Const., art. 9, § 8; 36 M.R.S. § 201.

- 3) income approach – determining the value for a property based on an estimate of the future income that will be generated by the property.

When valuing residential property, an assessor will generally start with the cost approach, then verify the resulting value using the market approach. The income approach normally does not apply to residential properties because a residential property is not used to generate income. In addition, the role of an assessor is to value and assess properties as a whole and not necessarily to determine the value of individual components of a property. Assessors do not, and are generally not qualified to, determine the contributory value of each individual feature of a particular property. So long as the assessment is an equitable and just determination of value for the parcel as a whole, the fact that a particular feature or facet of the property may be valued differently does not render the assessment invalid.<sup>3</sup>

While data on the installation cost of heat pumps is available and was reviewed, the group agreed that the most applicable method of valuing energy efficiency improvements such as heat pumps is the market approach, i.e. comparing sales of properties with such improvements to those without. The group was in agreement that this would best be done by analyzing market data within their own municipal borders. The lack of market data showing a clear contributory value exclusively from heat pumps makes it difficult to reach any reliable conclusions on their value for property tax purposes.

### **III. Conclusion**

Assessors are allowed considerable discretion in determining their valuation methods.<sup>4</sup> It was the group consensus that this discretion to value improvements, such as heat pumps, based on the assessors' knowledge of the individual municipality and their analysis of the data in the market is the most effective way to achieve the goal of reaching just value as required by the Maine Constitution and Maine statute.

The group recommends that assessors continue to monitor data in their municipalities and in the surrounding areas to determine and ensure that their methods of valuing and assessing energy efficiency improvements is supported and in accordance with just value. Additional factors that assessors should consider when determining how to assess heat pumps and similar improvements include, but are not limited to:

- Whether the heat pump provides heating, cooling, hot water, or some combination thereof.
- Whether the heat pump is the primary system heating/cooling the building or a supplementary system.
- Whether the heat pump replaces an existing heating/cooling system and, if so, the type of system being replaced.
- The size and quality (or grade) of the building to which the heat pump is attached.

MRS will continue to work with municipal assessors to gather data on these types of improvements to better assist assessors in valuing this type of property in the future through education opportunities, appropriate statistical analysis, and other resources.

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<sup>3</sup> See, e.g., *Petrin v. Town of Scarborough*, 2016 ME 136, ¶ 36, 147 A.3d 842.

<sup>4</sup> See 36 M.R.S. § 328; *Madison Paper Indus. v. Town of Madison*, 2021 ME 35, ¶ 29, 253 A.3d 575.

#### **IV. Participant List**

Kevin Boyle—Principal Property Appraiser, MRS Property Tax Division  
Brenda Cummings—Assessor, City of Bath  
Kate Dufour—State & Federal Relations Director, Maine Municipal Association  
Peter Eglinton—Deputy Director, Efficiency Maine  
Meagan Hennessey—Tax Section Manager, MRS Property Tax Division  
Peter Lacy—Director, MRS Property Tax Division  
Kerry Leichtman—Assessor, Towns of Camden and Rockport  
Judy Mathiau—Assessor, Town of Winslow  
Joe Salley—Deputy Director, MRS Property Tax Division

#### **V. Participant Comments**

##### Statement from Kerry Leichtman

The following sentence, extracted from the body of this report, bears emphasis: “In addition, the role of an assessor is to value and assess properties as a whole and not necessarily to determine the value of individual components of a property.” Assessors don’t single out attributes for their exact worth but for their contribution to the property as a whole. Assessors basically answer these two questions when assessing a building: Is it well built? Did it use quality materials?