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2010 LD 1 Progress Report

Maine State Planning Office

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Executive Summary

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 (Public Law 2005, Chapter 2). The goal of LD 1 is to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015. The State Planning Office (SPO) annually reports on the progress made by the state, counties, municipalities, and school administrative units toward reaching the tax burden reduction goal.

In the first LD 1 report, released in January 2006, the University of Maine's Dr. Todd Gabe stated, "The ultimate success of LD 1 at lowering the tax burden in Maine will be determined, at least in part, by its ability to reduce the growth of state and local government." Below, for each level of government, two simple questions are addressed to assess progress toward the LD 1's tax burden reduction goals: "Is aggregate spending within the LD 1 limit?" and "Is aggregate spending growing at a slower rate than in pre-LD 1 years?" Within the report, each level of government's spending and/or tax revenue is investigated in greater depth.

State

General Fund Appropriations within LD 1 Limit?	**Yes**	☑	**No**	☐
Appropriations Growth Compared to Pre-LD 1 Years	**Lower**	☑	**Higher**	☐

For the sixth year in a row, growth of the state's General Fund appropriations has remained below the limit set by LD 1. General Fund appropriations in FY 2011 were $672 million (19.9%) below the limit. Due to severe revenue shortfalls in the context of a national recession beginning in 2007, total state appropriations declined for the third year in a row, falling 5.1% from FY 2010 to FY 2011. In contrast, the average annual growth for the ten years prior to LD 1 was 5.4%.

Municipalities

Combined Property Tax Levy within LD 1 Limit?	**Yes**	☑	**No**	☐
Combined Tax Levy Growth Compared to Pre-LD 1 Years	**Lower**	☑	**Higher**	☐

For the sixth year in a row, survey-based estimates show the aggregate municipal property tax levy was below the aggregate LD 1 limit. Based on a sample of 283 municipalities, 66% of municipalities stayed within their municipal property tax levy limit. Based on preliminary data from Maine Revenue Services (MRS), aggregate municipal property tax commitments grew by a rate of 2.5% in 2010, which is well below rates in years before

LD 1. Small municipalities showed higher property tax commitment growth (3.4%) than large municipalities (2.4%) and were more likely to exceed their LD 1 limit (44% vs. 27%). Overall, property tax commitment growth in 2010 remained below pre-LD 1 years. In the three years prior to LD 1, annual commitment growth ranged from 5.2% to 6.9%.

School Administrative Units

Combined Expenditures within LD 1 Limit?	**Yes**	☐	**No**	☑
Combined Expenditure Growth Compared to Pre-LD 1 Years	**Lower**	☑	**Higher**	☐

As in previous years, K-12 schools exceeded appropriations targets set by LD 1, which uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. The LD 1 limit for schools is 100% of EPS, but some school units might be exceeding 100% of EPS by small margins in order to provide programs and some services that are not recognized as essential in the EPS benchmark cost calculation: extracurricular activities including sports and transportation to events, Advanced Placement classes offered at some high schools, unique onetime costs incurred for facilities improvements, and even in some cases local tax dollar support for school lunch programs.

The percentage of local schools exceeding their limit (80%) decreased slightly from last year but the amount by which they exceeded EPS stayed about the same. School districts not conforming to the recent school consolidation law (generally smaller communities) exceeded EPS by a greater margin (11.3%) than conforming school districts (6.7%). Non-federal K-12 appropriations declined slightly in FY 2011, but American Recovery and Reinvestment Act (ARRA) funds administered by the state kept total appropriations growth above zero (0.7%).

Counties

Combined Assessments within LD 1 Limit?	**Yes**	☑	**No**	☐
Combined Assessment Growth Compared to Pre-LD 1 Years	**Lower**	☑	**Higher**	☐

Counties stayed within their combined LD 1 limit in 2010. County assessments were $1.3 million (1%) below the limit. Overall, assessments increased 2.6% from 2009, which is well below the 5.4% growth rate seen in 2005 (pre-LD 1) and a sharp decline from the 7.5% growth seen in 2008. The new law unifying state and county correctional facilities and capping county jail assessments at 2008 levels coincides with this reduction in growth. Individually, nine counties stayed within their limits and seven surpassed them.

I. Introduction

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 (Public Law 2005, Chapter 2). The goal of LD 1 is to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015. It approaches that goal from three angles:

- Spending Limits: LD 1 limits the growth of the State's General Fund appropriations, county assessments, and local property taxes to rates reflective of Maine's income and population growth. It ties school spending to the level of student enrollment. Governing bodies may surpass the limits, but only through an explicit, public vote.
- Targeted Tax Relief: LD 1 increased the amount of property tax relief available through the Maine Residents Property Tax and Rent Relief Program (the "Circuit Breaker"). This program reimburses Maine homeowners and renters whose property tax bill exceeds 4% of their income. LD 1 expanded eligibility and increased the maximum refund from $1,000 to $2,000. Furthermore, LD 1 increased the Homestead Exemption, the amount Maine residents can subtract from the taxable value of their home, from a maximum of $7,000 to $13,000. A 2009 amendment (Public Law 2009, Chapter 213) reduced the Homestead Exemption to $10,000 beginning in the 2010 tax year.
- Increased School Funding: LD 1 set the course for increasing state spending on K-12 education to an amount that is 55% of the costs covered under Essential Programs and Services (EPS). In FY 2011 alone, that meant $144 million in additional state funding was made available to offset local property tax commitments for schools (compared to 2005). However, state revenue shortfalls in the context of a national recession beginning in 2007 have delayed attainment of the 55% goal. The state's contribution in the 2010-2011 school year is 48% of the costs covered under EPS.

LD 1 charges the State Planning Office (SPO) with annually reporting the progress made by state, county, and local governments, and school administrative units, toward reaching the tax burden reduction goal. The U.S. Census Bureau collects the revenue data necessary to compare Maine's state and local tax burden with other states. The Census Bureau currently has revenue data through FY 2008. Dividing total state and local tax revenue (from Census Bureau data) by total statewide personal income (from the US Bureau of Economic Analysis), as LD 1 prescribes, SPO calculates Maine's total state and local burden for FY 2008 to be 12.9%, which is the sixth highest among the fifty states. Maine's state tax burden (8.2%) ranks 11th highest, and the local tax burden (4.7%) ranks 14th highest.

Previous U.S. Census reports overestimated Maine's local and state tax burdens. Those problems were fixed last year, but reliably measuring progress toward the tax burden reduction goal will have to wait until later this year, when at least three years of data will be available. Another important limitation of the Census revenue data is that it does not account for who pays the tax. Since a sizeable portion of Maine's tax revenue comes from seasonal residents and tourists, Maine's relative tax burden on Maine residents may be overestimated. A recent report attempted to correct for this and ranked Maine 15th among states.[1]

Regardless, tax burden analyses are not always the best way to measure attempts to reduce taxes because personal income is the denominator in the calculation. For example, if personal income falls at a greater rate than tax and fiscal policy can reduce tax levels, then the overall tax burden will increase in spite of the tax reductions. Conversely, in states where personal income is growing at a fast rate, the tax burden may decline over time, even while tax and fiscal policy are increasing taxes.

For the first LD 1 report, released in January 2006, SPO contracted with Assistant Professor Todd Gabe and the Margaret Chase Smith Policy Center at the University of Maine to assess LD 1's early impact. Dr. Gabe found that "the early impact of LD 1 on reducing government spending is positive," and that, "LD 1, in its early impact, has constrained the growth of state and local governments in Maine." In 2005, state government stayed within its LD 1 limit and growth in General Fund appropriations declined. In aggregate, county assessment growth was within its limit. Approximately 60% of municipalities subject to LD 1 in 2005 stayed within their property tax levy limits. Maine Revenue Services reported that in LD 1's first year, Maine's combined state and local tax burden declined from 11.7% to 11.5%, with most of the reduction occurring at the local level. They found that statewide property taxes grew by just 1.7%, the lowest rate in at least eight years. LD 1's early impact on school administrative units (SAUs) was smaller than its impact on other levels of government. Over two-thirds exceeded their spending targets and aggregate school appropriations were 3.4% over the LD 1 limit in 2005.

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1 Tax Foundation (http://www.taxfoundation.org/research/topic/32.html)

Replicating the core indicators first reported by Dr. Gabe, SPO found that evidence of LD 1's impact in 2006 - 2009 was mixed. The state and a majority of county and municipal governments stayed within their limits, but much of the overall reduction in growth was due to the economic recession that began in late 2007 and the jail unification law that took effect in 2008.

This report updates last year's analysis of LD 1 and assesses progress made during 2010.

II. State Government's Experience with LD 1

LD 1 limits growth of the state's General Fund appropriations to the ten-year average annual growth rate of Maine's population plus Maine's ten-year average annual personal income growth rate (adjusted for inflation). The LD 1 appropriations limit is the previous year's limit increased by that growth factor. LD 1 provides an allowance for the additional funds expended by the state as it increases General Purpose Aid (GPA) for local education to 55% of covered costs. The 55% goal was scheduled to be achieved in FY 2010, but state revenue shortfalls in the context of a national recession beginning in 2007 have delayed achievement of that goal. The state's contribution in the 2010-2011 school year is 48% of the costs covered under EPS. Once the state reaches this target, all GPA funds will be subject to the same growth limit. The state may temporarily exceed or permanently increase its limit, but only through an explicit vote of the Legislature.

The state's growth factor for FY 2010 and FY 2011 was set in December 2008 using the most current data available at the time. The ten-year average income growth was 2.28% and population growth was 0.49%, resulting in a growth limit of 2.76%. That limit applies to both years of the biennium.

The appropriations limit for FY 2011 was determined by applying the 2.76% growth factor to the FY 2010 base appropriations limit, $3,146 million, and adding $144 million in increased state funding for GPA. The resulting FY 2011 General Fund appropriations limit under LD1 is $3,376 million (See Table 1).

The state kept appropriations below the LD 1 limit in FY 2011. Current FY 2011 General Fund appropriations are $2,705 million, which is $672 million (19.9%) below the LD 1 limit.

Table 1: State General Fund Appropriations Limit Calculation
Note: All dollar figures in millions

Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Annual Growth Factor	--	3.11%	3.11%	3.08%	3.08%	2.76%	2.76%
Base General Fund Appropriations	$2,710	$2,794	$2,881	$2,970	$3,061	$3,146	$3,233
General Purpose Aid to Schools	$735	$836	$914	$972	$956	$909	$878
Additional GPA above FY2005 GPA	--	$102	$180	$237	$222	$175	$144
LD 1 Appropriations Limit (Base plus Additional GPA)	--	$2,896	$3,061	$3,207	$3,283	$3,320	$3,376
Actual Appropriations	$2,784	$2,872	$2,978	$3,129	$3,018	$2,849	$2,705
LD 1 Limit Minus Actual Appropriations	--	$24	$82	$78	$265	$471	$672
Percent Under LD 1 Limit	--	0.8%	2.7%	2.4%	8.1%	14.2%	19.9%

Note: In March 2010, Governor Baldacci's proposed supplemental budget for FY 2010 was approved by the Legislature, so some of the FY 2010 numbers reported in this section have changed since last year's LD 1 Progress Report.
Source: Maine Department of Administrative and Financial Services; Maine State Legislature, Office of Fiscal and Program Review

Table 2 shows the growth of General Fund appropriations subject to the LD 1 limit (total appropriations minus additional GPA funding), which declined by 4.2% in FY 2011.

Table 2: State General Fund Appropriations Subject to LD 1 Limit
Note: All dollar figures are in millions

Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Actual Total Appropriations	$2,784	$2,872	$2,978	$3,129	$3,018	$2,849	$2,705
Additional GPA above FY05 Level	--	$102	$180	$237	$222	$175	$144
Appropriations Subject to LD 1 Limit (Total Appropriations minus Additional GPA)	$2,784	$2,770	$2,799	$2,892	$2,796	$2,675	$2,561
Growth of Appropriations Subject to Limit	--	-0.5%	1.0%	3.3%	-3.3%	-4.3%	-4.2%

Note: In March 2010, Governor Baldacci's proposed supplemental budget for FY 2010 was approved by the Legislature, so some of the FY 2010 numbers reported in this section have changed since last year's LD 1 Progress Report.
Source: Maine Department of Administrative and Financial Services; Maine State Legislature, Office of Fiscal and Program Review

Table 3 displays the growth of all General Fund appropriations, including the additional GPA funding. Total General Fund appropriations decreased by 5.1% in FY 2011. This is the third straight year of declines in General Fund appropriations During FY 2010 and FY 2009, total appropriations decreased by 5.6% and 3.6%, respectively. In the ten years prior to LD 1, annual appropriations growth averaged 5.4% and ranged from a decrease of 3.0% in FY 2002 to an increase of 16.6% in FY 1999.

Table 3: Growth of State General Fund Appropriations

Growth of General Fund Appropriations FY2010 - FY2011	-5.1%
Growth of General Fund Appropriations FY2009 - FY2010	-5.6%
Growth of General Fund Appropriations FY2008 - FY2009	-3.6%
Growth of General Fund Appropriations FY2007 - FY2008	5.1%
Growth of General Fund Appropriations FY2006 - FY2007	3.7%
Growth of General Fund Appropriations FY2005 - FY2006	3.1%
Growth of General Fund Appropriations FY2004 - FY2005	5.4%
Growth of General Fund Appropriations Pre-LD 1 10-Year Average	5.4%

Note: In March 2010, Governor Baldacci's proposed supplemental budget for FY 2010 was approved by the Legislature, so some of the FY 2010 numbers reported in this section have changed since last year's LD 1 Progress Report
Source: Maine Department of Administrative and Financial Services and Maine State Legislature, Office of Fiscal and Program Review

Table 4 shows the growth of General Fund appropriations by GPA and non-GPA appropriations. In FY 2011, GPA appropriations decreased by 3.4% and all other appropriations decreased by 5.9%. From FY 2006 to FY 2011 the growth of GPA appropriations has exceeded the growth of non-GPA appropriations. GPA appropriations grew steadily from FY 2005 through FY 2008. This reflects the increase of state education funding towards 55% of covered costs.

Table 4: Growth of GPA and non-GPA General Fund Appropriations
Note: All dollar figures are in millions

Fiscal Year	GPA	Annual Change in GPA	Non-GPA	Annual Change in Non-GPA	Total General Fund Appropriations	Annual Change in Total
2011	$878	-3.4%	$1,826	-5.9%	$2,705	-5.1%
2010	$909	-5.0%	$1,940	-5.9%	$2,849	-5.6%
2009	$956	-1.6%	$2,061	-4.4%	$3,018	-3.6%
2008	$972	6.3%	$2,157	4.5%	$3,129	5.1%
2007	$914	9.3%	$2,064	1.4%	$2,978	3.7%
2006	$836	13.8%	$2,036	-0.7%	$2,872	3.1%
2005	$735	4.6%	$2,050	5.6%	$2,784	5.4%
2004	$702	-1.6%	$1,941	6.2%	$2,643	4.0%
2003	$713		$1,827		$2,540	

Note: In March 2010, Governor Baldacci's proposed supplemental budget for FY 2010 was approved by the Legislature, so some of the FY 2010 numbers reported in this section have changed since last year's LD 1 Progress Report
Source: Maine Department of Administrative and Financial Services and Maine State Legislature, Office of Fiscal and Program Review

In addition to limiting General Fund appropriations, LD 1 strengthened two targeted property tax relief programs: the Maine Residents Property Tax and Rent Refund Program, better known as the "Circuit Breaker," and the Homestead Exemption.

The Circuit Breaker provides a refund to households whose property tax bill exceeds 4% of their income. Households may receive 50% of the amount by which property taxes exceed 4% to 8% of their income and 100% of the amount over 8%. Renters may receive reimbursement for property taxes paid indirectly through rental payments. LD 1 increased the maximum refund amount from $1,000 to $2,000. Refunds for FY 2011 are estimated to be $43.5 million. About 91,000 Maine homeowners and renters received Circuit Breaker refunds in 2009. Maine Revenue Services estimates that about 200,000 are eligible.

The Homestead Exemption reduces the assessed value of Maine homeowners' primary residences for the purpose of property tax calculations. The property tax rate is applied to a lower value in order to lower residents' tax bills. Prior to LD 1, the Homestead Exemption was available on a sliding scale determined by the assessed value of the property. The deduction was limited to $7,000 and the State reimbursed municipalities for 100% of the foregone tax revenue. LD 1 increased the exemption to $13,000 for all homesteads, with the State reimbursing municipalities for 50% of the foregone tax revenue. From FY 2004 to FY 2010, the amount of state funding distributed to municipalities to pay for the Homestead Exemption declined due to municipal revaluations that lowered the mil rates applied to the $13,000 exemption. A 2009 amendment (Public Law 2009, Chapter 213) reduced the Homestead Exemption to $10,000 beginning in the 2010 tax year. In addition, the state now splits the reimbursement of foregone tax revenue to municipalities into two payments: 75% of the total is reimbursed in the current fiscal year and 25% is reimbursed in the following fiscal year. As a result of these two recent changes, appropriations for the Homestead Exemption are expected to decline from $28.4 million in FY 2010 to $16.2 million in FY 2011.

Table 5: State Appropriations for Circuit Breaker and Homestead Exemption

Note: All dollar figures are in millions

Fiscal Year	Homestead Exemption	Circuit Breaker	Total
2011 (estimation)	$16.2	$43.5	$59.7
2010	$28.4	$40.9	$69.3
2009	$27.6	$48.7	$76.3
2008	$27.8	$46.7	$74.5
2007	$28.8	$44.4	$73.2
2006	$31.2	$42.8	$74.0
2005	$32.3	$26.0	$58.3
2004	$34.3	$23.3	$57.6

Note: The state now reimburses the Homestead Exemption across two years. The Homestead Exemption is estimated to fall sharply in 2011 because 25% of it will be reimbursed in 2012 and because the exemption was reduced from $13,000 to $10,000 beginning in 2010.

Source: Maine Revenue Services

Summary

For the sixth year in a row, the state's General Fund appropriations have remained below the limit set by LD 1. Total General Fund appropriations decreased 5.1% from FY 2010 to FY 2011. Within these appropriations was an additional $144 million for local K-12 education compared to 2005. Setting aside that additional GPA funding as LD 1 directs, General Fund appropriations declined 4.2% from FY 2010 to FY 2011.

III. Effect of LD 1 on Local Property Tax Commitments

This section focuses on local property tax commitments as an overall indicator of LD 1's impact on property tax relief. Commitments are the amount of property tax collections approved by each municipality to finance anticipated expenditures for municipal government operations, public schools, and county government. Other sections of this report look at those three categories individually. This section looks at *total* local property tax commitments, which combines all three.

Combined Statewide Municipal Commitment Growth

Calculations of state tax burden use aggregate measures of the total amount of taxes collected within a state. To test whether LD 1 successfully reduces the growth of property tax collections, the State Planning Office compared Municipal Valuation Returns (MVRs)[2] for years before and after LD 1. The analysis in this section is based on a sample of municipalities that had filed this year's MVR form by early December 2010. The sample of reporting municipalities differs from previous years, so figures differ slightly from past LD 1 progress reports. Furthermore, figures reported here may differ slightly from numbers reported in the future by Maine Revenue Services based on 100% of filed MVRs.

In early December 2010, 426 communities had filed the MVR, representing 87% of all municipalities in the state and accounting for 96% of the total statewide commitment in 2009. Results here are thus broadly representative of the total population of Maine municipalities.

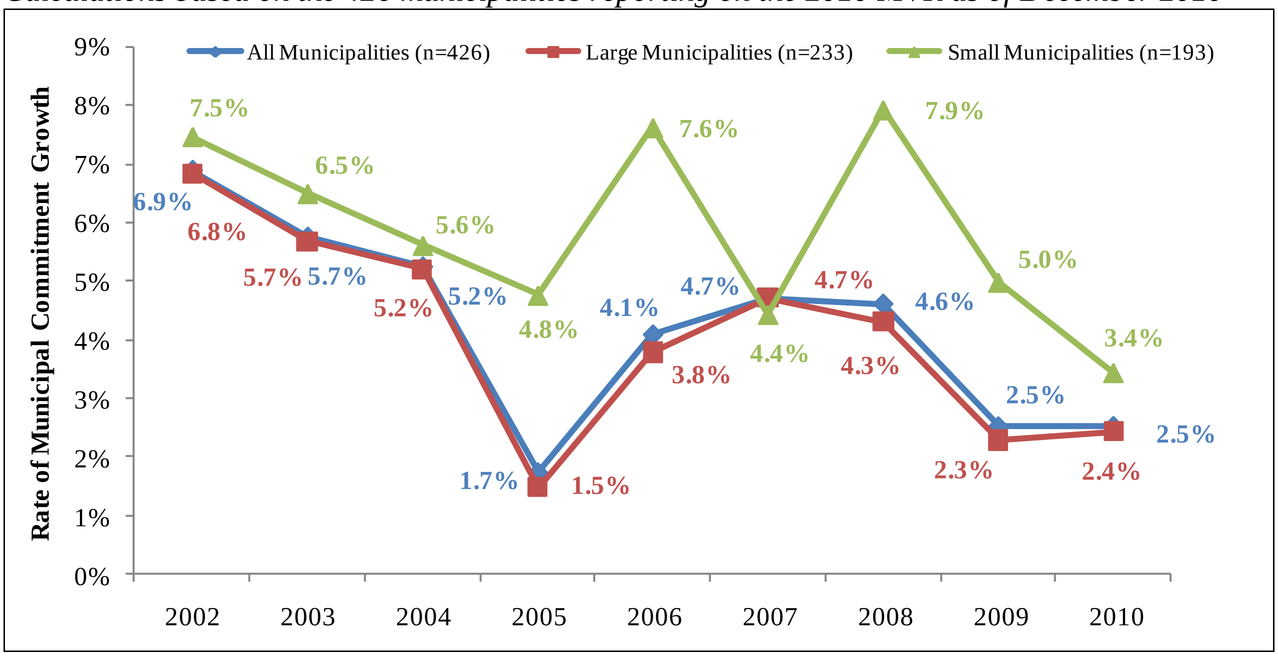
Figure 1 shows recent annual growth of aggregate municipal commitments for small municipalities, large municipalities, and the entire sample of 426 municipalities as a whole.[3] In 2005, the first year of LD 1, large communities showed a dramatic reduction in commitment growth – from 5.2% in 2004 to 1.5% in 2005. This is partly due to the fact that LD 1 in its first year only applied to towns with fiscal years beginning on or after July 1st, and 64% of large towns met this criterion. The overall FY 2005 growth rate was considerably lower than the 4.8% commitment growth in small municipalities in 2005, 67% of which had fiscal years beginning earlier than

2 The Municipal Valuation Return is an annual report summarizing local tax information that assessors are required to file with Maine Revenue Services.
3 "Small municipalities" have a population less than 1256, the median population of all towns in Maine. "Large municipalities" have a population greater than 1256. There were 233 large municipalities and 193 small municipalities in this year's MVR sample.

the July 1st and thus were not covered by LD 1 at the time. After 2005, LD 1 applied to all municipalities. In aggregate, all municipalities increased commitment growth from 2005-2007 but remained below pre-2005 growth rates. The growth rate flattened to 4.6% in 2008 and then fell to 2.5% in 2009 and 2010. Small and large municipalities showed significant differences in commitment growth. Commitment growth in small municipalities was more volatile year-to-year than in large municipalities and was also greater than large municipalities in every year except 2007.

Figure 1: Annual Growth in Municipal Property Tax Commitments

Calculations based on the 426 municipalities reporting on the 2010 MVR as of December 2010



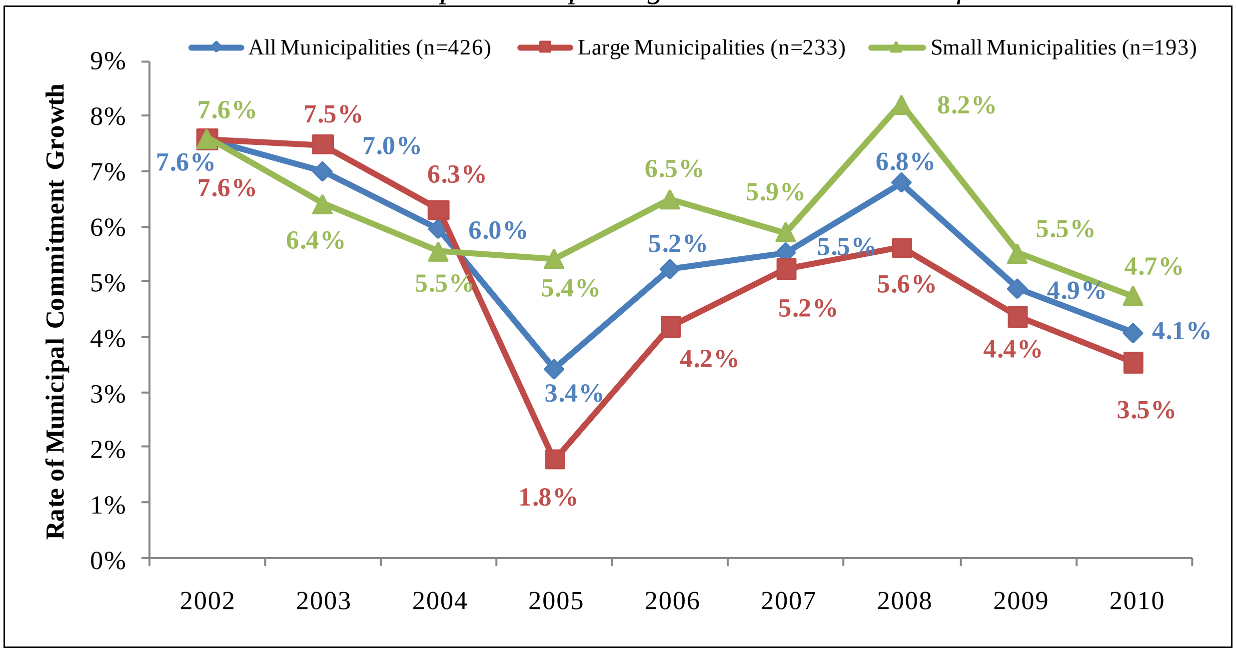
Source: Maine Revenue Services Municipal Valuation Reports (2001-2010) & author's calculations.
Note: "Small municipalities" have a population less than 1256, the median population of all towns in Maine. "Large municipalities" have a population greater than 1256

The overall decrease in commitment growth in 2009 was driven in part by the recession and in part by the recent county jail unification law (Public Law 2008, Chapter 653). Municipalities responded to the unemployment and anxiety caused by the recession by limiting commitment growth. In addition, the jail unification law limited the amount of taxes that counties can collect from municipalities for county corrections.

Commitment Growth of Individual Municipalities

The previous section focused on aggregate property tax commitments to assess the progress toward reducing overall local property tax burden. Aggregate measures can be influenced by the relatively small number of large municipalities whose budgets are enormous compared to those of Maine's smaller towns. To better understand decisions being made by individual municipalities, Figure 2 reports *average* municipal commitment growth in the years before and after LD 1 took effect in 2005.

Figure 2: Average Annual Growth in Municipal Property Tax Commitments
Calculations based on 426 municipalities reporting on the 2010 MVR as of December 2010



Source: Maine Revenue Services Municipal Valuation Reports (2001-2010) & author's calculations
Note: "Small municipalities" have a population less than 1256, the median population of all towns in Maine. Large municipalities are towns with a population greater than 1256

Figure 2 shows that average growth in municipal commitments is similar to aggregate commitment growth (Figure 1), with one notable exception. Compared to aggregate annual growth, average annual growth is more influenced by the higher and more variable growth of Maine's small municipalities and less influenced by the lower and less variable growth of Maine's large cities.

Similar to aggregate municipal commitment growth, average growth in municipal commitments declined in 2005. This reduction was only temporary, as average growth climbed steadily to 6.8% in 2008, eclipsing the pre-LD 1 2004 growth rate. In 2009, declines in average commitment growth among both small and large municipalities helped pull the average for all municipalities down to 4.9%, below the 2006 growth rate and well below pre-LD 1 growth rates. Average commitment growth continued to slow in 2010, and now stands at 4.1%, the second slowest rate of growth since LD 1 took effect.

Table 6: Percent of Municipalities that Reduced Commitment Growth

Percent of Municipalities that Reduced Commitment Growth	Total	Large Municipalities	Small Municipalities
Number of Observations	426	233	193
Percent of municipalities with...			
'10 Commitment Growth Rate less than '09	45%	44%	47%
'10 Commitment Growth Rate less than '08	58%	61%	54%
'10 Commitment Growth Rate less than '07	54%	59%	47%
'10 Commitment Growth Rate less than '06	57%	56%	57%
'10 Commitment Growth Rate less than '05	45%	40%	50%
'10 Commitment Growth Rate less than '04	59%	67%	50%
'10 Commitment Growth Rate less than '03	62%	71%	52%
'09 Commitment Growth Rate less than '08	58%	61%	55%
'09 Commitment Growth Rate less than '07	53%	56%	49%
'09 Commitment Growth Rate less than '06	54%	53%	54%
'09 Commitment Growth Rate less than '05	46%	41%	51%
'09 Commitment Growth Rate less than '04	60%	64%	55%
'09 Commitment Growth Rate less than '03	62%	70%	53%
'08 Commitment Growth Rate less than '07	44%	44%	44%
'08 Commitment Growth Rate less than '06	46%	42%	52%
'08 Commitment Growth Rate less than '05	37%	33%	41%
'08 Commitment Growth Rate less than '04	52%	57%	46%
'08 Commitment Growth Rate less than '03	53%	58%	46%
'07 Commitment Growth Rate less than '06	52%	47%	58%
'07 Commitment Growth Rate less than '05	42%	33%	53%
'07 Commitment Growth Rate less than '04	59%	63%	54%
'07 Commitment Growth Rate less than '03	59%	65%	52%
'06 Commitment Growth Rate less than '05	39%	36%	43%
'06 Commitment Growth Rate less than '04	54%	60%	48%
'06 Commitment Growth Rate less than '03	58%	65%	49%
'05 Commitment Growth Rate less than '04	63%	75%	50%
'05 Commitment Growth Rate less than '03	66%	77%	53%

Source: Maine Revenue Services Municipal Valuation Returns (2001 – 2010) & author's calculations

An alternate method of measuring the impact of LD 1 on individual municipalities is to examine the share of municipalities whose commitment growth has slowed compared to previous years (Table 6). In 2010, less than half of municipalities (45%) reported slower year-over-year commitment growth. This is a lower percentage of municipalities than last year, when the economic recession and jail unification law began to affect commitment growth. The first year of LD 1 (2005) is the year when the largest percent (63%) of municipalities reported a reduction in year-over-year commitment growth.

Sources of Appropriation Growth

Local property taxes primarily fund three institutions: municipal government, county government, and local schools. Table 7 looks at the relative contributions of each of these institutions to the growth in total municipal appropriations. Data were obtained from the municipal tax rate calculation forms in MVRs from 2006-2010. The tax rate calculation forms ask communities to report the amount of municipal appropriation for municipal operations and services, K-12 schools, the county tax, and Tax Increment Financing (TIF).[4] Some municipalities did not complete this section of the MVR for this year, or for past years. Some of those that did complete the form made noticeable mistakes. SPO made attempts to verify the accuracy of all forms, but some municipalities with erroneous data had to be excluded from the analysis. Hence, the sample of municipalities represented in the analysis on sources of appropriations growth is not the same as the sample of municipalities analyzed above, nor is this year's sample the same as last year's sample.

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4 Tax Increment Financing is a mechanism used by local governments to fund economic development. When development increases a property's taxable value, the municipal government uses the additional property tax revenue to fund a state-approved economic development project set up by the municipality.

Table 7: Statewide Local Appropriations Growth by Source

Sample Size = 302 Municipalities	Year	Total	Municipal	School	County	TIF
Appropriations ($ millions)	2010	$1,693	$739	$831	$86	$37
	2009	$1,690	$742	$825	$84	$39
	2008	$1,672	$739	$815	$81	$37
	2007	$1,604	$699	$793	$76	$37
	2006	$1,542	$667	$771	$72	$33
Share of Appropriations	2010	100%	43.7%	49.0%	5.1%	2.2%
	2009	100%	43.9%	48.8%	5.0%	2.3%
	2008	100%	44.2%	48.7%	4.8%	2.2%
	2007	100%	43.5%	49.4%	4.7%	2.3%
	2006	100%	43.2%	50.0%	4.7%	2.1%
Appropration Growth Rate	2010	0.2%	-0.3%	0.7%	1.9%	-4.5%
	2009	1.1%	0.4%	1.2%	4.3%	4.9%
	2008	4.2%	5.8%	2.7%	7.3%	0.4%
	2007	4.0%	4.8%	2.9%	5.3%	12.6%
Share of Appropriation Growth	2010	100%	0.0%	78.7%	21.3%	0.0%
	2009	100%	15.4%	55.5%	19.0%	10.0%
	2008	100%	60.0%	31.6%	8.1%	0.2%
	2007	100%	51.2%	36.0%	6.1%	6.7%

Source: Maine Revenue Services Municipal Valuation Returns

Among the 302 municipalities with usable data available in all five years, statewide local appropriations were roughly $1.69 billion in 2010. This represents a 0.2% increase in statewide local appropriations over 2009, a much slower annual growth rate than the previous three years. Local schools accounted for the largest share of statewide local appropriations (49.0%) followed by municipal operations and services (43.7%). Counties and TIF accounted for 5.1% and 2.2% of appropriations, respectively.

School appropriations growth accounted for 78.7% of the increase in statewide local appropriations from 2009 to 2010, and counties accounted for the rest of the growth, as appropriations for municipal operations and services and TIF actually decreased from 2009 to 2010.

IV. Municipal Governments' Experience with LD 1

The preceding section examined the effect of LD 1 on local property tax commitments to assess its influence in reducing the growth of local government expenditures and the property tax burden. Local commitments are the combined sum of the local property taxes collected for financing public schools, municipal government services and operations, and county government operations.

This section addresses the impact of LD 1 on local property tax revenues used to finance municipal operations and services. LD 1 does this by limiting the growth of municipal operational expenditures to a specified rate (i.e., "growth limitation factor"). The limit applies to a municipality's municipal property tax levy, meaning the amount of property tax revenue approved to fund municipal operations and services, excluding funds allocated for county taxes and local schools. These budget items are addressed elsewhere under LD 1. The growth limitation factor allows property taxes to increase at the rate of Maine's ten-year average annual personal income growth (adjusted for inflation) plus growth in the value of new taxable property (i.e., "property growth factor"), adjusted for any change in state funding for existing services previously funded by property taxes. A municipality wishing to either temporarily exceed or permanently increase its municipal property tax levy limit must explicitly vote to do so.

Survey Methodology

To determine the impact of LD 1 on property tax commitments raised for municipal operations, SPO distributed a voluntary survey (2010 Municipal Property Tax Levy Limit Survey) to all of Maine's municipal governments. The survey guides municipalities through the calculation of their municipal property tax levy and municipal property tax levy limits for both the past (2009) and current (2010) years. These calculations are used to determine whether or not the municipality surpassed the municipal property tax levy limit, as defined by LD 1.

SPO received a total of 283 useable responses to the 2010 survey, representing roughly 58% of all Maine municipalities. This is greater than last year's response rate of 41% (201 useable responses). The municipalities included in the sample of 283 useable responses represent approximately 74% of the statewide aggregate municipal commitment in 2009, and 77% of the 2010 municipal commitment of the 426 communities that had filed their 2010 MVR by early December, 2010.

Past years' analyses of the municipal survey responses suggested that sample municipalities are sufficiently representative of all municipalities according to most criteria. The major differences between respondents and non-respondents were that non-respondents tended to be smaller and have slightly lower median household incomes. Smaller communities are somewhat underrepresented in this year's sample as well. Past analyses have shown that smaller communities generally have greater difficulty complying with LD 1's limits. Therefore, based on the underrepresentation of smaller communities in the sample, this year's analysis may slightly overstate municipal government compliance with LD 1.

Survey Results

As prescribed by LD 1, the survey asked municipalities to use their 2009 LD 1 limit (municipal property tax levy limit) as a starting point for determining their 2010 LD 1 limit. "Municipal property tax levy" refers to property taxes raised to fund municipal governments. It excludes property taxes raised for schools, counties, and Tax Increment Financing (TIF) and is calculated by subtracting total municipal deductions (Line 11, Municipal Tax Assessment Warrant) from municipal appropriations (Line 2, Municipal Tax Assessment Warrant) and adding any revenue included in the total municipal deductions that paid for non-municipal appropriations, such as schools. Municipalities that explicitly voted to increase their limit in 2009 were asked to use their voter-approved limit as the base for calculating their 2010 limit.

Next the survey asked municipalities to calculate their 2010 growth limitation factor as prescribed by LD 1. The growth limitation factor is the sum of the state's ten-year inflation-adjusted average annual personal income growth (1.78% for calendar year 2010 or fiscal year 2010-11) and the local property growth factor. The property growth factor is calculated as the total value of newly taxable real and personal property divided by the total value of all real and personal property in the community. Some municipalities made noticeable errors in completing their survey. In most cases, the errors were simple arithmetic mistakes and SPO made the appropriate corrections. In cases where errors were not obviously correctable, SPO attempted to contact the municipality in question to gain clarification. In cases where errors could not be corrected, the survey response was not included in the analysis.

Table 8: Summary Statistics, 2010 Municipal Property Tax Levy Limit Survey Results

Number of Municipalities	283
Aggregate Municipal Commitment,2010 (from MVR)	$1,485,238,107
Aggregate Municipal Property Tax Levy Limit, 2010	$526,938,754
Aggregate Municipal Property Tax Levy, 2010	$477,494,192
Ratio of Municipal Property Tax Levy to Total Commitment, 2010	32.1%
Percent by which Levy was Below Limit, 2010	9.4%
Mean Growth Limitation Factor, 2010	3.6%
Mean Growth Limitation Factor, 2009	4.3%
Mean Growth Limitation Factor, 2008	4.8%
Number of Municipalities Surpassing 2010 LD1 Limit (as percent of 2010 sample)	34%
Average Margin by which Municipalities over LD 1 Limit exceeded the limit	29%
Average Margin by which Municipalities below the LD 1 Limit were under the limit	18%
Percent of Municipalities over the Limit who reported voting to increase the limit	28%
Percent of Municipalities over the Limit who reported voting to exceed the limit	35%
Percent of Municipalities over the Limit who did not report voting to increase or exceed	37%

Source: Maine Revenue Services Municipal Valuation Returns, SPO Municipal Survey, and author's calculations

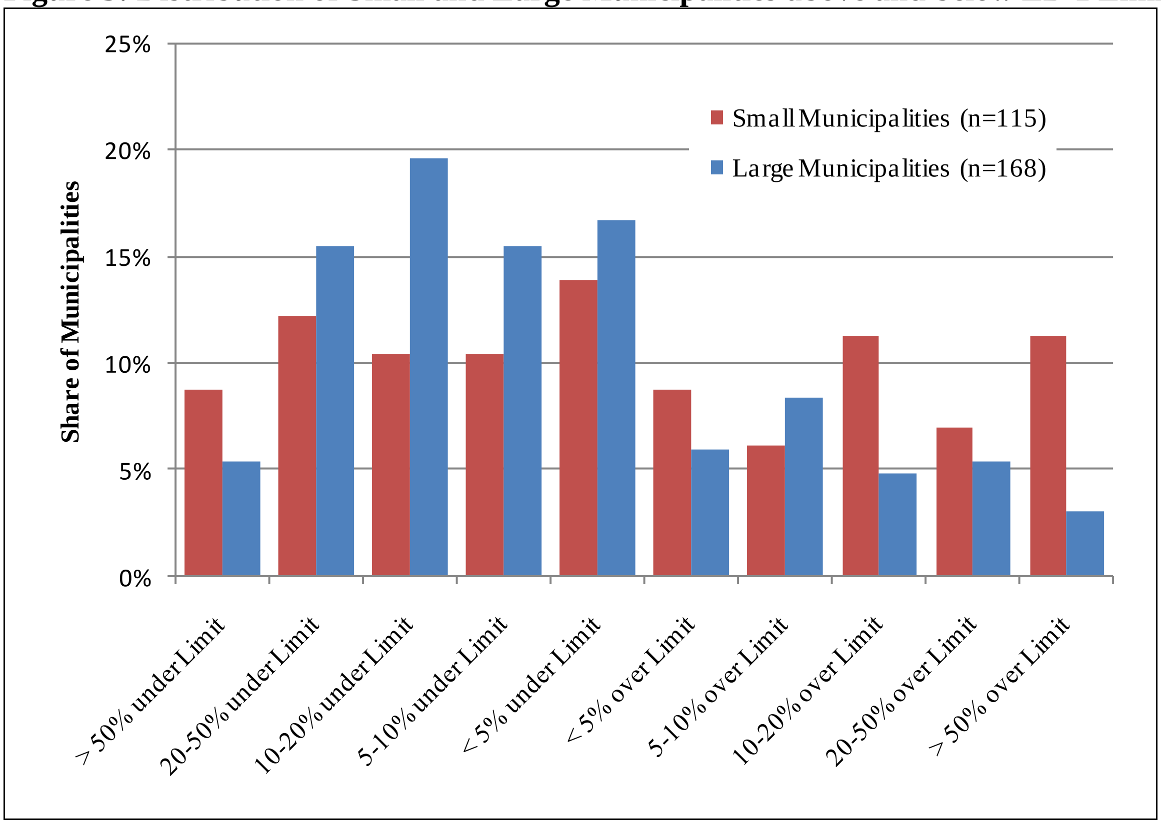
Among the 283 useable responses, the average growth limitation factor was 3.6% (Table 8). This is lower than last year's average growth limitation factor of 4.3%.

The growth limitation factor was applied to last year's limit to estimate this year's LD 1 limit ('property tax levy limit'). As shown in Table 8, the aggregate 2010 commitment was $1.485 billion for the 283 municipalities in the sample.[5] The combined 2010 municipal property tax levy was $477 million or 32.1% of the aggregate 2010 commitment. The aggregate property tax levy limit for 2010 was $527 million. This means that when aggregated across the survey sample, Maine communities kept the municipal property tax levy below the total amount allowable under LD 1 by $49 million, or 9.4% of the LD 1 limit. Stated differently, municipalities' aggregate property tax levy equaled about 90.6% of that allowable under LD 1. This is consistent with last year's report and is the sixth year that municipalities came in under the statewide LD 1 limit. In 2009, Maine municipalities kept the aggregate municipal property tax levy below the aggregate LD 1 limit by $30 million, or 6.7%. In 2008, the levy was 3.2% below the aggregate LD 1 limit, and in 2007, it was 4.1% below the aggregate LD 1 limit.

5 Estimates for sixteen responding towns that were missing 2010 MVR commitment data at the time of this report were produced by applying the 2010 aggregate commitment annual growth rate (2.5%) to their 2009 MVR commitments.

Although the aggregate municipal property tax levy was further below the LD 1 limit than in any prior year, the experiences of individual communities varied considerably. Of the 283 municipalities in the 2010 sample, 186 (66%) stayed within their individual LD 1 limit. This is a decline from 71% in 2009, but still a substantial increase from 56% in 2008, 57% in 2007 and 2006, and 58% in 2005. The 97 municipalities who surpassed their 2010 limit were, on average, 29% over the limit. Municipalities that stayed within their 2010 limit were, on average, 19% below the limit. 77 municipalities (27% of the sample) were more than 5% over their limit and 56 (20% of the sample) were more than 10% over their limit. Figure 3 shows the distribution of small and large municipalities in the survey sample above and below their individual LD 1 limits.

Figure 3: Distribution of Small and Large Municipalities above and below LD 1 Limits



Source: Maine State Planning Office 2010 Municipal Property Tax Levy Limit Survey
Note: "Small municipalities" have a population less than 1256, the median population of all towns in Maine. Large municipalities are towns with a population greater than 1256

Tables 9 and 10 present percentages and statistical tests to help identify some of the characteristics of municipalities that were either over or under their LD 1 limit. Small municipalities had greater difficulty staying within their commitment limits. Table 9 shows that the average population of municipalities surpassing the LD 1 limit was 1,728 and the average population of municipalities that stayed within the LD 1 limit was 4,057.

Similarly, Table 10 shows that municipalities with small and/or shrinking populations went over their LD 1 limit at a significantly greater rate than larger municipalities.

Table 9 shows that, not surprisingly, municipalities surpassing their individual LD 1 limits had significantly greater property tax commitment growth from 2009-2010, and larger per capita property tax commitments in 2010.

Table 10 shows that 50% of downeast municipalities (Washington and Hancock Counties) in the survey sample topped their LD 1 limit. This was a significantly greater percentage of municipalities than in other regions.

Table 9: Characteristics of Municipalities that are Over/Under LD1 Tax Levy Limit

Comparisons based on municipalities reporting on 2010 SPO Survey

Characteristic	All Municipalities	Over LD 1 Limit	Under LD 1 Limit
All Municipalities	283	97 ^	186 ^
Average population, 2009	3,259	1,728 **	4,057 **
Average population growth rate, 2001-2009	2.2%	1.2% **	2.8% **
Commitment per capita, 2010 (Millions)	$1,797	$2,082 *	$1,648 *
Aggregate municipal commitment growth rate, 2009-2010	2.0%	2.8% ^	1.8% ^
Average municipal commitment growth rate, 2009-2010	3.5%	6.1% **	2.1% **
Average property tax rate, 2010	1.3%	1.3%	1.3%
Median household income, 2000	$35,451	$34,507	$35,938
Average Growth Limitation Factor	3.6%	3.1%	3.9%

**Indicates statistically significant difference between over/under samples (90% confidence level)*

***Indicates statistically significant difference between over/under samples (95% confidence level)*

^Based on aggregate data, no statistical tests are available

Source: Maine Revenue Services, Municipal Valuation Returns 2010 & 2009; US Census Bureau, Maine Labor Market Information Services, 2010 SPO Municipal Survey, and author's calculations.

Table 10: LD 1 Compliance in Subgroups of Municipalities

Comparisons based on municipalities reporting on 2010 SPO Survey

	All Municipalities		Municipalities Over LD 1 Limit	
	Number	Percent of All Survey Respondents	Number	Percent of Subgroup
All Municipalities	283	100%	97	34%
Demographic Subgroups:				
Small Municipalities (Population < 1256)	115	41%	51	44% **
Shrinking Municipalities (Population '01 > Population '09)	118	42%	51	43% **
Regional Subgroups:				
Central Municipalities	30	11%	9	30%
Downeast Municipalities	44	16%	22	50% **
Mid-Coast Municipalities	47	17%	18	38%
Northern Municipalities	69	24%	21	30%
Southern Municipalities	38	13%	10	26%
Western Municipalities	55	19%	17	31%

***Indicates subgroup is statistically different than the rest of the survey sample (95% confidence level).*
Source: US Census Bureau, 2010 SPO Municipal Survey, and author's calculations.

The survey also asked municipalities surpassing the LD 1 limit to report whether they voted to temporarily exceed or permanently increase it, as required by LD 1. A vote to *exceed* allows the 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 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 limit calculation. Municipalities were then asked to explain why they chose to exceed or increase their base commitment limit. This year, 97 municipalities (34% of the sample) exceeded their LD 1 limit. 27 of these communities voted to increase their limit, 34 voted to exceed their limit, and 36 did not report voting to exceed or increase. In the past, some municipalities have explained this non-compliance by indicating that they were unaware of the necessity of voting, had trouble calculating growth limits, or did not think LD 1 applied to them.

The survey provided municipalities space to comment on why they decided to vote to exceed or increase their LD 1 limit. This year, the most common responses cited reductions of other revenue sources such as revenue sharing and excise taxes, increasing costs of providing services, and costs for capital improvements such as buildings and equipment. Some towns said they voted to exceed or increase simply to comply with LD 1.

Summary

For the sixth year in a row, municipalities held property taxes raised for municipal operations below their aggregate statewide LD 1 limit. Among the 283 useable responses to SPO’s survey, the aggregate municipal property tax levy was 9.4% below the aggregate LD 1 limit. 66% of municipalities stayed within their LD 1 limit, lower than last year but above the five-year average. Those surpassing the limit did so by an average margin of 29%. Municipalities under the limit were more likely to have larger, growing populations and were less likely to be downeast (in Hancock or Washington County).

V. School Administrative Units' Experience with LD 1

The second and frequently largest component of municipal property taxes is raised to finance local public schools. LD 1 uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. Essential Programs and Services are those educational resources required for all students to meet the knowledge and skill standards set by the Maine Learning Results. Under LD 1, K-12 school appropriations are constrained to 100% of the costs calculated by the EPS formula, excluding "local-only" debt. It should be noted, however, some school units might be exceeding 100% of EPS by small margins in order to provide programs and some services that are not recognized as essential in the EPS benchmark cost calculation: extracurricular activities including sports and transportation to events, Advanced Placement classes offered at some high schools, unique onetime costs incurred for facilities improvements, and even in some cases local tax dollar support for school lunch programs.

LD 1 also set the course for increasing the state's share of school funding to 55% of EPS over four years. The 55% goal was scheduled to be achieved in FY 2010, but state revenue shortfalls in the context of a national recession beginning in 2007 have delayed achievement of that goal. The state's contribution in the 2010-2011 school year is 48% of the costs covered under EPS.

The Maine Department of Education (MDOE) collects information on school appropriations from state, local, and other sources on an annual basis. Preliminary data[6] on state and local educational appropriations for FY 2011 was used to determine the share of local school districts that kept expenditures below 100% of EPS, and those results were compared to previous years (Table 11). Please note that funding amounts for FY 2010 have changed since last year's LD 1 report due to the FY 2010 Supplemental Budget that reduced General Purpose Aid for K-12 schools.

The significant reorganization of school districts that began in FY 2010 continued in FY 2011.[7] Overall, the number of School Administrative Units (SAUs) was reduced from 287 in FY 2009 to 218 in FY 2010 to 179 in

6 Data available at the time of writing reflects state funding approved through the end of the Second Regular Session of the 124th Legislature.
7 Public Law 2007, Chapter 240, Part XXXX (enacted by passage of LD 499, the two-year budget, on June 11, 2007) and Public Law 2007, Chapter 668 (enacted by passage of LD 2323, An Act to Remove Barriers to the Reorganization of School Administrative Units, on April 18, 2008).

FY 2011. 89% of Maine's school children are enrolled at SAUs now conforming to the new reorganization laws.

Although there are now 179 SAUs, MDOE has continued to collect and provide EPS and budget information for 42 former school districts that have consolidated into new SAUs, so the analysis in this section is based on samples of 215 "local school budgets" that constitute the 179 SAUs. To allow comparisons across years, school districts that had not yet reported appropriations to MDOE for FY 2010 at the time of writing were excluded from the analysis. Also excluded were school districts with missing appropriations data from past years. As a result, the numbers included in this year's report differ slightly from numbers in previous LD 1 progress reports.

Expenditure Growth of Individual School Budgets

Table 11 and Figure 4 examine state and local K-12 expenditures across time. Table 12 and Figure 5 compare FY 2011 expenditures across two types of school districts: those that have conformed to the reorganization laws and those that have not. To help further distinguish between local school budgets that exceeded EPS by small margins and local school budgets that exceeded EPS by large margins, Tables 11 and 12 differentiate between a target of 100% of EPS and a target of 105% of EPS.

Table 11 shows that aggregate state and local spending exceeded 100% of EPS by 7.3% in FY 2011, down from 8.9% in FY 2010 and a peak of 12.5% in FY 2009, which was the last year before the school reorganization laws took effect. The percentage of local school budgets exceeding 100% of their EPS target also declined steadily between FY 2009 and FY 2011, from 87.1% to 79.5%. Local school budgets that exceeded 100% EPS did so by a margin of 21.6%, which is about the same margin as last year and down from a peak of 24.4% in FY 2009. Similarly, after peaking at 78.9% in FY 2009, the percent of local school budgets exceeding 105% of EPS has declined for two years and is now at 65.5%.

Table 11: Overall School Compliance with LD 1: FY 2006 – FY 2011*

Note: Based on a sample of 171 out of 215 Local School Budgets

	FY2006	FY2007	FY2008	FY2009	FY2010**	FY2011
Aggregate EPS ($ millions)	$1,604	$1,641	$1,689	$1,663	$1,720	$1,746
Aggregate State and Local K-12 Appropriations ($ millions)	$1,669	$1,761	$1,835	$1,872	$1,873	$1,874
Difference as Percent of EPS	4.0%	7.3%	8.7%	12.5%	8.9%	7.3%
Percent of Local School Budgets exceeding 100% of EPS…	73.7%	80.1%	80.7%	87.1%	83.0%	79.5%
...Percent by which they exceeded 100% of EPS	20.1%	19.2%	19.2%	24.4%	21.1%	21.6%
Percent of Local School Budgets exceeding 105% of EPS…	56.7%	64.3%	64.3%	78.9%	68.4%	65.5%
...Percent by which they exceeded 105% of EPS	19.1%	17.3%	17.5%	20.6%	19.0%	19.6%

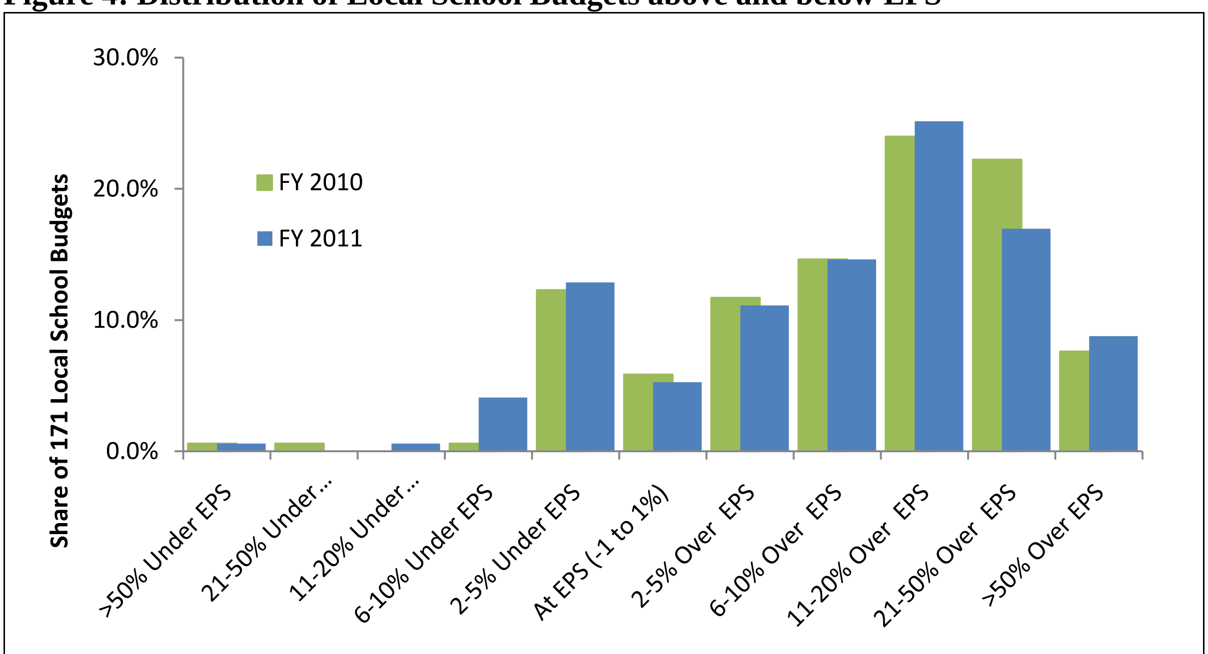
Source: Maine Department of Education and author's calculations

** Calculations include state transitional funds but exclude local-only debt*

***Figures for FY 2010 have changed since last year's LD 1 report due to the FY 2010 Supplemental Budget that reduced General Purpose Aid for K-12 schools.*

Figure 4 shows the distribution of local school budgets around their targeted EPS funding levels. Compared to FY 2010, the percentage of districts overspending EPS by more than 20% decreased in FY 2011.

Figure 4: Distribution of Local School Budgets above and below EPS*



Source: Maine Department of Education and author's calculations

**Calculations include state transitional funds but exclude local-only debt*

Table 12 shows that, in aggregate, local school budgets in conforming districts exceeded EPS by a smaller relative margin (6.7%) than those in non-conforming districts (11.3%). Also, a lesser percentage of individual budgets in conforming school districts (61.6%) than individual budgets in non-conforming districts (70.8%) exceeded 105% of EPS. Among local budgets that exceeded 105% of EPS, budgets in conforming districts exceeded 105% of EPS by a smaller margin (8.1%) than budgets in non-conforming districts (21.8%).

Table 12: Local School Budget Compliance with LD 1 in FY 2011*

Note: All dollar figures in millions

Fiscal Year 2011	All School Budgets	Budgets in Conforming** School Districts	Budgets in Non-conforming School Districts
Number of Local School Budgets	171	99	72
Aggregate EPS	$1,746	$1,505	$242
Aggregate State and Local K-12 Appropriations	$1,874	$1,605	$269
Difference as Percent of EPS	7.3%	6.7%	11.3%
Percent Of Local School Budgets exceeding 100% of EPS…	79.5%	77.8%	81.9%
...Percent by which they exceeded 100% of EPS	21.6%	19.3%	24.5%
Percent of Local School Budgets exceeding 105% of EPS…	65.5%	61.6%	70.8%
...Percent by which they exceeded 105% of EPS	19.6%	8.1%	21.8%

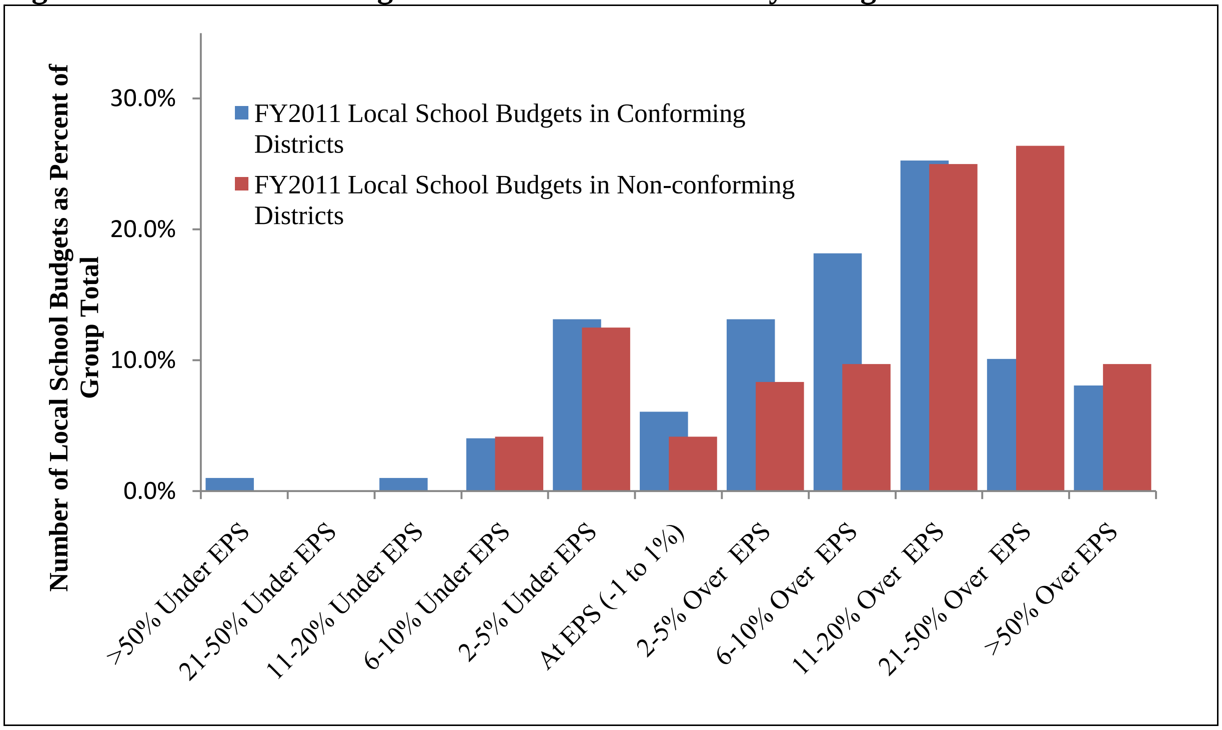
Source: Maine Deparment of Education and author's calculations

** Calculations include state transitional funds but exclude local-only debt*

***"Conforming" and "Non-conforming" refer to the status of school district compliance with recent School Reorganization Laws: Public Law 2007, Chapter 240, Part XXXX (enacted by passage of LD 499, the two-year budget, on June 11, 2007) and Public Law 2007, Chapter 668 (enacted by passage of LD 2323, An Act to Remove Barriers to the Reorganization of School Administrative Units, on April 18, 2008).*

Figure 5 shows the distribution of conforming and non-conforming local school budgets around their targeted EPS funding levels in FY 2011. The percentage of local school budgets exceeding 120% EPS is higher for individual budgets in non-conforming SAUs (36.1%) than it is for individual budgets in conforming SAUs (18.2%). The percentage of local school budgets exceeding EPS at margins between 1% and 10% is higher among individual budgets in conforming districts (31.3%) than it is among budgets in non-conforming districts (18.1%).

Figure 5: Local School Budgets Above and Below EPS by Reorganization Status*



Source: Maine Department of Education and author's calculations
**Calculations include state transitional funds but exclude local-only debt*

Combined Statewide K-12 Education Expenditure Growth

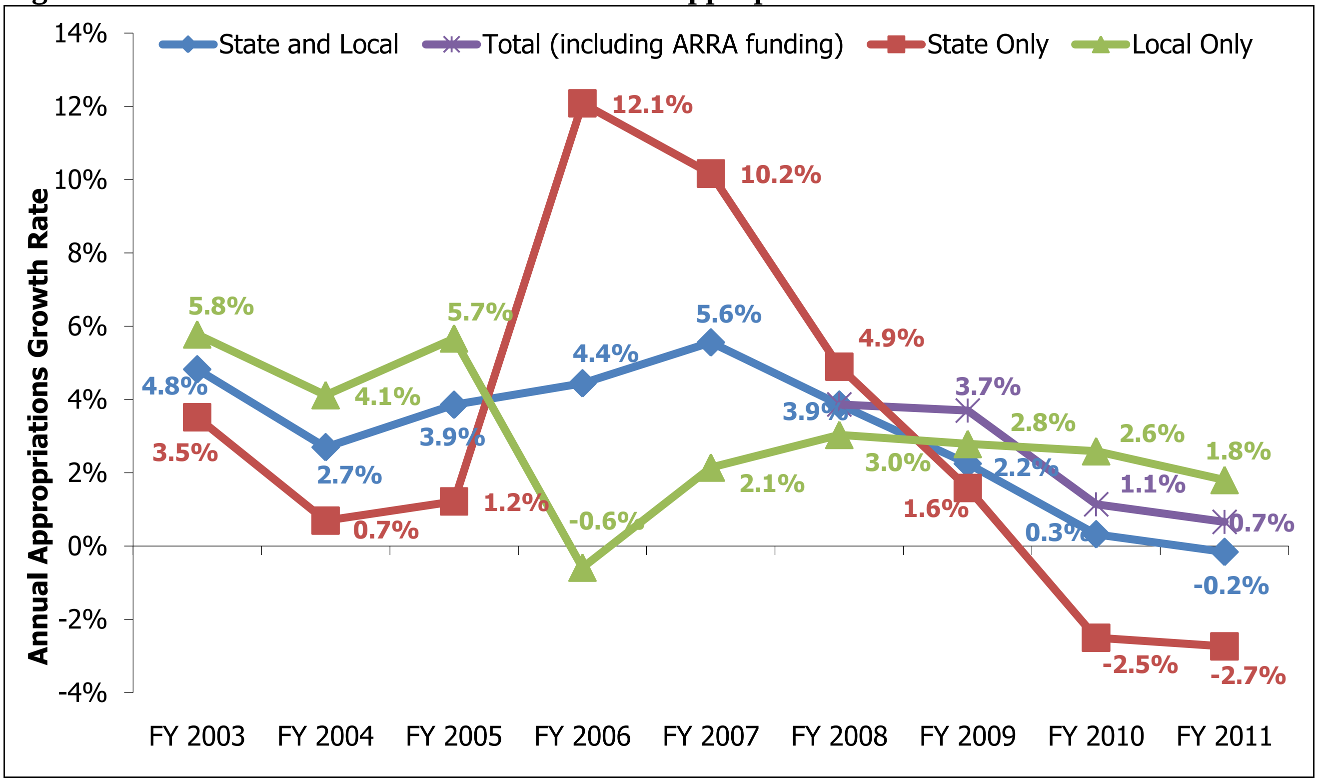
Figure 6 uses a longer time horizon to assess the impact of LD 1 on total K-12 appropriations to schools. Both state transitional funds and local-only debt are included in the analysis.[8] Numbers may not match those reported in previous year's LD 1 reports because only 165 of 215 local school budgets are represented in this year's sample, and because funding amounts for FY 2010 have changed since last year's LD 1 report due to the FY 2010 Supplemental Budget that reduced General Purpose Aid for K-12 schools.

In the years immediately prior to FY 2006 (the year LD 1 took effect), the growth rate of combined state and local appropriations fluctuated between 2.7% and 4.8%. With the passage of LD 1 the State dramatically increased its share of school funding, increasing the annual growth rate of its share from 1.2% in FY 2005 to 12.1% in FY 2006. Corresponding with the increased state funds, annual growth in local appropriations to

8 The vast majority of the local appropriations are raised through local property tax commitments. In FY 2010, local-only debt accounted for about 4% of local school appropriations, and in FY 2011 local-only debt accounted for only about 3.5% of local school appropriations.

schools declined from 5.7% in FY 2005 to -0.6% in FY 2006. On balance, annual growth in total non-federal state and local appropriations to schools increased from 3.9% FY 2005 to 4.4% in FY 2006.

Figure 6: Annual Growth of State* and Local Appropriations for K-12 Education**



Source: Maine Department of Education and author's calculations
**State funds include transitional EPS funding*
***Local funds include local only debt for all years*
Note: This graph shows growth rates. Any number greater than zero indicates a year-over-year increase in appropriations.

Growth in state appropriations for K-12 education decreased from FY 2007 through FY 2009, and turned negative in FY 2010 and FY 2011. Worsening economic conditions have led to a decline in state revenues and limited the state's ability to sustain growth in K-12 funding. At the local level, following the brief decline in local appropriations in FY 2006, K-12 allocations generally grew at an increasing rate in FY 2007 and FY 2008, and then grew at a decreasing rate from FY 2009 to FY 2011. In FY 2011, slow growth in local appropriations combined with a second straight year of decreasing state appropriations left K-12 schools with an overall decline in non-federal appropriations. However, when American Recovery and Revinvestment Act (ARRA) funds are accounted for, total K-12 appropriations growth remained positive.[9]

Summary

LD 1 uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. Although the LD 1 target for K-12 schools is 100% of EPS, some schools might be exceeding 100% of EPS by small margins in order to provide programs and some services that are not recognized as essential in the EPS benchmark cost calculation: extracurricular activities including sports and transportation to events, Advanced Placement classes offered at some high schools, unique onetime costs incurred for facilities improvements, and even in some cases local tax dollar support for school lunch programs. Among the 171 local school budgets in our sample, approximately 80% exceeded their individual limit for FY 2011, and combined state and local appropriations to local schools exceeded 100% of EPS by 7.3%.

Appropriations in school districts not conforming to the recent school consolidation law exceeded 100% of EPS by 11.3%, a greater margin than the 6.7% margin for local school budgets in conforming districts. Similarly, a greater percentage of local school budgets in non-conforming districts exceeded 105% of EPS (70.8% compared to 61.6% for local school budgets in conforming SAUs) and 120% of EPS (36.1% compared to 18.2% for local school budgets in conforming SAUs).

Growth in combined non-federal state and local appropriations to schools (including local debt for schools) slowed steadily from FY 2006 to FY 2010, and turned negative in FY 2011. This decrease was driven by three straight years of declining state General Fund appropriations due to revenue shortfalls in the context of an economic recession that began in 2007. State appropriations for K-12 schools declined on an annual basis in FY 2010 and FY 2011 and local appropriations growth slowed significantly from FY 2010 to FY 2011. The result was an overall decline in non-federal appropriations for K-12 schools in FY 2011, but American Recovery and Reinvestment Act (ARRA) funds helped keep total K-12 appropriations growth above zero (0.7%).[10]

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9 For the last three years, Maine has received K-12 stabilization funds through the American Recovery and Reinvestment Act (ARRA): $26.8 million in FY 2009, $42.6 million in FY 2010, and $58.5 in FY 2011.

10 For the last three years, Maine has received K-12 stabilization funds through the American Recovery and Reinvestment Act (ARRA): $26.8 million in FY 2009, $42.6 million in FY 2010, and $58.5 in FY 2011.

VI. County Governments' Experience with LD 1

LD 1 limits the growth of each county's assessment, an amount charged to municipalities within the county and paid through property taxes. For each county assessment growth is limited to the ten-year average annual growth rate of state personal income (adjusted for inflation) plus the county's property growth factor. The property growth factor is calculated by totaling growth in newly taxable property reported by each town and dividing by the towns' total property valuation. The LD 1 county assessment limit is based on the previous year's limit increased by the combined income-plus-property growth factor. If the county has received net new state funds for existing services funded by the assessment, then the limit is reduced by that amount. A county wishing to either temporarily exceed or permanently increase its limit must explicitly vote to do so.

With the passage of Public Law 2008, Chapter 653, "An Act to Better Coordinate and Reduce the Cost of the Delivery of State and County Correctional Services" (Jail Unification) the amount counties can assess for corrections-related expenses was frozen at 2008 levels. Only assessments for non-correctional related costs are allowed to increase by the LD 1 growth factor. Counties have struggled to interpret this law. Last year, in 2009, every county calculated their LD 1 limit incorrectly. In 2010, five out of sixteen counties correctly excluded corrections from their limit calculation, but three of those five started with an incorrect figure for last year's limit. Only York County reported an accurate 2010 limit, because they used both the correct method for calculating their limit and the correct figure for last year's limit. In some cases, conversations between SPO and county officials resulted in revised LD 1 calculations for 2010. When this was not possible, SPO used the best available data to correct the LD 1 calculations so that the analysis below reflects current law as closely as possible.

Somerset County built a new jail in 2008 and switched to a July 1-June 30 fiscal year starting in 2008. Despite the fact that their assessments increased substantially from calendar year 2007 to FY 2009, Somerset County officials did not vote to increase or exceed their LD 1 limit in 2008 (FY 2009). Conversations in 2009 between SPO and Somerset County staff members revealed confusion due to the timing of their budget approval process, the change to a fiscal year accounting period, and Jail Unification. Jail Unification directed counties to exclude assessments for correctional-related services from the LD l calculation for budget years starting after January 1, 2009. For FY 2009, however, which started July 1, 2008, the LD 1 limit still included both correctional and non-correctional related assessments; Somerset County was required to vote to exceed or increase their LD 1 limit. SPO calculated that Somerset surpassed its FY 2009 LD 1 limit by $3.4 million primarily because of an increase in assessments for its new jail. Likewise, since Somerset did not vote to increase its limit for FY 2010, SPO calculated that its assessment in FY 2010 was $2.7 million over its LD 1 limit. However, Somerset County officials may have voted to increase their LD 1 limit in FY 2009 had they understood they were required to. Table 13 includes a column that assumes Somerset County had voted to increase its LD 1 limit in FY 2009.

This year, confusion arose about Somerset County's statutory corrections assessment cap. Jail Unification set the corrections cap for Somerset County at $5,363,665. However, it further stipulated that "the county assessment for correctional services-related expenditures in Somerset County must be set at the fiscal year 2009-10 level when the new Somerset County Jail is open and operating at a level sufficient to sustain the average daily number of inmates from Somerset County." Somerset County's reported corrections assessment for fiscal year 2009-10 was $5,281,630, so SPO used that number despite the fact that Somerset County reported a lesser corrections assessment figure for FY 2011 (this year).

Similarly, Lincoln County's reported corrections assessment for 2010 (FY 2011) was $3,262,957, which is greater than the amount of $3,018,361 specified by Jail Unification. For the purposes of this report, SPO assumed $3,018,361 to be the correct figure.

Combined Statewide County Assessment Growth

Calculations of state tax burden use aggregate measures of the total amount of taxes collected within a state. To assess LD 1's impact on the growth of county assessments, Table 13 presents the combined assessment growth of all sixteen counties. The counties' combined assessment limit was $135.7 million. Actual assessments were $134.4 million (1.0% below the limit). This is consistent with counties' experience last year as well.[11]

11 When LD 1 passed, Lincoln and Sagadahoc counties were given a two-year exemption, ending in 2007, on funds used to construct and start operations at the new Two Bridges Regional Jail (Public Law 2005, Chapter 348). Lincoln and Sagadahoc voters approved funding for the jail in November 2003, prior to the passage of LD 1. Sagadahoc County, which operates on a July 1-June 30 fiscal year, included all jail spending under its limit in the 2007 LD 1 report. Lincoln County included all jail spending in the 2008 LD 1 report. Table 13 parses out this exemption from other spending.

Table 13: Combined County Assessment Limit Calculation

Note: All dollar figures in millions

	2004	2005	2006	2007	2008	2009	2009*	2010	2010*
LD 1 Average Annual Growth Factor	--	--	6.1%	5.2%	5.6%	4.8%	4.8%	4.1%	4.1%
Base Assessment Limit	$99.4	$104.4	$110.8	$119.4	$130.1	$132.7	$135.0	$135.7	$138.5
Exempt L-S Jail Funding	--	$0.4	$4.2	$2.7	-	-	-	-	-
LD 1 Assessment Limit (Base plus Lincoln-Sagadahoc Jail Project)	--	--	$115.0	$122.1	$130.1	$132.7	$135.0	$135.7	$138.5
Actual Total Assessments	$99.4	$104.8	$111.3	$119.8	$128.8	$131.0	$131.0	$134.4	$134.4
Amount Below LD 1 Limit	--	--	$3.7	$2.2	$1.3	$1.7	$4.0	$1.3	$4.1
Percent Below LD 1 Limit	--	--	3.2%	1.8%	1.0%	1.3%	2.9%	1.0%	3.0%

Source: Maine State Planning Office

** If Somerset had voted to increase its LD 1 Limit in FY 2009*

Table 14 shows annual growth of total county assessments. Assessments increased 2.6% between 2009 and 2010, a larger increase than the 1.7% jump last year, but still a much slower rate of annual growth than in 2005-2008. A primary reason for the reduction in growth of total county assessments is that assessments for jails are now capped and cannot be increased. Non-correctional related expenses grew 5.5% in 2010. Table 15 shows what 2009 and 2010 assessments would have been if the statewide aggregate assessment for jails had grown at its historical rate (an annual average of 9% for the 5 years ending in 2007), or if assessments for jails had grown at rates prescribed by LD 1 for non-correctional assessments.

Table 14: Growth of Total County Assessments

Note: All dollar figures in millions

Year	Total Assessments	Annual % Change
2010	$134.4	2.6%
2009	$131.0	1.7%
2008	$128.8	7.5%
2007	$119.8	7.7%
2006	$111.3	6.2%
2005	$104.8	5.4%
2004	$99.4	--

Source: Maine State Planning Office

Table 15: Growth of Total County Assessments without Jail Unification
Note: All dollar figures in millions

	2008		2009		2010		Total Property Taxes Avoided by Jail Unification
Statewide Aggregate County Assessment	For Jails	Total	For Jails	Total	For Jails	Total	
Actual	$62.5	$128.8	$62.4	$130.9	$62.4	$134.1	-
Without Unification (if jail assessments grew at LD 1 statutory rates)	$62.5	$128.8	$65.5	$134.0	$68.0	$139.7	$8.7
Without Unification (if jail assessments grew at historical 9% rate)	$62.5	$128.8	$68.1	$136.6	$74.2	$146.0	$17.5

Source: Maine State Planning Office

Assessment Growth of Individual Counties

In 2010, every county was allowed to increase their assessment by the 1.78% income growth factor plus the growth in newly taxable property in their member towns. New property growth ranged from 0.83% in Sagadahoc County to 6.89% in Oxford County[12]. Adding together personal income and property growth factors produced LD 1 assessment growth factors ranging from 2.61% to 8.67%.[13]

In 2008 and 2009 many counties reported difficulty obtaining information on new property growth from their member municipalities. Only a few counties were able to calculate a property growth factor based on new valuations from all of their member towns. In 2010 many counties had similar difficulties. For example, some counties calculated growth factors with information from less than two-thirds of their member municipalities. In addition, obtaining accurate assessment information from most counties was challenging. Some counties did not seem to understand what information was needed for this report. Some counties made noticeable errors in the information they provided, and other counties likely made unnoticeable errors. Most counties calculated their limit incorrectly with respect to Jail Unification. Most counties that did calculate their limit correctly were calculating it based on an incorrect number for their 2009 LD 1 limit, thus making their reported 2010 limit incorrect. Oxford County was not able to supply SPO with an accurate property growth factor. Instead it used

[12] Oxford County used the growth of the total state valuation in their county to calculate their property growth factor, which is incorrect. The next highest property growth factor was Washington County, at 4.27%.
[13] See footnote 13. The next highest growth factor was Washington County, at 6.05%.

growth in total state valuation to calculate its LD 1 limit, which includes growth in the valuation of existing property. Somerset and Lincoln Counties provided assessments for jails that did not match jail assessment figures prescribed by Jail Unification. SPO attempted to correct and verify all information used in this report, but some questionable numbers remain and could not be rectified.

Nine counties stayed within their LD 1 limits, the same number as last year and three fewer than in 2008. The nine that stayed with their limits reported assessments ranging from 26% to 0.2% below the limit. Of these, four counties were more than 10% below the limit and five counties were between 0.2% and 10% below their limit. On average these nine counties were 9.0% below their limit.

Of the seven counties that surpassed their LD 1 limit, Franklin voted to increase their limit and York voted to exceed their limit. Many of the other counties assumed they were under their LD 1 limit, and there are several potential explanations for this confusion:

1. They incorrectly included correctional-related assessments in their LD 1 calculation.
2. They began their 2010 limit calculation with the incorrect limit they reported in 2009.
3. They mistakenly believe LD 1 has a "banking" provision where the "surplus" from one year can be added to the following year's limit.

Two counties—Somerset and Franklin—exceeded their 2005 (pre-LD 1) assessment growth in 2010. This is slightly more than the one county that exceeded 2005 assessment growth in 2009, but less than the six in 2008 and 11 in 2007. In 2010, two counties—Cumberland and Sagadahoc—kept their total assessments at 2009 levels, and three counties—Kennebec, Knox, and Washington—reduced their total assessments from 2009 levels.

Summary

In aggregate, counties stayed within their LD 1 limit in 2010. County assessments were $1.3 million (1%) below the limit. Total statewide county assessments grew 2.6% from 2009 to 2010, which was greater than the 2008-2009 growth rate but less than growth rates in years prior to the 2008 jail unification law. Individually, nine counties stayed within their limits and seven surpassed them. Only two of the seven counties surpassing their limit voted to exceed or increase their limit as prescribed by law, most likely due to errors in calculating LD 1 limits. Fifteen out of sixteen counties reported an incorrect LD 1 limit.

VII. Summary

The first LD 1 report, released in 2006, showed constrained growth of local property taxes that coincided with the law's first year of implementation. In 2010, evidence of LD 1's impact is mixed, but mostly positive.

The State stayed within its General Fund appropriations limit for the sixth year in a row. Declining state revenue in the context of a global recession that began in 2008 severely curtailed growth in General Fund appropriations, including General Purpose Aid for local schools. Statewide, municipal property taxes levied to fund municipal operations and services were within their combined LD 1 limit. The growth of property taxes was lower than before LD 1 and lower than any previous year except 2005. About two-thirds of municipalities stayed within their limits, but smaller municipalities exceeded their LD 1 limits at significantly greater rates than larger municipalities.

Nine of Maine's sixteen counties stayed within their LD 1 growth limits. Overall, total county assessment growth was higher compared to last year but remains well below the pace of assessment growth from past years. This is primarily because of the new law creating a unified correctional system and capping county jail assessments at 2008 levels.

For a sixth year, Maine's K-12 schools exceeded their aggregate limit, which is 100% of EPS. Combined state and local appropriations for schools exceeded 100% of EPS by $128 million, or 7.4%. Eighty-seven percent of schools exceeded their individual 100% of EPS target, and 67% of schools exceeded 105% of EPS. Compared to last year, the percentage of schools exceeding 100% of EPS decreased, but the amount by which they exceeded EPS stayed about the same. Schools in districts not conforming to the recent school consolidation law (generally smaller communities) exceeded 100% EPS by 11.3%, a greater average margin than the 6.7% average margin for those in conforming districts. Overall, combined state and local expenditures (not including federal ARRA funds) for K-12 schools decreased slightly this year.

VIII. Appendix

STATE PLANNING OFFICE - 2010 MUNICIPAL PROPERTY TAX LEVY LIMIT SURVEY

Questions? Call the State Planning Office - 287-2456. Or visit "http://www.maine.gov/spo/economics/ld1"

Municipality: ____________________ **Contact Person*:** ______________________________ **Phone Number:** __________

*** The Contact Person should be able to answer clarifying questions about the reported information.**

Please complete and return this survey to the State Planning Office using the envelope provided. Your cooperation helps measure progress toward the tax burden reduction goals set forth in the 2005 law known as LD 1. Thank you.

The information we are requesting in this survey has already been calculated by your community. We are not requesting that you recalculate your 2010 Municipal Property Tax Levy Limit. We are only asking you provide the data you used to calculate it.

Calendar Year Municipalities - For communities with "calendar year" budgets, the use of the term 2009 refers to the budget year that ended at the end of 2009 or early 2010. The use of the term 2010 refers to the budget year that will end at the end of 2010 or in early 2011.

Fiscal Year Municipalities – For communities with "fiscal year" budgets, the use of the term 2009 refers to the July 1, 2009 to June 30, 2010 budget year. The use of the term 2010 refers to the July 1, 2010 to June 30, 2011 budget year.

LAST YEAR'S (2009) MUNICIPAL PROPERTY TAX LEVY LIMIT

This is the portion of 2009 property tax revenue used for municipal services.

- If last year the municipality committed *LESS THAN* or *EQUAL TO* the limit, enter last year's limit on Line 1 below.
- If last year the municipality voted to *EXCEED* the limit *ONCE* (just last year), enter last year's limit on Line 1 below.
- If last year the municipality voted to *INCREASE* the limit *PERMANENTLY*, complete Steps A-D below. The information needed for this calculation is on the *2009 Municipal Tax Assessment Warrant,* filed in the Valuation Book.

A.	Last year's Municipal Appropriations	(See Line 2, *2009 Municipal Tax Assessment Warrant*)	$
B.	Last year's Total Deductions	(See Line 11, *2009 Municipal Tax Assessment Warrant*)	$
C.	If necessary, enter any revenue included in Total Deductions that paid for non-municipal appropriations, such as schools. (If all deductions paid for municipal appropriations, enter "0		$
D.	Add Lines A and C, and subtract Line B. Enter result on Line 1 below.		
1.	**LAST YEAR'S MUNICIPAL PROPERTY TAX LEVY LIMIT**		$

CALCULATE GROWTH LIMITATION FACTOR

- Each municipality's Growth Limitation Factor is based on local property growth and statewide income growth.

2.	Total New Taxable Value of lots (splits), buildings, building improvements, and personal property first taxed on April 1, 2009 (or most recent year available when you set your 2010 budg		$
3.	Total Taxable Value of Municipality on April 1, 2009 (or most recent year available when you set your 2010 budget)		$
4.	Property Growth Factor	(Line 2 divided by Line 3)	__ . __ __ __ __
5.	Income Growth Factor	(provided by State Planning Office)	0.0178
6.	Growth Limitation Factor	(Line 4 plus Line 5)	__ . __ __ __ __
7.	Add 1 to the Growth Limitation Factor calculated in Line 6. (For example, if Line 6 is 0.0362, then enter 1.0362 on Line 7.)		__ . __ __ __ __

STATE PLANNING OFFICE - 2010 MUNICIPAL PROPERTY TAX LEVY LIMIT SURVEY

STATE PLANNING OFFICE - 2010 MUNICIPAL PROPERTY TAX LEVY LIMIT SURVEY

CALCULATE 2008-2009 CHANGE IN REVENUE SHARING (previously "NET NEW STATE FUNDS")

-	Determine if revenue sharing increased or decreased. All towns should use calendar-year revenue.	
8.	Calendar-Year 2008 Municipal Revenue Sharing	$
9.	Calendar-Year 2009 Municipal Revenue Sharing	$
10.	If Line 9 is greater than Line 8, then complete 10A & 10B below. Otherwise go to Line 11.	
	A. Multiply Line 8 by Line 7.	$
	B. Calculate Line 9 minus Line 10A. Enter result at right and skip Line 11. (If result is negative, enter "0".)	$
11	If Line 9 is less than Line 8, then calculate Line 8 minus Line 9. Enter result at right.	$

CALCULATE THIS YEAR'S (2010) MUNICIPAL PROPERTY TAX LEVY LIMIT

-	This year's Property Tax Levy Limit is last year's limit increased by the Growth Factor and adjusted for revenue sharing.	
12	Apply Growth Limitation Factor to last year's limit. (Line 1 multiplied by Lir	$
13	**THIS YEAR'S MUNICIPAL PROPERTY TAX LEVY LIMIT**	
	If Line 9 is greater than Line 8 (revenue sharing increased), you <u>MUST</u> subtract Line 10B from Line 12. This is <u>required</u>.	
	OR If Line 9 is less than Line 8 (revenue sharing decreased), you <u>MAY</u> add Line 11 to Line 12. This is <u>optional</u>.	
-	Enter result at right.	$

CALCULATE THIS YEAR'S (2010) MUNICIPAL PROPERTY TAX LEVY

-	The information needed for this calculation is on the *2010 Municipal Tax Assessment Warrant*, filed in the Valuation Book. Use estimates if necessary.	
	A. This year's Municipal Appropriations (Line 2, *2010 Municipal Tax Assessment Warrant*)	$
	B. This year's Total Deductions (Line 11, *2010 Municipal Tax Assessment Warrant*	$
	C. If necessary, enter any revenue included in Total Deductions that paid for non-municipal appropriations, such as schools. (If all deductions paid for municipal appropriations, enter "0".)	$
14	**THIS YEAR'S MUNICIPAL PROPERTY TAX LEVY** (Add Lines A and C, and subtract Line B)	**$**

15 COMPARE this year's MUNICIPAL PROPERTY TAX LEVY to the LIMIT (Line 13 minus Line 14) **$** ______
(If the result is negative, then this year's municipal property tax levy is greater than the limit.)

16 Did the municipality vote to *<u>EXCEED</u>* the limit *<u>ONCE</u>* (just this year)? ☐ NO ☐ YES
(Voting to exceed the limit means the municipality will calculate next year's limit based on line 13.)

If "yes", please describe why: ______

17 Did the municipality vote to *<u>INCREASE</u>* the limit *<u>PERMANENTLY</u>* (for current and future years)' ☐ NO ☐ YES
(Voting to increase the limit means the municipality will calculate next year's limit based on line 14.)

If "yes", please describe why: ______

STATE PLANNING OFFICE - 2010 MUNICIPAL PROPERTY TAX LEVY LIMIT SURVEY