LD 1 PROGRESS REPORT 2008

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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." To assess the progress made by each level of government, we ask two questions: "Are they staying within the LD 1 limit?" and "Are they growing at a slower rate than in pre-LD 1 years?" In answering these questions below, we indicate each level of government's aggregate performance, since the state's tax burden is an aggregate measure. Within the report we discuss findings at the level of individual governmental units.

STATE

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

For the fourth year in a row, growth of the State's General Fund appropriations has remained below the limit set by LD 1. Based on legislation enacted during the First Regular Session of the 124th Legislature (Public Law 2009, Chapter 1), General Fund appropriations in FY2009 were $221 million, or 6.7%, below the limit. Overall, appropriations decreased by 2.2% over FY2008, which is well below the 5.4% average annual growth for the ten years prior to LD 1. Setting aside General Fund appropriations required to increase the State's contribution to covered K-12 education costs to 55%, as LD 1 directs, appropriations declined by 1.8%. That is also below historical levels.

MUNICIPALITIES

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

For a fourth year, municipalities' combined property tax commitments were below their estimated LD 1 limit.

Based on preliminary data from Maine Revenue Services, property tax commitments of all municipalities statewide grew by a rate of 3.9% in 2008. Based on a sample of 284 municipalities, the average municipal commitment growth limit was 4.8% and actual property tax commitments for the same municipalities grew 4.1%. By both measures, property tax growth in 2008 remained below pre-LD 1 years. In the three years prior to LD 1, annual commitment growth ranged from 5.2% to 6.9%. The individual experiences of municipalities varied: survey results show that just over half (56%) of municipalities stayed within their LD 1 limit.

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, School Administrative Units (SAUs) displayed the most divergence from the expenditure targets set by LD 1. 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. The LD 1 “limit” for SAUs is 100% of EPS. For the 2008-2009 school year, 88.0% of SAUs exceeded that limit. Their combined allocations were $220.0 million or 12.7% over 100% of EPS for the 266 SAUs reporting. Compared to last year, both the percentage of SAUs exceeding their limit and the amount by which they were over has increased. Growth in combined state and local expenditures has slowed to 2.1%, lower than in pre-LD 1 years. This has been primarily the result of slower growth in the level of state funding. Local-only spending is also lower than in pre-LD 1 years but is about the same as last year, and higher than the first two years of LD 1.

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 2008. County assessments were $2.2 million, or 1.7%, below the limit. Overall, assessments increased by 5.2% compared to 2007, which is below the 5.4% growth rate seen in 2005, the only pre-LD 1 year for which data are available. Individually, thirteen counties stayed within their limits and three surpassed them. Six counties, 38%, reported assessment growth in 2008 that exceeded growth in 2005.

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 increases 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 expands eligibility and increases the maximum refund from $1,000 to $2,000. Furthermore, LD 1 increases 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.

- 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. In FY2009 alone, that meant over $200 million in additional state funding was made available to offset property tax (compared to 2005).

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 data necessary to compare Maine's state and local tax burden with other states. The Census Bureau currently has data through FY2006. However, it has recently come to light that this data overstates property tax revenues and therefore is potentially misleading. In their Census of Governments, the basis for these data, the Census Bureau asks municipalities not to report taxes raised on behalf of another level of government. For example, municipalities should not include taxes raised for counties and school districts when reporting how much they collect in property taxes. Based on comparisons of Maine and Census data sources, it has become apparent that not all municipalities have followed those instructions and, consequently, the Census estimates of property taxes are consistently overstated. The Census Bureau has acknowledged this issue and is working to make corrections to their survey. SPO hopes to incorporate newly collected, accurate data on Maine's tax burden in next year's report.

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 undertake an analysis of LD 1's initial impact. Dr. Gabe found that "the early impact of LD 1 on reducing government spending is positive." Furthermore, "LD 1, in its early impact, has constrained the growth of state and local governments in Maine." In 2005, state government stayed within its limit and growth in General Fund appropriations declined. The overall growth of county assessments was within their limit. Of municipalities to which LD 1 applied, about 60% stayed within their property tax levy limits. Overall, 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. The experience of school administrative units (SAUs) was less favorable. Over two-thirds exceeded their spending targets; collectively SAUs were 3.4% over the LD 1 limit.

Replicating the core indicators first reported by Dr. Gabe, SPO found that evidence of LD 1's impact in 2006 and 2007 was mixed.[1] The State and a majority of county and municipal governments stayed within their limits, but the overall reduction in growth was not as dramatic as in the first year. Taxes raised for a county jail project in 2006 actually increased the overall growth rate of county assessments. In addition, over 80% of school administrative units exceeded their LD 1 limits in each of the past two years.

This report updates last year's analysis of LD 1 and reports on progress made during 2008.

[1] SPO wrote last year's report in partnership with Dr. Henry Renski, Assistant Professor of Regional Planning at the University of Massachusetts, Amherst. Dr. Renski worked as an economist at SPO until recently accepting his current position. He was the lead author of last year's report.

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 personal income growth (adjusted for inflation). The LD 1 appropriations limit is the previous year's limit increased by that growth factor. In the current biennium, 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. 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 FY2008 and FY2009 was set in December 2006, using the most current data available at the time. The ten-year average income growth was 2.47% and population growth was 0.61%, resulting in a growth limit of 3.08%. That limit applies to both years of the biennium. The appropriations limit for FY2009 was determined by applying the 3.08% growth factor to the FY2008 base appropriations limit, $2,970 million, and adding $222 million in increased state funding for GPA. The resulting FY2009 General Fund appropriations limit is $3,283 million.

Based on spending bills enacted during the First Regular Session of the 124th Legislature (Public Law 2009, Chapter 1), the State has stayed within its LD 1 limit. Current FY2009 General Fund appropriations are $3,062 million. That is $221 million, or 6.7%, below the LD 1 limit.

Table 1: State General Fund Appropriations Limit Calculation

Note: All dollar figures are in millions.

	FY2005	FY2006	FY2007	FY2008	FY2009
Annual Growth Factor	--	3.11%	3.11%	3.08%	3.08%
Base General Fund Appropriations	$2,710	$2,794	$2,881	$2,970	$3,061
General Purpose Aid to Schools	$735	$836	$914	$972	$956
Additional GPA above FY2005 GPA	--	$102	$180	$237	$222
LD 1 Appropriations Limit (Base plus Additional GPA)	--	$2,896	$3,061	$3,207	$3,283
Actual Appropriations	$2,785	$2,872	$2,978	$3,129	$3,062
November 2008 Curtailment					
Appropriations with Curtailment					
Difference Between Actual Appropriations and Limit	--	-$24	-$82	-$78	-$221
Percentage Difference	--	-0.8%	-2.7%	-2.4%	-6.7%

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). Those appropriations declined by -1.8% in FY2009.

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

	FY2005	FY2006	FY2007	FY2008	FY2009
Actual Total Appropriations	$2,785	$2,872	$2,978	$3,129	$3,062
November 2008 Curtailment					
Appropriations with Curtailment					
Additional GPA above FY05 Level	--	$102	$180	$237	$222
Appropriations Subject to LD 1 Limit (Total Appropriations minus Additional GPA)	$2,785	$2,770	$2,798	$2,892	$2,840
Growth of Appropriations Subject to Limit	--	-0.5%	1.0%	3.3%	-1.8%

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 2.2%. During the previous two years, total appropriations grew 5.1% and 3.7%. In the ten years prior to LD 1, annual appropriations growth averaged 5.4% and ranged from a decrease of 3.0% in FY2002 to an increase of 16.6% in FY1999.

Table 3: Comparative Growth of State General Fund Appropriations

Growth of General Fund Appropriations FY2008 - FY2009	-2.2%
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%
Change in General Fund Appropriations Growth Rates Between FY2007 - FY2008 and FY2008 - FY2009	-142%
Change in General Fund Appropriations Growth Rates Between FY2006 - FY2007 and FY2008 - FY2009	-158%
Change in General Fund Appropriations Growth Rates Between FY2005 - FY2006 and FY2008 - FY2009	-169%
Change in General Fund Appropriations Growth Rates Between FY2004 - FY2005 and FY2008 - FY2009	-140%

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 funding. Current FY2009 appropriations decreased GPA by 1.6% and decreased non-GPA funding by 3.7%. Since FY2006, the growth of GPA appropriations has exceeded non-GPA appropriations. 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	Change	Non-GPA	Change	Total Approps.	Change
2009	$956	-1.6%	$2,078	-3.7%	$3,062	-2.2%
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	

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 FY2009 are estimated to be $48.2 million. About 94,000 Maine homeowners and renters received Circuit Breaker refunds in 2008; Maine Revenue Services estimates that over 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 forgone tax revenue. LD 1 increased the exemption to $13,000 for all homesteads, with the State reimbursing municipalities for 50% of the forgone tax revenue. In recent years, the amount of state funding distributed to municipalities to pay for the Homestead Exemption has declined due to municipal revaluations that have lowered the mil rates applied to the $13,000 exemption. In FY2009, the estimated amount stabilized at $27.9 million.

Table 5: State Appropriations for Circuit Breaker and Homestead Exemption
Note: All dollar figures are in millions.

Fiscal Year	Homestead Exemption	Circuit Breaker	Total
2009 (estimated)	$27.9	$48.2	$76.1
2008	$27.8	$46.7	$74.5
2007	$28.8	$44.4	$73.3
2006	$31.2	$42.8	$74.0
2005	$32.3	$26.0	$58.3
2004	$34.3	$23.3	$57.6

Source: FY 2009 Circuit Breaker total based on December 2008 Revenue Forecasting Committee estimates; FY 2009 Homestead Exemption total based on the General Fund budget through the 2nd Session of the 123rd Legislature

SUMMARY

For the fourth year in a row, the State's General Fund appropriations have remained below the limit set by LD 1. Based on legislation enacted during the First Regular Session of the 124th Legislature (Public Law 2009, Chapter 1), total General Fund appropriations decreased 2.2% in FY2009. Within these appropriations was an additional $222 million for local K-12 education compared to 2005. Setting aside that additional GPA funding, as LD 1 directs, General Fund appropriations declined by 1.8%. That is lower than the 5.4% annual average growth of the ten years prior to LD 1.

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

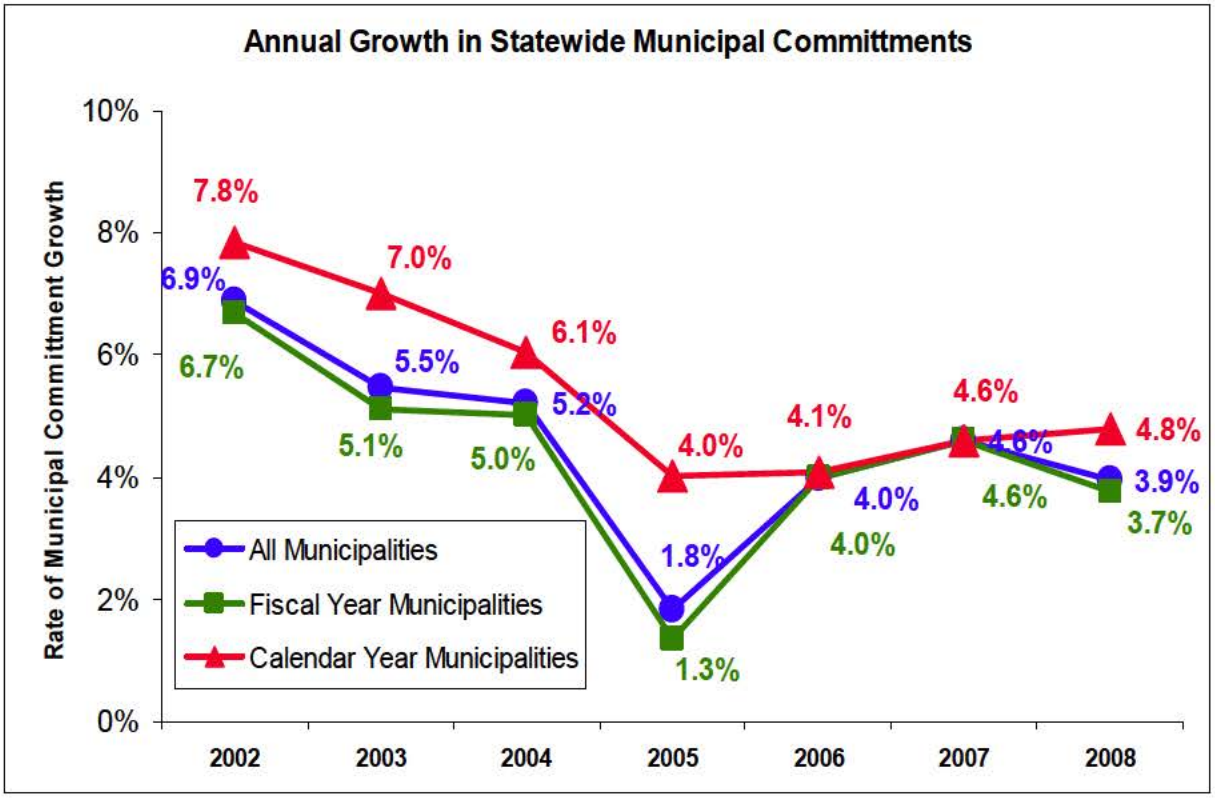
Calculations of state tax burden use aggregate measures of the total amount of taxes collected within a state. To test whether LD 1 successfully reduces the growth of property tax collections, the State Planning Office compared Municipal Valuation Returns (MVRs)[2] for years before and after LD 1. To maintain consistency across years, we report all statistics for the sample of municipalities that had filed this year's MVR form by early December 2008. The sample of reporting municipalities differs slightly from previous years. As such the reported numbers have also changed slightly from past reports. Furthermore, numbers reported here may vary slightly from numbers reported in the future by Maine Revenue Services based on 100% of filed MVRs.

In early December 2008, roughly 459 communities had filed the MVR, representing 93% of all municipalities in the state and accounting for 99% of the total statewide commitment in 2007. So while not complete, we are highly confident that our results are representative of the total population of Maine municipalities.

Figure 1 shows recent annual growth of aggregate (or statewide) municipal commitments. LD 1 was enacted in January 2005, but only applied to municipalities with fiscal years beginning on or after July 1 (i.e. "fiscal-year municipalities" or "fiscal-year communities") during the first year.[3] In the first year, fiscal-year communities showed a dramatic reduction in commitment growth – from 5.0% in 2004 to 1.3% in 2005. The FY2005 growth rate was also considerably lower than the 4.0% commitment growth rate of calendar-year communities, which were not covered by LD 1 at the time. In 2006, LD 1 applied to all municipalities. The 2006 commitment growth rates of calendar- and fiscal-year municipalities converged to roughly 4%, driven by a 2.7 percentage point increase in commitment growth among fiscal-year municipalities.

[2] The Municipal Valuation Return is an annual report summarizing local tax information that assessors are required to file with Maine Revenue Services.
[3] Roughly 45% of municipalities operate on a fiscal year budget cycle.

Figure 1: Annual Change in Statewide Municipal Commitment Growth
Calculations based upon the 459 municipalities reporting on the 2008 MVR as of December 2008.



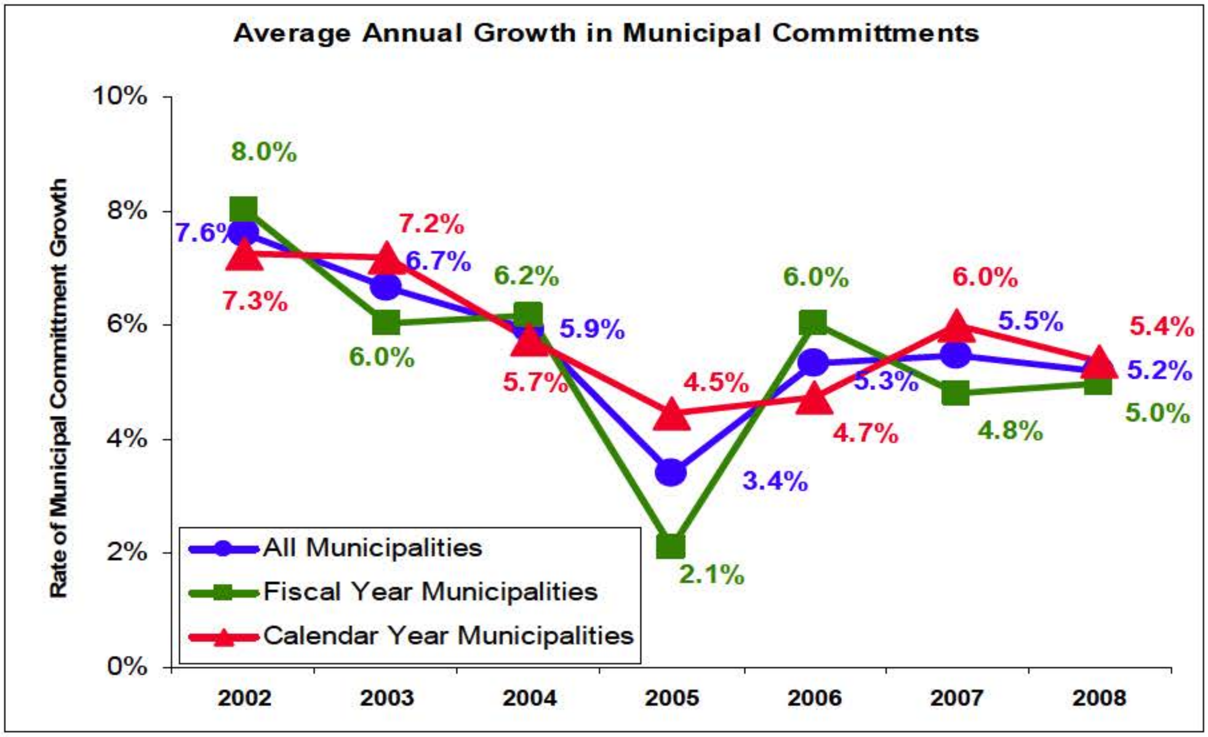
Source: Maine Revenue Services, Municipal Valuation Reports & author's calculations.

Commitments for calendar-year communities have continued to edge up since 2006, with 4.6% and 4.8% growth rates in 2007 and 2008, respectively. The growth rate for fiscal-year communities declined slightly from a post-LD 1 high of 4.6% in 2007 to 3.7% in 2008. This helped reduce statewide municipal commitment growth to just under 4.0%, essentially the same rate of growth as in 2006, and about 1.3 percentage points *lower* than the pre-LD 1 year of 2004.

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 dwarf those of Maine's smaller towns. To better understand decisions being made by individual municipalities, regardless of size, we also analyze commitment growth for the average municipality. Figure 2 reports average municipal commitment growth in the years before and after LD 1.

Figure 2: Average Annual Change in Municipal Commitment Growth
Calculations based upon 459 municipalities reporting on the 2008 MVR as of December 2008.



Source: Maine Revenue Services, Municipal Valuation Reports (2001 – 2008) & author's calculations.

Our results for *average* municipal commitment growth largely mirror those from our analysis of the *aggregate* commitment growth, but with several notable exceptions. In general, growth rates based on municipal averages are higher than comparable growth rates calculated as a statewide aggregate. This is because the influence of Maine's numerous smaller municipalities is more pronounced in the average rates, and smaller communities tend to have higher rates of commitment growth.

Similar to *statewide* municipal commitments, *average* municipal commitments declined in the first year of LD 1, most notably among fiscal-year communities. However, the reduction was only temporary. Among all municipalities, average annual commitment growth increased from 3.4% in 2005 to 5.2% in 2008, 0.7% lower than the pre-LD 1 average annual growth rate of 5.9%. This reflects a slight decline in commitment growth compared to 2007.

Table 6: Percent of Municipalities that Experienced a Reduction in Commitment Growth

	Total	Fiscal Year	Calendar Year
Number of Observations	459	208	251
Percent of municipalities with...			
'08 Commitment Growth Rate less than '07	46%	45%	47%
'08 Commitment Growth Rate less than '06	48%	52%	44%
'08 Commitment Growth Rate less than '05	40%	36%	43%
'08 Commitment Growth Rate less than '04	54%	55%	53%
'08 Commitment Growth Rate less than '03	54%	54%	54%
'07 Commitment Growth Rate less than '06	53%	55%	51%
'07 Commitment Growth Rate less than '05	43%	37%	48%
'07 Commitment Growth Rate less than '04	58%	62%	55%
'07 Commitment Growth Rate less than '03	59%	60%	58%
'06 Commitment Growth Rate less than '05	40%	31%	47%
'06 Commitment Growth Rate less than '04	54%	55%	53%
'06 Commitment Growth Rate less than '03	56%	53%	59%
'05 Commitment Growth Rate less than '04	62%	68%	56%
'05 Commitment Growth Rate less than '03	64%	70%	60%

Source: Maine Revenue Services, Municipal Valuation Reports) & 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 2008, just under half (46%) of municipalities reported slower commitment growth compared to the previous year. This is less than the number of communities that reported slower commitment growth in 2007 compared to 2006 (53%), but still a notable improvement compared to 2006, when only 40% of municipalities had slower commitment growth rates compared to 2005.

SOURCES OF APPROPRIATIONS GROWTH

Local property taxes primarily fund three institutions: municipal government, county government, and local schools. This section looks at the relative contributions of each to the growth in municipal appropriations. We use data from the municipal tax rate calculation form from the 2008 and 2007 Municipal Valuation Returns, which ask communities to report the amount of municipal appropriation due to county, municipal, Tax

Increment Financing,[4] and schools/education. Some municipalities did not complete this section of the MVR for this year, or for past years. For those that did complete this form in all years, some made noticeable mistakes. SPO made attempts to verify the accuracy of all forms; when we could not do so, we excluded that municipality from the analysis. Hence, the sample of municipalities represented in the analysis on sources of appropriations growth is not the complete set of municipalities analyzed above. In addition, because this sample is not the same as in last year's analysis, numbers may vary from last year's report.

Among the 356 municipalities with usable data available in all three years, statewide local appropriations were roughly $2.0 billion in 2008. This represents a 4.5% growth in statewide local appropriations over 2007. Local schools accounted for the largest share of statewide local appropriations (54.1%) followed by municipal operations and services (39.6%). Counties and TIFs account for just 4.4% and 2.0% of appropriations, respectively.

Municipal operations and services accounted for the largest share (51.2%) of the increase in statewide local appropriations from 2007 to 2008. Schools accounted for 37.9% of the increase. This is in contrast to last year, when schools and municipalities accounted for an equal share (about 46%) of the increase. This year, counties and TIFs accounted for slightly larger shares of local appropriations growth, 6.3% and 4.5% respectively.[5]

We compare municipal, school, and county appropriation growth rates in 2007-2008 to their respective shares of statewide local appropriations in 2007 (i.e., the appropriations growth ratio) to assess whether appropriations growth in each category is higher or lower than would be expected given each component's share of total local appropriations. If all three components grew at a level commensurate with their past year's share of statewide local appropriations, their respective growth ratio would equal one. Growth in municipal operations and services has a relative appropriation growth ratio of 1.31, meaning that its growth was 31% higher than expected. School appropriations were 31% less than expected (a growth ratio of 0.69). County tax and TIF assessment growth was higher than expected, although these assessments account for a relatively small amount

[4] Tax Increment Financing is a mechanism used by local governments to fund property development. When developers increase a property's taxable value, the government reimburses them a portion of the additional property tax revenue that it would otherwise receive.

[5] The 2006-07 growth rate for TIFs of 2.6% is much lower than reported last year. This can be explained by missing data for 2008 for Veazie, which reported $3.7m in TIF assessments in 2007. SPO was unable to obtain this information from Veazie by the time of this writing.

of local appropriation growth in absolute dollars. The amount of appropriations designated for TIFs grew at more than double the expected rate.

Table 7: Statewide Local Appropriations Growth by Source

	Total	Municipal	School	County	TIF
Appropations (millions $)					
2008	$ 2,027	$ 802.3	$ 1,095.9	$ 88.9	$ 40 1
2007	$ 1,941	$ 757.9	$ 1,063.0	$ 83.4	$ 36 2
2006	$ 1,868	$ 724.4	$ 1,029.4	$ 79.2	$ 35 3
Share of Appropations					
2008		39.6%	54.1%	4.4%	2.0%
2007		39.1%	54.8%	4.3%	1.9%
2006		38.8%	55.1%	4.2%	1.9%
Appropriation Growth Rate					
2007-08	4.5%	5.9%	3.1%	6.6%	10.8%
2006-07	3.9%	4.6%	3.3%	5.3%	2.6%
Share of Appropriation Growth					
2007-08		51.2%	37.9%	6.3%	4.5%
2006-07		46.3%	46.6%	5.8%	1.3%
Relative Appropriation Growth Ratio*					
2007-08		1.31	0.69	1.47	2.41
2006-07		1.20	0.85	1.37	0.68

Source: Municipal Valuation Returns
**Calculated as the share of appropriation growth divided by share of base period.*

SUMMARY

The bulk of this year's evidence suggests that the initial dramatic reduction in the growth of property tax commitments immediately following the introduction of LD 1 in 2005 has not been sustained, at least when viewed from a statewide perspective. Annual statewide property tax commitment growth fell slightly in 2008 and is still slower than the years prior to the passage of LD 1 but is essentially unchanged from 2006, the first year LD 1 applied to all municipalities.

IV. MUNICIPAL GOVERNMENTS' EXPERIENCE WITH LD 1

The preceding section examined the effect of LD 1 on local property tax commitments as indicative of its influence in reducing the growth of local government expenditures and the property tax burden. As discussed previously, 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. The limit applies to a municipality's "base" or "core" commitment, meaning the amount of revenue approved to fund municipal operations and services, excluding funds allocated for county taxes, local schools, TIF payments, and overlays. These budget items are addressed elsewhere under LD 1. The specified growth rate (i.e., "growth limitation factor") allows property taxes to increase at the rate of Maine's ten-year average personal income growth (adjusted for inflation) plus growth in the value of new development and improvements (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 base commitment limit must explicitly vote to do so.

SURVEY METHODOLOGY

To determine the impact of LD 1 on property tax commitments raised for municipal operations, the State Planning Office distributed a voluntary survey to all of Maine's municipal governments. The survey was included as a supplemental attachment to the annual Municipal Valuation Return (MVR), with a response deadline of November 1st, or 30 days after the town's commitment, whichever is later. A blank copy of the SPO survey is included in Appendix A. The survey walks municipalities through the calculation of their base commitments and base commitment limits for both the past (2007) and current (2008) years. These calculations are used to determine whether or not the municipality surpassed the commitment limit, and, if so, whether the community explicitly voted to temporarily exceed or permanently increase the limit.

The questions and general format of the SPO survey match a survey sent out by the Maine Municipal Association (MMA), which prepares a separate annual analysis of LD 1 impacts. SPO and MMA pooled survey responses to increase sample sizes and improve consistency. We received a total of 284 useable responses from both surveys, representing roughly 58% of all Maine municipalities. This is an improvement over last year's response rate of 53% (258 usable responses). Together the responding municipalities (herein referred to as "sample municipalities") represent approximately 78.9% of the total statewide municipal commitment in 2007, and 79.3% of the combined commitment of the 459 communities that had filed their 2008 MVR by early December.

Last year's analysis 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. Therefore, municipalities with these characteristics were slightly underrepresented in last year's sample. We assume that the same general conclusion can be made this year. Past analysis has shown that smaller communities generally have greater difficulty complying with LD 1's limits; therefore, because smaller communities are underrepresented in the sample, our study may slightly overstate municipal government compliance with LD 1. However, such bias would not likely result in a meaningful change of our overall conclusions since the sample includes well over half of the state's municipalities. Furthermore, the over-sampling of larger communities means that our study represents a greater portion of the state's population.

SURVEY RESULTS

Both the SPO and MMA surveys ask communities to calculate last year's levy limit (i.e. commitment limit) as a starting point for determining this year's limit. "Base commitment" refers to property taxes raised to fund municipal governments. It excludes property taxes raised for schools and counties. The limit is calculated as the preceding year's municipal appropriations minus total deductions, excluding any deductions that paid for non-municipal appropriations (such as schools). Communities that explicitly voted to increase their levy limit in 2007 were asked to use the voter-approved limit as their past year's base commitment limit.

Next the survey asks municipalities to calculate their current year base commitment growth limitation factor as prescribed by LD 1. The growth limitation factor is the sum of the state's ten-year inflation-adjusted average personal income growth (2.24% for 2008) and an allowance for local property growth (i.e., the property growth factor). The property growth factor is calculated as the total value of new 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 mistakes could not be corrected, SPO and MMA attempted to contact the municipality in question to gain clarification. In cases where responses could not be verified, we did not include the questionable response in our analysis.

Table 8: Summary Statistics, 2008 Municipal Survey Results

Number of reporting municipalities	284
Aggregate Municipal Commitment, 2008 (millions, from MVR)	$1,536
Aggregate Base Commitment Limit, 2008 (millions)	$504
Aggregate Base Commitment, 2008 (millions)	$488
Ratio of Base Commitment to Total Commitment, 2008	31.8%
Dollar amount below limit as a share of Limit, 2008	3.2%
Average (mean) Growth Limitation Factor, 2008	4.8%
Average (mean) Growth Limitation Factor, 2007	5.8%
Average (mean) Growth Limitation Factor, 2006	5.2%
Percent of municipalities surpassing 2008 LD1 limit	44%
Average amount above LD 1 limit	$105,761
Average amount below LD 1 limit	$181,431
Percent of municipalities over the 2008 LD1 limit who reported voting to increase the limit	40%
Percent of municipalities over the 2008 LD1 limit who reported voting to exceed the limit	34%
Percent of municipalities over the 2008 LD1 limit and reported not voting to either exceed or increase the LD1 limit	27%

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

Among the useable responses, the average growth limitation factor was 4.8% (Table 8). This is lower than the average growth limitation factor of 5.8% reported last year.

The growth factor is applied to last year's limit to estimate this year's base commitment limit. The base commitment for 2008 is calculated similarly to 2007: municipal appropriations minus total deductions, excluding any deductions that paid for non-municipal appropriations. As shown in Table 8, the aggregate 2008 commitment was $1,536 million for the 284 municipalities responding to the survey.[6] The combined 2008 base commitment was $488 million or 31.8% of the total 2008 commitment for the same set of municipalities. The aggregate base commitment limit for 2008 was $504 million. This means that when aggregated across all municipalities reporting, Maine communities kept property tax commitments below the total amount allowable under LD 1 by $16 million, or 3.2% of the LD 1 limit. Stated differently, municipalities' statewide property tax commitments equaled about 96.8% of that allowable under the LD 1 limit. This is consistent with last year's report and is the fourth year that municipalities came in under the statewide LD 1 limit. In 2007, Maine

[6] Five respondents had no MVR data at the time of this report, with aggregate commitments of $4.5m in 2007, or 0.3%.

municipalities kept property tax commitments below the aggregate LD 1 limit by roughly 4.1%. In 2006, commitments were 2.3% below the aggregate LD 1 limit.

Although municipalities in aggregate were successful in keeping base commitments below the LD 1 limit, the experiences of individual communities varied considerably. Just over half (56%) of the municipalities responding stayed within the commitment limits imposed by LD 1 in 2008. This is consistent with the 57% of municipalities that stayed within their limit in 2007 and 2006, and 58% of municipalities in 2005. The 44% of municipalities who surpassed this year's limit did so by an average of $105,761, or 6.0% of the average municipal base commitment limit of $1.8 million. Communities whose base commitments were at or below the 2008 limit under spent the limit by an average of $181,431, or roughly 10.2% of the municipal average limit.

Table 9 presents percentages and statistical tests to help identify some of the characteristics associated with municipalities that were either over or under their base commitment limit. Smaller municipalities had greater difficulty staying within their commitment limits. On average, communities surpassing the LD 1 limit had roughly 1,450 fewer residents than those who met the commitment limit. This may be because larger communities typically offer more services, providing them greater leeway in curtailing expenditures to stay within budgetary limits, or providing them more opportunities to secure revenue from sources other than property taxes. It also may be because these communities are growing slower and thus have lower property growth factors.

Not surprisingly, communities surpassing the base commitment limit had significantly higher total property tax commitment growth and a higher average property tax rate. Past reports have indicated that municipalities with higher median household incomes were more likely to stay within LD 1's limits. This is true directionally this year as well, although the difference is not statistically significant. Geographically, Southern municipalities (Cumberland and York counties) were considerably less likely to exceed LD 1, corresponding with previous results on the relevance of population, household income, and property growth rates.

Table 9: Characteristics of Municipalities that are Over/Under LD 1 Commitment Limit
Comparisons based on municipalities reporting on 2006 SPO/MMA Survey

Characteristic	Over Limit	Under Limit	All Survey Respondents	Difference (Over - Under)
Number of Municipalities	124	160	284	^
Average Population, 2008	2,703	4,154	3,521	-1,451 **
Percent with population less than 2,500	71.8%	56.9%	63.4%	14.9% **
Population growth rate, '01 to '08	2.2%	3.2%	2.8%	-1.0% *
Percent with population loss, '01 - '08	37.1%	31.3%	33.8%	5.8%
Commitment per capita, 2008	$1,488	$1,795	$1,660	-$307
Aggregate municipal commitment growth rate, '07 - '08	6.5%	2.9%	4.1%	3.6% ^
Average commitment growth rate, '07 - '08	8.5%	2.9%	5.4%	5.7% **
Average property tax rate, 2008	0.0140	0.0130	1.34%	0.0010 *
Percent Single Town School Districts	29.8%	36.9%	33.8%	-0.0704
Median household income, 2000 (Average of municipalities)	$36,099	$36,310	$36,217	-$211
Percent fiscal year budget	40.3%	51.3%	46.5%	-10.9% *
Growth Limitation Factor (average)	4.2%	5.2%	4.8%	-1.0% **
Percent of Municipalities by Region				
Down East	15.3%	13.8%	14.4%	1.6%
Mid Coast	25.8%	26.9%	26.4%	-1.1%
Northern	24.2%	24.4%	24.3%	-0.2%
Southern	13.7%	18.8%	16.5%	-5.0%
Western	21.0%	16.3%	18.3%	4.7%

**Indicates difference between over and under limit communities differ at a 90% level of statistical significance.*
***Indicates difference between over and under limit communities differ at a 95% level of statistical significance.*
^Based on aggregate data, no statistical tests are available
Source: Maine Revenue Services, Municipal Valuation Returns 2006 & 2005; Census Current Population Estimates, Maine Labor Market Information Services, Maine Department of Education, 2000 Census of Population, 2006 SPO/MMA Municipal Survey, and author's calculations.

The survey also asked communities surpassing the LD 1 limit to report whether they voted to temporarily exceed or permanently increase it. A vote to *exceed* temporarily lifts the limit, allowing the municipality to spend above the limit only for one year. A vote to *increase* permanently resets the base limit to a higher level for all future years. Communities were asked to explain why they chose to exceed or increase their commitment limit. Our survey results show that 50 municipalities (17.6% of responses) reported explicitly voting to increase the limit while 42 (14.8% of responses) voted to exceed the limit. Of those that in fact surpassed the limit, 40% voted to permanently increase the limit, and 34% voted to temporarily exceed the limit. An additional 27% of municipalities surpassing the limit did not indicate whether they voted to either exceed or increase the limit. In the past, some municipalities have explained this non-action by indicating that they were unaware of the necessity of voting, had trouble calculating growth limits or lacked the necessary information, or did not think LD 1 applied to them.

Municipalities were provided space to comment on why they decided to vote, or not vote, to exceed or increase the LD 1 limit. The comments are similar to those seen in years past. Common responses include:

- addressing one-time costs, such as financing for special and/or expensive equipment;
- covering the growing costs of energy, wages and salaries, insurance, and other necessary municipal operations; and
- covering reductions in other sources of revenue.

SUMMARY

For the fourth year in a row, municipalities held property tax commitments raised for municipal operations below their aggregate statewide LD 1 limit. Among the 284 municipalities participating in the survey, aggregate commitments were 3.2% below the aggregate limit. The statewide reductions in base commitments were not shared equally by all the individual municipalities. Of the municipalities surveyed, just over half (56%) stayed within their LD 1 limit, similar to results from the last two years. Those exceeding the limit did so by an average of $105,761. Municipalities under the limit were typically larger, faster growing, and were more likely to be in Southern Maine. Commonly cited factors for increasing or exceeding LD 1 limits include financing one-time costs, such as expensive capital equipment; raising revenues to cover growing energy, wages and salaries, and insurance costs; and covering reductions in other sources of revenue.

V. SCHOOL ADMINISTRATIVE UNITS' EXPERIENCE WITH LD 1

The second, and frequently the 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. Local school appropriations are constrained to 100% of the costs calculated by the EPS formula, excluding "local-only" debt. LD 1 set the course for increasing the state's share of school funding to 55% of EPS costs over four years. That timeline has since been extended due to worsening economic conditions and the resulting state budget shortfalls.

The Maine Department of Education collects information on school appropriations from state, local, and other sources on an annual basis. We use preliminary data[7] on state and local educational appropriations for FY2009 to determine the share of school administrative units (SAUs) that kept expenditures below 100% of the EPS target. We then compare that to last year (Table 11).

Note: This analysis reflects information from 266 of Maine's 285 SAUs. SAUs that had not yet reported appropriations to the Maine Department of Education for 2008-2009 at the time of writing were excluded from this analysis. To maintain consistency across years, these units are excluded in both current and past years. As such, the numbers included in this year's report may not match those of previous years.

EXPENDITURE GROWTH OF INDIVIDUAL SAUs

In FY2009, 88.0% of the 266 reporting school administrative units exceeded their target EPS funding levels. The combined allocations of all the reporting SAUs exceeded 100% of EPS by $220.0 million, or 12.7%, of total statewide EPS. The share of SAUs exceeding EPS and the amount by which they exceeded it are higher than that witnessed in the last two years, and notably higher than three years prior. Between FY2008 and FY2009, the percentage of SAUs exceeding EPS rose from 82.3% to 88.0%, coinciding with a $65 million increase in the amount by which EPS was collectively surpassed.

[7] Data available at the time of writing reflects state funding approved through the end of the Second Regular Session of the 123rd Legislature. It does not include recent curtailments in GPA enacted by the First Regular Session of the 124th Legislature and signed by Governor Baldacci on January 29, 2009.

As in past years, single-municipality SAUs were slightly less likely to exceed EPS funding targets than Maine School Administrative Districts (MSADs) or Community School Districts (CSDs). This might be attributable to differences in the budget approval process. Single-municipality SAUs are generally subject to approval by city officials, adding another layer of transparency and scrutiny to the budget process. 94.2% of MSADs and 92.3% of CSDs exceeded their EPS funding targets. CSDs surpassed single-town SAUs and MSADs in the relative dollar amount by which they exceeded EPS targets. In FY2009, CSDs exceeded the statewide EPS recommended level by approximately $14.5 million, or 25.5%. Single-municipality SAUs collectively exceeded EPS by a much larger dollar amount ($116.4 million) but by a much smaller share (13.0%) of their total recommended EPS target funding levels. MSADs collectively exceeded their EPS share by the lowest relative percentage (11.4%).

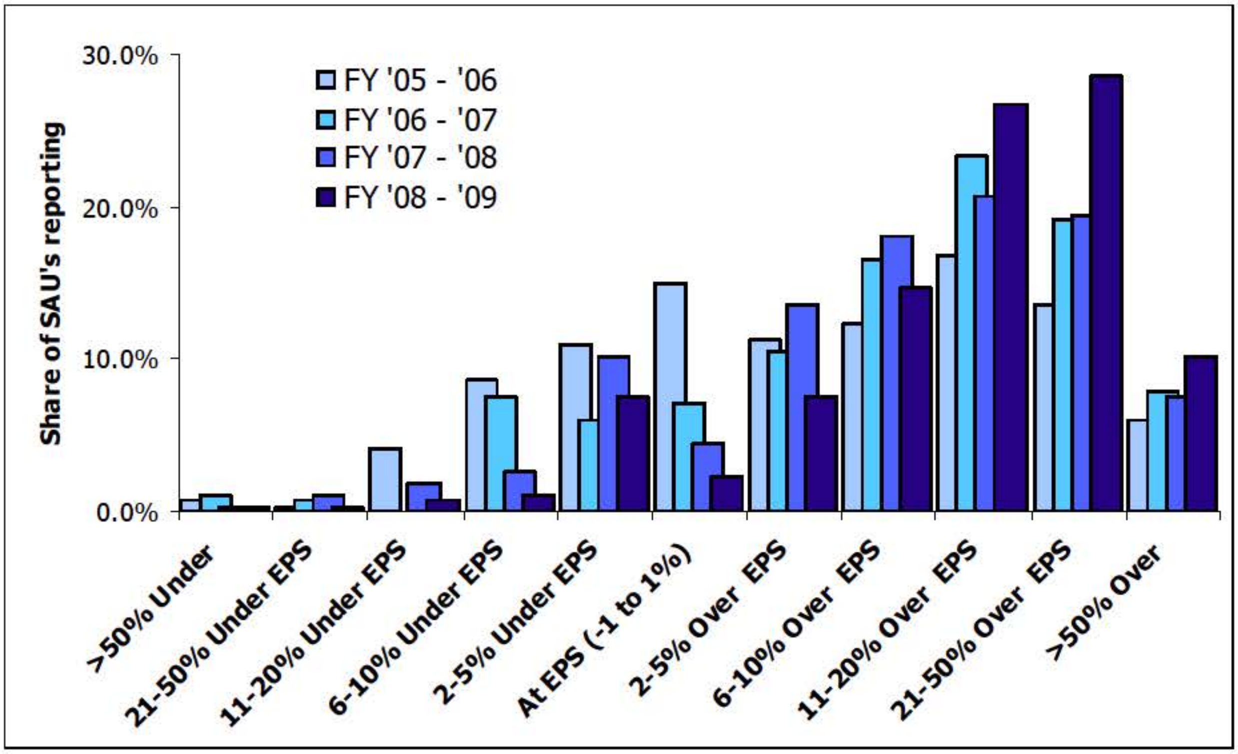
Table 11: School Administrative Unit Allocations and Compliance with LD 1*

	All SAUs	Single Town SAUs	MSADs & Tribal	Community School Districts
Number of SAUs	266	184	69	13
Fiscal Year 2008-09				
Percent SAUs over 100% EPS	88.0%	85.3%	94.2%	92.3%
Amount over EPS (millions)	$220.0	$116.4	$89.1	$14.5
Amount over as a share of EPS EPS	12.7%	13.0%	11.4%	25.5%
Fiscal Year 2007-08				
Percent SAUs over 100% EPS	82.3%	81.0%	85.5%	84.6%
Amount over EPS (millions)	$155.1	$87.2	$54.2	$13.7
Amount over as a share of EPS	8.8%	9.5%	6.8%	23.8%
Fiscal Year 2006-07				
Percent SAUs over 100% EPS	80.5%	80.4%	76.8%	100.0%
Amount over EPS (millions)	$126.3	$65.3	$47.4	$13.6
Amount over as a share of EPS	7.4%	7.4%	6.1%	24.2%
Fiscal Year 2005-06				
Percent SAUs over 100% EPS	66.9%	67.4%	59.4%	100.0%
Amount over EPS (millions)	$53.2	$30.1	$14.1	$8.9
Amount over as a share of EPS	3.2%	3.5%	1.9%	16.3%

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

Figure 3 shows the distribution of SAUs around their targeted EPS funding levels. In FY2009, almost two-thirds of SAUs are exceeding their EPS funding levels by more than 10%. This is a substantial increase compared to last year when 48% of SAUs were above 10% of EPS funding.

Figure 3: Distribution of SAUs above and below EPS



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

COMBINED STATEWIDE SAU EXPENDITURE GROWTH

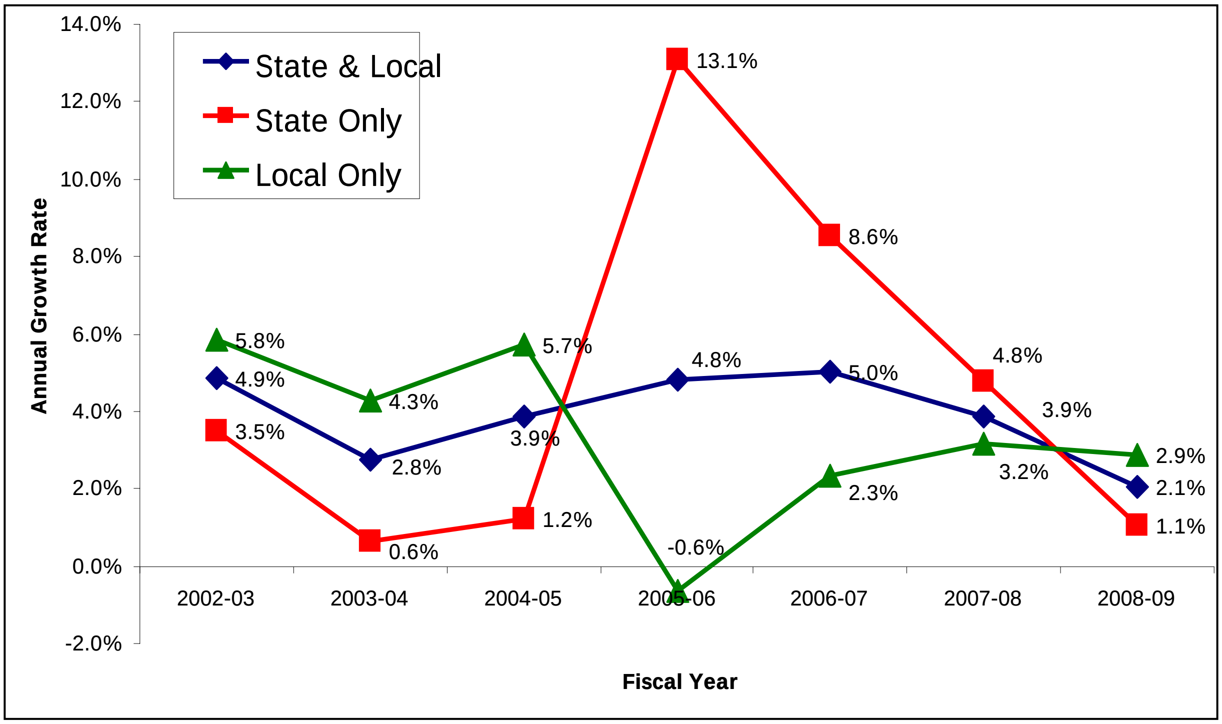
Next we examine a longer time horizon to study the impact of LD 1 on *total* state and local appropriations to schools (Figure 4). Both state transitional funds and local-only debt are included in the analysis.[8] Note, again, that only the 266 reporting SAUs are included; therefore the numbers may not match exactly those of previous years.

FY2006 was the first year LD 1 limits applied to SAU appropriations. In the years immediately prior to that, the growth rate of combined state and local appropriations fluctuated between 2.8% and 4.9%. With the passage of LD 1 the State dramatically increased its share of school funding, growing from an annual growth rate of 1.2%

[8] The vast majority of the local appropriations are raised through local property tax commitments. For the past three years, local-only debt has accounted for only about 4% of all total appropriations.

in FY2005 to 13.1% in FY2006. Corresponding with the increased state funds, growth in local appropriations to schools declined from an annual growth rate of 5.7% in FY2005 to -0.6% in FY2006. On balance, the combined state and local appropriations to schools still increased from 3.9% annual growth rate in FY2005 to 4.8% in FY 2006, as the increased state funding was only partially offset by a reduction in local appropriations.

Figure 4: Growth of State* and Local Appropriations for K-12 Education**



Source: Maine Dept. of Education and author's calculations
**State funds include transitional EPS funding*
***Local funds include local only debt for all years*

In the years following the passage of LD 1, state funding for K-12 education has continued to grow, albeit at a slower pace. The annual growth rate of state appropriations declined to 4.8% in FY2008 and, reflecting legislation enacted through the end of the 2nd Regular Session of the 123rd Legislature, 1.1% in FY2009[9]. Worsening economic conditions have led to a decline in state revenues and limited the state's ability to sustain the high funding increases. At the local level, following the brief decline in local appropriations in FY2006, K-12 allocations grew 2.3% in FY2007 and 3.2% in FY2008. Growth leveled off at 2.9% in FY2009.

SUMMARY

[9] [9] Data available at the time of writing reflects state funding approved through the end of the Second Regular Session of the 123rd Legislature. It does not include recent curtailments in GPA enacted by the First Regular Session of the 124th Legislature and signed by Governor Baldacci on January 29, 2009.

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. The LD 1 “limit” for SAUs is 100% of EPS. As a whole, School Administrative Units (SAUs) surpassed that limit. Approximately 88% of SAUs exceeded their individual limits For FY2009 (the 2008-2009 school year), the combined state and local allocations to local school districts were $220 million, or 12.7%, over 100% of EPS among the 266 SAUs reporting. Both the percentage of SAUs exceeding their limit and the amount they were over increased between FY2008 and FY2009.

Total state and local appropriations to schools have also grown following the first year of LD 1. Initially most of the growth was due to the sharp increases in state funding for local schools under LD 1. In the first year under LD 1, state appropriations to schools increased by approximately 13.1%, resulting in a significant reduction in local appropriations. In the years since, both state and local allocations to schools have grown. State allocations have continued to increase, albeit at a decreasing rate, without significant reductions in local allocations. In the past year, local school appropriations rose by 2.9%, which is a lower growth rate than pre-LD 1 but about the same as last year and higher than the first two years post-LD 1. The implication is that large portions of the increase in state spending to schools did not result in direct reductions in local property tax commitments.

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. Assessment growth is limited to the ten-year average growth rate of state personal income (adjusted for inflation) plus the county's property growth factor. The property growth factor is calculated by totaling the new property growth 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.

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 is one of only two counties to operate on a July 1-June 30 fiscal year, included all jail spending under its limit in the 2007 LD 1 report.[10] Lincoln County now includes the jail in this year's assessment limit.

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, we first look at the combined assessment growth of all sixteen counties. In 2008, Lincoln County's previously-exempt jail expenditures ($2.7 million in 2007) became part of its base assessment. Therefore, counties' 2008 combined base assessments ($128.3 million) increased by more than their combined LD 1 growth factor of 5.6%. This also happened last year as Sagadahoc County's previously exempt jail expenditures became subject to the LD 1 limit.

The counties' combined assessment limit, including assessments for the Lincoln-Sagadahoc jail, was $128.3 million. Actual assessments were $126.1 million. This is $2.2 million, or 1.7% below the limit. This is consistent with counties' experience last year as well.

[10] Throughout this section, "2008" refers to the 2008-09 fiscal year for Sagadahoc County and the 2008 calendar year for all other counties.

Table 12: Combined County Assessment Limit Calculation
Note: All dollar figures in millions

	2004	2005	2006	2007	2008
LD 1 Annual Growth Factor	--	--	6.1%	5.2%	5.6%
Base Assessments	$99.4	$104.4	$110.8	$119.4	$128.3
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	$128.3
Actual Total Assessments	$99.4	$104.8	$111.3	$119.8	$126.1
Amount Above/Below LD 1 Limit	--	--	-$3.7	-$2.2	-$2.2
Percentage Above/Below LD 1 Limit	--	--	-3.2%	-1.8%	-1.7%

Source: State Planning Office

Table 13 looks at growth in assessments excluding the Lincoln-Sagadahoc jail. While those jail assessments were not exempt from the LD 1 limit in 2008, this table shows assessment growth without the impact of their inclusion. Comparing 2008 total assessments to 2007 total assessments, excluding Lincoln and Sagadahoc counties' contributions to the jail, shows a 5.4% increase in assessments.[11] This is 0.2 percentage points less than the annual growth factor.

Table 13: Growth of County Assessments Subject to LD 1 Limit
Note: All dollar figures in millions

	2004	2005	2006	2007	2008
Actual Total Assessments	$99.4	$104.8	$111.3	$119.8	$126.1
Exempt Lincoln-Sagadahoc Jail Project	--	$0.4	$4.2	$5.4*	$5.4
(Total Assessments minus L-S Jail)	--	$104.4	$107.2	$114.4	$120.7
Growth of Assessments Subject to Limit	--	5.0%	2.7%	6.8%	5.4%
LD 1 Growth Limit			6.1%	5.2%	5.6%

**$5.4 million includes the Sagadahoc jail contribution*
Source: State Planning Office

The next table displays the annual growth in total county assessments, including the Lincoln-Sagadahoc jail for all years. Assessments increased 5.2% between 2007 and 2008, a decrease from the 7.7% jump between 2006

[11] Note that in Table 13 the line "Exempt Lincoln-Sagadahoc Jail Funding" is $5.4 million instead of $2.7 million as above to reflect the jail costs that became part of Sagadahoc's base assessment in 2007 and 2008.

and 2007. As discussed in the next section, this is partly because four counties (25%) kept 2008 assessments flat or lowered them compared to 2007.

Table 14: Growth of Total County Assessments
Note: All dollar figures in millions

Year	Total Assessments	Annual % Change
2008	$126.1	5.2%
2007	$119.8	7.7%
2006	$111.3	6.2%
2005	$104.8	5.4%
2004	$99.4	--

Source: State Planning Office

ASSESSMENT GROWTH OF INDIVIDUAL COUNTIES

Each individual county's experience with LD 1 varied. All counties were allowed to increase their assessment by the 2.24% growth in real personal income plus the percentage increase in new property value in their member towns. New property growth ranged from 1.6% in Lincoln County to 4.2% in York County, with an average of 2.7%. Adding together personal income and property growth factors produced LD 1 assessment growth factors ranging from 3.8% to 6.4%, with an average of 4.9%.

Last year, many counties reported difficulty obtaining information on new property growth from their member municipalities. Only a few counties were able to calculate a growth rate based on new valuations from all of their member towns. This difficulty is present this year as well; for example, some counties calculated growth factors with information from less than half of their member municipalities. In addition, SPO encountered challenges in securing accurate assessment information from some counties. Some counties did not seem to understand what information was needed for this report; other counties made noticeable errors in the information they provided. SPO made every attempt to correct and verify all information used in this report.

Thirteen counties stayed within their LD 1 limits, one fewer than last year, with actual assessments ranging from 20% to 0.2% below the limit. Two counties were more than 10% below the limit and nine counties were between 2% and 10% below their limit. Two counties were less than 0.2% below their limit. On average these thirteen counties were 5.6% below their limit.

Of the three counties that surpassed their LD 1 limit, two (Knox and Waldo) voted to increase their limits and one county (Somerset) exceeded its limit but did not report that it voted to increase or exceed it. Somerset County switched to a fiscal year in the middle of 2008. LD 1 does not provide guidance in the event of a fiscal year change which may have created some confusion with respect to calculating the limit. All three counties indicated that costs associated with building and/or running their respective jails was the cause of assessments in excess of the LD 1 limit.

Six counties reported assessment growth in 2008 that exceeded growth in 2005, the only pre-LD 1 year for which data are available. This is a notable decrease from eleven counties with growth rates in 2007 that exceeded growth in 2005. Three counties (Piscataquis, Sagadahoc, and Oxford) kept assessments for 2008 at the same level as for 2007, and one county (Hancock) lowered its 2008 assessment compared to 2007.

SUMMARY

Counties stayed within their combined LD 1 limit in 2008. County assessments were $2.2 million, or 1.7%, below the limit. Statewide assessments slowed significantly compared to 2007 and were at about the same rate of growth as in 2005. Overall, assessments increased by 5.2% from 2007 to 2008. Individually, thirteen counties stayed within their limits and three surpassed them. Six counties (38%) reported assessment growth in 2008 that exceeded growth in 2005, a notable improvement compared to last year.

VII. SUMMARY

Comparing Maine's state and local tax burden to other states will not be possible until data from other states are collected and adjusted to allow for comparison across differing tax systems, a process that happens at the national level and takes several years. However, the information provided in this report illuminates LD 1's early impact on fiscal decisions at all government levels and corresponding growth trends. The first LD 1 report, released in 2006, revealed notable constraint in the growth of local property taxes, which coincided with the law's first year of implementation. In 2008, like the last two years, evidence of LD 1's impact is mixed.

The State stayed within its General Fund appropriations limit while increasing aid to local schools compared with 2005. Statewide, total property taxes were within their combined LD 1 limit. The growth of property taxes was once again lower than before LD 1 and about the same as in 2006, but the sharp initial reduction in 2005 has not been sustained. Just over half of municipalities stayed within their limits, as did thirteen of Maine's sixteen counties.

For a fourth year, Maine's School Administrative Units (SAUs) diverged from LD 1's limits more than any other level of government. Eighty-eight percent of SAUs exceeded their limit. Combined local allocations for schools were $220.0 million, or 12.7%, over EPS. Compared to last year, both the percentage of SAUs exceeding their limit and the amount by which they were over has increased.