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LD 1 PROGRESS REPORT 2009

Prepared by:
Maine State Planning Office
38 State House Station
Augusta, Maine 04333
207-287-6077
www.maine.gov/spo

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Authors and contributors to this report include:
Joel Johnson, Economist
Michael LeVert, State Economist

Our sincere thanks to all those who contributed to the preparation of this report: countless local and county officials who provided data and technical guidance, Kate Dufour (Maine Municipal Association), Jim Rier and Suzan Beaudoin (Maine Department of Education), Michael Allen and David Ledew (Maine Revenue Services), Grant Pennoyer (Maine State Legislature, Office of Fiscal and Program Review), Jeff Breece (University of Southern Maine).

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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 fifth 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 FY2010 were $213 million (13.2%) below the limit. Overall, appropriations decreased by 3.0% over FY2009, which is well below the 5.4% average annual growth for the ten years prior to LD 1.

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

Based on preliminary data from Maine Revenue Services (MRS), property tax commitments of all municipalities statewide grew by a rate of 2.5% in 2009, which is well below rates in years before LD 1. Municipalities operating on calendar year budgets (generally smaller municipalities) showed higher commitment growth (5.2%) than municipalities operating on fiscal year budgets (1.9%). Based on a survey sample of 201 municipalities, 71% of municipalities stayed within their municipal property tax levy growth limit. As with the MRS data, the survey results showed that smaller municipalities had more difficulty staying within LD 1 growth limits. 38% of communities with populations less than 2,500 exceeded their limit, while 15% of larger communities exceeded their limit. In both the MRS data and the survey data, property tax growth in 2009 remained below pre-LD 1 years. In the three years prior to LD 1, annual commitment growth ranged from 5.2% to 7.0%.

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. The percentage of SAUs exceeding their limit stayed about the same (87%) compared to previous years but the amount by which they exceeded EPS decreased from FY2009 to FY2010. SAUs not conforming to the recent school consolidation law (generally smaller communities) exceeded EPS by 15.3%, a greater average margin than the 10.0% average margin for conforming SAUs (generally larger communities). Overall, growth in combined state and local expenditures has slowed to 1.9%, lower than in pre-LD 1 years.

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 2009. County assessments were $1.7 million (1.3%) below the limit. Overall, assessments increased 1.7% from 2008, 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 is the primary cause of this reduction in growth. Individually, ten counties stayed within their limits and six 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 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 revenue data necessary to compare Maine's state and local tax burden with other states. The Census Bureau currently has revenue data through FY2007. Using revenue data from the Census Bureau, as LD 1 directs, and personal income data from the Bureau of Economic Analysis, SPO calculates Maine's total state and local burden for FY 2007 to be 12.7%, which is the sixth highest among the fifty states. Maine's state tax burden (8.1%) ranks 11th highest, and the local tax burden (4.6%) ranks 16th highest. Previous U.S. Census reports overestimated Maine's local and state tax burdens. Those problems have been fixed this year, but we will only be able to reliably measure progress toward the tax burden reduction goal in 2011, when we will have at least three years of data. 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 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 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 - 2008 was mixed. 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 three years.

This report updates last year's analysis of LD 1 and reports on progress made during 2009.

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

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. 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 FY2010, but severe state government revenue shortfalls in the context of a national recession beginning in 2007 have delayed attainment of that goal. 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 FY2010 and FY2011 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.

On December 18, 2009, Governor Baldacci proposed a supplemental budget for FY2010. The proposed supplemental budget addresses the revenue shortfall for FY2010, but has not been approved by the legislature at the time of this writing. Therefore, throughout this section we use FY2010 appropriations amounts budgeted by the First Session of the 124th Legislature and signed into law (Public Law 2009, Chapter 1).

The appropriations limit for FY2010 was determined by applying the 2.76% growth factor to the FY2009 base appropriations limit, $3,061 million, and adding $213 million in increased state funding for GPA. The resulting FY2010 General Fund appropriations limit under LD1 is $3,359 million (See Table 1).

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 FY2010 General Fund appropriations are $2,927 million. That is $432 million (12.9%) 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	FY2010
Annual Growth Factor	--	3.11%	3.11%	3.08%	3.08%	2.76%
Base General Fund Appropriations	$2,710	$2,794	$2,881	$2,970	$3,061	$3,146
General Purpose Aid to Schools	$735	$836	$914	$972	$956	$947
Additional GPA above FY2005 GPA	--	$102	$180	$237	$222	$213
LD 1 Appropriations Limit (Base plus Additional GPA)	--	$2,896	$3,061	$3,207	$3,283	$3,359
Actual Appropriations	$2,784	$2,872	$2,978	$3,129	$3,018	$2,927
LD 1 Limit Minus Actual Appropriations	--	$24	$82	$78	$265	$432
Percent Under LD 1 Limit	--	0.8%	2.7%	2.4%	8.1%	12.9%

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 4.4% in FY2010.

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

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Actual Total Appropriations	$2,784	$2,872	$2,978	$3,129	$3,018	$2,927
Additional GPA above FY05 Level	--	$102	$180	$237	$222	$213
Appropriations Subject to LD 1 Limit						
(Total Appropriations minus Additional GPA)	$2,785	$2,770	$2,799	$2,892	$2,840	$2,714
Growth of Appropriations Subject to Limit	--	-0.5%	1.0%	3.3%	-1.8%	-4.4%

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 3.0% in FY2010. During FY2009 and FY2008, total appropriations grew -3.6% and 5.1%, respectively. 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: Growth of State General Fund Appropriations

Growth of General Fund Appropriations FY2009 - FY2010	-3.0%
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%

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. For current FY2010 appropriations GPA funding decreased by 1.0% and non-GPA funding decreased by 4.0%. From FY2006 to FY2010 the growth of GPA appropriations has exceeded the growth of non-GPA appropriations, and GPA appropriations grew steadily from FY2005 until the recession hit mid-way through FY2008. 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
2010	$947	-1.0%	$1,980	-4.0%	$2,927	-3.0%
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	

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 FY2010 are estimated to be $40.5 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. 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 FY2010, the estimated amount increased slightly to $28.4 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
2010 (estimation)	$28.4	$40.5	$68.9
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

Source: FY2010 Circuit Breaker total based on November 2009 Revenue Forecasting Committee estimates; FY2010 Homestead Exemption total based on the General Fund budget through the 1st Session of the 124th 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 3.0% in FY2010. Within these appropriations was an additional $213 million for local K-12 education compared to 2005. Setting aside that additional GPA funding as LD 1 directs, General Fund appropriations declined by 4.4%.

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 2009. The sample of reporting municipalities differs 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.

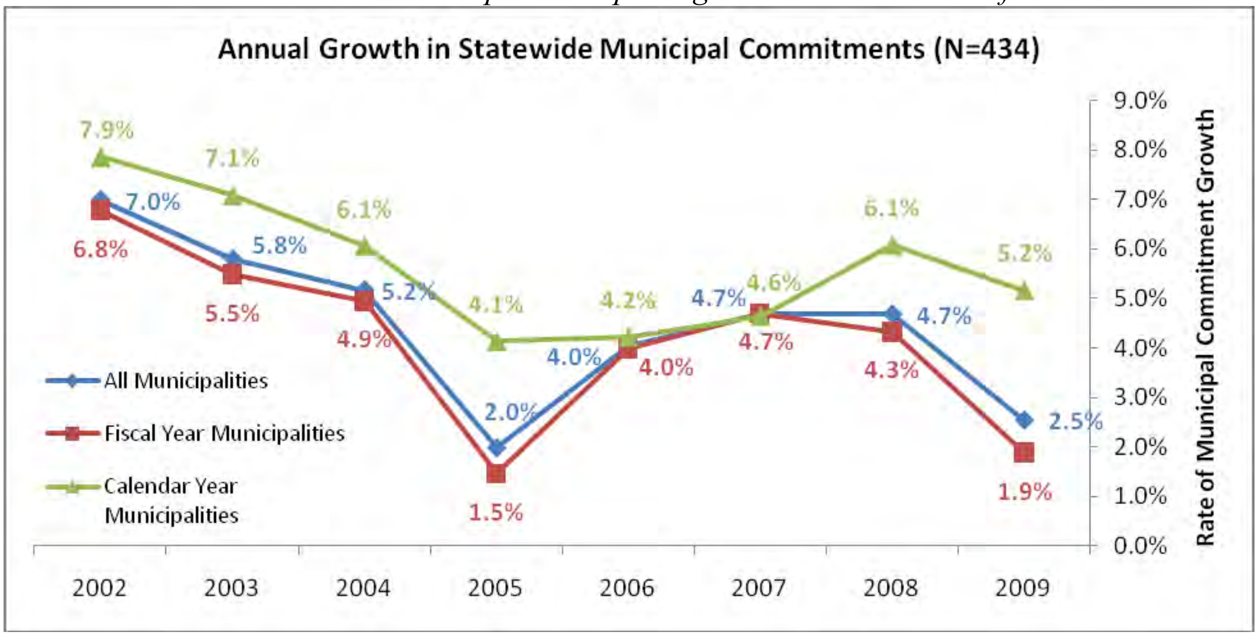
In early December 2009, roughly 434 communities had filed the MVR, representing 88% of all municipalities in the state and accounting for 98% of the total statewide commitment in 2008. So while not complete, we are confident that our results are representative of the total population of Maine municipalities.

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 during the first year.[3] In the first year, fiscal-year communities showed a dramatic reduction in commitment growth – from 4.9% in 2004 to 1.5% in 2005. The FY2005 growth rate was also considerably lower than the 4.1% 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 were nearly equal, at 4.2% and 4.0% respectively. This 2006 convergence of fiscal-year and

[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.

calendar-year municipalities was driven by a 2.5 percentage point increase in commitment growth among fiscal-year municipalities.

Figure 1: Annual Change in Statewide Municipal Commitment Growth
Calculations based on the 434 municipalities reporting on the 2009 MVR as of December 2009



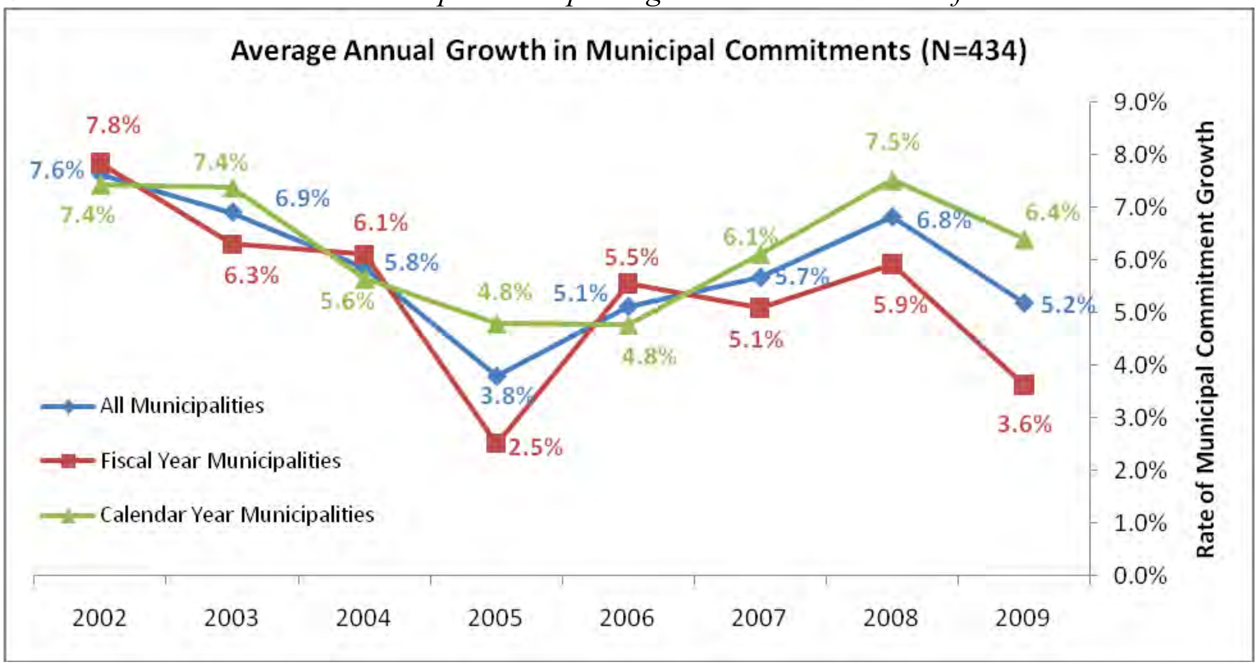
Source: Maine Revenue Services Municipal Valuation Reports (2001-2009) & author's calculations.

Commitments for calendar-year communities increased at an accelerating rate from 2006 to 2008 and moved downward in 2009. The growth rate for fiscal-year communities declined from a post-LD 1 high of 4.7% in 2007 to 4.3% in 2008, and fell sharply to 1.9% in 2009. This helped reduce statewide municipal commitment growth to 2.5%, less than half the rate of growth in the pre-LD 1 year of 2004. 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. Municipalities responded to the unemployment and anxiety caused by the recession by limiting commitment growth, and the jail unification law limited the amount of taxes that counties can collect from municipalities for 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, 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 on 434 municipalities reporting on the 2009 MVR as of December 2009



Source: Maine Revenue Services Municipal Valuation Reports (2001 – 2009) & author's calculations.

Our results for *average* growth in municipal commitments are similar to our results for *aggregate* commitment growth, with several notable exceptions. In general, growth rates based on municipal averages are higher than comparable growth rates calculated as a statewide aggregate, 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 *total* municipal commitment growth, *average* growth in municipal commitments declined in the first year of LD 1, most notably among fiscal-year municipalities. This reduction was only temporary, as average growth climbed steadily to 7.5% in 2008, eclipsing the high growth rate seen in 2002 and 2003, before LD 1. In 2009, a sharp 2.3 percentage point decline in average commitment growth among fiscal-year municipalities helped pull the average growth rate among all municipalities down to 5.2%, about the same as 2006, and 0.6 percentage points below the pre-LD 1 rate of 5.8%.

Table 6: Percent of Municipalities that Reduced Commitment Growth

Percent of Municipalities that Reduced Commitment Growth	Total	Fiscal Year	Calendar Year
Number of Observations	434	191	243
Percent of municipalities with...			
'09 Commitment Growth Rate less than '08	58%	63%	54%
'09 Commitment Growth Rate less than '07	52%	59%	46%
'09 Commitment Growth Rate less than '06	53%	61%	47%
'09 Commitment Growth Rate less than '05	47%	46%	48%
'09 Commitment Growth Rate less than '04	59%	69%	51%
'09 Commitment Growth Rate less than '03	62%	70%	56%
'08 Commitment Growth Rate less than '07	44%	43%	44%
'08 Commitment Growth Rate less than '06	45%	47%	44%
'08 Commitment Growth Rate less than '05	39%	35%	42%
'08 Commitment Growth Rate less than '04	51%	54%	49%
'08 Commitment Growth Rate less than '03	53%	53%	52%
'07 Commitment Growth Rate less than '06	52%	53%	51%
'07 Commitment Growth Rate less than '05	44%	38%	49%
'07 Commitment Growth Rate less than '04	58%	60%	56%
'07 Commitment Growth Rate less than '03	59%	60%	58%
'06 Commitment Growth Rate less than '05	41%	32%	48%
'06 Commitment Growth Rate less than '04	54%	56%	53%
'06 Commitment Growth Rate less than '03	58%	55%	60%
'05 Commitment Growth Rate less than '04	62%	68%	57%
'05 Commitment Growth Rate less than '03	64%	71%	58%

Source: Maine Revenue Services Municipal Valuation Reports (2001 – 2009) & 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 2009, well over half (58%) of municipalities reported slower commitment growth compared to the previous year. This is the highest percentage of municipalities that reported slower year over year commitment growth since 2005, the first year of LD 1, when 62% of municipalities reported a reduction in year over year commitment growth. Overall, the number of municipalities reporting reductions in commitment growth from previous years was lowest in 2008. For example, only 39% of municipalities had a slower growth rate in 2008 than they did in 2005.

SOURCES OF APPROPRIATIONS GROWTH

Local property taxes primarily fund three institutions: municipal government, county government, and local schools. Table 7 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 2007, 2008, and 2009 Municipal Valuation Returns (MVRs), which ask communities to report the amount of municipal appropriation due to county, municipal, Tax Increment Financing (TIF),[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, nor is this year's sample the same as last year's sample. This is one reason why numbers in this year's report are different from numbers in last year's report.

Another reason why numbers are different in this year's report is that the 2009 MVR municipal tax rate calculation form gave municipalities new instructions for reporting school appropriations. Municipalities were told explicitly to report only the local contribution to schools. In prior years, some municipalities reported the combined state and local contribution to schools, while others reported the local contribution only. The current analysis is based on a revised set of school appropriation data for all municipalities across all years, where *only the municipal contribution* to school funding is included. The major implication of this change in the dataset is that school appropriations reported this year represent a smaller share of total municipal appropriations than reported in previous years, and appropriations to municipal operations, county government, and TIFs represent a larger share of total municipal appropriations than reported in previous years.

[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.

Table 7: Statewide Local Appropriations Growth by Source

Sample Size = 288 Municipalities		Total	Municipal	School	County	TIF
Appropriations (millions $)						
	2009	$1,480.5	$656.2	$710.0	$78.3	$36 1
	2008	$1,461.8	$656.5	$697.0	$75.0	$33 3
	2007	$1,398.8	$618.5	$677 3	$70.1	$32 9
	2006	$1,345.6	$592.2	$658.6	$66.3	$28 5
Share of Appropriations						
	2009		44.3%	48.0%	5.3%	2.4%
	2008		44.9%	47.7%	5.1%	2.3%
	2007		44.2%	48.4%	5.0%	2.4%
	2006		44.0%	48.9%	4.9%	2.1%
Appropration Growth Rate						
	2009	1 3%	0.0%	1.9%	4.3%	8.4%
	2008	4 5%	6.1%	2.9%	7.0%	1.2%
	2007	4.0%	4.4%	2.8%	5.8%	15.5%
Share of Appropriation Growth						
	2009		-1.7%	69.6%	17.2%	15.0%
	2008		60.3%	31.3%	7.8%	0.6%
	2007		49.5%	35.0%	7.2%	8.3%

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

Among the 288 municipalities with usable data available in all four years, statewide local appropriations were roughly $1.48 billion in 2009. This represents a 1.3% growth in statewide local appropriations over 2008, a much slower annual growth rate than the 4.5% observed last year. Local schools accounted for the largest share of statewide local appropriations (48.0%) followed by municipal operations and services (44.3%). Counties and TIFs accounted for 5.3% and 2.4% of appropriations, respectively.

School appropriations growth accounted for the largest share (69.6%) of the increase in statewide local appropriations from 2008 to 2009. Appropriations for counties and TIFs accounted for larger shares of total appropriation growth in 2009, at 17.2% and 15% respectively, than they did in 2008. Appropriations for municipal operations and services actually declined from 2008 to 2009, so their share of total appropriation growth was negative (-1.7%). This decline is the major reason that the growth shares for school and county appropriations are so much higher than last year, when municipal operations and services accounted for the majority (60.3%) of the increase in total appropriations growth.

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. 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 and local schools. 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 Maine Municipal Association (MMA) and SPO distributed a voluntary survey (in conjunction with the U.S Census Bureau) to all of Maine's municipal governments. The survey guides municipalities through the calculation of their base commitments and base commitment limits for both the past (2008) and current (2009) years. These calculations are used to determine whether or not the municipality surpassed the commitment limit.

We received a total of 201 responses, representing roughly 41% of all Maine municipalities. This is less than last year's response rate of 58% (284 usable responses). The responding municipalities in 2009 (herein referred to as "sample municipalities") represent approximately 63% of the total statewide municipal commitment in 2008, and 70% of the combined 2009 commitment of the 437 communities that had filed their 2009 MVR by early December.

Past year's analyses 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 analysis sample of municipalities, this year's analysis may slightly overstate municipal government compliance with LD 1.

SURVEY RESULTS

The survey asked communities to calculate last year's levy limit (i.e., base 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 2009 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 (2.28% for calendar year 2009 or fiscal year 2010) 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, 2009 Municipal Survey Results

Number of municipalities	201
Aggregate Municipal Commitment,2009 (from MVR)	$1,274,515,470
Aggregate Base Commitment Limit, 2009	$448,943,196
Aggregate Base Commitment, 2009	$419,084,955
Ratio of Base Commitment to Total Commitment, 2009	32.9%
Percent by which Base Commitment was Below Limit, 2009	6.7%
Mean Growth Limitation Factor, 2009	4.3%
Mean Growth Limitation Factor, 2008	4.8%
Mean Growth Limitation Factor, 2007	5.8%
Percent of Municipalities Surpassing 2009 LD1 Limit	29%
Average Amount Above LD1 Limit	$72,435
Average Amount Below LD1 Limit	$238,178
Percent of Municipalities over the LD1 Limit who reported voting to increase the limit	57%
Percent of Municipalities over the LD1 Limit who reported voting to exceed the limit	36%
Percent of Municipalities over the LD1 Limit who did not report voting to increase or exceed	7%

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

Among the useable responses, the average growth limitation factor was 4.3% (Table 8). This is lower than the average growth limitation factor of 4.8% 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 2009 is calculated the same way it was in 2008: municipal appropriations minus total deductions, excluding any deductions that paid for non-municipal appropriations. As shown in Table 8, the aggregate 2009 commitment was $1.27 billion for the 201 municipalities in our sample.[5] The combined 2009 base commitment was $419 million or 32.9% of the total 2009 commitment for the same set of municipalities. The aggregate base commitment limit for 2009 was $449 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 $30 million, or 6.7% of the LD 1 limit. Stated differently, municipalities' statewide property tax commitments equaled about 93.3% of that allowable under the LD 1 limit. This is consistent with last year's report and is the fifth year that municipalities came in under the statewide LD 1 limit. In 2008, Maine municipalities kept property tax commitments below the aggregate LD 1 limit by $16 million, or 3.2%. In 2007,

[5] We used 2008 MVR commitments for nine responding towns that had no 2009 MVR commitment data at the time of this report.

commitments were 4.1% below the aggregate LD 1 limit, and 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. Almost three quarters (71%) of the municipalities responding stayed within the commitment limits imposed by LD 1 in 2009. This is a substantial increase from the 56% of municipalities that stayed within the limit in 2008, the 57% of municipalities that stayed within their limit in 2007 and 2006, and the 58% of municipalities in 2005. The 29% of municipalities who surpassed this year's limit did so by an average of $72,435, or 3.3% of the average municipal base commitment limit of $2.2 million. Communities whose base commitments were at or below the 2009 limit underspent the limit by an average of $238,178, or 10.7% of the 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 2,763 fewer residents than those who met the commitment limit. Similarly, communities with populations less than 2,500 exceeded their LD 1 limit at a significantly greater rate than larger communities. 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.

Not surprisingly, communities surpassing the base commitment limit had significantly greater property tax commitment growth. As in past years, municipalities with higher median household incomes were significantly more likely to stay within LD 1 limits.[6]

Geographically, downeast municipalities (Washington and Hancock Counties) were significantly more likely to exceed LD 1, correlating with results on the relevance of population, household income, and property growth rates.

[6] In 2008 the difference in average median household income between municipalities over or under the LD 1 limit had the same sign as in 2009 but was not statistically significant.

Table 9: Characteristics of Municipalities that are Over/Under LD 1 Commitment Limit
Comparisons based on municipalities reporting on 2009 MMA/SPO Survey

Characteristic	Over Limit	Under Limit	All Survey Respondents	Difference (Over - Under)	
Number of Municipalities	58	143	201		^
Average Population, 2008	2,051	4,814	4,017	-2,763	**
Percent with population less than 2,500	79.3%	52.4%	60.2%	26.86%	**
Population growth rate, '01 to '08	2.0%	3.1%	2.8%	-1.06%	
Percent with population loss, '01 - '08	39.7%	32.2%	34.3%	7.49%	
Commitment per capita, 2009 (millions)	$1,488	$1,723	$1,655	-235	
Aggregate municipal commitment growth rate, '08 - '09	4.3%	2.0%	2.3%	2.34%	^
Average municipal commitment growth rate, '08 - '09	7.0%	3.8%	4.7%	3.21%	**
Average property tax rate, 2009	1.3%	1.3%	1.31%	-0.06%	
Percent Single Town School Districts	27.6%	18.9%	21.4%	8.71%	
Median household income, 2000 (Average of municipalities)	$33,995	$37,707	$36,636	-3,712	**
Percent fiscal year budget	60.3%	69.2%	66.7%	-8.89%	
Growth Limitation Factor (average)	4.3%	4.3%	4.3%	0.01%	
Percent of Municipalities by Region					
Down East	20.7%	9.8%	12.9%	10.90%	*
Mid Coast	17.2%	28.0%	24.9%	-10.73%	
Northern	29.3%	24.5%	25.9%	4.83%	
Southern	12.1%	21.7%	18.9%	-9.61%	
Western	20.7%	16.1%	17.4%	4.61%	

**Indicates over and under limit communities differ at a 90% level of statistical significance.*
***Indicates 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 2008 & 2009; Census Current Population Estimates, Maine Labor Market Information Services, Maine Department of Education, 2000 Census of Population, 2009 MMA/SPO 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 base commitment limit. This year, 58 communities (29% of the sample) exceeded their LD 1 limit. 33 of these communities voted to increase their limit, 21 voted to exceed their limit, and four did not report voting to exceed or increase. 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 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, or losses of budget surpluses used to offset property tax needs. A few towns cited increasing costs of providing services or costs for capital improvements such as buildings and equipment.

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 201 municipalities participating in the survey, aggregate base commitments were 6.7% below the aggregate limit. The statewide reductions in base commitments were not shared equally by all the individual municipalities. Of the municipalities surveyed, almost three quarters (71%) stayed within their LD 1 limit, an improvement over the last two years. Those exceeding the limit did so by an average of $72,435. Municipalities under the limit were typically larger, faster growing, wealthier, and less likely to be in downeast Maine.

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. K-12 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. The 55% goal was scheduled to be achieved in FY2010, but state budget shortfalls due to the global recession in economic growth have delayed attainment of that goal.

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 FY2010 to determine the share of school administrative units (SAUs) that kept expenditures below 100% of the EPS target. We then compare that to expenditure data from previous years (Table 11).

FY2010 saw a significant reorganization of school districts.[8] Overall, the number of SAUs has been reduced from 290 to 214. 85% of Maine's school children are enrolled at SAUs conforming to the new reorganization laws. The analysis reflected in Tables 11 and 12 and Figures 3 and 4 includes information from 191 of Maine's 214 SAUs. To maintain consistency across years, we excluded SAUs that had not yet reported appropriations to the Maine Department of Education for FY2010 at the time of writing, and SAUs that are missing appropriations data from past years. As a result, the numbers included in this year's report may differ slightly from previous reports.

[7] Data available at the time of writing reflects state funding approved through the end of the First Regular Session of the 124th Legislature. It does not include recent reductions in GPA according to the supplemental budget proposed by Governor Baldacci on December 18, 2009.

[8] 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).

EXPENDITURE GROWTH OF INDIVIDUAL SAUs

Table 11 and Figure 3 examine expenditures across time for all SAUs. Table 12 and Figure 4 examine FY2010 expenditures across two types of SAUs: those that have conformed to the new reorganization laws and those that have not.

Table 11 shows that between FY2009 and FY2010, the percentage of SAUs exceeding 100% of their EPS target stayed constant at 86.9%, but the amount by which all SAUs exceeded 100% of total statewide EPS decreased from $219 million (12.6% of EPS) to $195 million (10.9% of EPS). Although this represents a decline year-over-year, the total amount by which SAUs exceeded EPS is still notably higher than the three years prior to FY2009.

Table 11: Overall School Compliance with LD 1: FY2006 – FY2010*

Note: All dollar figures in millions

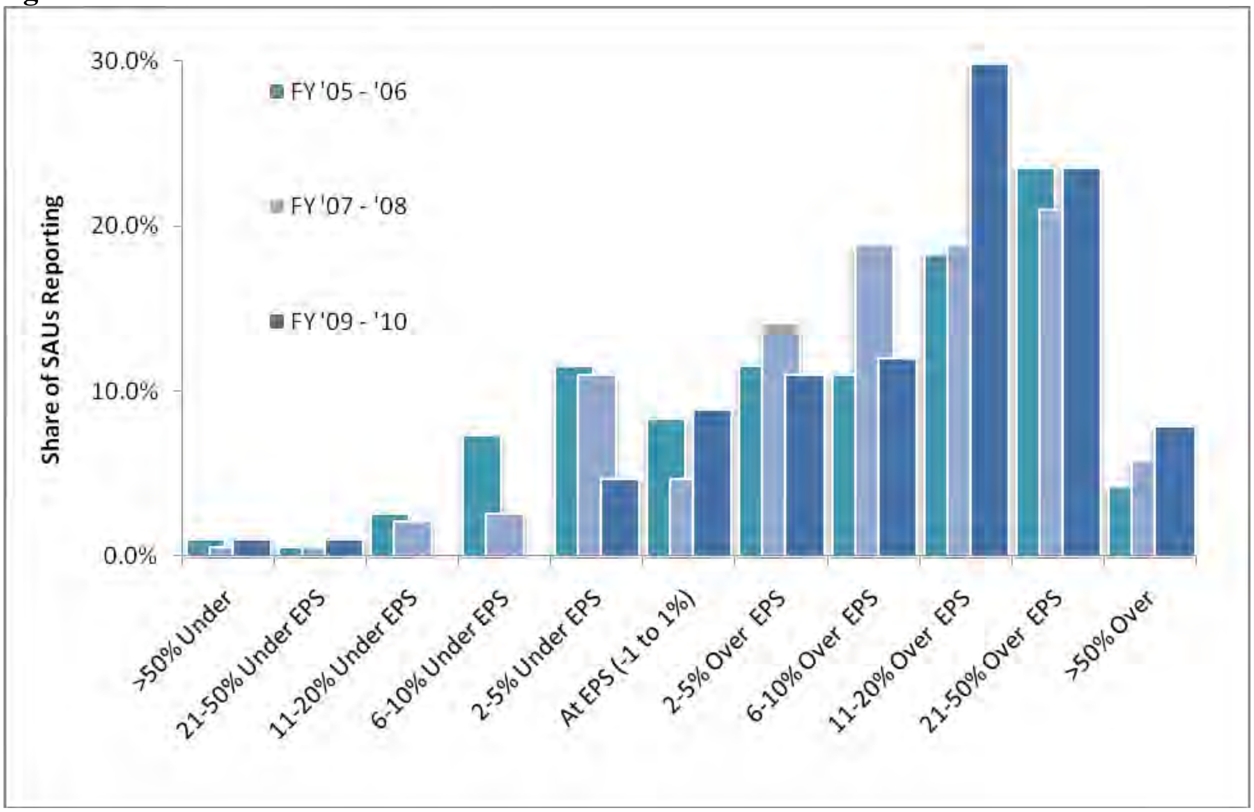
Number of SAUs: 191	FY2006	FY2007	FY2008	FY2009	FY2010
Pct. SAUs over 100% EPS	73.3%	79.6%	81.7%	86.9%	86.9%
Amount over EPS	$68	$125	$154	$219	$195
Amount over as pct. of EPS	4.0%	7.3%	8.7%	12.6%	10.9%

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. Compared to FY2006 and FY2008, the percentage of SAUs overspending EPS by more than 10% increased in FY2010. Compared to FY2008, the percentage of SAUs overspending EPS by 2% to 10% decreased in FY2010.

Figure 3: Distribution of all SAUs above and below EPS



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

Table 12 shows the percentage of conforming SAUs and non-conforming SAUs exceeding EPS funding targets was about the same in FY2010, at 86.1% and 87.5%, respectively. On average, conforming SAUs (generally larger districts) exceeded EPS by a smaller relative margin (10.0%) than non-conforming SAUs (15.3%).

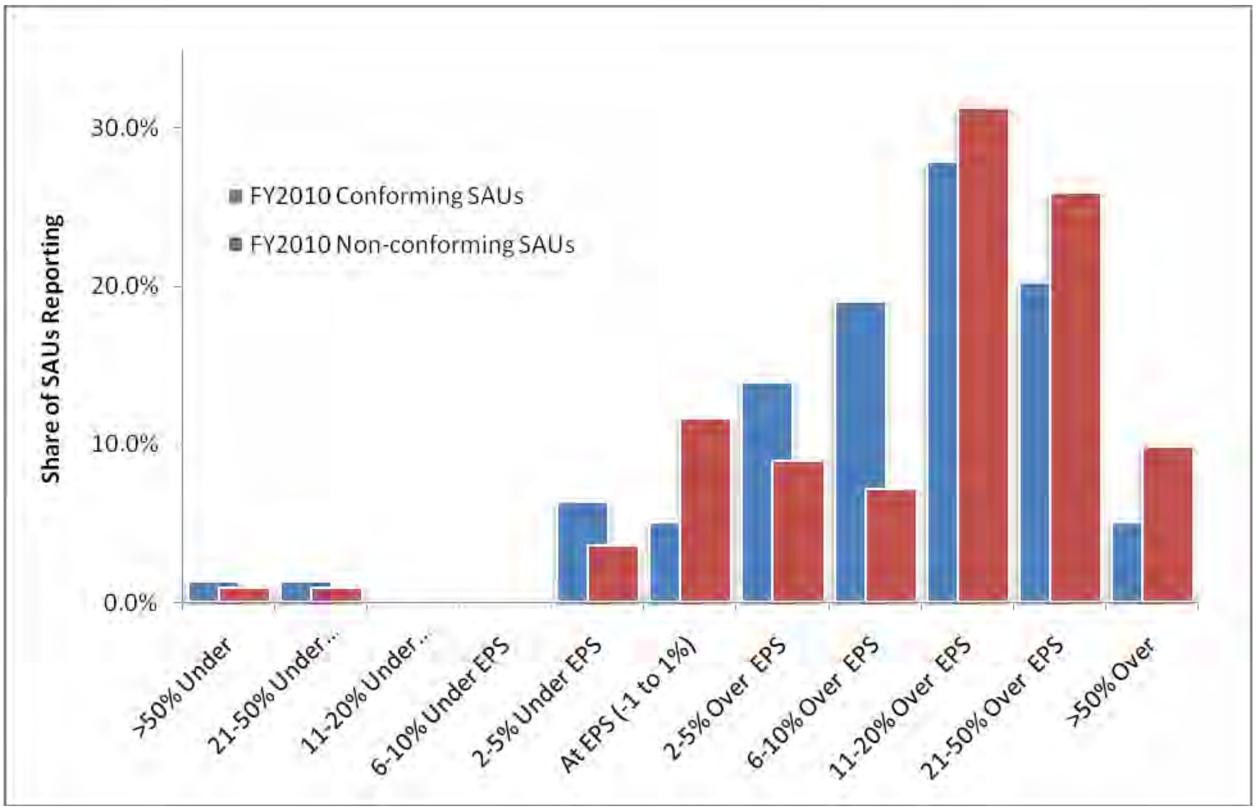
Table 12: School Administrative Unit Compliance with LD 1 in FY2010*
Note: All dollar figures in millions

Fiscal Year 2010	All SAUs	Conforming SAUs	Non-conforming SAUs
Number of SAUs	191	79	112
Pct. SAUs over 100% EPS	86.9%	86.1%	87.5%
Amount over EPS	$195	$150	$45
Amount over as pct. of EPS	10.9%	10.0%	15.3%

Source: Maine Dept. of Education and author's calculations
** Calculations exclude local-only debt*
** "Conforming" and "Non-conforming" refer to the status of SAU 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 4 shows the distribution of conforming and non-conforming SAUs around their targeted EPS funding levels in FY2010. The percentage of SAUs exceeding EPS at margins greater than 10% is higher among non-conforming SAUs than it is among conforming SAUs. The percentage of SAUs exceeding EPS at margins between 2% and 10% is higher among conforming SAUs than it is among non-conforming SAUs.

Figure 4: Distribution of SAUs above and below EPS by Reorganization Status



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

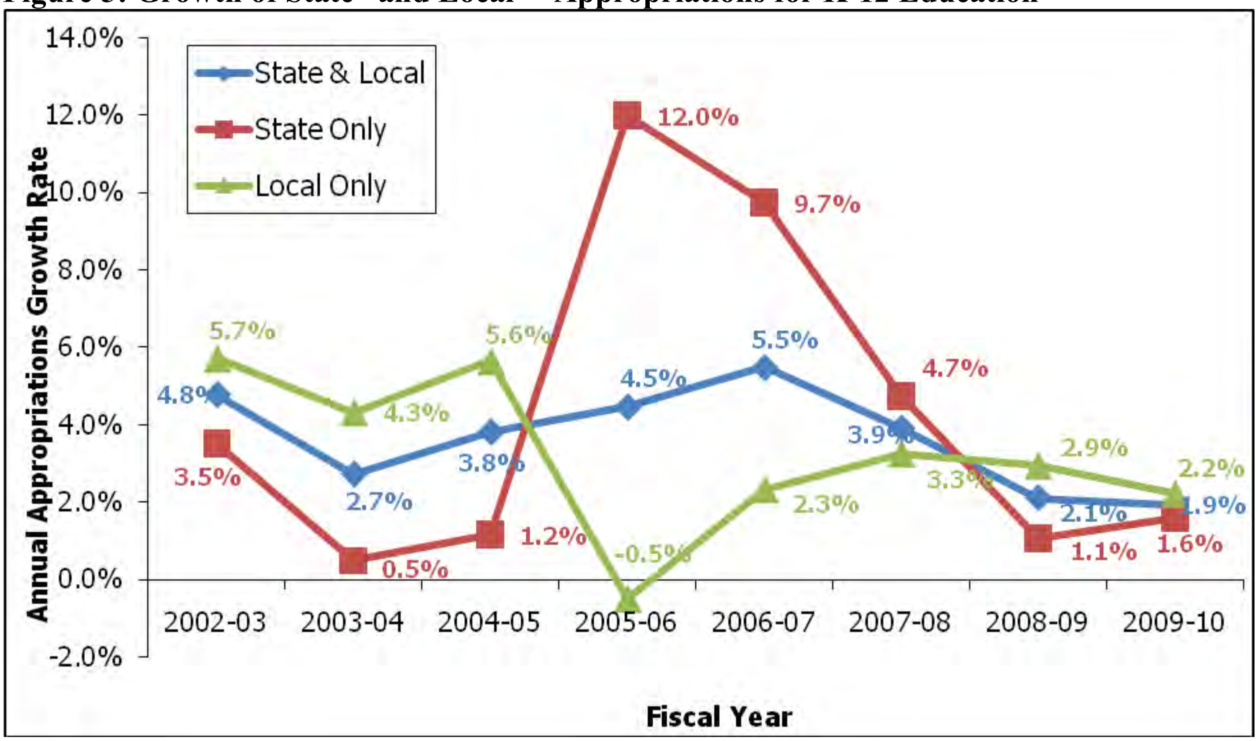
COMBINED STATEWIDE K-12 EDUCATION EXPENDITURE GROWTH

Next we examine a longer time horizon to study the impact of LD 1 on *total* state and local appropriations to schools (Figure 5). Both state transitional funds and local-only debt are included in the analysis.[9] Numbers may not match those reported in previous year's LD 1 reports, because only 184 of 214 SAUs are included in this year's sample.

[9] The vast majority of the local appropriations are raised through local property tax commitments. From 2007 through 2010, local-only debt accounted for only about 3.7% of local school appropriations.

FY2006 was the first year LD 1 limits applied to school appropriations. In the years immediately prior to that, 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 FY2005 to 12.0% in FY2006. Corresponding with the increased state funds, growth in local appropriations to schools declined from an annual growth rate of 5.6% in FY2005 to -0.5% in FY2006. On balance, the combined state and local appropriations to schools still increased from 3.8% annual growth rate in FY2005 to 4.5% in FY 2006, as the increased state funding was only partially offset by the reduction in local appropriations.

Figure 5: 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*
Note: This graph shows growth rates. Any number greater than zero indicates a year-over-year increase in appropriations.

In the years following the passage of LD 1, state funding for K-12 education has continued to grow, but the growth rate has decreased. The annual growth rate of state appropriations declined to 4.7% in FY2008 and 1.1% in FY2009.[10] Worsening economic conditions have led to a decline in state revenues and limited the State's

[10] Data available at the time of writing reflects state funding approved through the end of the First Regular Session of the 124th Legislature. It does not include reductions in GPA in a proposed FY2010 supplemental budget released by Governor Baldacci on December18, 2009.

ability to sustain a high growth rate in funding (only 1.6% in FY2010). At the local level, following the brief decline in local appropriations in FY2006, K-12 allocations grew 2.3% in FY2007 and 3.3% in FY2008. Local school appropriation growth leveled off at 2.9% in FY2009 and declined slightly to 2.2% in FY2010.

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. The LD 1 "limit" for SAUs is 100% of EPS. As a whole, School Administrative Units (SAUs) surpassed that limit. Approximately 87% of SAUs exceeded their individual limits for FY2010 (the 2009-2010 school year). Among the 191 SAUs reporting, the combined state and local allocations to local school districts exceeded 100% of EPS by $195 million, or 10.9%. . The percentage of SAUs exceeding their limit stayed constant but the amount by which they exceeded EPS decreased between FY2009 and FY2010. SAUs not conforming to the recent school consolidation law (generally smaller communities) exceeded EPS by 15.3%, a greater average margin than the 10.0% average margin for conforming SAUs (generally larger communities). Similarly, a greater percentage of non-conforming SAUs than conforming SAUs exceeded 110% of EPS (67% compared to 53%).

Total state and local appropriations to schools have continued to grow since 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 12%, resulting in a significant reduction in local appropriations growth. In the years since, both state and local allocations to schools have grown. State allocations have continued to increase at a decreasing rate, without corresponding reductions in local allocations. In FY2010, local school appropriations rose by 2.2%, which is a lower growth rate than pre-LD 1 but only slightly lower than the rates in FY2007-FY2009 and higher than the rate in FY2006, the first year post-LD 1. These figures imply that the post-LD 1 increase in state spending to schools did not result in permanent reductions in local property tax commitments appropriated for schools.

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.

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" (hereafter referred to as "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 struggled in their interpretation of this law. Every county calculated their LD 1 limit incorrectly for 2009. In some cases, dialogue between SPO and county officials resulted in revised LD 1 calculations. When this was not possible, SPO corrected the LD 1 calculation so that the analysis below reflects current law.

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 FY2009, Somerset County officials did not vote to increase or exceed their LD 1 limit. Conversations between SPO and Somerset County staff members revealed confusion due to the timing of their budget approval process and change to a fiscal year accounting period with the new jail unification law. The jail unification law directed counties to exclude assessments for correctional-related services from the LD l calculation for budget years starting after January 1, 2009. For FY2009, 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 exceeded its 2008 (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 2008, SPO calculated that its assessment in 2009 was $2.7 million over its LD 1 limit. However, because of the confusion, it is reasonable to assume that Somerset County officials would have voted to increase their LD 1 limit had they understood they were required to. We include a column in Table 12 that assumes Somerset's LD 1 limit for 2009 would have been its actual total assessment.

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 (Table 13). The counties' combined assessment limit was $132.7 million. Actual assessments were $131.0 million. This is $1.7 million, or 1.3% below the limit. This is consistent with counties' experience last year as well.[11]

Table 13: Combined County Assessment Limit Calculation

Note: All dollar figures in millions

	2004	2005	2006	2007	2008	2009 [1]	2009 [2]
LD 1 Average Annual Growth Factor	--	--	6.1%	5.2%	5.6%	4.8%	4.8%
Base Assessment Limit	$99.4	$104.4	$110.8	$119.4	$130.1	$132.7	$135.0
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
Actual Total Assessments	$99.4	$104.8	$111.3	$119.8	$128.8	$131.0	$131.0
Amount Below LD 1 Limit	--	--	$3.7	$2.2	$1.3	$1.7	$4.0
Percent Below LD 1 Limit	--	--	3.2%	1.8%	1.0%	1.3%	2.9%

Source: State Planning Office

1 *Somerset as reported*

2 *Somerset as if they had voted to increase their LD 1 Limit*

Table 14 shows annual growth of total county assessments. Assessments increased 1.7% between 2008 and 2009, a smaller increase than the 7.5% jump between 2007 and 2008. A primary reason for the reduction in

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 last year's report. The tables below parse out this exemption from other spending.

growth of total county assessments is that assessments for jails are now capped and cannot be increased. Non-correctional related expenses grew 2.7% in 2009. Table 15 shows what 2009 assessments would have been if assessments for jails had grown at their historical rate (an annual average of 9% for the 5 years ending in 2007).

Table 14: Growth of Total County Assessments

Note: All dollar figures in millions

Year	Total Assessments	Annual % Change
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: State Planning Office

Table 15: County Assessments without Jail Unification (Counterfactual Estimate)

Note: All dollar figures in millions

Year	Assessments for Jails (Actual)	Assessments for Jails (without Unification*)	Total Assessments (Actual)	Total Assessments (without Unification*)	Annual % Change (Actual)	Annual % Change (without Unification*)
2009	$62.5	$68.1	$131.0	$136.6	1.7%	6.1%
2008	$62.5	$62.5	$128.8	$128.8	7.5%	7.5%

Source: State Planning Office

**Assuming 9% annual growth from 2008 to 2009*

ASSESSMENT GROWTH OF INDIVIDUAL COUNTIES

Each individual county's experience with LD 1 varied. All counties were allowed to increase their assessment by the 2.28% growth in real personal income plus the percentage increase in new property value in their member towns. New property growth ranged from 1.0% in Piscataquis County to 4.8% in Aroostook County. Adding together personal income and property growth factors produced LD 1 assessment growth factors ranging from 3.3% to 7.1%.

In 2008 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. In 2009 many counties had similar difficulties. For example, some counties calculated growth factors with information from fewer than half 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. Other counties made noticeable errors in the information they provided. All counties calculated their limit incorrectly with respect to the new jail consolidation law. Sagadahoc County was not able to supply SPO with a property growth factor. Instead it estimated a 1% property growth factor that SPO used to calculate its LD 1 limit. SPO made every attempt to correct and verify all information used in this report. In addition, SPO is in the process of scheduling a "refresher" presentation for county administrators on the LD 1 law.

Ten counties stayed within their LD 1 limits, three fewer than last year, with actual assessments ranging from 20% to 0.1% below the limit. Of these, four counties were more than 10% below the limit and six counties were between 0.1% and 10% below their limit. On average these ten counties were 7.4% below their limit.

Of the six counties that surpassed their LD 1 limit, one (Oxford) voted to increase their limit. Many of the other counties assumed they were under their LD 1 limit because they incorrectly included correctional-related assessments in their LD 1 calculation; this is most likely the reason why counties who exceeded their limit did not vote to do so.

Oxford was the only county whose assessment growth in 2009 exceeded growth in 2005 (8.7% in 2009 compared to 5.4% in 2005). This contrasts to last year when six counties reported assessment growth rates larger than in 2005. Three counties-- Hancock, Lincoln, and Sagadahoc-- kept 2009 assessments at their 2008 levels.

SUMMARY

Counties stayed within their combined LD 1 limit in 2009. County assessments were $1.7 million (1.3%) below the limit. Statewide assessment growth slowed significantly compared to 2008 primarily because of the new law creating a unified correctional system and capping county jail assessments at 2008 levels. Overall, assessments increased by 1.7% from 2008 to 2009. Individually, ten counties stayed within their limits and three surpassed them. All counties incorrectly reported their LD 1 limit.

VII. SUMMARY

The first LD 1 report, released in 2006, showed constrained growth of local property taxes, which coincided with the law's first year of implementation. In 2009, like the last three 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 lower than before LD 1 and lower than any previous year except 2005. Over two-thirds of municipalities stayed within their limits, but smaller communities exceeded their LD 1 limits at significantly greater rates than larger communities.

Ten of Maine's sixteen counties stayed within their LD 1 growth limits. Overall, total county assessment growth fell sharply in 2009, primarily because of the new law creating a unified correctional system and capping county jail assessments at 2008 levels.

For a fifth year, Maine's School Administrative Units (SAUs) diverged from LD 1 limits more than any other level of government. Eighty-seven percent of SAUs exceeded their limit. Combined state and local appropriations for schools exceeded 100% of EPS by $195.0 million, or 10.9%. Compared to last year, the percentage of SAUs exceeding their limit stayed the same, but the amount by which they exceeded EPS decreased. SAUs not conforming to the recent school consolidation law (generally smaller communities) exceeded EPS by 15.3%, a greater average margin than the 10.0% average margin for conforming SAUs (generally larger communities). Overall, growth in combined state and local expenditures for K-12 schools has slowed to 1.9%, which is lower than in pre-LD 1 years.

VII. APPENDIX

2009 LD 1 Survey

Municipality: ______________	Contact: __________________	Phone: ________

Calendar Year Municipalities - For communities with "calendar year" budgets, the use of the term 2008 refers to the budget year that ended at the end of 2008 or in early 2009. The use of the term 2009 refers to the budget year that will end at the end of 2009 or in early 2010.

Fiscal Year Municipalities – For communities with "fiscal year" budgets, the use of the term 2008 refers to the July 1, 2008 to June 30, 2009 budget year. The use of the term 2009 refers to the July 1, 2009 to June 30, 2010 budget year.

1. Determine 2008 Property Tax Limit for Municipal Services

In 2008, did the municipality stay within the LD 1 limit or vote to "exceed", for one time only, the calculated limit?
Yes ___ (go to question 1-A)
No ___ (go to question 1-B)

1-A. Enter 2008 LD 1 Limit (and skip 1-B):		$ __________
1-B		
	A. 2008 Municipal Appropriations (Line 2, 2008 Assessment Warrant) *(Do not include any school appropriations.)*	$ __________
	B. 2008 Deductions (Line 11, 2008 Assessment Warrant) *(Do not include any school revenues.)*	$ __________
	C. 2008 LD 1 Limit (A less B)	$ __________

2. 2008 Property Taxes or LD 1 Limit for Municipal Services (Line 1-A or Line 1-B) $ __________

3. 2008 Income Growth Factor (State Planning Office calculation) 0.0228

4. Property Growth Factor (see instruction sheet) __________

5. LD 1 Growth Limitation Factor (Line 3 + Line 4) __________

6. Add 1 to the Growth Limitation Factor calculated in Line 5

(For example, if Line 5 is 0.0360, then enter 1.0360 on Line 6.) ___________

-Over-

7. Multiply Line 2 by Line 6 $ __________

8. Adjusted Revenue Sharing (see instruction sheet)

    8A. Net New Revenue Sharing $ __________
    8B. Loss of Revenue Sharing $ __________

9. 2009 Property Tax Levy Limit

    A. Line 8 less Line 7A (complete only if data is reported in 7A) $ __________
    B. Line 8 plus Line 7B (complete only if data is reported in 7B) $ __________

10. 2009 Municipal Appropriations (Line 2 on 2009 Assessment Warrant)
(*Do not include any school appropriations.*) $ __________

11. 2009 Total Deductions (Line 11 on 2009 Assessment Warrant)
(*Do not include any school revenues.)* $ __________

12. 2009 Municipal Property Tax Levy (Line 10 minus Line 11) $ __________

13. Over/(Under) Limit (Line 12 minus Line 9) $ __________

14. If Line 13 is positive, did the community vote to increase or exceed the LD 1 limit?
Increase ___ Exceed ___ Did Not Vote ___

15. Please circle the option (A through D) that best describes how your municipality's legislative body (i.e., council or town meeting) managed the adoption of the municipal budget and the LD 1 limit.

A. Proposed budget was *within the LD 1 limit*, and the finally adopted budget was *within the LD 1 limit.*

B. Proposed budget was *within the LD 1 limit*, and the finally adopted budget was *over the LD 1 limit*.

Did the legislative body adopt an article to *exceed* the limit for this year only? Yes __ No __
Did the legislative body adopt an article to permanently *increase* the limit? Yes __ No __
Why was the final budget over the LD 1 limit? ______________________________

C. Proposed budget was *over the LD 1 limit*, and the finally adopted budget was *over the LD 1 limit.*

Did the legislative body adopt an article to *exceed* the limit for this year only? Yes __ No __
Did the legislative body adopt an article to permanently *increase* the limit? Yes __ No __
Why was the final budget over the LD 1 limit? ______________________________

D. Proposed budget was *over the LD 1 limit*, and the finally adopted budget was *within the LD 1 limit*.

Thank you.

Please return your survey in the enclosed envelope to Kate Dufour or fax (624-0129) by ***November 2, 2009***. If you have any questions, please feel free to contact Kate at 1-800-452-8786 or by e-mail at kdufour@memun.org.