2014 Tax Levy Limit Progress Report

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This report is available online at http://www.maine.gov/economist/ld1/index.shtml

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Table of Contents

Executive Summary

In January 2005, 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) was signed into law. The goal of LD 1 was to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015. The Office of Policy and Management (OPM) 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." As we are finding following nearly a decade of monitoring, merely complying with limits in growth of spending is not sufficient to reduce the overall tax burden on Maine residents at the state and local level and additional reforms are needed.

Below, for each level of government, two simple questions have been used to assess progress toward the LD 1's tax burden reduction goals: "Is aggregate spending within the LD 1 limit?" and "Is aggregate spending growing at a slower rate than in pre-LD 1 years?" Within the report, each level of government's spending and/or tax revenue is investigated in greater depth, as data is available. Given the limited progress in achieving tax burden reduction, this report begins the effort to review expenditure trends and identifies some policy and data collection needs to achieve tax burden reduction.

State

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

For the tenth year in a row, growth of the state's General Fund appropriations has remained below the limit set by LD 1. General Fund appropriations in FY 2015 were $471 million (12.9%) below the limit. General Fund appropriations decreased by 0.5% from FY 2014 to FY 2015, which is the fourth decline since the tax levy limit law took effect. The average annual growth for the ten years prior to LD 1 was 5.4%. The largest increase since then was in FY 2012, when total appropriations grew 9.0% due in large part to the expiration of federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA) on June 30, 2011, and accounting for an additional $63.6 million for GPA.

Municipalities

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

The 2014 survey showed that nearly one-third of municipalities, or 31%, exceeded the tax levy growth limits set in place with LD 1. This number is in line with recent years' surveys of one-quarter to one-third of municipalities choosing to exceed the growth limit. The first LD 1 report in 2006 included survey results showing 40% of municipalities exceeding the limits, demonstrating little movement in controlling growth of property taxes. Based on preliminary data from Maine Revenue Services (MRS), aggregate municipal property tax commitments grew by a rate of 3.6% in 2014. In the three years prior to LD 1, annual commitment growth ranged from 5.3% to 7.0%.

While the law appears to have slightly tempered the rates of growth, it has not spurred significant movement towards efficiency or regionalization to reduce the local tax burden to levels set out as a goal in LD 1. Efforts included in the proposed biennial budget by Governor Paul LePage, and referenced later in this report, attempt to direct tax relief directly to the property taxpayer, ensure large non-profit entities that are known to utilize local services contribute a fair share, and to fund incentives to move more robust shared service models forward.

School Administrative Units

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

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

The number of local schools exceeding their limit (80.8% of this year's sample) decreased from last year while the amount by which they exceeded EPS increased. More schools than last year (18.3% of this year's sample) were under 100% of EPS. Total state and local K-12 appropriations increased 0.1% in FY 2015. At the same time, K-12 public school enrollment declined 0.8% in the 2013-14 school year and a total of 9.3% since the 2006-07 school year.

Counties

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

When looking at combined assessments, counties stayed within their LD 1 limit in 2014, however six individual counties of Maine's 16 exceeded their tax growth limit under LD 1. County assessments were $4.6 million (3.1%) below the limit. Overall, assessments decreased 1.0% from 2013, which was the first decline since the passage of P.L. 2005, Chapter 2.

I. Introduction

In January 2005, 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) became law. The goal of LD 1 was to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015. It had three components:

- Spending limits: LD 1 limits the growth of the state's General Fund appropriations to rates reflective of Maine's income and population growth, county assessments and municipal assessments are limited by income and property growth factors, and school spending is tied to the level of student enrollment. Governing bodies may surpass the limits, but only through an explicit, public vote.
- Targeted tax relief: LD 1 sought to target tax relief directly to Maine residents through specific programs. At initial passage, it increased the amount of property tax relief available through the Maine Residents Property Tax and Rent Relief Program (the "Circuit Breaker") and increased the Homestead Exemption, the amount Maine residents can subtract from the taxable value of their home. The Circuit Breaker Program has since been replaced by a refundable Property Tax Fairness Credit that can be claimed on the Maine Individual Income Tax Form.
- Increased school funding: LD 1 set the course for increasing state spending on K-12 education to an amount that is 55% of the costs covered under Essential Programs and Services (EPS). By FY 2015, $196 million in additional state funding, compared to 2005, has been made available for local schools. However, state budgetary challenges in the context of a national recession beginning in 2007 and instability in expenditures from other departments have delayed attainment of the 55% goal.

LD 1 charges the Office of Policy and Management (OPM) 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 compiles the tax collection data necessary to compare Maine's state and local tax burden with other states. The Census Bureau currently has tax collection data through FY 2012. Dividing total state and local tax revenue (from Census Bureau data) by total statewide personal income (from the US Bureau of Economic Analysis), as LD 1 prescribes, OPM calculates Maine's total state and local burden for FY 2012 to be 11.9%, which is the eighth highest among the fifty states. In FY 2012, Maine's state tax burden (7.3%) ranks 11th highest, and the local tax burden (4.6%) ranks 13th highest. One limitation of the Census Bureau's 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, the tax burden on Maine residents may be overestimated. The framework of Governor Paul LePage's tax reform and relief plan, geared towards reducing the tax burden on Maine residents by nearly $300 million, focuses in on the "export" nature of certain taxes within the state.

For the first LD 1 report, released in January 2006, approximately 40% of municipalities subject to LD 1 in 2005 exceeded their property tax levy limits. Maine Revenue Services reported that in LD 1's first year, Maine's combined state and local tax burden declined from 11.7% to 11.5%, with most of the reduction occurring at the local level. LD 1's early impact on school administrative units (SAUs) was smaller than its impact on other levels of government. Over two-thirds exceeded their spending targets and aggregate school appropriations were 3.4% over the LD 1 limit in 2005.

Replicating the core indicators first reported by Dr. Gabe, OPM found that LD 1's impact in 2006-2014 may have slowed rates of spending growth but did little to shift the state and local tax burden and was further confounded by other variables. Although the state and a majority of municipal governments may have stayed within their limits for tax commitments, efficiency measures that could drive down the expenditure side of Maine government and therefore reduce the tax burden were limited. In addition, the jail unification law that took effect in 2008 may have reduced growth in county tax assessments, further confounding the analysis of LD 1's impact due to the shift in cost increases to the state budget.

One of the greatest challenges with the analysis of LD 1's impact relates to the quality of the data collected. Both the municipal and county government analyses rely on written survey responses for data collection. Over the years, it has become apparent that the quality of this self-reported data is often questionable. Certainly there are some municipalities and counties that do provide accurate data, but the aggregate data quality makes the overall reliability of the data rather low.

There are, unfortunately, many different ways the data can be faulty. The single most problematic way has to do with the way statute requires the limit to be calculated. Each year's limit builds upon the previous year's limit. This means that if an error is made at any point in calculating the limit, that error is carried forward in perpetuity. Additionally, miscalculating the limit can lead to governments believing they were under their limit in a given year when, in fact, they surpassed it and thus should have voted on whether to exceed or increase the limit.

At the municipal level, errors have been observed in many different parts of the calculation process. In some cases, they are simple mathematical errors: a decimal in the wrong place, for example. Other errors include: using the wrong year for calculating the property growth, including the change in valuation from one year to the next instead of the newly assessed valuation, using the wrong revenue sharing amounts, and rounding up too many places when calculating the growth factor. Additionally, many municipalities incorrectly use their previous year's levy as the base for calculating their new limit instead of using the previous year's limit.

At the county level, most of the calculation problems stem from confusion around interpretation of the statute, especially following enactment of the jail consolidation law. Compounding this confusion is that in the past, surveys sent by OPM were often not clear on exactly what should be included in particular parts of the calculation.

A review of the data collection measures is currently being undertaken by OPM in the hopes of improving the overall data quality and resulting analysis. This includes seeking to better aggregate expenditure data and trends for assessment of spending and possible reforms. In order to collect a larger sample size, the opportunity to collect the data concurrently with and through Maine Revenue Services in the place of sending separate requests should be explored. For example, the creation of an online form where municipalities could enter their data for the Municipal Valuation Return (MVR) with the online software then performing the calculations without worrying about human error or misunderstanding the directions. Afterwards a report could be downloaded and transferred for OPM analysis which would negate the need for two separate systems of data collection as currently exists.

This report updates last year's analysis of LD 1 and assesses progress made during 2014.

II. State Government's Experience with the Tax Levy Limit

Public Law 2005, Chapter 2 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 appropriations limit is the previous year's limit increased by that growth factor. The law provides an allowance for the additional funds expended by the state as it increases General Purpose Aid (GPA) for local schools to 55% of covered costs. The 55% goal was scheduled to be achieved in FY 2010, but severe state government revenue shortfalls in the context of the 2007-2009 national recession and subsequent slow recovery have delayed achievement 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 FY 2014 and FY 2015 was set in September 2012 using the most current data available at the time. The ten-year average income growth was 1.05% and population growth was 0.33%, resulting in a growth limit of 1.37% (after rounding). That limit applies to both years of the biennium.

The appropriations limit for FY 2015 was determined by applying the 1.37% growth factor to the FY 2014 base appropriations limit, $3,413 million, and adding $196 million in increased state funding for GPA. The resulting FY 2015 General Fund appropriations limit is $3,655 million (See Table 1).

Table 1: State General Fund Appropriations Limit Calculation

Note: All dollar figures are in millions

Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Annual Growth Factor	--	3 11%	3 11%	3 08%	3 08%	2 76%	2 76%	2 05%	2 05%	1 37%	1 37%
Base General Fund Appropriations	$2,710	$2,794	$2,881	$2,970	$3,061	$3,146	$3,233	$3,299	$3,366	$3,413	$3,459
General Purpose Aid to Schools	$735	$836	$914	$972	$956	$909	$872	$887	$875	$946	$930
Additional GPA above FY2005 GPA	--	$102	$180	$237	$222	$175	$138	$152	$140	$212	$196
LD 1 Appropriations Limit (Base plus Additional GPA)	--	$2,896	$3,061	$3,207	$3,283	$3,320	$3,370	$3,451	$3,507	$3,624	$3,655
Actual Appropriations	$2,784	$2,872	$2,978	$3,129	$3,018	$2,849	$2,873	$3,130	$3,082	$3,200	$3,184
LD 1 Limit Minus Actual Appropriations	--	$24	$82	$78	$265	$471	$498	$321	$425	$424	$471
Percent Under LD 1 Limit	--	0 8%	2 7%	2 4%	8 1%	14 2%	14 8%	9 3%	12 1%	11 7%	12 9%

Source: Maine Department of Administrative and Financial Services; Maine State Legislature, Office of Fiscal and Program Review

State appropriations in FY 2015 are below the LD 1 limit. Current FY 2015 General Fund appropriations (through the second regular session of the 126th Legislature) are $3,184 million, which is $471 million (12.9%) below the limit.

Table 2 displays the growth of all General Fund appropriations, including the additional GPA funding. Total General Fund appropriations decreased by 0.5% in FY 2015, which is the fourth time appropriations have decreased since the tax levy limit law took effect. This decrease follows an increase of 3.8% for FY 2014. FY 2012 had the largest increase of 9.0%, which was mostly due to the expiration of federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA) on June 30, 2011 and accounts for an additional $63.6 million for GPA.

Table 2: Growth of State General Fund Appropriations

Growth of General Fund Appropriations FY2014 - FY2015	-0.5%
Growth of General Fund Appropriations FY2013 - FY2014	3.8%
Growth of General Fund Appropriations FY2012 - FY2013	-1.5%
Growth of General Fund Appropriations FY2011 - FY2012	9.0%
Growth of General Fund Appropriations FY2010 - FY2011	0.8%
Growth of General Fund Appropriations FY2009 - FY2010	-5.6%
Growth of General Fund Appropriations FY2008 - FY2009	-3.6%
Growth of General Fund Appropriations FY2007 - FY2008	5.1%
Growth of General Fund Appropriations FY2006 - FY2007	3.7%
Growth of General Fund Appropriations FY2005 - FY2006	3.1%
Growth of General Fund Appropriations FY2004 - FY2005	5.4%
Growth of General Fund Appropriations Pre-LD 1 10-Year Average	5.4%

Source: Maine Department of Administrative and Financial Services and Maine State Legislature, Office of Fiscal and Program Review

Table 3 shows the growth of General Fund appropriations by GPA and non-GPA funding. For current FY 2015 appropriations, GPA funding decreased by 1.7% and non-GPA funding was unchanged.

Table 3: Growth of GPA and non-GPA General Fund Appropriations						
Note: All dollar figures are in millions						
Fiscal Year	GPA	Annual Change in GPA	Non-GPA	Annual Change in Non-GPA	Total General Fund Appropriations	Annual Change in Total
2015	$930	-1.7%	$2,254	0.0%	$3,184	-0.5%
2014	$946	8.1%	$2,254	2.1%	$3,200	3.8%
2013	$875	-1.4%	$2,207	-1.6%	$3,082	-1.5%
2012	$887	1.7%	$2,243	12.1%	$3,130	9.0%
2011	$872	-4.0%	$2,000	3.1%	$2,873	0.8%
2010	$909	-5.0%	$1,940	-5.9%	$2,849	-5.6%
2009	$956	-1.6%	$2,061	-4.4%	$3,018	-3.6%
2008	$972	6.3%	$2,157	4.5%	$3,129	5.1%
2007	$914	9.3%	$2,064	1.4%	$2,978	3.7%
2006	$836	13.8%	$2,036	-0.7%	$2,872	3.1%
2005	$735	4.6%	$2,050	5.6%	$2,784	5.4%
2004	$702	-1.6%	$1,941	6.2%	$2,643	4.0%
2003	$713		$1,827		$2,540	

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, Public Law 2005, Chapter 2 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 Program has since been repealed as part of the enacted state budget for claims beginning on or after August 1, 2013. Around $750,000 in refunds from late 2012 applications were paid in FY 2014. The Circuit Breaker has been replaced by a refundable Property Tax Fairness Credit that can be claimed on the Maine Individual Income Tax Form. The estimated FY 2015 state expenditure for the new Property Tax Fairness Credit is $33.8 million. This has been seen as a direct way for the state to deliver property tax relief to Maine residents and a $60 million increase has been included in the second year of the proposed biennial budget of Governor Paul LePage, with approximately $90 million per year maintained going forward as part of the tax reform and relief initiative.

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 Maine residents' tax bills. Prior to the tax levy limit law, 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. Public Law 2005, Chapter 2 increased the exemption to $13,000 for all homesteads, with the state reimbursing municipalities for 50% of the foregone tax revenue. A 2009 amendment (Public Law 2009, Chapter 213) reduced the Homestead Exemption to $10,000 beginning in the 2010 tax year. In addition, the state now splits the reimbursement of foregone tax revenue to municipalities into two payments: 75% of the total is reimbursed in the current fiscal year and 25% is reimbursed in the following fiscal year. With the proposed increase in the Property Tax Fairness Credit, a change in the Homestead Exemption is also proposed that would focus its use exclusively for Maine residents over the age of 65 and double the exemption amount.

Table 4: State Expenditures for Homestead Exemption, Circuit Breaker, and Property Tax Fairness Credit

Note: All dollar figures are in millions

Fiscal Year	Homestead Exemption	Circuit Breaker	Property Tax Fairness Credit	Total
2015 (Estimate)	$24.7	$0.0	$33.8	$58.5
2014	$24.9	$0.7	$20.0	$59.7
2013	$25.3	$41.8	-	$67.1
2012	$23.6	$43.4	-	$67.0
2011	$16.2	$41.4	-	$57.6
2010	$28.4	$40.9	-	$69.3
2009	$27.6	$48.8	-	$76.4
2008	$27.8	$46.7	-	$74.5
2007	$28.8	$44.4	-	$73.2
2006	$31.2	$42.8	-	$74.0
2005	$32.3	$26.0	-	$58.3
2004	$34.3	$23.3	-	$57.6

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

The Maine Residents Property Tax and Rent Refund "Circuit Breaker" Program has been repealed as part of the enacted state budget for claims beginning on or after August 1, 2013. Around $750,000 in refunds from late 2012 applications were paid in FY 2014. The Circuit Breaker has been replaced by a refundable Property Tax Fairness Credit that can be claimed on the Maine Individual Income Tax Form.

Source Maine Revenue Services

Summary

For the tenth year in a row, the state's General Fund appropriations were below the limit set by Public Law 2005, Chapter 2. Based on legislation enacted by the 126th Legislature, total General Fund appropriations decreased 0.5% in FY 2015. Within these appropriations was an additional $196 million for local K-12 education compared to 2005. Setting aside that additional GPA funding as directed, General Fund appropriations were unchanged in FY 2015.

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, exclusive of other revenues from fees, excise taxes, etc. 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. The growth of property tax collections has been the benchmark to test whether LD 1 has successfully reduced the local tax burden on Maine residents to the middle third of the county. The Office of Policy and Management compared Municipal Valuation Returns (MVRs)[1] for years before and after LD 1. The analysis in this section is based on a sample of municipalities that had filed this year's MVR form by mid December 2014. The sample of reporting municipalities differs from previous years and as a result figures differ slightly from past tax levy limit progress reports. Furthermore, figures reported here may differ slightly from numbers reported in the future by Maine Revenue Services based on 100% of filed MVRs.

In mid-December 2014, 448 communities had filed the MVR, representing 91% of all municipalities in the state and accounting for 97% of the total statewide commitment in 2013. Results here are thus broadly representative of the total population of Maine municipalities.

Figure 1 shows recent annual growth of aggregate municipal commitments for small municipalities, large municipalities, and the entire sample of 448 municipalities as a whole.[2] Small and large municipalities showed significant differences in commitment growth. Commitment growth in small municipalities had been volatile year-to-year before flattening out around 3.5% from 2010 and beyond.

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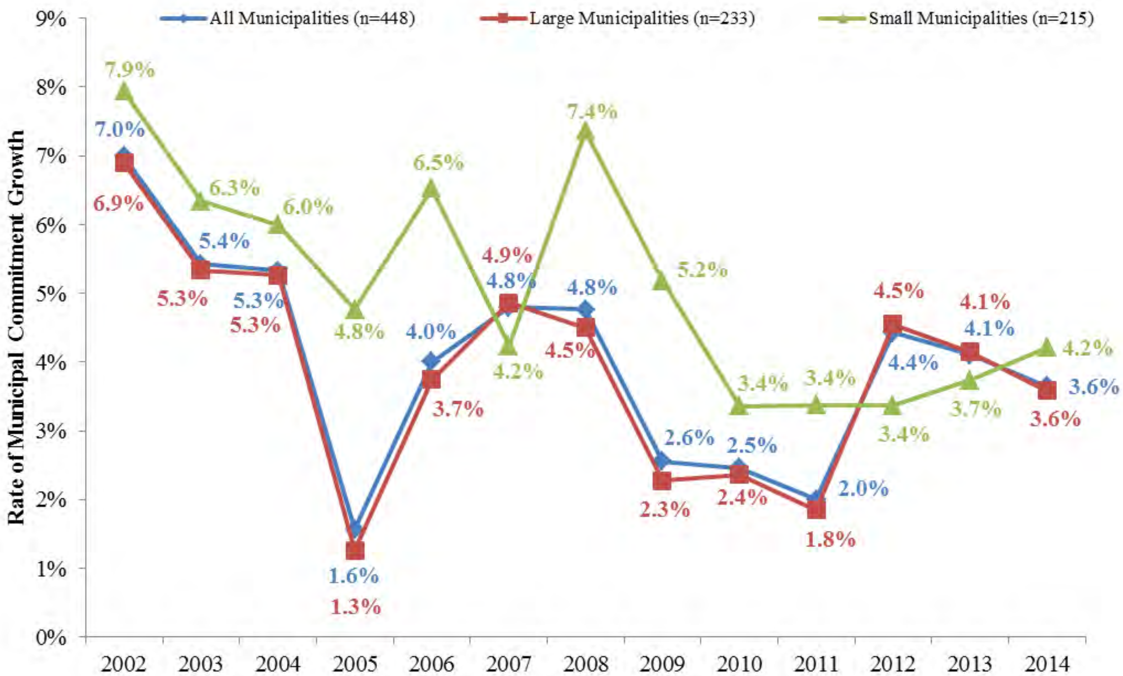
1 The Municipal Valuation Return is an annual report summarizing local tax information that assessors are required to file with Maine Revenue Services

2 "Small municipalities" have a population less than 1,246, the median population of all towns in Maine "Large municipalities" have a population greater than 1,246 There were 233 large municipalities and 215 small municipalities in this year's MVR sample

The growth in small municipalities increased in 2014 to 4.2%. Growth in small municipalities also was greater than growth in large municipalities in every year except 2007, 2012, and 2013.

Figure 1: Annual Growth in Municipal Property Tax Commitments
Calculations based on the 448 municipalities reporting on the 2014 MVR as of December 2014



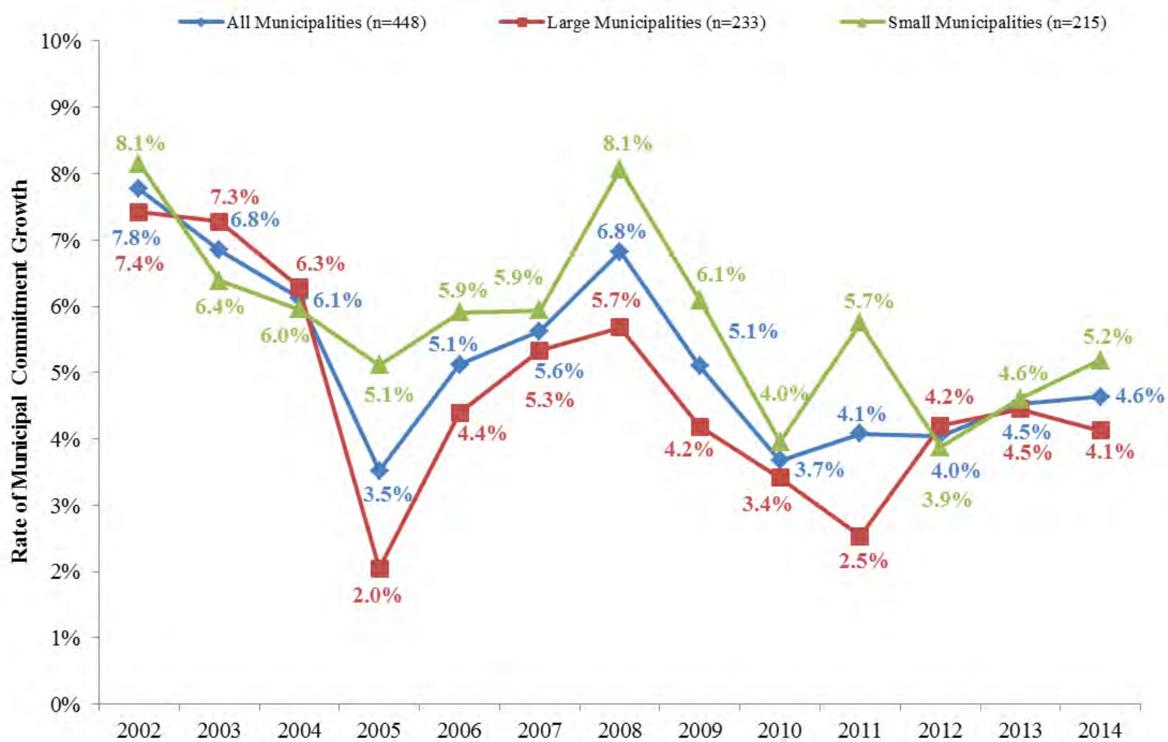
Source: Maine Revenue Services Municipal Valuation Reports (2001-2014) & OPM calculations.
Note: "Small municipalities" have a population less than 1,246, the median population of all towns in Maine. "Large municipalities" have a population greater than 1,246.

The overall decrease in commitment growth in 2009 was driven in part by the recession and in part by the county jail unification law (Public Law 2008, Chapter 653). In addition, the jail unification law limited the amount of taxes that counties can collect from municipalities for county corrections, though the increase was shifted to the state budget, despite the spending decisions still occurring locally.

Commitment Growth of Individual Municipalities

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

Figure 2: Average Annual Growth in Municipal Property Tax Commitments
Calculations based on 448 municipalities reporting on the 2014 MVR as of December 2014



Source: Maine Revenue Services Municipal Valuation Reports (2001-2014) & OPM calculations.
Note: "Small municipalities" have a population less than 1,246, the median population of all towns in Maine. "Large municipalities" have a population greater than 1,246.

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

Similar to aggregate municipal commitment growth, average growth in municipal commitments, albeit at varying rates, did continue to rise (over the last decade) due to economic pressures and local decision making and made no discernible advances in reducing the overall local tax burden on Maine residents.

IV. Municipal Governments' Experience with LD 1

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

Survey Methodology

To determine the impact of LD 1 on property tax commitments raised for municipal operations, the Maine Municipal Association (MMA) and OPM distributed a voluntary survey (2014 Municipal Property Tax Levy Limit Survey) to all of Maine's municipal governments. The survey guides municipalities through the calculation of their municipal property tax levy and municipal property tax levy limits for both the past (2013) and current (2014) years. These calculations are used to determine whether or not the municipality surpassed the municipal property tax levy limit, as defined by LD 1.

MMA and OPM received a total of 213 useable responses to the 2014 survey, representing roughly 43% of all Maine municipalities. This is slightly more than last year's response rate of 40% (196 useable responses). The municipalities included in the sample of 213 useable responses represent approximately 58% of the statewide aggregate municipal commitment in 2013, and 54% of the 2014 municipal commitment of the 448 communities that had filed their 2014 MVR by mid December 2014.

Past years' analyses of the municipal survey responses suggest the sample size is sufficiently representative of all municipalities. 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.

Survey Results

As prescribed by LD 1, the survey asked municipalities to use their 2013 LD 1 limit (municipal property tax levy limit) as a starting point for determining their 2014 LD 1 limit. "Municipal property tax levy" refers to property taxes raised to fund municipal governments. It excludes property taxes raised for schools, counties, and Tax Increment Financing (TIF).

Table 5: Summary Statistics, 2014 Municipal Property Tax Levy Limit Survey Results

Number of Municipalities	213
Aggregate Municipal Commitment, 2014 (from MVR)	$1,203,267,669
Aggregate Municipal Property Tax Levy Limit, 2014	$512,094,243
Aggregate Municipal Property Tax Levy, 2014	$452,277,145
Ratio of Municipal Property Tax Levy to Total Commitment, 2014	37.6%
Percent by which Levy was Below Limit, 2014	11.7%
Mean Growth Limitation Factor, 2014	2.4%
Mean Growth Limitation Factor, 2013	2.8%
Mean Growth Limitation Factor, 2012	2.9%
Number of Municipalities Surpassing 2014 LD1 Limit (as percent of 2014 sample)	31%
Average Margin by which Municipalities over LD 1 Limit exceeded the limit	29%
Average Margin by which Municipalities below the LD 1 Limit were under the limit	19%
Percent of Municipalities over the Limit who reported voting to increase the limit	34%
Percent of Municipalities over the Limit who reported voting to exceed the limit	32%
Percent of Municipalities over the Limit who did not report voting to increase or exceed	34%

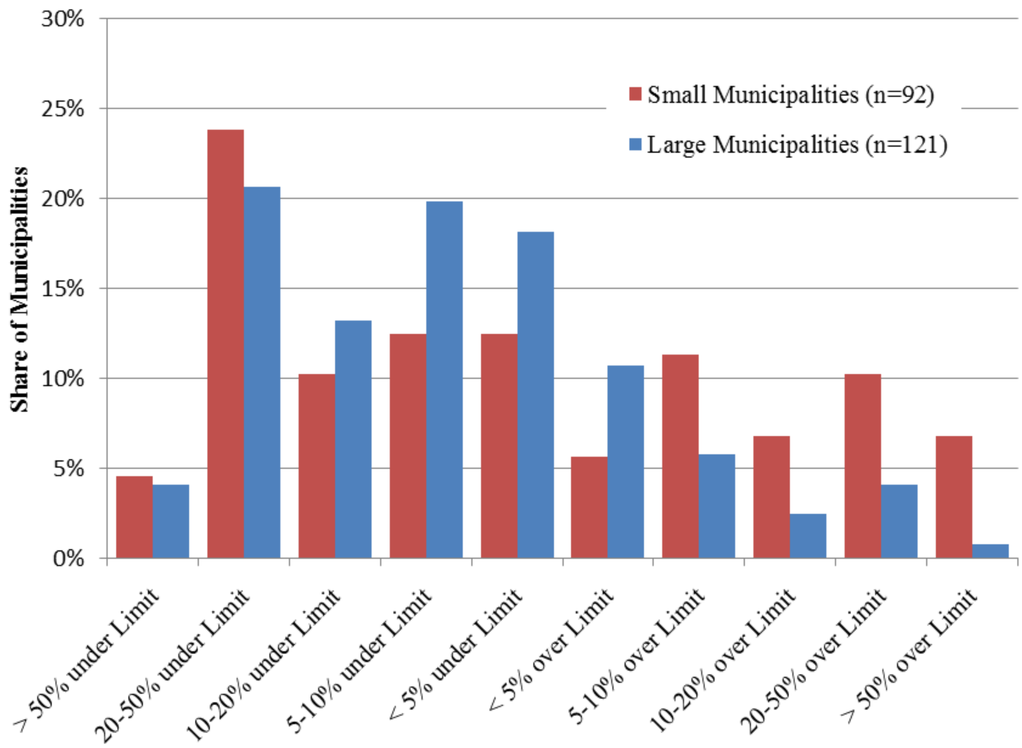
Source: Maine Revenue Services Municipal Valuation Returns, MMA/OPM Municipal Survey, and OPM calculations

Among the 213 useable responses, the average growth limitation factor was 2.4% (Table 5). This was lower than last year's average growth limitation factor of 2.8%.

As shown in Table 5, the aggregate 2014 commitment was $1.203 billion for the 213 municipalities in the sample. The combined 2014 municipal property tax levy was $452 million or 37.6% of the aggregate 2014 commitment. The aggregate property tax levy limit for 2014 was $512 million. This means that when aggregated across the survey sample, Maine communities kept the municipal property tax levy below the total amount allowable under LD 1 by about $60 million, or 11.7% of the LD 1 limit. This is consistent with last year's report and is the tenth year that municipalities came in under the statewide LD 1 limit. Although aggregate tax levies were under the LD 1 limit, the local tax burden on Maine residents has remained within the top one-third nationally since the passage of LD 1. This demonstrates a fatal flaw in the reform's structure towards achieving meaningful tax reduction especially in comparison to other states.

In addition, when taken individually, of the 213 municipalities in the 2014 sample, 65 (31%) exceeded their individual LD 1 limit. Those municipalities were, on average, 29% over the limit. 47 municipalities (22% of the sample) were more than 5% over their limit and 30 (14% of the sample) were more than 10% over their limit. Figure 3 shows the distribution of small and large municipalities in the survey sample above and below their individual LD 1 limits.

Figure 3: Distribution of Small and Large Municipalities Above and Below LD 1 Limits



Source: MMA/OPM 2014 Municipal Property Tax Levy Limit Survey
Note: "Small municipalities" have a population less than 1,246, the median population of all towns in Maine. Large municipalities are towns with a population greater than 1,246

Tables 6 and 7 present percentages and statistical tests to help identify some of the characteristics of municipalities that were either over or under their LD 1 limit. Table 6 shows that towns that were over their LD 1 limit tended to have smaller populations in 2013 than towns that were under their limit.

Table 6: Characteristics of Municipalities that are Over/Under LD1 Tax Levy Limit

Comparisons based on municipalities reporting on 2014 MMA/OPM Survey

Characteristic	All Municipalities	Over LD 1 Limit	Under LD 1 Limit
All Municipalities	213	65 ^	148 ^
Average population, 2013	3,420	2,102 **	3,999 **
Average population growth rate, 2003-2013	1.7%	0.7%	2.1%
Commitment per capita, 2014 (Millions)	$1,787	$2,087	$1,655
Aggregate municipal commitment growth rate, 2013-2014	-8.6%	3.2% ^	-11.9% ^
Average property tax rate, 2014	1.43%	1.43%	1.43%
Median household income, 2013	$47,280	$48,503	$46,743
Average Growth Limitation Factor	2.4%	2.5%	2.3%

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

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

^Based on aggregate data, no statistical tests are available

Source: Maine Revenue Services, Municipal Valuation Returns 2014 & 2013; US Census Bureau; 2014 MMA/OPM Municipal Survey; and OPM calculations.

Table 7: LD 1 Compliance in Subgroups of Municipalities

Comparisons based on municipalities reporting on 2014 MMA/OPM Survey

	All Municipalities		Municipalities Over LD 1 Limit	
	Number	Percent of All Survey Respondents	Number	Percent of Subgroup
All Municipalities	213	100%	65	31%
Small Municipalities (Pop < 1,246)	92	43%	36	39% **
Shrinking Municipalities (Pop '03 > Pop '13)	92	43%	29	32%
Central Municipalities	19	9%	3	16%
Downeast Municipalities	25	12%	8	32%
Mid-Coast Municipalities	36	17%	11	31%
Northern Municipalities	58	27%	21	36%
Southern Municipalities	34	16%	8	24%
Western Municipalities	41	19%	14	34%

**Indicates subgroup is statistically different than the rest of the survey sample (95% confidence level).

Sources: US Census Bureau, 2014 MMA/OPM Municipal Survey, and OPM calculations.

The survey also asked municipalities surpassing the LD 1 limit to report whether they voted to temporarily exceed or permanently increase it, as required by LD 1. A vote to *exceed* allows the municipality to surpass the limit in that year but requires that year's limit to be used as the base for the next year's limit calculation, as usual. A vote to *increase* allows the municipality to surpass the limit in that year and resets the limit so that the amount that was actually levied becomes the new limit and is used as the base for the next year's limit calculation. Municipalities were then asked to explain why they chose to exceed or increase their base commitment limit. This year, 65 municipalities (31% of the sample) went over their LD 1 limit. 22 of these communities voted to increase their limit, 21 voted to exceed their limit, and 22 did not report voting to exceed or increase. In the past, some municipalities have explained this non-compliance by indicating that they were unaware of the necessity of voting, had trouble calculating growth limits, or did not think LD 1 applied to them.

The survey provided municipalities space to comment on why they decided to vote to exceed or increase their LD 1 limit. Many towns reported that voting is done annually, whether necessary or not.

Summary

For the tenth year in a row, municipalities held property taxes raised for municipal operations below their aggregate statewide LD 1 limit. Among the 213 useable responses to the MMA/OPM survey, the aggregate municipal property tax levy was 11.7% below the aggregate LD 1 limit. 69% of municipalities stayed within their LD 1 limit, down from a record of 75% of the sample in 2012 but up from last year's rate of 65%. Those surpassing the limit did so by an average margin of 29%.

Despite the state policy goal of moving Maine's state and local tax burden to the middle third of all states, we have actually experienced an increase in local(calculated as local tax revenue divided by total personal income) ranking from 16th in 2007 to 13th in 2012 (based on most recent available data).

Given that previous reports focused solely on tax commitment data, OPM engaged with the Maine Municipal Association (MMA) to discuss data they've collected historically on local spending: the MMA fiscal survey. While they do not collect data for every municipality, a sample size of approximately 200 annually, is sufficient to look at per capita spending in service areas as well as how state operating support, was included in budgets through municipal revenue sharing.

While the individual towns and cities included in the tables below may budget particular expenses tied to services in different ways, a snapshot of the variation in spending per capita for some of the services Maine people see as core to local government are shown. Those include public safety/law enforcement, public safety fire protection, and public works. For those communities providing data for 2012, OPM has highlighted the highest 10 and lowest 10 in per capita spending.

Table 8: Public Safety - Law Enforcement per capita expenses; highest and lowest ten municipalities per capita expenses

		Population	Public Saftey Expenses - Law Enforcement	
Town	**County**	**FY12**	**FY12**	**Per Capita**
Ogunquit	**YORK**	**892**	$1,418,694	$ 1,590
Kennebunkport	**YORK**	**3,930**	$1,226,980	$ 312
Calais	**WASH**	**3,149**	$ 661,133	$ 210
Biddeford	**YORK**	**21,276**	$4,209,529	$ 198
Saco	**YORK**	**18,482**	$3,419,779	$ 185
Lewiston	**ANDR**	**35,942**	$6,199,227	$ 172
North Berwick	**YORK**	**4,778**	$ 778,928	$ 163
Long Island	**CUMB**	**193**	$ 27,784	$ 144
Oakland	**KENN**	**6,240**	$ 878,588	$ 141
Jay	**FRAN**	**4,836**	$ 649,776	$ 134
Lincolnville	**WALD**	**2,350**	$ 106,819	$ 45
Poland	**ANDR**	**5,376**	$ 213,627	$ 40
Old Town	**PENO**	**7,840**	$ 304,632	$ 39
North Yarmouth	**CUMB**	**3,637**	$ 82,189	$ 23
Guilford	**PISC**	**1,441**	$ 26,000	$ 18
Castine	**HANC**	**1,444**	$ 20,143	$ 14
Randolph	**KENN**	**1,772**	$ 23,857	$ 13
Limington	**YORK**	**3,898**	$ 34,000	$ 9
Medford	**PISC**	**231**	$ 1,000	$ 4
Detroit	**SOME**	**809**	$ 2,000	$ 2

Source: 2012 MMA Fiscal Survey

Due to the unique operational considerations for each municipal police department, an in-depth analysis would need to be done to explain the deviations in this data. Management structures, personnel contracts and wages/benefit levels, and equipment replacement cycles are some of the varied components of these local budgets. This data is included to illustrate an example of an opportunity to encourage local service reform. As the highest cost per capita in law enforcement, could Ogunquit provide a similar level of service by partnering with Wells or contracting with York County? As twin cities, could Biddeford and Saco benefit from combining departments?

The Town of Poland, which does not have its own police department, appears in the list because it has a contractual relationship with the Androscoggin County Sheriff's Department. Does this per capita cost hint at economies of scale available for smaller communities to provide law enforcement through their county rather than stand-alone agencies?

Table 9: Public Safety – Fire; highest and lowest ten municipalities per capita expenses

		Population	Public Saftey Expenses - Fire	
Town	**County**	**FY12**	**FY12**	**Per Capita**
Ogunquit	**YORK**	**892**	$1,218,305	$ 1,366
Highland Plt	**SOME**	**50**	$ 26,122	$ 522
Long Island	**CUMB**	**193**	$ 83,586	$ 433
Lake View Plt	**PISC**	**39**	$ 11,100	$ 285
Seboeis Plt	**PENO**	**35**	$ 6,672	$ 191
Great Pond	**HANC**	**41**	$ 7,000	$ 171
Chester	**PENO**	**510**	$ 84,547	$ 166
Lewiston	**ANDR**	**35,942**	$5,712,065	$ 159
Bremen	**LINC**	**798**	$ 126,700	$ 159
Saco	**YORK**	**18,482**	$2,471,082	$ 134
Kenduskeag	**PENO**	**1,260**	$ 20,093	$ 16
Frenchville	**AROO**	**1,171**	$ 15,819	$ 14
Limington	**YORK**	**3,898**	$ 49,346	$ 13
Brighton Plt	**SOME**	**83**	$ 1,000	$ 12
Hanover	**OXFO**	**305**	$ 3,000	$ 10
Old Town	**PENO**	**7,840**	$ 71,190	$ 9
Palermo	**WALD**	**1,535**	$ 11,500	$ 7
Greene	**ANDR**	**4,227**	$ 30,300	$ 7
Burnham	**WALD**	**1,130**	$ 6,705	$ 6
West Gardiner	**KENN**	**3,474**	$ 18,529	$ 5

Source: 2012 MMA Fiscal Survey

For fire protection expenses, Ogunquit again appears at the top of the list for per capita spending, at nearly nine times the per capita spending of the City of Lewiston. Clearly, many of Maine's smaller communities continue to rely on the tradition of volunteer fire departments to protect their communities. Do efficiencies exist by some of those agencies working regionally on training, equipment purchases or other activities? The MMA *2011 Municipal Collaboration Report* of January 2012 on municipal collaboration highlights some of these.

Table 10: Public Works per capita expenses; highest and lowest ten municipalities per capita expenses

			Public Works Total Expense for Winter, Other, and Capital	
Town	**County**	**Population**	**FY12 Total**	**Per Capita Exp Total**
Whitneyville	**WASH**	**62**	$ 70,036	$ 1,130
Ludlow	**AROO**	**424**	$ 385,716	$ 910
Ogunquit	**YORK**	**892**	$ 801,868	$ 899
Brighton Plt	**SOME**	**83**	$ 72,000	$ 867
Deblois	**WASH**	**46**	$ 36,888	$ 802
Carroll Plt	**PENO**	**140**	$ 111,741	$ 798
Highland Plt	**SOME**	**50**	$ 38,520	$ 770
Charlotte	**WASH**	**309**	$ 236,653	$ 766
Sweden	**OXFO**	**391**	$ 286,233	$ 732
Medford	**PISC**	**231**	$ 145,747	$ 631
Buxton	**YORK**	**8,188**	$ 406,595	$ 50
Old Town	**PENO**	**7,840**	$ 349,792	$ 45
Poland	**ANDR**	**5,376**	$ 211,654	$ 39
Eliot	**YORK**	**6,260**	$ 199,380	$ 32
Calais	**WASH**	**3,149**	$ 99,619	$ 32
Madison	**SOME**	**4,556**	$ 135,607	$ 30
Wiscassett	**LINC**	**3,732**	$ 76,789	$ 21
Detroit	**SOME**	**809**	$ 11,318	$ 14
Saco	**YORK**	**18,482**	$ 221,179	$ 12
Saint John Plt	**AROO**	**267**	$ 2,350	$ 9

Public works services, including winter snow removal and road maintenance, are seen as some of Maine's bread and butter local activities. Again, while not all of the largest Maine communities contributed data to the MMA fiscal survey, we see a large gap in per capita expenditures between the highest 10 and lowest 10 in spending. In addition to road salt bidding contracts that are shared currently, what other activities might be shared or brought under one local service provider while still ensuring services are provided at a defined level? Could smaller communities consider "county highway commission" models that were once in place to share equipment? Also, could larger, adjacent communities more formally integrate winter maintenance equipment and routes?

With limitations in access to all of the expenditure data, and normalization of its reporting, the detailed analysis will have to come as next steps.

The state of New Hampshire, unlike Maine, requires expenditure reporting by local government as part of setting the local tax commitment. The opportunity to aggregate certain types of service spending by region creates the ability to identify opportunities for shared services. The *2011 Municipal Collaboration Report* of January 2012, prepared by MMA and referenced earlier has some examples of those models but they are limited in scope and limited in their consistent use statewide to provide comparable services for reduced costs.

With the intent of Governor Paul LePage's tax reform and relief plan to provide direct property tax relief to Maine residents, incentive programs to move towards more efficient delivery in those services are also a priority. With the removal of revenue sharing as a means to achieve property tax relief (and tax credits and incentives for efficiency projects locally to reduce costs), OPM has included a brief table, based on the 2012 MMA Fiscal Survey, of the percentage of total municipal expenses supported with state revenue sharing dollars. The highest 10 and lowest 10 are included, as well as the average for those that submitted data in the most recent survey: 3.34%.

Table 11: Municipal Expenses Funded by State Revenue Sharing; highest and lowest ten municipalities per capita expenses

Town	County	State Revenue Sharing FY12	Total all Municipal Expenses FY12	Municipal Expenses Funded by State Revenue Sharing FY12	
Lovell	OXFO	$ 18,154	$ 113,024	16.06	Highest 10
Reed Plt	AROO	$ 25,558	$ 215,134	11.88	
Mattawamkeag	PENO	$ 80,032	$ 857,885	9.33	
Whitneyville	WASH	$ 21,138	$ 247,300	8.55	
Frenchville	AROO	$ 95,681	$ 1,178,956	8.12	
Canaan	SOME	$ 151,013	$ 1,865,916	8.09	
Orono	PENO	$ 1,254,821	$ 15,738,334	7.97	
Randolph	KENN	$ 139,351	$ 1,775,346	7.85	
Caribou	AROO	$ 933,152	$ 11,897,733	7.84	
Old Town	PENO	$ 895,765	$ 11,904,858	7.52	
Lincoln Plt	OXFO	$ 856	$ 121,162	0.71	Lowest 10
Kennebunkport	YORK	$ 104,511	$ 16,487,640	0.63	
Great Pond	HANC	$ 870	$ 166,971	0.52	
Long Island	CUMB	$ 5,408	$ 1,105,358	0.49	
Ogunquit	YORK	$ 36,243	$ 11,633,262	0.31	
Newry	OXFO	$ 10,026	$ 3,335,542	0.30	
North Haven	KNOX	$ 10,968	$ 3,672,599	0.30	
Deblois	WASH	$ 668	$ 265,426	0.25	
Garfield Plt	AROO	$ 307	$ 168,689	0.18	
Lake View Plt	PISC	$ 337	$ 244,994	0.14	
	Statewide Municipal Average for FY 2012: 3.34%				

Source: MMA Fiscal Surveys FY08-12

The Property Tax Fairness Credit, referenced as the replacement program for the Circuit Breaker, is proposed to increase from approximately $30 million per year for Maine residents to nearly $90 million a year. In addition, Mainers over the age of 65 will benefit from a Homestead Exemption that will double from $10,000 to $20,000.

In addition to supporting communities in finding efficiencies, the Governor's tax reform and relief plan provides for a transfer of taxation on telecommunications equipment based in towns and cities back to Maine's towns and cities and out of the General Fund. This will return close to $8 million to local communities.

Also, given the recognition of service demands placed on towns and cities by large non-profits, municipalities will be provided authorization to assess properties owned by certain nonprofit organizations with an assessed value in excess of $500,000 at a level of 50% assessed value. The demand for public works, police, fire and other services by these institutions warrants their contribution to local expenses. While they retain their income tax exemption, recognizing the important work they do contributing to the public good, localized impacts should be accommodated to lessen the burden placed on Maine homeowners in those communities.

V. School Administrative Units' Experience with LD 1

The second and frequently largest component of municipal property taxes is raised to finance local public schools. LD 1 uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. Essential Programs and Services are those educational resources required for all students to meet the knowledge and skill standards set by the Maine Learning Results. Under LD 1, K-12 school appropriations are constrained to 100% of the costs calculated by the EPS formula, excluding "local-only" debt.

LD 1 also set the course for increasing the state's share of school funding to 55% of EPS over five years. The 55% goal was scheduled to be achieved in FY 2010, but state revenue shortfalls in the context of a national recession beginning in 2007 have delayed achievement of that goal. Beginning with FY 2012, the calculation of the state's share includes the state contributions to teacher retirement, retired teachers' health insurance, and retired teachers' life insurance.[3] The state's contribution in FY 2015 was 50.1% of the costs covered under EPS including the retirement costs listed above.

The Maine Department of Education (MDOE) collects information on school appropriations from state, local, and other sources on an annual basis. Preliminary data[4] on state and local educational appropriations for FY 2015 were used to determine the share of local school districts that kept appropriations below 100% of EPS and were compared to previous years (Table 12). Beginning in FY 2010, school districts experienced a significant reorganization.[5] The analysis in this section is based on samples of the 242 School Administrative Units (SAUs) including the individual component schools of some Alternative Organizational Structure (AOS) districts.

To allow comparisons across years, school districts that had not yet reported appropriations to MDOE for FY 2015 at the time of writing were excluded from the analysis. Also excluded were school districts with missing appropriations data from past years. As a result, the numbers included in this year's report differ slightly from numbers in previous LD 1 progress reports.

3 Public Law 2011, Chapter 655, Part C, §§2-4 (AMD)

4 Data available at the time of writing reflects state funding approved through the end of the Second Regular Session of the 126th Legislature

5 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)

Appropriations Growth of Individual School Budgets

Table 12 and Figure 4 examine state and local K-12 appropriations across time. To help distinguish between local schools that exceeded EPS by small margins and local schools that exceeded EPS by large margins, Table 12 differentiates between a target of 100% of EPS and a target of 105% of EPS. Table 8 also shows how the number of local schools that are falling short of funding 100% of EPS has changed over time.

Table 12 shows that the margin by which aggregate state and local appropriations exceed 100% of EPS declined in FY 2015 to 11.2%. This follows increases in FY 2013 and FY 2014. The percentage of local schools exceeding 100% of their EPS target also declined in FY 2015, from 82.7% to 80.8%, remaining below the FY 2009 peak of 89.9%. Local schools that exceeded 100% EPS did so by a margin of 23.1% in FY 2015 compared to 21.5% in FY 2014 and nearing the peak of 23.7% in FY 2009. The percent of local schools exceeding 105% of EPS rose to 69.7% in FY 2015 from 67.8% in FY 2014, although remaining far below the FY 2009 peak of 82.2%.

On the other end, the number of schools that have fallen short of 100% of EPS increased in FY 2015. As shown in Table 12, 18.3% of local schools appropriated less than 100% of EPS in FY 2015, up from 13.9% in FY 2014.

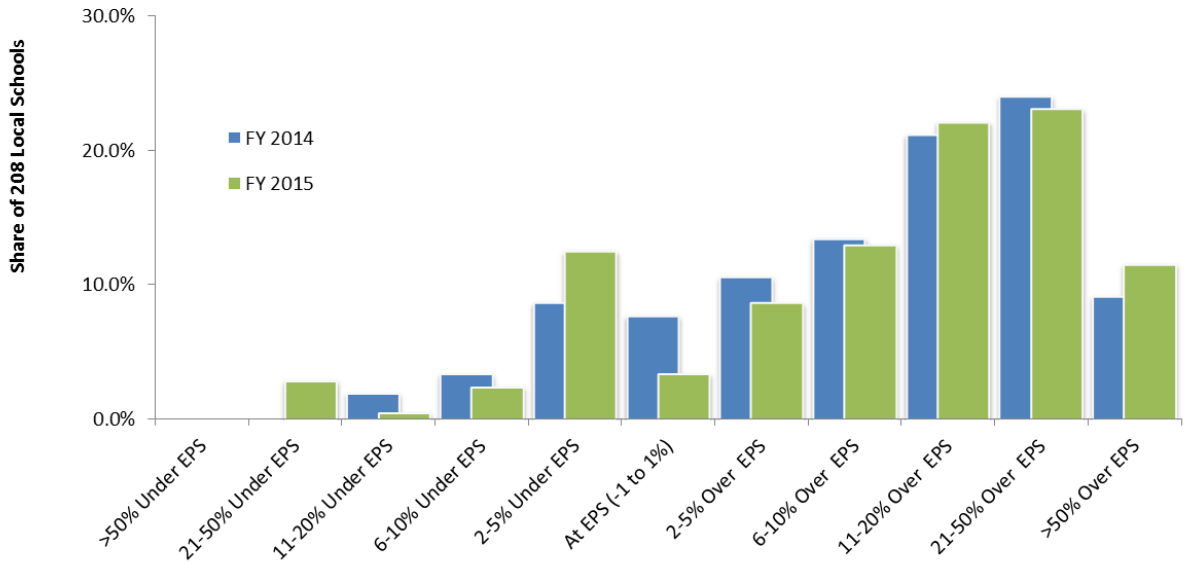
Table 12: Overall School Compliance with LD 1: FY 2006 – FY 2015*
Note: Based on a sample of 208 out of 242 local school budgets

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Aggregate EPS ($ millions)	$2,199	$2,244	$2,312	$2,266	$2,340	$2,387	$2,425	$2,462	$2,503	$2,540
Total K-12 Appropriations ($ millions)	$2,339	$2,469	$2,565	$2,608	$2,624	$2,632	$2,623	$2,718	$2,827	$2,825
Difference as Percent of EPS	6.4%	10.0%	11.0%	15.1%	12.2%	10.3%	8.2%	10.4%	12.9%	11.2%
Percent of local schools exceeding 100% of EPS…	74.0%	82.2%	84.6%	89.9%	85.6%	80.8%	75.0%	76.9%	82.7%	80.8%
...Percent by which they exceeded 100% of EPS	18.3%	19.0%	18.1%	23.7%	21.8%	21.4%	20.1%	21.9%	21.5%	23.1%
Percent of local schools exceeding 105% of EPS…	59.1%	66.8%	67.8%	82.2%	72.6%	69.2%	57.7%	60.1%	67.8%	69.7%
...Percent by which they exceeded 105% of EPS	16.2%	16.9%	16.2%	19.6%	19.3%	18.6%	19.4%	21.2%	19.7%	20.3%
Percent of local schools under 100% of EPS	22.1%	13.9%	13.9%	8.2%	11.5%	16.8%	23.6%	19.2%	13.9%	18.3%

Source: Maine Department of Education and OPM calculations
**Calculations include state transitional funds and exclude local-only debt*

Figure 4 shows the distribution of local schools around their targeted EPS funding levels. There were only minor differences between the distribution in FY 2014 and FY 2015, with the largest differences occurring in the categories of 2-5% Under EPS and At EPS.

Figure 4: Distribution of local schools above and below EPS*



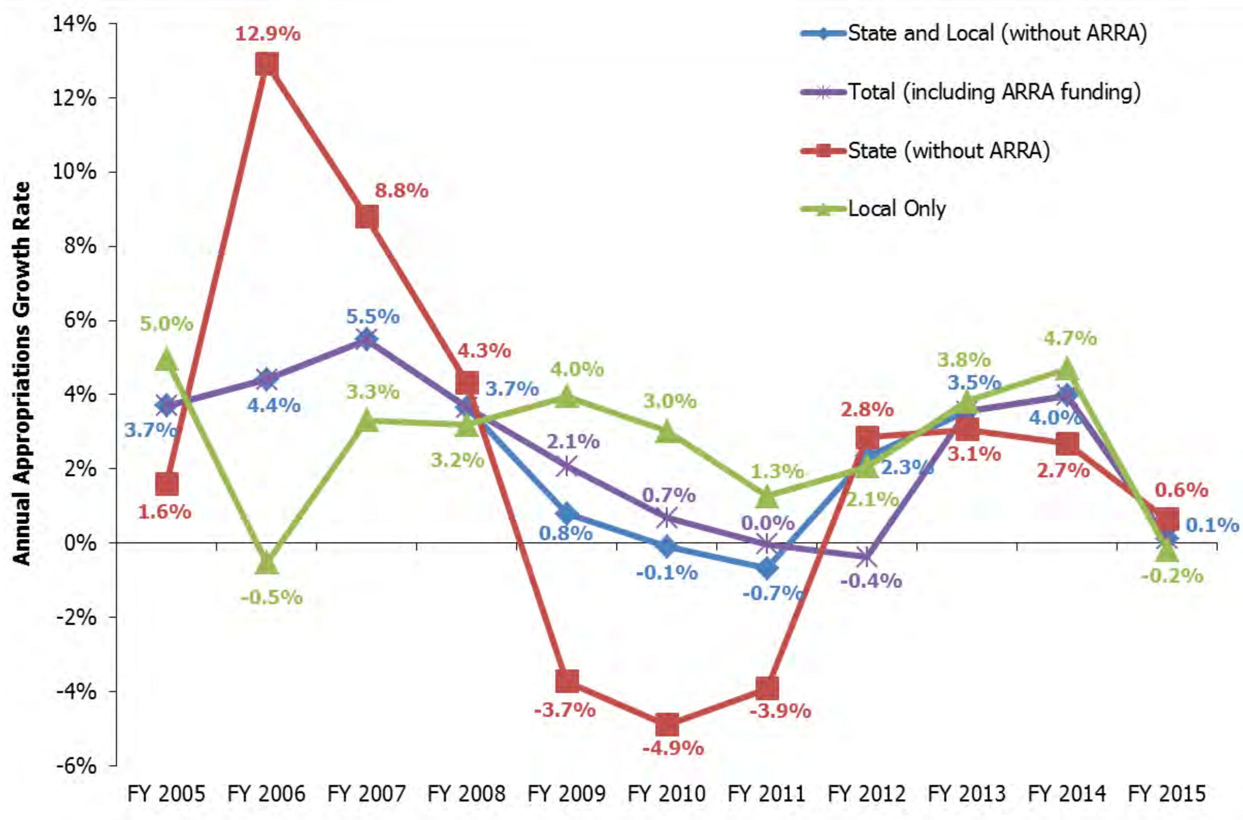
Source: Maine Department of Education and OPM calculations
**Calculations include state transitional funds but exclude local-only debt*

Combined Statewide K-12 Education Appropriation Growth

Figure 5 uses a slightly different calculation to assess the impact of LD 1 on total K-12 appropriations to schools. Both state transitional funds and local-only debt are included in the analysis.[6] Numbers may not match those reported in previous year's LD 1 reports because only 205 of 242 local schools are represented in this year's sample.

[6] The vast majority of the local appropriations are raised through local property tax commitments. In FY 2015 local-only debt accounted for about 3.5% of local school appropriations.

Figure 5: Annual Growth of State* and Local Appropriations for K-12 Education**



Source: Maine Department of Education and OPM 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 year immediately prior to FY 2006 (the year LD 1 took effect), the growth rate of combined state and local appropriations was 3.7%. With the passage of LD 1, the state dramatically increased its share of school funding, increasing the annual growth rate of its share from 1.6% in FY 2005 to 12.9% in FY 2006. Corresponding with the increased state funds, annual growth in local appropriations to schools declined from 5.0% in FY 2005 to -0.5% in FY 2006. Annual growth in total non-federal state and local appropriations to schools increased from 3.7% FY 2005 to 4.4% in FY 2006.

State appropriations for K-12 education began a three-year run of negative growth in FY 2009, before turning positive again in FY 2012 through FY 2015. At the local level, following the brief decline in FY 2006, K-12 appropriations grew steadily from FY 2007 to FY 2014. In FY 2015, local K-12 appropriations experienced their first year of decline since FY 2006, decreasing 0.2%. The combination of decreased state appropriations and slower growth in local appropriations left K-12 schools with a

0.1% and 0.7% decrease in total state and local appropriations in FY 2010 and FY 2011, respectively.[7] FY 2012 saw a return to growth in state appropriations for K-12 schools, but the expiration of American Recovery and Reinvestment Act (ARRA) funding meant total K-12 appropriations declined by 0.4%. Total appropriations for FY 2015 grew just 0.1%.

Summary

LD 1 uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. Although the LD 1 target for K-12 schools is 100% of EPS, some schools might be exceeding 100% of EPS by small margins in order to provide programs and some services that are not recognized as essential in the EPS benchmark cost calculation: extracurricular activities including sports and transportation to events, Advanced Placement classes offered at some high schools, unique onetime costs incurred for facilities improvements, and even in some cases local tax dollar support for school lunch programs. Approximately 81% of local schools exceeded their individual limit for FY 2015, and combined state and local appropriations to local schools exceeded 100% of EPS by 11.2%. FY 2015 saw an increase in the number of schools that fell short of 100% of EPS funding, with 18.3% of local schools not meeting the EPS minimum.

Growth in combined non-federal state and local appropriations to schools (including local debt for schools) slowed steadily in FY 2008 and FY 2009 and turned negative in FY 2010 and FY 2011. These declines were driven by state revenue shortfalls in the context of the 2007-2009 recession. State appropriations (not including ARRA funds) for K-12 schools declined on an annual basis in FY 2009, FY 2010, and FY 2011, before recovering with positive growth in FY 2012 to FY 2015. The expiration of ARRA funding in June 2011 left K-12 schools with an overall 0.4% decline in funding in FY 2012, but total FY 2013 appropriations increased 3.5% and FY 2014 appropriations increased further by 4.0%. FY 2015 was nearly unchanged from FY 2014 with growth of just 0.1%.

The Fund for Efficient Delivery of Educational Services (FEDES) was created to assist in the financing of local and regional initiatives to improve educational opportunity and student achievement by means

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[7] In FY 2009 thru FY 2011, Maine received K-12 stabilization funds through the American Recovery and Reinvestment Act (ARRA): $26.8 million in FY 2009, $42.6 million in FY 2010, and $58.5 in FY 2011.

of changes that increase efficiency in the delivery of services. The funds which are available on a competitive basis provide funding for changes in the delivery of educational services that will increase efficiency of delivery, improve student achievement, and be sustained by the school administrative unit, municipality or county without the need for additional funding. While the previous budget did not include FEDES funding due to budget gaps, the Governor's new budget proposal includes $5,000,000 to be transferred from General Fund unappropriated surplus to FEDES no later than June 30, 2016 and again by June 30, 2017. The funding of the FEDES program will be another tool for the continued focus on student achievement while maintaining an efficient use of resources.

VI. County Governments' Experience with LD 1

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

With the passage of Public Law 2008, Chapter 653, "An Act to Better Coordinate and Reduce the Cost of the Delivery of State and County Correctional Services" (Jail Unification) the amount counties can assess property taxpayers for corrections-related expenses was frozen at 2008 levels. Only assessments for non-correctional-related costs are allowed to increase by the LD 1 growth factor. Counties have struggled to interpret this law and the vast majority of them have miscalculated their LD 1 limits in the years following this change. In some cases, conversations between OPM and county officials resulted in revised LD 1 calculations. When this was not possible, OPM used the best available data to correct.

Combined Statewide County Assessment Growth

Calculations of state tax burden use aggregate measures of the total amount of taxes collected within a state. To assess LD 1's impact on the growth of county assessments, Table 13 presents the combined assessment growth of all sixteen counties. The counties' combined assessment limit was $146.6 million. Actual assessments were $142.0 million (3.1% below the limit).[8]

8When LD 1 passed, Lincoln and Sagadahoc counties were given a two-year exemption, ending in 2007, on funds used to construct and start operations at the new Two Bridges Regional Jail (Public Law 2005, Chapter 348) Lincoln and Sagadahoc voters approved funding for the jail in November 2003, prior to the passage of LD 1 Sagadahoc County, which operates on a July 1-June 30 fiscal year, included all jail spending under its limit in the 2007 LD 1 report Lincoln County included all jail spending in the 2008 LD 1 report Table 9 parses out this exemption from other spending

Table 13: Combined County Assessments

Note: All dollar figures in millions

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
LD 1 Average Annual Growth Factor	--	--	6.1%	5.2%	5.6%	4.8%	4.1%	3.5%	3.1%	2.5%	2.3%
Base Assessment Limit	$99.4	$104.4	$110.8	$119.4	$130.1	$132.7	$135.7	$140.2	$142.7	$144.8	$146.6
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	$135.7	$140.2	$142.7	$144.8	$146.6
Actual Total Assessments	$99.4	$104.8	$111.3	$119.8	$128.8	$131.0	$134.4	$136.0	$138.1	$143.4	$142.0
Amount Below LD 1 Limit	--	--	$3.7	$2.2	$1.3	$1.7	$1.3	$3.9	$4.5	$1.4	$4.6
Percent Below LD 1 Limit	--	--	3.2%	1.8%	1.0%	1.3%	1.0%	2.8%	3.2%	0.9%	3.1%

Source: Office of Policy and Management

Notes:

** 2011-2014 assume Somerset County voted to increase its limit in FY09*

*** York County was on a 6-month transitional budget for January 1 - June 30, 2013. For the purposes of this table, the 6-month assessment was multiplied by 2 to estimate a full-year budget for 2013*

Table 14 shows annual growth of total county assessments. Assessments decreased 1.0% between 2013 and 2014. This is the first year since Public Law 2005, Chapter 2 was passed that county assessments have declined from one year to the next. Non-correctional-related expenses grew 2.8% in 2014.

Table 14: Growth of Total County Assessments

Note: All dollar figures in millions

Year	Total Assessments	Annual % Change
2014	$142.0	-1.0%
2013	$143.4	3.8%
2012	$138.1	1.6%
2011	$136.0	1.2%
2010	$134.4	2.6%
2009	$131.0	1.7%
2008	$128.8	7.5%
2007	$119.8	7.7%
2006	$111.3	6.2%
2005	$104.8	5.4%
2004	$99.4	--

Source: Office of Policy and Management

Assessment Growth of Individual Counties

In 2014, every county was allowed to increase their assessment by the 1.09% income growth factor plus the growth in newly taxable property in the county. Adding together personal income and property growth factors produced LD 1 assessment growth factors ranging from 1.40% to 3.57%.

Many counties report difficulty obtaining information on new property growth from their member municipalities. In addition, obtaining accurate information from most counties was challenging. Some counties made noticeable errors in the information they provided, and other counties likely made unnoticeable errors. Several counties that did calculate their limit correctly were calculating it based on an incorrect number for their 2013 LD 1 limit, thus making their reported 2014 limit incorrect. To address this issue, OPM provided counties with the 2013 limit calculated by this office and most counties did use this figure as their starting point for the 2014 limit calculation. Somerset County provided an assessment for jails that did not match statutory limits.[9,10] OPM attempted to correct and verify all information used in this report, but some questionable numbers remain.

Ten counties stayed within their LD 1 limits, one more than in 2013. This includes Somerset County assuming a vote to increase the limit in FY 2009. The ten counties that stayed with their limits reported assessments ranging from 21.8% to 0.7% below the limit. Of these, four counties were 10% or more below the limit and six counties were between 0.7% and 10% below their limit. On average these eleven counties were 8.3% below their limit.

Of the six counties that surpassed their LD 1 limit, none reported voting to exceed or increase their limit. Some of these counties assumed they were under their LD 1 limit, either beginning their 2014 limit calculation with the incorrect limit they reported in 2013 or making computational errors.

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[9] Per PL 2008, Chapter 653, Somerset County's correctional services-related assessment limit is set at the fiscal year 2009-10 level. Somerset County's reported corrections assessment for fiscal year 2009-10 was $5,281,630, so OPM used that number despite the fact that Somerset County reported a lesser correctional-related assessment figure.

[10] Per PL 2011, Chapter 315, Lincoln County's correctional-related assessment limit is set at $2,657,105 for FY 2012 and beyond. Lincoln County reported a correctional services-related assessment of $3,017,292 for 2011 (FY 2012). That figure includes withheld revenue specified in PL 2011, Chapter 315 equal to $257,870, but the balance is still greater than the cap of $2,657,105. For the purposes of this report, OPM assumed $2,657,105 to be the correct figure. For 2012 (FY 2013), Lincoln County reported a correctional services-related assessment of $2,656,930, which is $175 less than the statutory limit. For 2013 (FY 2014), Lincoln County reported a correctional services-related assessment of $2,698,965, which is $41,860 more than the statutory limit. For the purposes of this report, OPM assumed $2,657,105 to be the correct figure for FY 2013 and FY 2014.

Summary

In aggregate, counties stayed within their LD 1 limit in 2014. County assessments were $4.6 million (3.1%) below the limit. Total statewide county assessments fell 1.0% from 2013 to 2014, which was the first decline since PL 2005, Ch. 2 was passed. Individually, ten counties stayed within their limits and six surpassed them. None of the six counties surpassing their limit reported voting to exceed or increase their limit as prescribed by law, most likely due to errors in calculating LD 1 limits.

Unfortunately we do not currently employ an instrument to gather aggregate county expenditures and therefore do not have a greater sense of the various opportunities for shared services and leveraging of resources. There are, however, a number of partnerships that have been developed in Maine over the past few years that illustrate the effectiveness of regionalization and shared services at the county level. In 2014, fire departments in Franklin County began discussions to evaluate the feasibility of regionalizing fire services beyond mutual aid agreements. Areas of particular emphasis included group purchasing, training, and grant opportunities. Statewide, services like economic and community development, emergency communications, and assessing are also being tested at the county level.

The Lincoln County Regional Planning Commission (LCRPC), which was formed in 2010, serves as the planning and economic development agency for Lincoln County. This is the only single county-based planning commission in the state. Modeled after other similar entities (neighboring Mid-Coast Regional Planning Commission), the LCRPC took over the planning and economic development duties that were once a part of the county administration. All of the eighteen incorporated municipalities (plus Monhegan and Hibberts Gore) within Lincoln County are members of the LCRPC. A little over $182,000 was appropriated by Lincoln County to LCRPC in FY 2014. The commission also receives funding through grants and contracted projects.

The LCRPC partners with a number of entities including the US Economic Development Administration, Coastal Counties Workforce Inc. (CCWI), Maine Department of Economic and Community Development (DECD), and with the Midcoast Economic Development District (MCEDD) which serves Sagadahoc, Lincoln, Knox and several municipalities in Waldo County. In 2011-12, LCRPC worked with stakeholders in preparation of MCEDD's Comprehensive Economic Development Strategy (CEDS). LCRPC administers DECD's Community Development Block Grant program

(CDGB) and is also a working partner with Coastal Enterprises Inc. (CEI) who physically hosts the commission at their offices in Wiscasset.

In contrast to Lincoln and its county-based organization is Cumberland, where the Greater Portland Council of Government and county government have various degrees of involvement in economic and community development. The Greater Portland Council of Government (GPCOG) was established in 1969 and acts as a planning and economic development consortium for its member municipalities. In 2011, GPCOG was designated as one of the seven economic development districts for DECD. While it represents most of the municipalities in Cumberland County, municipalities Baldwin, Brunswick, Harpswell, and New Gloucester are not members while West Bath in Sagadahoc County is a member. Cumberland County and the Portland Water District are ex-officio members and several regional non-profit organizations serve as associate members. GPCOG programs and services are funded through a combination of member dues (which represent about 8% of GPCOG's total annual budget), service fees, and state and federal grants.

Cumberland County government has been a forerunner in the state in providing opportunities for regionalization efforts amongst its municipalities. In the past several years, the county has established a regional communications center used by eighteen of its communities; became the first county in New England to receive CDGB funds directly, administering them to 23 of the municipalities in the county; and more recently created a regional assessing office for three municipalities with opportunities for more to participate.

In the *2014 County of Cumberland Annual Budget*, Peter Crichton, Cumberland County manager stated "[I]t is entirely possible that we will see greater utilization of county governments in Maine as the economies of scale and the advent of new technology become better known. All of us who are interested and concerned about the future of this particular region will hopefully be able to recognize the important role that regional services can play in improving the affordability and quality of the government services that are delivered to our citizens." Perhaps in the future, this school of thought will serve as a new model to explore in order to provide quality services while decreasing expenditures.