

# MAINE STATE LEGISLATURE

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October 18, 1978

TO: H. Sawin Millett, Jr., Commissioner  
Department of Educational & Cultural Services

FROM: *WGA* Waldemar G. Buschmann, Assistant Attorney General

RE: Payment of Vocational Region Debt Service Subsidies

On or about November 2, 1976, the voters in Vocational Region #5 authorized the issuance of "bonds or notes in the name of said region for major capital outlay purposes in an amount not to exceed \$1,494,000.00 for the purposes of" constructing a regional vocational education facility and for purchasing necessary equipment for use in vocational education programs to be conducted at certain designated spots within the region.

On or about March 10, 1977, the State Board of Education approved the major capital constructing project for Vocational Region #5.

On or about June 21, 1978, bonds in the amount of \$1,490,000.00 were sold in the name of Vocational Region #5 through the Maine Bond Bank.

Debt service payments due on the debt service obligation arising from the sale of those bonds is \$31,801.23 on November 1, 1978 and \$44,032.50 on May 1, 1979.

Of the \$75,833.73 due on debt service in fiscal year 1979 the state's share is \$24,209.92 and the local share is \$51,623.81.

At a region budget meeting in June of 1978 the voters of Region #5 adopted a \$1.00 budget to operate the vocational region for fiscal year 1979.

QUESTION:

What is the limit of the state's authorization to allocate funds to Region #5 to meet the cost of principal and interest payments due November 1, 1978, on the bonds sold on June 21, 1978?

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## ANSWER:

The limit of the state's authorization to allocate funds to Vocational Region #5 for the purpose of paying the region's principal and interest payment due on the bonds sold in June of 1978 is \$10,152.54. The maximum amount of state dollars available to be allocated towards debt service in Region #5 in fiscal year 1979 is \$24,209.92 and the \$10,152.54 represents the prorated amount of the state's share due in November; the balance of \$14,057.38 is due in May of 1979. The balance of \$21,648.69 due on November 1, 1978 is the liability of Vocational Region #5.

## REASONS:

The Legislature authorized debt service payments to be made according to the payment schedules established by the administrative units for retiring their debts. 20 MRSA §3457, Table II, first paragraph. During the four years that the uniform property tax was in effect the state paid 100% of the local unit's debt service payments in accordance with the unit's payment schedule. However, in December, 1976, the uniform property tax was repealed. As a result of that repeal the Legislature repealed the School Finance Act of 1976 and replaced it with the School Finance Act of 1978. The School Finance Act of 1978 divided the liability for an administrative unit's debt service costs between the state and the local unit. The term "debt service costs" is defined in 20 MRSA §4743.9 to include principal and interest costs for approved major capital projects. The major capital project in Vocational Region #5 was approved by the State Board on March 10, 1977. Therefore, the project in Region #5 is included within the definition of debt service costs. The term "major capital costs" is defined in 20 MRSA §3471, which defines the costs to include

"on site additions to existing schools, new schools, the cost of land acquisition, the building of or acquisition of other facilities related to the operation of administrative units and major renovations to existing schools ... Equipment approved in conjunction with the school construction project shall be defined as a major capital cost."

Even though §3471 is intended to apply only to school construction projects approved by the State Board of Education subsequent to June 30, 1977, the School Finance Act of 1978 has incorporated it by reference and it is, therefore, the controlling definition of major capital costs for the School Finance Act of 1978.

The total amount which an administrative unit allocates for most of its educational programs is defined as the state-local allocation. 20 MRSA §4743.20. The state-local allocation includes the programs and adjustments computed in §§4748 and 4749 of Title 20. Pursuant to 20 MRSA §4748.7 (B) the debt service on the principal and interest costs for a major capital project is one of the programs referred to in the definition of state-local allocation. For fiscal year 1979, §4748-A of Title 20 supersedes §4748 relating to debt service; however, the language under sub-§1(D) of §4748-A is identical to that found in §4748.7 (B).

The local allocation is defined by the School Finance Act to mean the administrative unit's portion of the state-local allocation. 20 MRSA §4743.12. The total amount of the state-local allocation includes all of the programs included within the basic education allocation as defined in 20 MRSA §4743.5. Paragraph G under sub-§5 of §4743 includes debt service as part of the basic education allocation. Once the basic education allocation has been determined, then a "subsidy index" is set which establishes "the equivalent of a mill rate which, if applied to the state valuation of all municipalities and as limited by §4751, sub-§1, ¶ C, would raise not more than 50% of the basic education allocation." (Limitation not applicable to this situation.) 20 MRSA §4743.22. The Legislature, as authorized by 20 MRSA §4747.4, established a subsidy index for the fiscal year 1979 of 10 mills. Also, as authorized by 20 MRSA §4747.5, the Legislature appropriated the necessary funds for the state's share of the basic education allocation, which includes debt service. See Public Law 1977, c. 712, Part I, §52 and 3.

The state allocation is the amount allocated from General Fund revenue sources to fund the state's portion of the state-local allocation. 20 MRSA §4743.19. Pursuant to 20 MRSA §4750.1, the Commissioner is authorized to make the state allocation payments to the administrative units in accordance with the payment schedules set forth in §3457. Also, the state allocation payments for debt service on bonds issued by the cooperative board of the vocational region shall be paid directly to the treasurer of that board notwithstanding any other statute. 20 MRSA §4750.5.

Normally, the state allocation for vocational education is made to the treasurers of the administrative units which comprise the vocational region. Payment is made to the individual units because they are the taxing bodies which raise the funds for operating the vocational region and the region does not have a general tax raising authorization. Also, the regions are considered to be extensions of the secondary schools of the member administrative units and vocational costs have been considered as part of the total cost of the member administrative units of operating secondary schools. 20 MRSA §2356-G.

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However, pursuant to 20 MRSA §4757.2 (A), a vocational region has limited taxing authority for the purposes of raising the necessary sums "to meet in full the principal of and interest on ... bonds, notes or other evidences of indebtedness payable in each year." Paragraph A authorizes the cooperative board, as the governing board of an administrative unit, to assess and collect the necessary sums "in the manner provided by law for the assessment and collection of taxes." The sums to be assessed and collected shall be reduced by the amount of the state allocation for debt service appropriated by the Legislature. 20 MRSA §4757.2 (B). Therefore, the Legislature has authorized the state to make the payment for "debt service on bonds issued by the cooperative boards of vocational regions directly to the treasurers of the boards" rather than to the member administrative units. 20 MRSA §4750.5.

A vocational region is a quasi-municipal corporation responsible for the operation of public schools. 20 MRSA §2356-G.3. Also, a vocational region is an administrative unit by virtue of the definition in 20 MRSA §3452, to wit: "'Administrative unit' shall include all municipal or quasi-municipal corporations responsible for operating or constructing public schools."

Therefore, the state is limited by the School Finance Act of 1978 from paying Vocational Region #5 more than \$10,152.54 as its prorated share of the state allocation payment for debt service due on November 1, 1978. The balance of the \$31,801.23 due on November 1 is the obligation of Vocational Region #5. Specifically, the Legislature has established pursuant to 20 MRSA §4757.1 that "all bonds, notes or other evidences of indebtedness issued for school purposes by a school administrative unit, as defined in §3452, for major capital expenses, including tax or other revenue anticipation notes, shall be general obligations of the administrative unit." As referred to above, pursuant to §4757.2, the cooperative board of Vocational Region #5, as the governing board of the region, "shall require the sums which may be necessary to meet the full principal of and interest on these bonds, notes or other evidences of indebtedness payable in each year to be assessed and collected in the manner provided by law for the assessment and collection of taxes." Region #5's share of the principal and interest on the bonds sold on June 21, 1978, due on November 1, 1978, must be paid by the vocational region through local property taxes regardless of the size of the budget adopted by the legislative body of the region for fiscal year 1979.

WGB:clk