

MAINE STATE LEGISLATURE

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STATE OF MAINE
HOUSE OF REPRESENTATIVES
107TH LEGISLATURE
FIRST SPECIAL SESSION

(Filing No. H-904)

HOUSE AMENDMENT "K" to H.P. 2020, L.D. 2196, Bill,
"AN ACT to Revise the Laws Relating to Funding of Public Schools."

Amend said Bill in section 1 in that part designated "§3743." by inserting after the underlined word "students" in the 6th line of subsection 7 (4th line in L.D.) the underlined words 'as defined by the department'

Further amend said Bill in section 1 in that part designated "§3743." by adding at the end the following:

'17. Maintenance of effort. Maintenance of effort is that local appropriation needed to maintain the unit's elementary or secondary per pupil operation cost at a level no greater than the level of the unit's base year costs plus 6%.'

Further amend said Bill in section 1 by striking out in that part designated "§3744." all of paragraph O of subsection 1 and inserting in place thereof the following:

'O. Local funds without state participation raised under section 3748, subsection 4, last paragraph;

P. Local funds appropriated as maintenance of effort funds under section 3748, subsection 3, paragraph B to be used during the base year.'

Further amend said Bill in section 1 by striking out in that part designated "§3748." all of paragraphs A and B of subsection 1 and inserting in place thereof the following:

'A. Multiply the average number of resident elementary pupils in the unit on April 1st and October 1st of the calendar year prior to the year of allocation of funds by the basic elementary per pupil operating rate as established in section 3747.

B. Multiply the average number of resident secondary pupils in the unit on April 1st and October 1st of the calendar year prior to the year of allocation of funds by the basic secondary per pupil operating rate as established in section 3747.'

Further amend said Bill in section 1 in that part designated "§3748." by striking out all of the 2nd paragraph of subparagraph (1) of paragraph C of subsection 1 and inserting in place thereof the following:

'Reimbursement for tuition and board shall be 100% of the estimated costs used in compiling the commissioner's recommendation and adjusted by the Legislature in its establishment of the basic education appropriation for this item or 100% of the actual expenditures, whichever is less. Reimbursement for special education programs operated or contracted for by the administrative unit shall be limited to 90% of the estimated costs used in compiling the commissioner's recommendation and adjusted by the Legislature in its establishment of the basic education appropriation for this item or 90% of the actual expenditures, whichever is less.'

Further amend said Bill in section 1 in that part designated "§3748." by striking out all of the first sentence of subparagraph (2) of paragraph C of subsection 1 and inserting in place thereof

the following:

'Reimbursement for vocational education shall be limited to 90% of the estimated costs used in compiling the commissioner's recommendation and adjusted by the Legislature in its establishment of the basic education appropriation for this item or 90% of the actual expenditures, whichever is less.'

Further amend said Bill in section 1 in that part designated "§3748." by striking out all of subparagraph (3) of paragraph C of subsection 1 and inserting in place thereof the following:

!(3) Transportation of pupils, including the purchase of buses. Reimbursement for transportation operating costs shall be limited to 90% of the estimated costs used in compiling the commissioner's recommendation and adjusted by the Legislature in its establishment of the basic education appropriation for this item or 90% of the actual expenditures, whichever is less.'

Further amend said Bill in section 1 in that part designated "§3748." by inserting after the headnote of subparagraph (4) of paragraph C of subsection 1 the following underlined sentence: 'Reimbursement shall be in accordance with the time periods used in compiling the commissioner's estimate as provided in section 3745.'

Further amend said Bill in section 1 in that part designated "§3748." by striking out all of the last sentence of subsection 2 and inserting in place thereof the following:

'The commissioner shall authorize payments of aid to the various administrative units in the amount of the subsidy allocation and any adjustments in such allocation within the periods required in section 3455, sections 3457 to 3460 and section 3745.'

Further amend said Bill in section 1 in that part designated "§3748." by adding at the end of paragraph B of subsection 3 the following blocked paragraphs:

'Each unit may appropriate additional local funds to maintain its average elementary or secondary operating costs at a level no greater than the level of the unit's base year costs plus 6%. Local funds raised under this paragraph shall be known as maintenance of effort funds.'

Income received by a unit for "B" students under Public Law 874 may be used to meet the unit's share of the funds required under this paragraph.

An article in substantially the following form must be used when any municipality, School Administrative District or community school district is considering the appropriation of additional local funds under this paragraph:

Article : To see what sum the municipality or district will raise and appropriate for maintenance of effort to maintain per pupil school operating costs at a level no greater than the level of the base year costs plus 6%.'

Further amend said Bill in section 1 in that part designated "§3748." by striking out in the 10th line of paragraph D of subsection 3 the underlined word "unit's" (same in L.D.)

Further amend said Bill in section 1 in that part designated "§3748." by striking out all of subsection 4 and inserting in place thereof the following:

'4. Optional local appropriations with state participation. The legislative body of any administrative unit may, in addition to the unit's allocation under this section and after the maximum maintenance of effort funds have been raised as provided under subsection 3, paragraph B authorize an additional expenditure for either elementary or secondary pupils, or both, not to exceed a local appropriation of 1 1/4 mill on the state valuation of the unit in effect on January 1st of the same calendar year and 1 1/4 mill on the state valuation in effect on July 1st of the same calendar year. Under this subsection, an administrative unit is authorized to appropriate a maximum of \$125 per pupil per year for the pupils specified in subsection 1. The maximum levy on a municipality within an administrative unit shall not exceed \$50 per pupil per mill levied on that municipality. If the authorization for additional funds by an administrative unit under this subsection exceeds the maximum levy for any municipality within such administrative unit, the commissioner shall add to the allocation of the unit for the unit's fiscal year a sum which equals the excess over such maximum levy of any municipality within the unit. If the additional school levy authorized under this subsection fails to produce \$50 per pupil per mill levied, the commissioner shall add to the

allocation of the unit for the unit's fiscal year a sum which, when combined with the local levy under this section, shall equal \$50 per pupil per mill. Said sum shall be paid annually to the administrative unit no later than December 31st for the previous 12-month period. The funds appropriated under this section shall be called optional local funds with state participation. The purpose of these funds is to provide that all administrative units may raise and appropriate at least \$50 per pupil per mill to supplement the adjusted allocations when necessary in the judgment of the local administrative units. The Legislature shall annually appropriate an amount equivalent to the maximum state obligation under this subsection.

An article in substantially the following form is to be used when any municipality, School Administrative District or community school district is considering the appropriation of additional local funds under this subsection: Article : To see what sum the municipality or district will authorize to be expended from optional local appropriations for school purposes (Recommended \$, and to see if the municipality or district will raise and appropriate the local share of \$.)

No unit shall appropriate toward its total education costs an amount exceeding the local allocation as provided and adjusted under subsections 1, 2 and 3 and any other amounts, as provided under subsection 4. If any unit petitions to the State Board of Education and demonstrates that unusual circumstances require additional appropriations and expenditures in order to avoid

serious educational hardship in the unit, the State Board of Education shall grant authority to the unit to make additional appropriations for school purposes. Moneys appropriated under such a special grant of authority by the State Board of Education shall not be included in any future calculations of the state or local average per pupil operating costs and shall be reported as local funds without state participation in future calculations of the actual costs of education as provided in section 3744, subsection 1, paragraph O.'

Further amend said Bill in section 1 of that part designated "§3748." by striking out all of subsection 10 and inserting in place thereof the following:

'10. Reimbursement for transportation. Notwithstanding any other provision of this chapter, the commissioner shall reimburse at a level of 90% of the costs any municipality for providing the transportation of school children to and from schools other than public schools, except such schools as are operated for profit in whole or in part. The total amount reimbursed under this subsection shall not exceed the level of funds appropriated for this item under section 3747, subsection 4.'

Further amend said Bill in section 1 by striking out all of that part designated "§3749." and by renumbering that part designated "§3750." to be "§3749.'

Further amend said Bill in section 2 by striking out all of the first sentence of the 2nd paragraph of subsection 11 and inserting in place thereof the following:

'Under this subsection, an administrative unit is authorized to appropriate a maximum of \$62.50 per pupil for the 6-month period ending June 30, 1976 for the pupils specified in section 3713, subsection 1.'

Further amend said in section 2 by striking out all of the last sentence of the 2nd paragraph of subsection 11 and inserting in place thereof the following:

'Said sum shall be paid no later than the last month of the unit's fiscal year.'

Further amend said Bill by inserting at the end, before the emergency clause, the following:

'Sec. 5. 36 MRSA §5111, as enacted by P&SL, 1969, c. 154, §F, §1, is amended to read:

§5111. Imposition and rate of tax

A tax is hereby imposed for each taxable year on the entire taxable income of every resident individual of this State and on the taxable income of every nonresident individual which is derived from sources within this State. The amount of the tax shall be determined in accordance with the following table:

If the taxable income is:	The tax is:
Not over \$2,000	1% of the taxable income
\$2,000 but not over \$5,000	\$20 plus 2% of excess over \$2,000
\$5,000 but not over \$10,000	\$80 plus 3% of excess over \$5,000
\$10,000 but not over \$25,000	\$230 plus 4% of excess over \$10,000
\$25,000 but not over \$50,000	\$830 plus 5% of excess over \$25,000
\$50,000 or more	\$2,080 plus 6% of excess over \$50,000

The effective date of change from the foregoing rate table to the next following rate table shall be January 1, 1976. The amount of tax for any taxable year or portion thereof in the period on or after January 1, 1976 to on or before December 31, 1976 shall be determined in accordance with the following:

<u>If the taxable income is:</u>	<u>The tax is:</u>
<u>Not over \$2,000</u>	<u>1% of taxable income</u>
<u>\$2,000 but not over \$4,000</u>	<u>\$20, plus 2.5% of excess over \$2,000</u>
<u>\$4,000 but not over \$5,000</u>	<u>\$70 plus 3.0% of excess over \$4,000</u>
<u>\$5,000 but not over \$6,000</u>	<u>\$100 plus 3.5% of excess over \$5,000</u>
<u>\$6,000 but not over \$8,000</u>	<u>\$135 plus 4.0% of excess over \$6,000</u>
<u>\$8,000 but not over \$10,000</u>	<u>\$175 plus 4.5% of excess over \$8,000</u>
<u>\$10,000 but not over \$15,000</u>	<u>\$265 plus 5.5% of excess over \$10,000</u>
<u>\$15,000 but not over \$20,000</u>	<u>\$540 plus 6.0% of excess over \$15,000</u>
<u>\$20,000 but not over \$25,000</u>	<u>\$840 plus 7.0% of excess over \$20,000</u>
<u>\$25,000 but not over \$30,000</u>	<u>\$1,190 plus 8.0% of excess over \$25,000</u>
<u>\$30,000 but not over \$35,000</u>	<u>\$1,590 plus 8.5% of excess over \$30,000</u>
<u>\$35,000 or more</u>	<u>\$2,015 plus 9.0% of excess over \$35,000</u>

The amount of tax imposed for a taxable year containing a change in rate requiring a use of 2 of the foregoing tables shall be determined as set forth in section 5234.

There shall be imposed an additional tax of 12.5% of the tax imposed on the entire taxable income for the calendar year of 1976 of every resident individual of this State and the taxable income for the calendar year 1976 of every nonresident individual which is derived from sources within this State. The amount of additional tax imposed when a taxpayer's return covers a fiscal year including a portion of the calendar year 1976 shall be determined as set forth in section 5234.

Sec. 6. 36 MRSA §5124, as enacted by P&SL 1969, c. 154, SF, §1, is repealed and the following enacted in place thereof: §5124. Standard deduction; resident

The standard deduction of a resident individual, head of household or of a resident husband and wife who file a joint return shall be as defined under the Internal Revenue Code, section 141, except that the percentage standard deduction shall be based on adjusted gross income as modified by this Part, and except that it shall not be greater than the following:

1. Adjusted gross income;

A. For husband and wife filing a joint return, 16% of any adjusted gross income as modified by this Part, but this amount shall not exceed \$2,800;

B. For a married person who files a separate return, 16% of an adjusted gross income as modified by this Part, but this amount shall not exceed \$1,400; or

C. For a single, person, 16% of an adjusted gross income as modified by this Part, but this amount shall not exceed \$2,400.

Sec. 7. 36 MRSA §5143, as enacted by P&SL 1969, c. 154, SF, §1, is repealed and the following enacted in place thereof: §5143. Standard deduction; nonresident

The standard deduction of a nonresident individual, head of household, or husband and wife who file a joint return shall be as defined under Internal Revenue Code, section 141, except that the percentage standard deduction shall be based on adjusted gross income from sources within this State, and except that it shall not be greater than the following:

1. Adjusted gross income;

A. For husband and wife filing a joint return, 16% of an adjusted gross income as modified by this Part, but this amount shall not exceed \$2,800;

B. For a married person who files a separate return, 16% of an adjusted gross income as modified by this Part, but this amount shall not exceed \$1,400; or

C. For a single person 16% of an adjusted/^{gross}income as modified by this Part, but this amount shall not exceed \$2,400.

Sec. 8. 36 MRSA §5234 is enacted to read:

§5234. Fiscal year tax determination

If any rate of tax imposed by this Part changes, and if the taxable year includes the effective date of change, unless that date is the first day of the taxable year, then the tax for such taxable year shall be a sum composed of an amount equal to the tax computed for the entire taxable year at the old rate times the proportion, determined by days, of the taxable year at the old rate plus an amount equal to the tax computed for the entire taxable year at the new rate times the proportion, determined by days, of the taxable year at the new rate.

Sec. 9. Appropriation. There is appropriated from the General Fund to the Department of Finance and Administration, Bureau of Taxation, the sum of \$215,500 to carry out the purposes of sections 5 to 8. The breakdown shall be as follows:

1976-77

FINANCE AND ADMINISTRATION, DEPARTMENT OF

Bureau of Taxation

Personal Services	(4) \$ 45,000
All Other	166,500
Capital Expenditures	4,000
	\$215,500'

Further amend said Bill by striking out all of the emergency clause and inserting in place thereof the following:

'Emergency clause. In view of the emergency cited in the preamble, this Act shall take effect July 1, 1976; except section 3749 of Title 20 of section 1, section 2 and sections 4 to 9 of this Act which shall become effective when approved.'

Fiscal Note

The present level of appropriations for the funding of public school education costs for 1976-77 is as follows:

General Fund appropriation. P.L. 1975, c.272	\$243,134,091
Federal revenue sharing	15,500,000
Allocation of bond proceeds	<u>6,765,000</u>
	\$265,399,091

Of this total appropriation \$131,516,305 was anticipated as General Fund revenues attributable to the uniform property tax. The balance of \$133,882,786 would be derived from General Fund sources other than the uniform property tax. Using a tax rate of 14.5 mills, L.D. 2031 distributes \$260,697,724 for 1976-77, leaving a balance of 4.7 million dollars to be used for part of the current year deficit under the local leeway provision.

In contrast, this amendment distributes the entire \$265,399,091 for actual 1976-77 education costs. The additional 4.7 million dollars is used both to increase by \$30 per pupil the elementary and secondary per pupil operating rates and to maintain the \$125 per pupil per mill level under the "local funds with state participation" provision (formerly known as local leeway).

The amount to be distributed includes the following for each item:

Elementary and secondary education	\$200,033,676
Special education local programs (90%)	7,929,770
Special education tuition	3,550,000
Vocational education (90%)	5,967,828
Transportation	
(1) Operating costs (90%)	13,903,400
(2) Bus purchases	1,965,668

Debt service

(1) Insured value and leases	710,164
(2) Principal and interest	26,000,000

Major capital fund for emergency construction

needs	1,000,000
Local funds with state participation (1/2 year	5,400,000
Private school transportation (90%)	300,000
Geographical isolation adjustment	200,000
Unusual enrollment adjustment	637,218

The present law would require a uniform property tax rate of 14.5 mills. This amendment anticipates a rate of 13.25 mills. Lowering the uniform property tax 1 1/4 mills will require an additional 11.3 million dollars from other tax sources. This amendment contains significant changes in the state personal income tax to provide this revenue.

These changes will provide revenue as follows:

	<u>1976-77</u>	<u>1977-78</u>
A. Gross revenues from changes in tax rates	\$17 million	21.2 million
B. Costs of adopting the federal <u>standard deduction</u>	<u>5.2 million</u>	<u>5.2 million</u>
C. <u>Net</u> revenues	11.8 million	16. million

Finally, in the current year the State has unmet obligations of 7.7 million dollars under the local leeway provision. This amendment would provide for payment of these obligations through a surtax of 12.5% which will be temporarily applied to the personal income tax.

Statement of Fact

The purpose of this amendment is to:

1. Reestablish "maintenance of effort" and provide that maintenance of effort funds are raised before units can take advantage of the "local leeway" option. Local leeway is now called "optional local funds with state participation."
2. Remove language which would defer payment of the State's current year local leeway obligations.
3. Provide that only units which exceed their estimates, as adjusted, will be affected by a less 90% reimbursement for special education local programs, vocational education and transportation operating costs.
4. Reestablish a ceiling on local education spending but provide that in unusual circumstances the local unit may spend above this ceiling in order to avoid educational hardship. The State Board of Education is authorized to waive this local ceiling in such cases.
5. Retain the counting of vocational and special education students as regular students for subsidy purposes and provide for reimbursements to professionals associated with such programs.
6. Anticipate a lowering of the mill rate of the uniform property tax 1 1/4 mills to 13.25 mills and provide a revised rate schedule for the state personal income tax to raise the 11.3 million dollars needed to lower the uniform property tax.
7. Change the maximum level under the local funds with state participation provision (formerly local leeway) to \$125 per pupil per mill, as it is in the present law.
8. Distribute 265 million dollars for 1976-77 education

costs.

9. Pay the 7.7 million dollars in state obligations under the present local leeway provision through 12.5% temporary surtax on the state personal income tax.

The personal income tax changes contained in the amendment are as follows:

A. Surcharge: The surcharge on the personal income tax is a one-time levy which will be applied against the new income tax rates established by this amendment. It will raise, over the course of fiscal year 1976-77, approximately \$7.7 million. These moneys will be sufficient for the State to honor its present obligations under the current School Finance Act. However, it will be impossible to collect the total revenues of the surcharge by the time all obligations become due. Therefore, borrowing against these anticipated funds will be necessary.

B. Change in the personal income tax rates: The personal income tax increase provided in this amendment would not be a one-time levy but rather makes possible a permanent shift from the uniform property tax to the income tax. The amount of this shift for fiscal year 1976-77 would be approximately \$11.3 million.

This new personal income tax schedule, along with the adoption of the standard deduction of the Federal Internal Revenue Code, will more accurately reflect each citizen's ability to pay.

The new schedule accomplishes this in 2 ways:

1. First, it increases the number of income brackets and then adopts higher tax rates. For example, the current state income tax schedule taxes a person earning \$5,000 at the same rate (3%) as a person earning \$9,500 and it taxes the person earning \$10,000 at the same rate (4%) that it taxes a person earning \$24,500. By creating smaller brackets and using higher tax rates, the person with the better ability to pay is more accurately identified.

2. Secondly, by adopting the federal standard deduction (which includes the \$1,700 ^{low} income allowance and the percentage standard deduction, up to \$2,400, the lower income brackets are protected from too great a drain at any one time on their cash flow.

Thus, while this tax increase will raise approximately 11.8 million (net) for fiscal year 1976-77 and \$16.09 million for fiscal year 1977-78, its progressive and equitable design will actually mean that less taxes will be owed by many people. For example:

(1) A family of 4 with an adjusted gross income of \$15,000 (income before subtracting 4 exemptions, \$4,000, and the federal standard deduction, \$2,400) would pay \$2 less tax than is currently owed but the same family earning \$20,000 would pay \$8 more tax.

(2) A family of 3 with an adjusted gross income of \$10,500 would pay \$5 less tax than is currently owed but the same family earning \$12,000 would pay \$12 more tax.

(3) A family of 2 with an adjusted gross income of \$9,500 would pay \$16 less tax than is currently owed and the same family earning \$10,500 would pay \$0.50 more tax.

(4) A single person earning \$8,000 adjusted gross income would pay \$6 less tax than is currently owed; however, the same person earning \$9,500 would pay \$11 more tax.

A final question concerning the tax increase of this amendment might be asked. Is the current tax burden of Maine's ^{so} personal taxes/regressive as to justify the more progressive tax schedule of this amendment?

As at least a partial answer to this question, a very recent study, December 15, 1975, by Professor Stephen E. Lile of Western Kentucky University, prepared for the Kentucky Department of Revenue, analyzes the relative family tax burdens in the 48 contiguous states.

Professor Lile's analysis includes the following taxes: State income, local income, state sales, local sales, residential property, cigarette excise and motor vehicle taxes. Business taxes, such as the corporate income tax, were not included. Estimates are based on taxes in effect during 1974. ²

Professor Lile's study reaches the following conclusions about the regressive ³ burden of Maine's personal taxes:

1. MAINE FAMILY TAX BURDENS, BY TYPE OF TAX

Family of four (Adjusted gross income)	Individual Income		General Sales		Residential Property	Motor Vehicles	Cigarette Tax	Total Tax Burden	National Rank
	State	Local	State	Local					
A. \$ 5,000	\$5	-	\$89	-	\$392	\$133	\$0	\$866	12
B. \$ 7,500	\$30	-	\$118	-	\$525	\$133	\$60	\$866	12
C. \$10,000	\$60	-	\$144	-	\$574	\$133	\$60	\$971	14
D. \$17,500	\$158	-	\$211	-	\$980	\$199	\$60	\$1608	18
E. \$25,000	\$350	-	\$250	-	\$1225	\$199	\$60	\$2084	25
F. \$50,000	\$1200	-	\$363	-	\$2100	\$199	\$60	\$3922	24

2. DISTRIBUTION OF MAJOR STATE-LOCAL TAX BURDENS RELATIVE TO MAINE FAMILY INCOME SIZE, 1974

Adjusted Gross Income, Family of Four

\$5,000	\$7,500	\$10,000	\$17,500	\$25,000	\$50,000
13.6%	11.5%	9.7%	9.2%	8.3%	7.8%

The significance of the above estimates for the more progressive tax schedule proposed in this amendment would seem to be:

While the \$11.3 million tax shift from property tax to the income tax might very well mean one citizen pays less property tax but more income tax, the person paying that increase would, due to this amendment's progressive tax schedule, be the wealthier people in Maine. It is these people who, according to the tables above, pay proportionately less of their income in taxes. A family of \$5,000 ranks 12th in terms of personal tax burden while the family with an income of \$50,000 ranks/24th among the/contiguous states.

Footnotes

1. Lile, Family Tax Burdens Among States and Among Cities Located Within Kentucky and Neighboring States (1975).
2. The study relies on 1971 property tax data in making estimates of family residential property tax burdens.
3. Taxes can be distributed either progressively, proportionally or regressively among income classes. Under a regressive tax, the percent of income paid in taxes declines as income (and ability to pay) rises.

Filed by Mr. Smith of Dover-Foxcroft.

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2/18/76

(Filing No. H-904)