

MAINE STATE LEGISLATURE

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1 A. The state board may approve projects as long
2 as no project approval will cause debt service
3 costs, as defined in section 15603, subsection 8,
4 paragraphs A and D, to exceed the maximum limits
5 specified in Table 1 in subsequent fiscal years.

6 Table 1

7 <u>Fiscal year</u>	<u>Maximum Debt Service Limit</u>
8 <u>1990</u>	<u>\$48,000,000</u>
9 <u>1991</u>	<u>\$57,000,000</u>
10 <u>1992</u>	<u>\$63,000,000</u>

11 **Sec. 2. 20-A MRSA §15905, sub-§1, ¶A-1, as**
12 **amended by PL 1987, c. 402, Pt. A, §132, is repealed**
13 **and the following enacted in its place:**

14 A-1. Beginning with the second regular session of
15 the Legislature in fiscal year 1990 and every
16 other year thereafter, on or before March 1st, the
17 commissioner shall recommend to the Legislature
18 and the Legislature shall establish maximum debt
19 service limits for the next biennium for which
20 debt service limits have not been set.

21 **Sec. 3. 20-A MRSA §15909, sub-§2, ¶A, as**
22 **repealed and replaced by PL 1987, c. 402, Pt. A, §133,**
23 **is amended to read:**

24 **A. The amount to be bonded shall be determined as**
25 **follows. The total cost of the project shall be**
26 **reduced by:**

27 **(1) The initial state share as defined in**
28 **section 15914, subsection 3, when the initial**
29 **state share has been approved for current**
30 **fiscal-year-funding;**

31 **(2) Proceeds from insured losses;**

32 **(3) Money from federal sources; and**

33 **(4) Other noneducational funds, except gifts**
34 **and money from federal revenue sharing**

1 sources.

2 Sec. 4. 20-A MRSA §15914, as amended by PL 1985,
3 c. 248, §§11 and 12, is repealed.

4 Sec. 5. Effective date. This Act shall take
5 effect on July 1, 1989.

6 FISCAL NOTE

7 Assuming that the annual allowable rate of
8 inflation is at the maximum allowable 5% each year,
9 the fiscal impact for fiscal year 1988-89 is \$0,
10 fiscal year 1989-90 is \$1.78 million (\$.98 million
11 state share) fiscal year 1990-91 is \$8.47 million
12 (\$4.66 million state share) and fiscal year 1991-92 is
13 \$12.05 million (\$6.3 million state share).

14 STATEMENT OF FACT

15 This bill is intended to accomplish the following
16 purposes:

17 1. To enable the State Board of Education to more
18 adequately meet the rapidly escalating local demand
19 for public school construction by raising the annual
20 debt service limitation;

21 2. To provide more timely control of the annual
22 debt service limitation by the Legislature by
23 eliminating all references to contingency and
24 automatic inflation and replacing that language with a
25 table of debt service limitations through fiscal year
26 1991-92; and

27 3. To eliminate the current funding
28 (pay-as-you-go) method of financing of the State's
29 share of school construction.

30 The local demand for school construction has been
31 increasing at a dramatic pace over the past several
32 years. During fiscal year 1987-88, the Department of
33 Educational and Cultural Services received 91

1 applications, requesting state board approval totaling
2 an estimated \$207,000,000, in fiscal year 1987-88.
3 This represents 5 more projects and nearly \$7,000,000
4 more than was predicted at this time last year.

5 The state board has granted concept approval to 25
6 projects at an estimated cost of \$73,000,000 during
7 fiscal year 1987-88. With the new applications
8 received by the November 15, 1987 deadline and those
9 new applications anticipated by the April 15, 1988
10 deadline, it is estimated the fiscal year 1988-89
11 backlog will be 105 projects at a total estimated cost
12 of \$271,000,000.

13 Since the \$30,000,000 annual debt service limit
14 was established in 1977, the cost of construction has
15 increased by more than 250%, the cost of borrowing has
16 increased by 15% to 20% and the number of requests for
17 construction approval has more than tripled. During
18 this time period, the debt service limit has increased
19 by approximately 40%. It is anticipated that the
20 present backlog of unapproved school construction
21 projects will continue to grow unless a substantial
22 increase in the debt service limit is provided.

23 Because of the complexity of current statutory
24 language, limited annual debt service and the
25 uncertainty of the inflation factor, this bill
26 establishes a 3-year table specifically limiting debt
27 service at a level which will provide sufficient
28 annual funding approval capacity to the state board
29 over the next several years to begin to reduce the
30 heavy backlog of projects as well as to deal in an
31 orderly and timely fashion with the new projects
32 submitted each year. The Legislature would control
33 the annual debt service limitation with a biennial
34 review beginning with the 1990 second regular session.

35 Finally, this bill will eliminate the current
36 funding (pay-as-you-go) method for the state share of
37 school construction. This statute was enacted at a
38 time when bond interest rates were exceeding 11% and
39 the School Finance Act of 1978 was in effect. Given
40 current bond interest rates in the 7% to 8% range and
41 the heavy demand for critical school construction, the

1 wisdom of a "cash up front" method for major capital
2 is questionable. Also, because of the debt service
3 millage limit provision of the School Finance Act of
4 1985, some projects selected for current funding can
5 benefit and some projects not selected may suffer.

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