

# MAINE STATE LEGISLATURE

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# 119th MAINE LEGISLATURE

## FIRST REGULAR SESSION-1999

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Legislative Document

No. 1627

S.P. 558

In Senate, March 2, 1999

### An Act to Ensure Equity in School Funding.

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Reference to the Committee on Education and Cultural Affairs suggested and ordered printed.

A handwritten signature in cursive script that reads "Joy J. O'Brien".

JOY J. O'BRIEN  
Secretary of the Senate

Presented by Senator NUTTING of Androscoggin.  
Cosponsored by Representative RICHARD of Madison and  
Senators: MILLS of Somerset, CASSIDY of Washington, PARADIS of Aroostook,  
Representatives: LaVERDIERE of Wilton, BELANGER of Caribou, BUMPS of China,  
CAMPBELL of Holden, DESMOND of Mapleton, MARTIN of Eagle Lake, STEDMAN of  
Hartland.



2 supplements chapter 606, which remains in effect except where in  
3 conflict with this chapter.

4 **§15662. Definitions**

6 As used in this chapter, unless the context otherwise  
7 indicates, the following terms have the following meanings.

8  
9 1. Base year. "Base year" means the 2nd year prior to the  
10 year of funding.

12 2. Debt service costs. "Debt service costs" has the same  
13 meaning as in section 15603, subsection 8.

14  
15 3. Fiscal capacity. "Fiscal capacity" means the ability of  
16 a municipality to raise property tax revenues as measured by the  
17 state valuation of property subject to property tax assessment on  
18 April 1 in the base year. The fiscal capacity of a unit is the  
19 sum of the state valuations of its member municipalities in the  
20 base year.

22 4. Foundation per pupil operating rate. "Foundation per  
23 pupil operating rate" means the sum of operating costs in the  
24 base year for all units divided by the State's average pupil  
25 count.

26  
27 5. Operating costs. "Operating costs" means the reasonable  
28 and necessary costs of operating a unit excluding program costs,  
29 debt service costs, state direct costs and nonsubsidizable costs.

30  
31 6. Nonsubsidizable costs. "Nonsubsidizable costs" has the  
32 same meaning as in section 15603, subsection 26-A, paragraph D.

34 7. Program costs. "Program costs" has the same meaning as  
35 "actual local program costs" in section 15603, subsection 26-A,  
36 paragraph B.

38 8. Pupil count. "Pupil count" means the total number of  
39 resident pupils counted in accordance with section 6004 educated  
40 at public expense in kindergarten through grade 12. "Average  
41 pupil count" means the average of pupil counts taken on the  
42 following 3 dates:

44 A. October 1st of the year prior to the year of funding;

46 B. April 1st of the base year; and

48 C. October 1st of the base year.

2 9. State share percentage. For each unit, the state share  
4 percentage means the following quotient expressed in percentage  
6 terms: the numerator is the unit's operating cost subsidy  
8 calculated in accordance with section 15663, subsection 2 and the  
10 denominator is the unit's subsidizable operating costs. For a  
12 unit whose operating cost subsidy is 0, the state share  
14 percentage is also 0.

16 10. Subsidizable operating costs. "Subsidizable operating  
18 costs" for each unit are equal to the product of the foundation  
20 per pupil operating rate times the unit's average pupil count.

22 11. Unit. "Unit" means a school administrative unit as  
24 defined in section 1, subsection 26.

26 12. Year. "Year" means a fiscal year starting July 1st and  
28 ending June 30th of the succeeding year.

### 29 \$15663. Operating cost subsidy

30 By March 31st of each year, the Legislature shall  
32 appropriate funds to subsidize operating costs for all units for  
34 the ensuing fiscal year.

36 1. Default appropriation. In the absence of timely  
38 legislative action, the operating cost subsidy for the ensuing  
40 year must be calculated and paid by the commissioner based on the  
42 appropriation and the operating cost mill rate in effect for the  
44 current year.

46 2. How calculated. The operating cost subsidy for each  
48 unit is the amount of that unit's subsidizable operating costs  
50 less its local share. The local share is the product of the  
operating cost mill rate, as calculated under subsection 4, times  
the unit's fiscal capacity.

If the unit fails to raise and provide toward operating costs a  
level of funds sufficient to pay its local share, then the  
State's subsidy must be reduced by an amount equal to what the  
unit fails to provide. The reduction in state subsidy must be  
added to the commissioner's reserve fund and distributed in  
accordance with subsection 5.

3. Minimum subsidy. If a unit's subsidy when calculated  
under subsection 2 is less than 5% of its subsidizable operating  
costs, it must receive a subsidy that is equal to 5% of its  
subsidizable operating costs.

4. Operating cost mill rate. The operating cost mill rate  
is a single statewide property mill rate that must be calculated

2 each year by the commissioner to satisfy the following  
3 condition: when the operating cost mill rate is applied to the  
4 fiscal capacity of each unit eligible for subsidy under  
5 subsection 2, the subsidies that result under this section,  
6 including the minimum subsidies in subsection 3, must exhaust  
7 99.5% of the amount appropriated by the State for operating costs.

8 5. Commissioner's reserve fund. One-half of one percent of  
9 the amount appropriated under this section plus subsidy  
10 reductions under subsection 2 must be held by the commissioner in  
11 a reserve fund that the commissioner may expend during the year  
12 of funding to make adjustments resulting from audits or necessary  
13 corrections to subsidy entitlements under this chapter. In the  
14 12th month of the year of funding, any balance then remaining in  
15 the reserve fund must be distributed to all units eligible for  
16 subsidy under subsection 2 in proportion to each unit's operating  
17 cost subsidy level.

18 **§15664. Program cost subsidy**

19  
20 By March 31st of each year, the Legislature shall  
21 appropriate funds to subsidize program costs for all eligible  
22 units for the ensuing fiscal year.

23  
24 1. Default appropriation. In the absence of timely  
25 legislative action, the program cost subsidy for the ensuing year  
26 must be calculated and paid by the commissioner based on the  
27 program appropriation and the program millage limit in effect for  
28 the current year.

29  
30 2. How calculated. The program cost subsidy for each unit  
31 is the product of that unit's program costs times the state share  
32 percentage for that unit.

33  
34 3. Appropriation less than subsidy. If the appropriation  
35 for program costs is insufficient to pay the subsidies calculated  
36 in accordance with subsection 2, then the subsidy to each unit  
37 eligible to receive a program cost subsidy must be reduced in  
38 proportion to each unit's average pupil count.

39  
40 4. Appropriation exceeding subsidy. If the appropriation  
41 for program costs exceeds the amount necessary to pay the  
42 subsidies calculated in accordance with subsection 2, then the  
43 excess must be distributed to pay that portion of each unit's  
44 program costs that exceeds its program circuit breaker. A unit's  
45 "program circuit breaker" is the amount calculated by multiplying  
46 the program millage limit times the fiscal capacity of that unit.

47  
48 5. Program millage limit. For purposes of this section,  
49 "program millage limit" means a single statewide property tax  
50

2 mill rate that must be calculated each year by the commissioner  
3 to satisfy the following condition: when the program millage  
4 limit is applied to the fiscal capacity of each unit, the  
5 subsidies that result under this section must exhaust the amount  
6 appropriated by the State for program costs.

7 **§15665. Debt service costs subsidy**

8  
9 By March 31st of each year, the Legislature shall  
10 appropriate funds to subsidize debt service costs for all  
11 eligible units for the ensuing fiscal year.

12  
13 1. Default appropriation. In the absence of timely  
14 legislative action, the debt service costs subsidy for the  
15 ensuing year must be calculated and paid by the commissioner  
16 based on the debt service costs appropriation and the debt  
17 service costs millage limit in effect for the current year.

18  
19 2. How calculated. The debt service costs subsidy for each  
20 unit is the product of that unit's debt service costs times the  
21 state share percentage for that unit.

22  
23 3. Appropriation less than subsidy. If the appropriation  
24 for debt service costs is insufficient to pay the subsidies  
25 calculated in accordance with subsection 2, then the subsidy to  
26 each unit eligible to receive a debt service costs subsidy must  
27 be reduced in proportion to each unit's average pupil count.

28  
29 4. Appropriation exceeding subsidy. If the appropriation  
30 for debt service costs exceeds the amount necessary to pay the  
31 subsidies calculated in accordance with subsection 2, then the  
32 excess must be distributed to pay that portion of each unit's  
33 debt service costs that exceed the unit's debt service costs  
34 circuit breaker. A unit's "debt service costs circuit breaker"  
35 is the amount calculated by multiplying the debt service costs  
36 millage limit times the fiscal capacity of that unit.

37  
38 5. Debt service costs millage limit. For purposes of this  
39 section, "debt service costs millage limit" means a single  
40 statewide property tax mill rate that must be calculated each  
41 year by the commissioner to satisfy the following condition: when  
42 the debt service costs millage limit is applied to the fiscal  
43 capacity of each unit, the subsidies that result under the rules  
44 of this section must exhaust the amount appropriated by the State  
45 for debt service costs.

46 **§15666. State direct costs**

47  
48 By March 31st of each year, the Legislature shall  
49 appropriate funds to pay state direct costs for all eligible  
50 units.

2 units for the ensuing fiscal year. Funds for state direct costs  
3 are limited to the amounts appropriated by the Legislature for  
4 such purposes. The commissioner shall prorate payments to units  
5 if the amounts appropriated are insufficient to make payments in  
6 full.

7 **§15667. Hardship cushions**

8  
9 Hardship cushions as provided in subsection 1 or 2 must be  
10 paid from funds generated through setting a maximum allowable  
11 percentage of gain as provided in subsection 3.

12  
13 **1. Cushions for fiscal years through June 30, 2002.** If the  
14 combined changes for operating and program cost subsidies  
15 calculated in sections 15663 and 15664 would represent a loss to  
16 a unit from fiscal year 1999-00 to fiscal year 2000-01, then the  
17 commissioner shall distribute to that unit an additional cushion  
18 subsidy sufficient to limit the unit's loss to 1/2 of what it  
19 would otherwise be. There is no cushion for the fiscal year that  
20 begins July 1, 2001.

21  
22 **2. Cushions for fiscal years beginning July 1, 2002.** For  
23 fiscal years that begin on or after July 1, 2002, if the combined  
24 changes for operating and program cost subsidies calculated in  
25 sections 15663 and 15664 would represent a loss to a unit in  
26 excess of 5% from one fiscal year to the next, and if that unit's  
27 state share percentage in the first of the 2 fiscal years exceeds  
28 30%, the commissioner shall distribute to that unit an additional  
29 cushion subsidy sufficient to limit the unit's loss to 5%.

30  
31 **3. Maximum gain.** As necessary to fund the cushions in  
32 subsection 1 or 2, the commissioner shall determine a maximum  
33 allowable percentage of gain that units may receive from one  
34 fiscal year to the next in combined operating and program cost  
35 subsidies. The commissioner shall set the maximum percentage for  
36 each year at such a rate that the excess funds generated equal  
37 the amount necessary to pay the hardship cushions required under  
38 subsection 1 or 2.

39  
40 **Sec. 5. Effective date.** Those sections of this Act that amend  
41 the Maine Revised Statutes, Title 20-A, section 8605, subsection  
42 2, paragraph B and section 15603, subsection 26-A, paragraph F  
43 and that section that repeals Title 20-A, chapter 606-A take  
44 effect July 1, 2000.

2

## SUMMARY

4

6 Effective for the fiscal year that begins July 1, 2000, this  
bill divides General Purpose Aid to Local Schools into its 4  
8 component parts: operating costs; program costs; debt service;  
and direct state costs, formerly called "adjustments." The bill  
10 requires that all 4 components receive separate appropriations  
that are no longer interdependent. In each case there is a  
12 default appropriation to take effect if the Legislature fails to  
appropriate new funds prior to March 31st of each year.

14

Income and cost-of-living factors are no longer included.  
16 Operating, program and debt service subsidies are all  
proportional to a school administrative unit's fiscal capacity.  
18 The need for percentage reduction is eliminated. The first  
dollars available go to the poorest school units. Program or  
20 debt service costs that exceed a circuit breaker amount are fully  
subsidizable. Circuit breaker levels are not fixed but float  
with the level of the annual appropriation.

22

The operating cost subsidy for each school administrative  
24 unit is calculated as follows:

26

1. The foundation per pupil operating rate equals the  
statewide base year operating costs divided by the State's  
28 average pupil count;

30

2. A unit's subsidizable operating costs equal the  
foundation per pupil operating rate times the average pupil count  
32 for the unit; and

34

3. The local share of operating costs equals the operating  
cost mill rate times the fiscal capacity of the unit.

36

The "operating cost mill rate" is a calculated figure that  
38 floats to meet the State's annual appropriation.

40

The state subsidy is equal to the unit's subsidizable  
operating costs less the local share, but may not be less than 5%  
42 of the unit's costs.

44

A unit that fails to raise its local share of operating  
costs loses a portion of its subsidy equal to what it fails to  
46 provide. Such a reduction is not necessary for program and debt  
service subsidies because they continue to be calculated on the  
48 basis of the unit's own approved expenditures.

2 Pupil count averaging is extended over 3 separate dates,  
rather than 2 as provided in present law. Thus, changes in pupil  
counts will have a more gradual impact on subsidy changes.

4  
6 The bill contains a contingency cushion for districts that  
depend on state subsidies to fund 30% or more of their base year  
operating costs. The cushion holds these needier units to a 5%  
8 loss if their combined losses in operating and program costs,  
incurred for any reason, exceed 5% from one fiscal year to the  
10 next. The cushion protects against sudden changes in either or  
both of the 2 major variables that impact the formula: valuation  
12 and pupil count.

14 The cushion is funded by reducing excess subsidies that  
would otherwise go to those units whose gains exceed a maximum  
16 percentage annually calculated by the Commissioner of Education  
at the rate necessary to pay the cushion subsidies.

18