

MAINE STATE LEGISLATURE

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L.D. 1629

DATE: 8-19-03

(Filing No. H-601)

REPORT A
TAXATION

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STATE OF MAINE
HOUSE OF REPRESENTATIVES
121ST LEGISLATURE
FIRST SPECIAL SESSION

COMMITTEE AMENDMENT "C" to H.P. 1209, L.D. 1629, "RESOLUTION, Proposing a Competing Measure under the Constitution of Maine To Create Municipal Service Districts To Reduce the Cost of Local Government, To Provide Property Tax Relief and To Increase Economic Competitiveness"

Amend the resolution by striking out the title and substituting the following:

'RESOLUTION, Proposing a Competing Measure under the Constitution of Maine To Create Municipal Budget Caps, Reduce the Cost of Local Government through Increased State Education Funding and Provide Property Tax Relief'

Further amend the resolution in the first indented paragraph after the title in the last 2 lines (page 1, lines 5 and 6 in L.D.) by striking out the following: "to Enact the School Finance" and inserting in its place the following: 'To Enact the School Finance and Tax Reform'

Further amend the resolution by striking out all of Parts A to D and inserting in their place the following:

PART A

Sec. A-1. 20-A MRSA §15671, sub-§7, ¶B, as enacted by PL 2003, c. 504, Pt. A, §5, is amended to read:

B. The annual targets for the state share percentage are as follows.

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COMMITTEE AMENDMENT "C" to H.P. 1209, L.D. 1629

- 2 (1) For fiscal year 2005-06, the target is 49%.
- 4 (2) For fiscal year 2006-07, the target is ~~49.25%~~
50.5%.
- 6 (3) For fiscal year 2007-08, the target is ~~49.50%~~ 52%.
- 8 (4) For fiscal year 2008-09, the target is ~~49.75%~~
53.5%.
- 10
- 12 (5) For fiscal year 2009-10 and succeeding years, the
target is ~~50%~~ 55%.

14 **Sec. A-2. 20-A MRSA §15671-A** is enacted to read:

16 **§15671-A. Property tax contribution to public education**

18 1. Definitions. For the purposes of this section, unless
20 the context otherwise indicates, the following terms have the
following meanings.

22 A. "Funding public education from kindergarten to grade 12"
24 means the cost of funding essential programs and services as
described in this chapter plus the total allocations for
26 program cost, debt service costs and adjustments.

28 B. "Local cost share expectation" means the maximum amount
of money needed for the purpose of funding public education
30 from kindergarten to grade 12 that may be derived from
property tax.

32 2. Local cost share expectation established. The local
cost share expectation is established as follows.

34 A. This paragraph applies to the local cost share
36 expectation. Notwithstanding any other provision of law,
with respect to the assessment of any property taxes for
38 property tax years beginning on or after April 1, 2005, this
subsection establishes the local cost share expectation that
40 may be assessed on the value of property for the purpose of
funding public education from kindergarten to grade 12. The
42 commissioner shall annually by February 1st notify each
school administrative unit of its local cost share
44 expectation. Each superintendent shall report to the
municipal officers whenever a school administrative unit is
46 notified of the local cost share expectation or a change
made in the local cost share expectation resulting from an
48 adjustment.

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2 B. This paragraph applies to the calculation of the
3 full-value education mill rate. For property tax years
4 beginning on or after April 1, 2005, the commissioner shall
5 calculate the full-value education mill rate that is
6 required to raise the total of the local cost share
7 expectation for funding public education from kindergarten
8 to grade 12. The full-value education mill rate is derived
9 by dividing the applicable tax year percentage of the
10 projected cost of funding public education from kindergarten
11 to grade 12 by the certified total state valuation for the
12 year prior to the most recently certified total state
13 valuation for all municipalities. The full-value education
14 mill rate must decline over the period described in
15 subparagraphs (1) to (5) and may not exceed 10.0 mills. The
16 full-value education mill rate must be applied according to
17 section 15688, subsection 3, paragraph A to determine a
18 municipality's local cost share expectation. Full-value
19 education mill rates must be derived according to the
20 following schedule:

21 (1) For the 2005 property tax year, the full-value
22 education mill rate is the amount necessary to result
23 in a 51% local share in fiscal year 2005-06;

24 (2) For the 2006 property tax year, the full-value
25 education mill rate is the amount necessary to result
26 in a 49.5% local share in fiscal year 2006-07;

27 (3) For the 2007 property tax year, the full-value
28 education mill rate is the amount necessary to result
29 in a 48% local share in fiscal year 2007-08;

30 (4) For the 2008 property tax year, the full-value
31 education mill rate is the amount necessary to result
32 in a 46.5% local share in fiscal year 2008-09; and

33 (5) For the 2009 property tax year and subsequent
34 years, the full-value education mill rate is the amount
35 necessary to result in a 45% local share in fiscal year
36 2009-10 and subsequent years.

37 **3. Exceeding local cost share expectation; referendum**
38 **process.** Beginning with the 2009-10 school budget, the
39 legislative body of a school administrative unit may adopt
40 property tax rates that exceed the local cost share expectation
41 calculated under section 15688, subsection 3, paragraph A if that
42 action is approved by the voters of the school administrative
43 unit by referendum or the referendum validation processes
44 authorized by sections 1305-B and 1701-B and the voters are

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properly notified as required by section 15617 or Title 30-A, section 2523 or 2551, as applicable.

Sec. A-3. 20-A MRSA §15684, sub-§3 is enacted to read:

3. Repeal. This section is repealed on July 1, 2005.

Sec. A-4. 20-A MRSA §15686, as enacted by PL 2003, c. 504, Pt. A, §6, is amended to read:

§15686. Transition adjustment

For each of the fiscal years described in section 15671, subsection 7, the commissioner shall establish a transition adjustment calculated to minimize the adverse fiscal impact ~~directly---related---to~~ that may be experienced by some municipalities as a result of the phase-in of this Act. The transition adjustment for a municipality must be directly related to the phase-in of essential programs and services and the local cost share expectation method of determining the local contribution to the cost of funding essential programs and services. The amount of this adjustment is established at \$10,000,000 for fiscal year 2005-06 and must decline with each successive fiscal year,--and--the. The adjustments must end no later than fiscal year 2009-10.

Sec. A-5. 20-A MRSA §15688 is enacted to read:

§15688. School administrative unit contribution to total cost of funding public education from kindergarten to grade 12

1. School administrative unit; total cost. For each school administrative unit, the commissioner shall annually determine the school administrative unit's total cost of education. A school administrative unit's total cost of education must include:

A. The school administrative unit's total cost of funding essential programs and services subject to the transition percentages described in section 15671, subsection 7, paragraph A;

B. The program cost allocation as used in chapter 606; and

C. The debt service allocation as used in chapter 606.

2. Member municipalities in school administrative districts or community school districts; total costs. For each municipality that is a member of a school administrative district or community school district, the commissioner shall annually

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2 determine each municipality's total cost of education. A
3 municipality's total cost of education is the school
4 administrative district's or community school district's total
5 cost of funding times the percentage that the municipality's most
6 recent calendar year average pupils is to the school
7 administrative district's or community school district's most
8 recent calendar year average pupils.

9
10 3. School administrative unit; contribution. For each
11 school administrative unit, the commissioner shall annually
12 determine the school administrative unit's contribution in
13 accordance with the following.

14 A. The school administrative unit's contribution to the
15 total cost of education is the lesser of:

16
17 (1) The total cost for each municipality as described
18 in subsection 1 or 2; or

19
20 (2) The total of the full-value education mill rate
21 derived in section 15671-A, subsection 2 multiplied by
22 the certified state valuation for the year prior to the
23 most recently certified state valuation for each
24 municipality in the school administrative unit.

25
26 B. The school administrative unit's state contribution to
27 the total cost of education is the total cost of education
28 calculated pursuant to subsection 1 less the school
29 administrative unit's contribution calculated pursuant to
30 paragraph A.

31
32 4. Effective date. This section takes effect July 1, 2005.

33
34 **Sec. A-6. Basis for funding costs of education from kindergarten to**
35 **grade 12.** Notwithstanding any other provision of law, beginning
36 in fiscal year 2005-06, funding of the costs of education from
37 kindergarten to grade 12 must be based on the cost of providing
38 essential programs and services as described in the Maine Revised
39 Statutes, Title 20-A, chapter 606-B.
40

41
42 **PART B**

43
44 **Sec. B-1. 30-A MRSA §5721-A is enacted to read:**

45
46 **§5721-A. Municipal appropriation limitation**

47
48 The following limitations apply to a municipality's
49 appropriations for fiscal years based on tax years beginning on
50 or after April 1, 2005.

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2 1. Definitions. For the purposes of this section, unless
3 the context indicates otherwise, the following terms have the
4 following meanings.

6 A. "Exceptional circumstances" means an unforeseen
7 condition or conditions over which the municipal governing
8 body has little or no control and does not mean new programs
9 or program expansions that go beyond existing program
10 criteria and operation.

12 B. "Municipal services appropriation" means the total
13 amount of money raised and appropriated to pay for services,
14 programs and public debt that is included in a
15 municipality's annual budget but does not include local
16 costs for public education from kindergarten to grade 12,
17 assessments made to support general county government and
18 any grant or subsidy that the municipality received from the
19 Federal Government.

20 2. Appropriation limitation. The total municipal services
21 appropriation for each fiscal year of a municipality may not
22 exceed the municipal services appropriation of the previous
23 fiscal year multiplied by the limitation on the total General
24 Fund appropriation described in Title 5, section 1664.

26 3. Exceptional circumstances. The amount derived under
27 subsection 2 may be exceeded only by the amount of additional
28 costs or the lost revenue from the following exceptional
29 circumstances:

30 A. Unfunded or underfunded new state or federal mandates;

32 B. Losses in state or federal revenues or other revenue
33 sources, except losses in revenue under subsection 4;

34 C. Citizens' initiatives or referenda that require
35 increased municipal spending;

36 D. Court orders or decrees that require additional
37 municipal resources to comply with the orders or decrees; or

38 E. Sudden or significant increases in demand for existing
39 municipal services that are not the result of municipal
40 legislative body actions that increase eligibility or
41 increase benefits.

42 In addition, the municipal legislative body may designate
43 exceptional circumstances that are not explicitly described in
44 paragraphs A to E but meet the intent of this section.
45

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2 4. Revenue sharing deduction. If a municipality's spending
3 exceeds the amount derived under subsections 2 and 3 due to
4 circumstances that are not exceptional as established in
5 subsection 3, its share of the revenues from the Local Government
6 Fund under section 5681 must be reduced in the following manner:

7 A. The Department of Audit shall declare the amount by
8 which the municipality has exceeded the amount derived under
9 subsection 2 and shall determine what the property tax
10 burden of the municipality would be without the exceeding of
11 the amount derived under subsections 2 and 3;

12 B. The Department of Audit shall report the property tax
13 burden determination under paragraph A to the Treasurer of
14 State; and

15 C. The Treasurer of State shall use the property tax burden
16 amount reported under paragraph B to determine the portion
17 of the Local Government Fund to be disbursed to the
18 municipality under section 5681, subsection 4.

19 **Sec. B-2. 30-A MRSA §5823, sub-§3, ¶A,** as amended by PL 2003,
20 c. 178, §5, is further amended to read:

21 A. The report must contain the following items:

22 (1) A management letter, if applicable;

23 (2) A letter of transmittal;

24 (3) The independent auditor's report on the financial
25 statements; and

26 (4) All financial statements and all other
27 information required by governmental accounting and
28 financial reporting standards; and

29 (5) A statement of:

30 (a) Whether the municipality has exceeded the
31 amount derived under section 5721-A, subsection 2
32 due to circumstances that are not exceptional as
33 established in section 5721-A, subsection 3; and

34 (b) If the amount derived under section 5721-A,
35 subsection 2 has been exceeded as described in
36 division (a), a calculation of the amount by which
37 the municipality has exceeded that amount.

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2 **Sec. B-3. 30-A MRSA §5823, sub-§3, ¶B,** as amended by PL 1997,
c. 142, §2, is further amended to read:

4 B. Within 30 days after the postaudit is completed, the
auditor shall send to the State Auditor:

6 (1) A certified copy of the postaudit report,
8 excluding the management letter; and

10 (2) A certified copy of the audit procedural form
12 prescribed by the State Auditor for governmental
audits; and

14 (3) A copy of the municipality's approved official
16 budget for the year audited.'

18 Further amend the resolution in Part E in section 2 by
striking out the question and inserting in its place the
following:

20 ""Do you want to lower property taxes, without raising Maine
22 sales and personal income taxes, by having the State pay 55%
of the cost of public education and capping municipal
24 spending to achieve significant savings at the local level?""

26 Further amend the resolution by relettering or renumbering
any nonconsecutive Part letter or section number to read
28 consecutively.

30 **SUMMARY**

32 This amendment is the majority report of the committee. It
34 replaces Parts A to D of the resolution with 2 new Parts. Part A
of this amendment amends the Essential Programs and Services
36 Funding Act to increase the State's share of funding public
education from kindergarten to grade 12 from 50% over 5 years to
38 55% over 5 years. Part A also establishes the essential programs
and services model for funding education as the basis for the
40 calculation of a full-value education mill rate expectation
identifying the state and local share of the cost of providing
42 essential programs and services beginning in fiscal year 2005-06.

44 Part B establishes a cap on growth in the municipal services
side of municipal budgets modeled after the budget stabilization
46 cap for the State Government budget. Whether a municipality has
exceeded the budget cap will be determined as part of a
48 municipality's annual postaudit. If the budget cap has been
exceeded, the municipality's share of state revenue sharing will
50 be reduced.

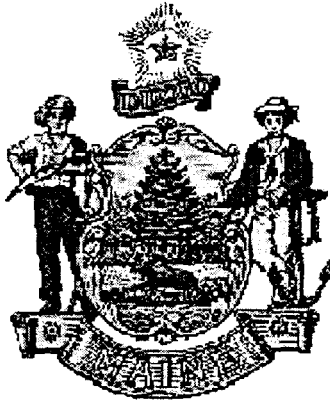
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COMMITTEE AMENDMENT ^C to H.P. 1209, L.D. 1629

2 This amendment also changes the wording of the referendum question and reletters Part E of the resolution as Part C.

FISCAL NOTE REQUIRED
(See attached)

COMMITTEE AMENDMENT



**121st Maine Legislature
Office of Fiscal and Program Review**

LD 1629

**RESOLUTION, Proposing a Competing Measure under the Constitution
of Maine to Create Municipal Budget Caps, Reduce the Cost of Local
Government through Increased State Education Funding and Provide
Property Tax Relief**

LR 2165(04)

Fiscal Note for Bill as Amended by Committee Amendment " "

Committee: Taxation

Fiscal Note Required: Yes

Majority Report

Fiscal Note

| | 2003-04 | 2004-05 | Projections 2005-06 | Projections 2006-07 |
|-----------------------------------|---------|---------|------------------------|------------------------|
| Net Cost (Savings) | | | | |
| General Fund | \$0 | \$0 | \$40,000 | \$20,315,995 |
| Appropriations/Allocations | | | | |
| General Fund | \$0 | \$0 | \$40,000 | \$20,315,995 |

| Referendum Costs | Month/Year | Election Type | Question | Length |
|-------------------------|-------------------|----------------------|-----------------|---------------|
| | Nov-03 | General | Referendum | Lengthy |

The Secretary of State's budget includes sufficient funds to accommodate one ballot of average length for the general election in November 2003. If the number or size of the referendum questions increases the ballot length, an additional appropriation of \$8,000 or more may be required.

Fiscal Detail and Notes

The implementation of this bill is contingent upon approval by the voters. If approved by the voters, this bill has the following impact.

| General Fund Summary | 2003-04 | 2004-05 | Projections 2005-06 | Projections 2006-07 |
|--|-------------|-------------|------------------------|------------------------|
| Additional Appropriation needed to fund EPS in LD 1629 | \$ - | \$ - | \$ - | \$ 20,235,995 |
| Department of Audit appropriation | \$ - | \$ - | \$ 40,000 | \$ 80,000 |
| Net General Fund Cost (Savings) | \$ - | \$ - | \$ 40,000 | \$ 20,315,995 |

This bill provides for a new method of determining the state and local share of funding the cost of K-12 public education beginning in fiscal year 2005-06. This bill includes the Essential Programs and Services model, as approved by the Legislature in Public Law 2003, c. 504, An Act to Implement School Funding Based on Essential Programs and Services, as the basis for determining the total cost of K-12 public education. However, this bill differs from PL 2003, c. 504 in that it requires the State's share to increase to 55% by fiscal year 2009-10 versus the 50% requirement in PL 2003, c. 504. This bill also provides for the calculation of a full value education mill rate that is required to raise the total maximum local share of the cost of funding K-12 education and establishes a 10 mill cap on the full value education mill rate. The Department of Education estimates the mill rate expectation to be 8.55 mills in fiscal year 2005-06.

This bill also provides for a transition adjustment through fiscal year 2009-10 for municipalities that experience an adverse fiscal impact as a result of the phase-in of the essential programs and services model and the maximum local share mill rate expectation method of determining the local contribution of funding K-12 education. This bill proposes a transition adjustment amount of \$10,000,000 in fiscal year 2005-06 with the amount declining in each successive year through fiscal year 2009-10. Since this legislation does not specify the transition amounts for fiscal years 2006-07 through fiscal year 2009-10, this fiscal note assumes that the transition adjustment declines evenly over the 5-year period. This fiscal note also assumes that the transition adjustment amounts are included in the estimated General Fund appropriation amounts needed to fund K-12 education based on the Essential Programs and Services model in this measure, thereby affecting the distribution among individual school units. The impact to each local school unit can not be determined at this time.

The following table provides estimates for the total State and Local Operating Cost of funding education based on the Essential Programs and Services model and provides a comparison of the General Fund appropriations that are estimated to be needed to fund the state's share of the cost of funding K-12 education based on the State's contribution reaching 50% in fiscal year 2009-10, as approved in Public Law 2003, c. 504, versus the 55% State contribution proposed in this legislation.

**State and Local Cost to Fund K-12 Public Education
Utilizing the Essential Programs and Services Model
Comparison of 50% State Contribution vs. 55% by FY 2009-10**

| | Base Year | | Projections | Projections |
|--|------------------------|------------------------|-----------------------|-----------------------|
| | <u>2003-04*</u> | <u>2004-05*</u> | <u>2005-06</u> | <u>2006-07</u> |
| Total State & Local Operating Cost allocation based on EPS model (100%) | 1,256,951,694 | 1,260,260,954 | 1,270,125,664 | 1,285,714,652 |
| EPS Transition Percentage | 80.82% | 82.00% | 84.00% | 88.00% |
| Adjusted Total Operating Allocation based on EPS model | 1,015,819,375 | 1,033,413,982 | 1,066,905,558 | 1,131,428,894 |
| Total State & Local cost based on EPS funding model (includes program costs, debt service and adjustments) | 1,467,408,432 | 1,518,173,106 | 1,537,199,970 | 1,618,879,589 |

| | | | | |
|---|--------|--------|-------------|-------------|
| State Share Targets to fund K-12 education based on EPS model approved in P.L. 2003, c. 504 | 49.89% | 47.81% | 49.00% | 49.25% |
| State Share Targets to fund K-12 education based on EPS model in LD 1629 | 49.89% | 47.81% | 49.00% | 50.50% |
| Estimated General Fund appropriation needed to fund K-12 education based on EPS model approved in P.L. 2003, c. 504 | | | 753,227,985 | 797,298,197 |
| Estimated General Fund appropriation needed to fund K-12 education based on LD 1629 | | | 753,227,985 | 817,534,192 |
| Additional General Fund Appropriation required to fund EPS model in LD 1629 vs. P.L. 2003, c. 504 | | | 0 | 20,235,995 |

* No adjustment in fiscal year 2003-04 and fiscal year 2004-05

This bill provides a cap on growth for municipal budgets and applies to municipalities' appropriations for fiscal year 2005-06 and thereafter. The Department of Audit will require an additional Auditor III position beginning in fiscal year 2005-06 to handle this new responsibility of determining municipal compliance with the appropriation limitation process specified in 30-A MRSA §5721-A. The estimated costs in fiscal year 2005-06 is \$40,000 and \$80,000 in fiscal year 2006-07. The additional computer programming costs associated with the requirement to reduce a municipality's share of state revenue sharing when a municipality exceeds its budget cap can be absorbed by the Treasurer of the State utilizing the resources of the Local Government Fund.