

# MAINE STATE LEGISLATURE

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FINAL REPORT

A STUDY OF L.D. 1994

Prepared by the  
EDUCATION SUBSIDY COMMISSION  
106th Legislature

Submitted to the  
107th Legislature

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Rep. Neil Rolde  
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The 106th Legislature passed landmark educational legislation designed to provide equal financial resources for the support of each Maine school child.

This legislation, widely known as L.D. 1994, was far-reaching in both its philosophical and fiscal implications. Recognizing this fact, the 106th Legislature established the Educational Subsidy Commission to examine the law, assess its effects after a period of its operation and recommend any necessary changes to the 107th Legislature. The Commission strongly believes that changes are needed.

The 107th Legislature faces a deficit of approximately \$20 million in the funding necessary to sustain the law. Some towns are experiencing serious difficulties in raising the money required by the law. In contrast, other towns find themselves unable to maintain current program levels because of the law's strict spending limits. In addition to these problems, many communities have approved and initiated construction projects under the mistaken impression that the State would fund 100% of the costs. In its work, the Commission identified both the sources of these problems and the reasons for the deficit.

Yet, with these problems, the Commission also recognizes the unquestionable benefits which L.D. 1994 has brought to many towns. Communities which prior to the law had experienced almost yearly property tax increases have seen either no increases at all or declining tax rates. Other towns have been able to afford basic educational services for the first time. With the State's assumption of 50% of all education costs, the burden of the property tax has been eased for many Maine citizens.

The law has created significant problems and yet bestowed great benefits. With these twin images before them, the Commission began its work.

The Commission has studied the law and its effects since the spring of 1974. In addition to its regular meetings, the Commission benefitted from the thoughtful presentations of a variety of Maine people at three public hearings. The Commission has also enjoyed the assistance of a number of experts and observers representing a broad range of opinion. Finally, after numerous working sessions, the Commission has produced a set of recommendations.

Emphasis is placed on the fact that these recommendations are unanimous. Equal emphasis should be given to the fact that the Commission is composed of members with distinctly different

attitudes toward the law. The unanimous recommendations, then, represent the agreement of those who were outright opponents of the law and those who were its most ardent supporters.

The consensus reached by the Commission moves the law in three directions:

1. Toward greater fiscal restraint to avoid any repetition of the large deficit;
2. Toward progressive relief of the property tax burdens on towns; and
3. Toward restoration of greater local control in certain major funding areas.

In summary, the key recommendations of the Commission include requiring the use of past year expenditures adjusted for inflation as the basis for both projecting future costs and fixing the State's financial obligation, using past enrollment figures for the same purposes, removing the funding of school construction and bus purchases from the provisions of the law and revising the funding methods for these two items, deleting the pay-in requirement of the local leeway provision, forgiving the pay-in feature entirely for fiscal 1976 and moving to a 55% State share in 1977 and a 60% State share in 1978.

In fiscal terms the Commission's recommendations represent a carefully balanced approach. The cost of the forgiveness of the pay-in feature is intended to be largely offset by the reduction in the state's share produced by the fiscal constraints contained in the recommendations. By significantly correcting and strengthening the law, then, the total costs of education will be reduced by more than \$6 million. At the same time the recommendations ensure a decline in the mill rate of the uniform property tax from 13.5 mills to 12 mills.

In its recommendations the Commission believes the causes for the existing deficit have been eliminated. In its final recommendation, the Commission presents a proposal for funding this deficit.

The Commission's recommendations can be grouped into four major areas:

1. Items in the computation: those items partially funded by the uniform property tax;
2. The method used to determine the state and local shares of education costs;
3. The administration of both the uniform property tax and local leeway provisions;
4. A proposal for eliminating the existing deficit.

1. Changes affecting items in the computation:

*Recommendation #1:*

Remove debt service and the purchase of buses from the uniform property tax structure and subsidize these items on a scale from 0% to 90%.

*Explanation :*

Under L.D. 1994, the expenditures for debt service and bus purchases are included as two of the items funded in part by the uniform property tax. Buried in the total costs of education, the spending for these two items became less visible to local units and the mistaken perception of the state paying 100% of construction and bus purchase costs was thus encouraged.

Removing these two items from the computation will achieve two objectives. The uniform property tax will be reduced by nearly 1.5 mills and an accurate perception of the local units' financial commitment to construction and bus purchases will be restored.

Rather than linking these two items to the uniform property tax, the state's share of these costs should vary along a scale from 0% to 90% and should be based on the per pupil valuation of the local unit adjusted with each change in state valuation. In order to maintain the state's commitment under L.D. 1994, the debt service costs of all projects approved between July 1, 1973 and June 30, 1975 should be added to the allocation of the respective units.

*Recommendation #2:*

The Legislature should place a maximum on the amount of school construction that may be approved by the State Board of Education, not to exceed \$35 million in any one year, and approval should be consistent with the studies on school construction now underway by the Maine State Department of Educational and Cultural Services.

*Explanation:*

Neither L.D. 1994 nor previous laws set a limit on the amount of construction which could be approved by the State Board of Education. Although in practice the State Board has imposed a limit on its approvals, this informal arrangement has become inadequate in a period of steeply rising costs and increasing numbers of project applications. A statutory limit of \$35 million will ensure fiscal restraint and yet allow a generous level of new school construction.

A study assessing the condition of all existing school facilities will be completed in April 1975. The State Board should use this School Facilities Survey as the major guideline in reviewing competing applications and in establishing its priority list for project approvals.

*Recommendation #3:*

Include minor capital outlay as part of the operating costs and limit the 1973-74 base year costs to \$10 per pupil for the computation of the distribution of aid for 1975-76.

*Explanation:*

Spending for minor capital refers to the purchase of equipment such as boilers and desks as well as to minor repairs. Presently minor capital is included as a separate item in the computation and approval for these projects must be sought from the State Board.

The Commission believes that State Board approval is unnecessary and that minor capital should be included as part of the local unit's operating costs. Treating minor capital in this way increases local control without diminishing the existing fiscal restraints. The local unit will determine its spending level for minor capital projects while at the same time having to balance these expenditures against its other operating costs.

An assessment of the average level of capital outlay over several years suggests that \$10 per pupil is a reasonable limit to assign the 1973-74 base year.

*Recommendation #4:*

Enumerate state supported schools -- Baxter, Stevens, Boys Training Center, Indian schools and Unorganized Territory Schools -- and remove their costs from the computation for the purpose of computing the uniform property tax.

*Explanation:*

Prior to L.D. 1994, these schools were totally supported by the state. L.D. 1994 was not designed to alter that funding pattern. The Attorney General has ruled, however, that the words "public schools" in the present law apply to these state supported institutions and, as a result, part of their funding now comes from the uniform property tax.

The Commission believes that the intent of the law should be restored by defining "public schools" to exclude the state supported institutions. Removing these schools from the computation will reduce the uniform property tax rate 1/4 of a mill, a reduction of \$6-7 million dollars in the computation.

*Recommendation #5:*

Include Federal pupils for school subsidy purposes and deduct federal receipts in the computation of state aid.

*Explanation:*

When L.D. 1994 was enacted, Federal law did not allow Federal pupils to be counted as residents for the purpose of computing the state school subsidy. The Federal provisions have recently been amended to permit this practice and the Commission believes that state law should be similarly changed. To avoid overpayments to these units with Federal pupils, however, the Federal support should be subtracted from the unit's allocation when the state's share is determined.

2. Changes in the method for determining education costs:

*Recommendation #6:*

Have the commissioner compute costs on the last known state fiscal year expenditures plus or minus the average percentage change during the previous two years. (Average increase during the past two years is 10.48%).

*Explanation:*

Under L.D. 1994, the costs of education for each school year, July 1st to June 30th, must be estimated by February 3rd preceding that year. The uniform property tax rate is then established to return 50% of these estimated costs. If the actual costs of education exceed the estimate, however, a deficit will be created which the state will be required to fund. Estimates are at best accurate within a narrow range of error and even a small percentage error may produce a several million dollar deficit. The Commission believes that this built-in potential for error must be removed.

The estimate of education costs should be based on the last known expenditures coupled with a factor which adjusts for increasing or decreasing costs. The estimate for fiscal 1976 costs, then, should be based on fiscal 1974 expenditures plus or minus the average percentage change during the last two years. By linking the state's funding responsibility to this known dollar amount, the state's liability is fixed and the possibility of a deficit due to a faulty estimate is eliminated.

*Recommendation #7:*

Distribute aid based upon the pupils enrolled in the state fiscal year prior to the computation of costs by the commissioner.

*Explanation:*

The determination of the total costs of education under L.D. 1994 requires an estimate of enrollment across the state. Like changes in expenditures in the previous recommendation, an enrollment which rises above this estimate results in an unexpected increase in the state's financial obligation to local units. Basing the state's share of education costs on known past year enrollment figures clearly establishes the state's obligation and removes changing enrollment levels as a source of error.



3. Changes in uniform property tax and leeway provisions:

*Recommendation #8:* Increase state aid to 55% in fiscal 1977 and 60% in fiscal 1978 with no further tax phase-in of the uniform property tax after 1976. The over-collection or pay-in to the state should be eliminated for 1976 only.

*Explanation:* A pay-in community raises more revenue from the uniform property tax than it needs for its own education costs. The difference is paid in to the state. At the present 50/50 state-local sharing level, between 45 and 50 communities pay in money. Many of these communities will experience rapid increases in property taxes because of both the uniform property tax and the rising state valuation. The Commission believes that the burden on these communities can be substantially eased while preserving the basic equity of the law.

By increasing the state share to 55% in 1977 and 60% in 1978, both the level of and the dependence on the uniform property tax will decrease. The increasing state share will then be funded from less regressive tax sources.

Under L.D. 1994, towns whose tax rate is more than 2.5 mills below the uniform property tax rate are allowed to increase in steps to the uniform tax level. This "phase-in" cushions towns from steep one year increases. If the state assumes a greater share of education costs, however, the uniform property tax will immediately decline. The Commission believes therefore, that the phase-in feature should be eliminated after 1976.

Finally, as the state's share of education costs increases, both the number of pay-in communities and the amount paid in by any single community will be sharply reduced. Although the state cannot achieve this goal until 1977 and 1978, the Commission believes that the pay-in dollars should be forgiven in 1976 and the moneys returned to the affected towns for other purposes.

*Recommendation #9:*

Eliminate the tax pay-in feature for high valuation units who use the 2.5 mill leeway provision.

*Explanation:*

Under L.D. 1994, any town may, in addition to money raised for the maintenance of its programs, also tax itself another 2.5 mills. This effort, called "local leeway", is intended to provide funds for new programs and for the enrichment of existing programs. If a town, because of a high per pupil valuation, raises more than \$50 per pupil per mill, the difference must be paid to the state. Presently, none of these high valuation communities have used the leeway feature.

The Commission believes that local leeway is a significant provision and that towns should not be deterred from its benefits by the pay-in feature. Since no money has been received by the state through this provision, eliminating the pay-in requirement for local leeway can be accomplished at no cost.

*Recommendation #10:*

The State Board should be given the authority to waive the uniform tax plus leeway limits for units that are unable to meet current financial obligations with the provision that such an increase should not be allowed to enter the unit's future per pupil costs or the state average per pupil costs.

*Explanation:*

The Commission recognizes that high initial costs of programs or other special circumstances may cause expenditure levels to break through the uniform property tax and leeway limits. To introduce needed flexibility in handling these situations, the State Board should have the authority to review these cases on request and waive these limits when necessary. Since these excess expenditures should not be a recurring item, these costs should not be added to the future per pupil costs of the unit or to the state average per pupil costs.

*Recommendation #11:*

Change certain provisions relating to the administration of the uniform property tax so that towns do not have to raise more money from the tax than they could be allocated under the subsidy system.

*Explanation:*

The uniform property tax is set by dividing the local share of operating costs by the most recent state valuation. The uniform property tax for fiscal 1975 is computed by using the 1975 state valuation. When the state valuation changes as it does every two years, the tax rate is applied to this new valuation. If the state valuation increases, many communities must raise more money than they can spend on education during the first six months of the tax year. In contrast to the funds realized through the pay-in feature of L.D. 1994, this additional revenue, caused merely by the different timing of the state tax year and fiscal year, is an inadvertant and undesirable by-product of the law. The Commission believes that the problem can be solved by legislation which would make the property tax obligations of the municipalities consistent with the subsidy allocations as computed for the local units.

4. Proposal for eliminating the existing deficit:

*Recommendation #12:*

In dealing with the deficit under L.D. 1994 the Legislature should not assess the towns by means of the uniform property tax but should use a combination of revenues from the General Fund and the recently passed bond issue.

*Explanation:*

Because of several shortcomings in L.D. 1994, a deficit of \$20 million has been created. The Commission believes that the local communities should not be asked to fund a portion of this deficit through the uniform property tax.

The deficit can be fairly funded by using part of the recently approved construction bond issue combined with an appropriation from the General Fund. \$8.7 million of the deficit can be traced to construction costs. \$1.2 million of this amount is debt service costs while the balance of \$7.5 million

results from expenditures for minor capital projects. The Commission believes that this \$8.7 million should be funded by using a portion of the \$25 million bond issue passed in November 1974. To make the retirement of the bonds consistent with the projects which they fund, the Commission recommends that these bonds should be issued for a period not to exceed 10 years.

The remaining \$11.3 million of the deficit falls primarily into the category of operating costs and the Commission believes that this balance should be funded through a General Fund appropriation.

The thrust of the Commission's recommendations is to significantly increase fiscal controls, substantially diminish the reliance on the uniform property tax and maintain the fundamental equity of the law.

If enacted into law, these recommendations will have immediate and important effects on local decisions relating to municipal budgets and tax rates. Since these decisions will be made in March or shortly afterwards, any delay in the consideration of the recommendations will cause postponement until fiscal 1977 of benefits which should be realized in fiscal 1976. Because of this urgency, the Commission strongly urges that the recommendations contained in this report should be enacted as Emergency Legislation.