

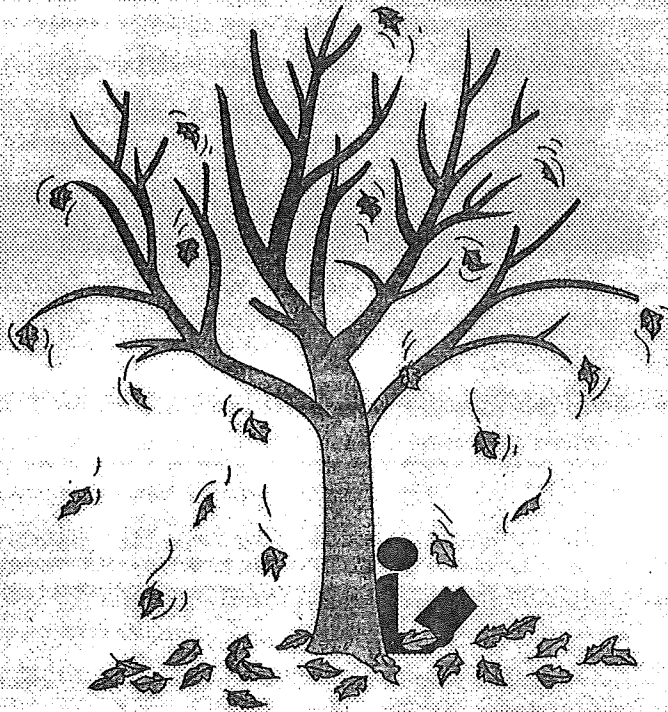
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INITIAL SCHOOL FUNDING RECOMMENDATIONS



Final Report

describing  
school funding issues which Maine faces  
in the  
decade of the 1990s

Submitted by:

The Governor's Task Force to Provide Recommendations  
Regarding School Funding Issues

November 29, 1993

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## PREAMBLE

The recommendations contained in this *Final Report* of the Task Force cover a wide variety of school funding topics. The large number of recommendations preclude any brief summary in this *Preamble*. Therefore, readers are encouraged to read this entire *Final Report* and study these recommendations. However, a few recommendations and topics of discussion are especially important. Their critical nature warrants special mention here.

### Essential programs

Pupil equity and the adequacy of school resources were two major themes which the Task Force considered throughout its deliberations. A major result of these considerations is Recommendations #1 and #2 of Issue #1. In Recommendation #1, the Task Force describes the concepts of *essential programs* and *essential services* and describes the content of these concepts. These *essential programs* and *essential services* are considered to be the fundamental core of all education activities. *Essential programs* reflect the learning objectives already described in the *Maine Common Core of Learning*, and *essential services* represent the non-instructional support that is necessary to accomplish these learning objectives. Because of their critical nature, all costs of *essential programs* and of *essential services* should be subsidizable costs.

In Recommendation #2, the Task Force recognizes that an important step toward providing these *essential programs* and *essential services* is to determine the amount and types of resources which are sufficient for these purposes and, ultimately, their cost. In addition to being an early step for providing *essential programs* and *essential services* for all pupils, this would also represent an important move away from the expenditure-driven nature of Maine's current formula. In Recommendation #2 the Task Force advises that this determination be made.

### Fiscal Capacity and Income

The subject of whether income should be considered in Maine's school funding formula was another recurring theme for the Task Force. The Task Force has dealt with this subject in two ways. *First*, in Recommendation #1 of Issue #4, the Task Force recommends that the state valuation of property be adjusted for some units with a high degree of fiscal hardship, as defined by factors *related to* income, such as poverty rates and median household income. *Second*, the Task Force recognizes that the issue of income is best addressed at the individual taxpayer level. Recommendation #3 of Issue #4 recognizes this fact, by urging that the current income circuit-breaker program be improved and be adequately funded.

### Minimum tax effort

The degree of property tax effort varies widely throughout the state. The Task Force believes that establishing a *minimum* tax effort would reduce this disparity. Although the Task Force agreed on this objective, it was *not* able to agree on a method of accomplishing the objective.

## **Predictability and continuity in school funding**

A final recurring theme is that of continuity of revenues for education. The nature of education requires planning of educational programs for the following year and beyond. Having predictable revenue sources is a critical prerequisite for such planning. The Task Force supports predictability and continuity of funding for schools.

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## Section I

# WHY IS MAINE RE-EXAMINING ITS SCHOOL FUNDING FORMULA?

### **The Importance of Education in Maine**

The Task Force confirms by consensus that education must be recognized as Maine's highest priority. The Task Force notes that the importance of education in Maine is established in the State Constitution. Only education and public safety are explicitly discussed in the Constitution.

The Task Force views education as a long term investment in the future of Maine's children and of the State of Maine. Consistent with this view, the Task Force affirms that sufficient funds must be provided to assure an appropriate education for all of Maine's children.

### **Education and dollars**

Until recent years the full amount of proposed education funds has been available. The school funding process requires that the Commissioner, in December of each year, recommend an education appropriation and required matching property tax levies to meet school unit needs, as defined by the funding formula. The recommendation is based on actual education expenditures by Maine schools. Since 1990 (FY 91), funds appropriated for education have not met the recommended funding level.

As a result, the distribution mechanism has undergone many changes, and these changes have impacted pupil equity and taxpayer equity. Both are critical characteristics of a school funding formula and should be satisfied.

In recent years competition between education and other legitimate state and local funding requirements has intensified. Economic projections for the near term suggest this competition will continue. There is a clear need to resolve this dilemma. An analysis of and recommendations for education funding are central to achieving such a resolution.

### **School funding formulas**

Maine must deliver a world class education to all its citizens. This notion is particularly true if as a State we are serious about preparing our people for the competition we face today (and which will intensify in the future) in a global economy.

A basic objective of Maine's school funding formula is pupil equity. Pupil equity requires that for each school unit, the combined total of the state subsidies and required property tax levy should take into account the unique educational needs of the unit's pupils and also other unit-wide educational needs that are unique to the school unit.



Another basic objective of Maine's school funding formula is taxpayer equity. Taxpayer equity requires that for each school unit, the required property tax levy should take into account the unit's fiscal capacity, or its ability to raise tax revenues.

No state has found a *perfect* solution to these two equity objectives and to the other legitimate objectives of its funding formula. What Maine can accomplish is a *reasonable* solution which best fits current conditions. Maine must also constantly search for new tools or ways to improve current practices. No funding formula should be viewed as being forever. Today's solutions may not fit tomorrow's needs. Because of the complex factors which Maine's school funding formula must consider and because life and times do change, so too will Maine's school funding formula change.

## **The Task Force**

A *Task Force to Provide Recommendations Regarding School Funding Issues* was formed by Governor John R. McKernan, Jr. to study issues in Maine's school funding formula and to provide recommendations for appropriate changes. These recommendations are described in this *Final Report*. The nature of the Task Force and how it went about its work is described in Appendix D.

## Section II

### TASK FORCE RECOMMENDATIONS

The Task Force studied a wide range of issues covering all aspects of school funding. Its recommendations for each of these issues are described in the following pages of this section of the *Final Report*.

**Recommendations for Issue #1:  
To consider the elements of the "recommended funding level," and to determine what factors should be considered in setting the total statewide appropriation for educational subsidies**

**Statement of the Issue**

A Recommended Funding Level is developed each year as a proposed plan for funding education during the following fiscal year. Modifications to this Recommended Funding Level may be made by the Governor or by the Legislature, and the funding statutes that are ultimately enacted and signed into law may differ from the Recommended Funding Level.

The Recommended Funding Level is significant because it represents the *starting point* for *all* considerations of the following year's education funding. There are two aspects of the Recommended Funding Level that are important in these considerations.

- Each year's Recommended Funding Level is based on current funding statutes and therefore represents the current legislative intent regarding pupil and taxpayer equity, and other education and/or funding matters.
- Each year's Recommended Funding Level provides the initial estimate of the State's cost for supporting education during the following year. The Funding Level also provides for each school administrative unit an initial estimate of the revenues to be available through the funding formula for the next year and its required share of these revenues.

Because of the nature of the Recommended Funding Level, Issue #1 is an *umbrella* issue. All other issues that are considered by the Task Force are related to one aspect of the Recommended Funding Level and therefore may be considered as *sub-issues* of Issue #1. Most of the Task Force's recommendations are presented in this *Final Report* as part of the relevant sub-issue. However, one area of consideration is broad enough that its presentation in this discussion of Issue #1 is appropriate. This is the *expenditure-driven* nature of the current funding formula, discussed below.

The current formula has been referred to as an *expenditure-driven* formula because the *amounts* calculated by the formula are for the most part determined by past expenditures of school administrative units. There are no allowances for state adjustments in (1) the method of calculation, or (2) the amount of subsidizable costs that are used in these calculations.

**Task Force Recommendations**

The concept of subsidizable costs is a major funding issue. State policy determines *which* costs should be subsidized; that is, which local school unit costs are taken into account in

calculating the statewide "Total Allocation" amount and each school unit's "Total Allocation" amount.

The Task Force's recommendations regarding a new funding plan are as follows.

1. All costs of essential programs and services should be subsidizable.
  - a. Essential programs are those programs required to provide basic instruction to all regular and special education students in accordance with the Maine Common Core of Learning, including instruction in the following areas:
    1. applied technology and vocational education
    2. the creative and performing arts
    3. English language arts
    4. foreign languages
    5. human growth and development (health and physical education)
    6. mathematics
    7. science and technology (computers)
    8. social studies
  - b. Essential services include:
    1. guidance
    2. services required by Pupil Evaluation Teams (P.E.T.s)
    3. library/media services & instructional support services
    4. general administration (including business services and central support services)
    5. school administration
    6. operation and maintenance of plant
2. In order to change from the current historical expenditure driven system, the State Board of Education should determine essential program and staffing categories and establish staffing and resource levels in each category to ensure essential education services for all students. Models will be developed reflecting size and regional differences.

The State will allocate funding to provide essential staffing and resources equitably on a unit by unit basis throughout the State.

The State will recognize unique circumstances and will adjust subsidies accordingly. Nonetheless, one of the purposes of this approach will be to encourage economies of scale.

In consideration of the above, the current statute regarding the 50% subsidy limit on the salary and benefits for Superintendents, Assistant Superintendents and Associate

Superintendents should be repealed.

3. Greater efficiencies in the operation and maintenance of plant should be established as follows:
  - a. The Special District Trustees, which are responsible for operation and maintenance of plant concerns for *some* school administrative units, should be eliminated from the statutes and their functions transferred to the appropriate school unit.
  - b. The Department should explore ways for school administrative units to establish reserve funds for maintenance of newly constructed facilities.
  - c. The Department should explore incentives for school administrative units to invest in important operation and maintenance of plant activities.
4. Continue to use the program costs as a part of the funding mechanism, to include:
  - Early Childhood,
  - Special education,
  - Vocational education,
  - Transportation operations, and
  - Bus purchases.
5. In addition to the current program costs described in the preceding recommendation, new categories of program costs should be established, as follows:
  - a. medically required tutoring (formerly under special education)
  - b. gifted and talented (formerly under special education)
  - c. Limited English Proficient students or English as a Second Language students
  - d. At Risk Students (It is recommended that the Department of Education develop a plan for financing the incremental costs for educating these "At Risk" students.)
6. The State fund special education costs of State Wards and State Agency Clients at 100%.
7. The residential out-of-district placement adjustment be funded at 50% of the excess of three times the state secondary foundation amount in the year of expenditures.
8. Non-curricular activities are also important. A designated portion of these costs should be subsidizable as operating costs.
9. Some portion of the employer's share of retirement contribution should be shifted to local school units.

Given the Task Force's sensitivity to imposing an added burden on local property taxes, yet realizing the need to address an issue that causes pupil and taxpayer inequities, this recommendation is conditioned upon the guarantee that money saved by the State as a result of the shift be transferred dollar for dollar to General Purpose Aid. It must be stated that there was a degree of skepticism expressed that such a guarantee, if enacted, would be honored.

- a. One manner in which such a shift might be implemented would have the State retain responsibility for retirement contributions for present salary scales. Local units would assume responsibility for contributions resulting from increased salary scales and some undesignated portion of new teacher retirement contributions. Another proposal offered would call for each of the three parties, teachers, local school units and the State to assume one-third of the retirement contribution responsibility.
- b. There was an underlying recognition of the need for accountability in the shared retirement contribution program. At the same time there was substantial concern that any systemic change not contribute to increased local property taxes.

*Concerns were expressed by six Task Force members regarding this recommendation. These concerns are stated in Appendix F.*

10. The funding of Debt Service should be a separate appropriation outside of general purpose aid (with the understanding that it does not negatively impact the "Bond rating").
11. The Task Force recommends that the ultimate goal is to reach a 60% state share of the Total Allocation dollar amount that is calculated in the school funding formula.
12. The Task Force recommends that we strive to meet the federal "Wealth Neutrality Test" (a test of equity which is defined in the federal regulations for distributing federal Impact Aid funds to units with military installations located in their geographical area).

**Recommendations for Issue #2:  
How should the recommended funding plan  
*be adapted to an actual appropriation level  
of state funds?***

**Statement of the issue**

In 1990-91 and in the two following years, the proposed funding plan for education has required more state dollars than were available without a major tax increase. Different methods were used to change this proposed education funding plan to a plan which would require less state money. The issue is: *During a year with limited revenues, how should the proposed education funding plan be changed to "fit" the available amount of state money?*

**Task Force recommendations for this issue**

The following recommendations were reported in the Task Force's Interim Report, issued in December 1992. These recommendations are repeated in this Final Report

1. If the full amount of the Recommended Funded Level cannot be appropriated, (1) the subsidizable amounts for all operating costs, all program costs, and the Insured Value Factor part of Debt Service, be reduced by a percentage which is sufficient to assure that the required statewide total subsidy amount conforms to the amount appropriated, and (2) these reduced subsidizable amounts be used in the standard Recommended Funding Level calculations to determine subsidy amounts for individual school administrative units.

*A concern was expressed by three Task Force members regarding this recommendation. This concern is stated in Appendix F.*

2. To determine the state and local share percentages of each school unit's total allocation of funds, the unit's fiscal capacity should be computed as the average of the two most recent state valuation amounts for the school unit. During FY94 and FY95, this new method should be phased in, by using for each school unit the *lesser* of (a) the most current state valuation, and (b) the two-year average described above.
3. The current "Hold Harmless" provision of the school funding formula should be eliminated.
4. For SADs and CSDs which currently use state valuation of property in the cost-sharing formula which prorates property tax revenues among its member municipalities, the value of each municipality's property should be calculated in the same manner as in the first recommendation.

5. The current income circuit-breaker program should continue to be fully funded and effectively publicized.



## **Recommendations for Issue #3: How should *pupil equity* be incorporated into the recommendations?**

### **Statement of the issue**

Equity is the assurance that every student, regardless of where that pupil attends school and regardless of the unique nature of that pupil, has *the same opportunity* to participate in essential educational programs that have been described by the State. The *Task Force on Learning Results* is working to define the student performance standards which are the outcomes of these essential educational programs.

Both the State and each local school unit have responsibility for assuring pupil equity. The State attempts to assure that every unit has enough fiscal resources so that this opportunity could be provided to each of the unit's pupils. The local school unit is responsible for effectively utilizing these resources to provide the opportunity to its pupils.

Pupil equity is a theoretical condition and is an objective of public policy. It is important to measure the degree of success of this objective. One test of this equity objective might be:

*If a student were to attend a different school unit, and the student and parents would be equally content with the education provided there, regardless of which new school was chosen, then there is pupil equity.*

Examining each school unit's per-pupil expenditures, educational offerings, and student success can be useful in measuring the State's success in performing its responsibilities for pupil equity.

### **Task Force Recommendations**

1. The Department of Education should undertake a study of the current condition of pupil equity in Maine schools.
2. The Department of Education should develop a plan to establish the research capacity to assess the impact of funding policies.
2. Establish a study group to identify the advantages and disadvantages of a non-categorical approach to special education services, eventually leading to a pilot for an alternative funding mechanism.
4. Special education regulation 8.6 Part A, which states that each Pupil Evaluation Team (P.E.T.) should include:

A representative of the school administrative unit with written authorization to obligate the unit's human and fiscal resources and ensure the provision of the

special education and supportive services specified in the student's Individualized Education Program

should be consistently practiced at all P.E.T.'s. This information should be provided to the appropriate professional groups, i.e. the Superintendent's Association, Association of Special Education Directors, etc.

5. The State Board of Education, as it approves programs for the preparation of educational personnel, should include in its review for Institutions of Higher Education, recommendations related to special education personnel in shortage areas.
6. The Department of Education should explore the effect of the recently enacted 5% cap on annual increases in the Recommended Funding Level or student equity.

## **Recommendations for Issue #4: How should *taxpayer equity* be incorporated into the recommendations?**

### **Statement of the issue**

The fiscal capacity (also called "wealth") of a school administrative unit currently is defined as ability to obtain revenues through property taxes. Some school administrative units have a greater fiscal capacity than others. The purpose of calculating fiscal capacity is to measure the degree of taxpayer equity: that is, to determine whether or not the burden of property taxes is fairly distributed among the different school units of the state. This raises the additional issue, what is meant by a "fair distribution of the property taxpayer burden." Each property taxpayer in the State should bear a comparable responsibility for the educational costs for each child in the state.

Equitable distribution of the cost of education among Maine taxpayers make fairness central in the provision of financial resources. It is the right thing to do. Taxpayer equity is also that factor upon which pupil equity is so dependent. Pupil equity flows to a large degree from taxpayer equity.

The use of income in the school funding formula was a recurring theme throughout the Task Force's existence. This topic was mentioned often by members of the public at the forums held throughout the state. The Task Force has recognized the need to adjust the current use of state valuation of property by including income in the definition of hardship.

### **Task Force recommendations regarding this issue**

The current measure of fiscal capacity is state valuation of property, defined as the full market value of property. The Task Force considers state valuation to be a critical part of this measure, but feels that improvements are needed and are possible. The following would continue to utilize state valuation but would also incorporate factors related to income. The Task Force considered the issue of property values versus income throughout its deliberations. The following recommendation is one of two recommendations which were based on the Task Force's consideration of this issue.

1. If the Legislature adopts a system of identifying subsidizable costs for essential programs and services (see recommendation under Issue #1),  
  
if the Legislature adopts the requirement that each municipality make a minimum tax effort to fund education (see recommendations under Issue #4), and  
  
if the Legislature authorizes the modification of State-computed property valuations for municipalities (coastal and rural) which have low numbers of real estate transactions where the majority of the transactions are for high-valued properties,

then it is recommended that a hardship adjustment be enacted which would reduce a community's State-computed valuation up to a maximum of 10% if

- the municipality has high poverty rates,
- the municipality has high property taxes for education in relation to median income,
- the municipality has high housing costs in relation to median income.

(For clarification of this computation please refer to Appendix E.)

At the end of two years, evaluate the consequences of this recommendation, including its impact on spending.

Because this recommendation focuses only on tax effort for education purposes to the exclusion of municipal costs, only limited taxpayer equity is achieved.

Dollars to fund hardship adjustments to State-computed property valuations are to come from funds realized from an improved definition of subsidizable costs, or from funds made available by the implementation of a minimum property tax effort or from the effects of other recommendations presented in this report. If savings are not realized, it is intended that this recommendation be funded by an additional state appropriation, rather than redistributing the appropriation that would otherwise be necessary.

In addition, it is recommended that within SADs, any adjustments in property valuations be done on a town-by-town basis.

*A concern was expressed by two Task Force members regarding a part of this recommendation. This concern is stated in Appendix F.*

Ideally, the educational tax burden should be equitably distributed among the *individual* taxpayers of Maine. Maine should pursue a taxpayer equity objective which targets individual taxpayers. Currently, there are two primary barriers to such compliance. First: the current process for valuing most property is based on the property's worth, *if sold*, rather than on the ability of the property owner to pay the educational taxes levied on that property. Second: Maine's funding formula (as well as in the funding formulas of all other states) must necessarily measure each school administrative unit's fiscal capacity as the *aggregate* of the fiscal capacity of the individual taxpayers in that unit. The Task Force recommends the following, to address these barriers:

2. The process for using state valuation in the school funding formula should reflect the individual taxpayer's ability to pay the taxes levied on that property.

3. Maine's current circuit-breaker program has the *potential* of complementing the school funding formula by better assuring taxpayer equity at the *individual* taxpayer level. The State should exploit that potential, by improving its current income circuit-breaker program and by adequately funding the program. The current circuit-breaker program should be integrated into the Maine Income Tax as a credit to one's income tax. If a taxpayer does not file a Maine Income Tax, the refund would be obtained by filing a Maine Income Tax in the future.

The issue of taxpayer equity involves many dimensions. Achieving a balance between individual taxpayer equity and equity for the "average" taxpayer is only one concern. Accordingly, the Task Force recommends the following:

4. The method of assessing property, at both the state and local levels, should to be studied from the viewpoint of taxpayer equity.

The Task Force recognizes that some municipalities act as regional centers which attract non-residents who work in the center or who utilize services located in the center. The Task Force considers that the added costs of being a regional center may cause a municipal overburden which impacts the funding of education in that municipality. While this is a matter of significant concern, the Task Force does not consider the school funding formula to be the appropriate vehicle for addressing the issue. The Task Force recommends the following:

5. Maine's current Revenue-sharing program, or a similar program, should address the unique concerns of municipalities which serve as regional centers.

The current minimum subsidy provision guarantees a minimum per-pupil subsidy to every school unit, regardless of its fiscal capacity. The Task Force recommends the following:

6. The current minimum subsidy provision of 5% should be abolished in favor of increasing the taxpayer equity in the funding formula.
7. Tax efforts across the State have ranged from 1 to 24 mills so there is a wide disparity in what property taxpayers across Maine pay. This taxpayer inequity impacts pupil equity.

The Task Force believes that all property taxpayers should be required to contribute at some minimum level of effort toward education and that this minimum should be achieved in order to obtain the full amount of State subsidy for education. State subsidy would be reduced on a prorated basis for those units below the minimum tax effort.

In order to achieve an equalized tax effort the following options were considered by the Task Force. While the Task Force was not able to reach agreement on any of

these alternatives, the Task Force offers them as options for Legislative consideration.

- a. Towns that do not meet the minimum tax effort will not receive State subsidy. One way for towns to contribute the minimum tax effort would be to contribute toward the employer's share of teacher retirement.
  - b. Every municipality must meet the minimum mill rate to support education and any revenues in excess of those needed in the school unit would be redistributed to contribute to pupil equity statewide.
  - c. Education is a State responsibility. To achieve taxpayer and pupil equity, the State will raise adequate resources to fund a foundation program for all students. A substantial portion of the cost will be born by income, sales, and other State taxes. The remainder of the cost will be raised by a State education property tax assessed to individual and corporate property owners based on their municipality's assigned State valuation. The community's share would be determined by the State valuation of the community as a percentage of the entire State's valuation. The individual tax burden is offset by a State tax credit if the property tax burden exceeds a designated percentage of income.
8. The Task Force recommends exploration of an equity adjustment that provides for the State assuming taxing authority for properties valued in excess of an established amount, with local communities continuing to have taxing authority up to a cut-off amount, including consideration of the impact on the local community of the services provided and the impact on the education subsidy received.

The Task Force received and considered the following reports as they finalized its recommendations:

- "Measuring Relative Local Ability to Finance Education in Maine: A Proposal for Reform" by Josephine LaPlante, Edmund S. Muskie Institute of Public Affairs, U.S.M.
- "School Finance - The Issue of Taxpayer Equity" by the Coalition For Equitable School Funding.
- "Ability-To-Pay Formula" by Fair School Funding.
- "School Funding with Taxpayer and Student Equity", submitted by Representative Omar Norton.

The Task Force also considered a proposal by several members of the Task Force regarding fiscal capacity. Some key features of this proposal are as follows:

- A proposal was made to increase the income tax contribution to state aid for education. To the extent that there is an incremental increase in the income taxes for residents and for businesses, this increase would be used as a tax credit against real estate taxes for primary residences and for businesses.
- This proposal is based on the assumption that while there are significant benefits to the property tax system, income is the best measure of the taxpayer's ability to pay.

## **Recommendations for Issue #5 Incentives**

### **Statement of the Issue**

Incentives are tools to assist local school units to develop and/or improve tools by which educational quality can be lifted to new levels. Typically the incentive is targeted at a specific area of state policy. Maine's Sinclair Act, enacted in the late 1950's, was designed to encourage consolidation of small school units and is an example of the incentive philosophy. Maine's present school funding formula provides built-in incentives for local school units to invest in (1) certain "programs" areas, i.e., special education, vocational education and transportation; and, in most instances, (2) approved construction projects.

The example given above illustrate two different ways incentives may be provided. The Sinclair Act provided incentives for completed outcomes. Benefits were accorded after consolidation. In contrast, the current "program" and "debt service" incentives stimulate local contributions without regard to outcomes.

Untouched thus far in Maine's limited experience with incentives are the areas of student achievement (outcomes), and school unit performance and efficiency as a function of school unit size. Although members of the Task Force spent considerable time on this issue, there was no consensus on how to incorporate performance incentives. Included in those concerns was the need to bring all students and districts in Maine to a level playing field before an incentives program is considered.

As a result of these conflicting yet valid positions there was no agreement on the issue of outcome based incentives. It is assumed that this issue will be a significant element of the work of the recently appointed Task Force on Learning Results.

Issue #5 is important because it is tied directly to the two policy areas identified above, school unit performance and efficiency of school unit operation. These are keys to a productive, effective, economical educational system.

### **Recommendations**

Fiscal incentives from state funds are a justifiable investment only to school units for which the taxpayer effort to support their students is above the state average.

1. Only those local school units whose total educational mill rates exceed the state median should qualify for financial incentives of any kind.

Incentives should be expended on educational programs and should provide a higher degree of pupil equity.

2. Incentives must be awarded directly to the school system, not the municipality.



Evaluation of the effectiveness of any incentive is essential and requires follow up analysis.

3. Guidelines for all incentives must include a mechanism for follow up to insure accountability.

Traditional local opposition to consolidation will only be overcome if the fiscal incentive is both sizable and of meaningful duration. Envisioned is an incentive of 10 percent of subsidy or actual savings realized, whichever is greater. Further, the incentive should extend for a period of at least two years followed by a gradual phase out. The Task Force believes this incentive concept may also be applied to intradistrict consolidation, and to the sharing of resources.

4. Consolidation incentives should be sizable and of meaningful duration.
5. The Department of Education should design mechanisms which would encourage the sharing of personnel across districts to provide related services and administration.

Keeping students in school is a measure of the school's effectiveness. It speaks to the school's quality and its ability to address the needs of at-risk students.

6. An incentive should be available to districts demonstrating significant reduction in the drop out rate while maintaining an average daily attendance above the state average.

Incentives for non-college bound students are important. Such incentives would be related to the introduction of programs such as Maine Youth Apprenticeship Program, Tech Prep, Applied Technology, Project-based academics and Jobs for Maine Graduates. The Task Force envisions such incentives extending for a minimum of two years.

7. Incentives should be awarded those local school units which demonstrate the provision of new, effective programs targeted to the non-college bound student.

Incentives for programs to enhance the likelihood of success of all students are important. Such programs are envisioned as being targeted at primary level. Included might be Reading Recovery, pre school programs and innovative programs giving special emphasis to parent involvement.

8. Incentives should be awarded to local school units which operate successful failure prevention programs.

It is the Task Force's intent that school units be encouraged to procure and utilized new technological tools at an accelerated rate. Staff development is a key element in gaining the utmost educational benefits. The state share of such purchases would be provided at the time of the purchase and in service training could be provided through the Department of Education.

9. Incentives should be made available to districts which invest in new technology for students, provided there is concomitant staff development in the use of the product.

## **Recommendations for Issue #9b: Needs and Costs for Capital Outlay**

### **Statement of the issue**

Both school construction and bus purchases are high-cost needs that can create significant pressures on school administrative units. The manner of subsidizing the costs for these needs is an important consideration, but consolidation and planning can also offer important benefits.

### **Task Force recommendations regarding this issue**

1. All units should have a Capital Improvement Program (CIP) budget and technical resources to develop this CIP budget.
2. The Bureau of General Services rules should be reviewed for appropriateness. Also, there is an inconsistency between MRSA 5, § 1742.7 (requiring the Bureau of General Services to review all public improvements costing more than \$100,000) and MRSA 20-A, § 15609.1 (requiring the Department of Education to review school construction and minor capital outlay projects costing more than \$50,000). These statutes should be consistent.
3. A statewide facility study be undertaken and completed within a year, using the proposal prepared by the Department of Education.
4. The current level of replacement of school facilities is at minimum funding now and should be increased above the maximum debt service limit of \$67 million now specified by MRSA 20-A, section 15903.
5. The following actions be taken to encourage proper maintenance in the short-term and control the long-term costs of maintenance, rehabilitation and retrofitting.
  - A criteria of the bidding process should be the longevity of the building.
  - Each school unit will designate a person responsible for the long-term maintenance of building.
  - The use of portable classrooms should occur only on a temporary basis and only if they meet adequate health and safety conditions/standards.

Consider incentives such as treating major capital, maintenance, and retrofitting in separate categories similar to debt service.

6. A budgeting mechanism be devised to separate the readiness issue into educational costs and social service costs, including:

- more rating points for buildings which include integrated services, and
  - the pooling of other community services revenues into school construction funds for the purpose of building a school
7. The State take the following actions relative to economies of scale:
- more points should be awarded to schools with high enrollment relative to regional population density
  - schools meeting state goals for consolidation be given help with start-up costs.

The State needs to take a more active role in generating support of State policy goals. The Task Force recommends the following:

8. The State should consider the recruitment of a team of people who are trusted members of communities and who can articulate valid reasons for change in terms acceptable to their communities.
9. Innovation must be fostered through extensive recognition to reward and encourage good ideas/projects, but subtle and low-key enough not to set off the alarm bells of change.
10. Efforts must be made to bridge the division in loyalties between town and school. Competition for resources often polarizes communities, the P.T.A. against the taxpayers.
11. It was agreed that debt services, outside of the state approval school construction process be recognized as part of any required local tax effort. This information needs to be communicated to local school units.
12. It was agreed that there are insufficient funds to meet Maine's school construction/renovation needs in that the school construction approval ranks only relative need.
13. There are perceived inequities in the system for subsidizing school construction. These perceived inequities are based on the fact that some school units construct new facilities at little or no cost to the local school unit, while other units build new facilities totally with local dollars. It is recommended that the State Board of Education review this situation to ascertain whether these perceived inequities are real and, if so, what corrective actions should be taken.

Maine currently subsidizes state-approved bus purchases. By law, the combined purchase

prices of these approvals cannot exceed \$4.5 million. Because of these fiscal limits, local buses tend to be very old when finally replaced. A replaced bus is usually about 12 years old and has been driven between 150,000 miles and 175,000 miles. The Task Force recommends the following:

14. Replace the current statutory cap on the *costs* of approved bus purchases with a cap on the *number* of approved bus purchases.
15. Modify the bus purchase approval criteria so that a fixed percentage of each school administrative unit's bus fleet could be replaced each year.
16. Establish a state reserve fund, to smooth out fluctuations in the required costs of bus replacements.

To control the overall cost of transportation operating costs, the Task Force recommends the following:

17. The State should provide incentives for decreasing the number of miles driven by buses. These incentives should include encouraging adjacent school administrative units to share the use of buses.
18. The State should develop specifications for several types and sizes of buses, and solicit statewide bids, based on these specifications. Bus purchase subsidies would be based on the cost of the appropriate type and size of bus from this approved list. If a school administrative unit purchased a different type of bus, that unit would pay for any excess purchase costs.

Purchasing buses with cash is the most cost-effective way to acquire buses. However, school administrative units may have a need but are unable to receive state approval, because of the statutory cap on the total cost of bus approvals. The Task Force recommends the following:

19. Although the most cost effective method of purchasing buses is to purchase using cash, lease purchasing should be encouraged as an option available when the \$4.5 million allocations do not meet local need.

Some school administrative units contract for bus service, rather than owning their own bus fleet. The provisions of such contracts are important. The Task Force recommends the following:

20. Short term contracts, which might be renegotiated frequently, should be encouraged. The State should provide opportunities for an exchange of ideas regarding effective contract features such as negotiating for "bonus" field/co-curricular trips as a contract benefit.

**Recommendations for Issue #9c:  
How should *the needs and costs of tuitioning pupils*  
be incorporated into the recommendations?**

**Statement of the issue**

Some school administrative units do not operate schools, and tuition their resident pupils to another school unit or approved private school. The tuition rate which a receiving school unit or private school may charge is set annually by the State. Calculations for the rates to be used during a school year cannot be completed until about November, so budgets for both sending and receiving schools have already been finalized.

**Task Force recommendations regarding this issue**

1. For the next three years, all tuition rates should apply to the school year *following* the year during which they are calculated, instead of during the year of calculation.

In recent years, subsidies have been reduced but there has been no corresponding reduction in the tuition rates. Consequently, the burden of lessened revenues has not been shared equitably by both sending and receiving schools. The Task Force recommends the following:

2. During any year when subsidies are reduced below the Recommended Funding Level amount, tuition rates should be correspondingly reduced.

School administrative units which tuition all of their secondary pupils to other school units and private schools are especially impacted by subsidy cuts, since they cannot control the amount of secondary tuition charges. To help such school units, the Task Force recommends the following:

3. "Guidelines" should be provided to school units which tuition their secondary pupils elsewhere, suggesting methods of avoiding detrimental cuts in their elementary education programs.

School units and private schools which accept tuitioned pupils develop budgets that are based in part on estimated tuition revenues. These school units and private schools also project staffing requirements and hire personnel based on anticipated numbers of tuitioned and resident pupils. Currently, there is no law prohibiting a school unit from making a last minute reversal of its normal tuitioning plan and thereby creating a significant burden on the unit or private school which had planned to accept those tuitioned pupils. The Task Force recommends the following:

4. A sending school, including unorganized territories, should be required to give its receiving school(s) a one year notice of its intent to discontinue tuitioning to that sending school unit or private school.

## Section III

### OTHER ISSUES CONSIDERED BY THE TASK FORCE

The Task Force was charged, in its authorizing Executive Order (contained in Appendix B), with considering nine issues. Of these issues, Issue #9 asked to consider other issues, as appropriate. Three other issues were identified by the Task Force, described in its earlier reports as Issues #9a, #9b, and #9c. In Section II, recommendations for Issues #1 through #5, Issue #9b, and Issue #9c have been presented.

The Task Force did consider three of the remaining issues:

- Issue #6 (state educational mandates and local optional programs and services),
- Issue #7 (cost awareness and efficient use of educational dollars), and
- Issue #9a (revenue sources for educational funding).

This *Final Report* does not contain separate sections for these three issues, because Task Force recommendations on these topics seemed to be better grouped with recommendations regarding other issues. This grouping reflects the interrelatedness of the issues, rather than differences in priorities among these issues.

Issue #8 is *not* addressed in this *Final Report*. Issue #8 asks the Task Force to consider the understandability of the current funding formula. The Task Force agrees that the current formula could and should be more understandable. However, the Task Force considered that the *substantive* issues of *how* funding is accomplished to be more critical. Furthermore, much of the work of making the formula easier to understand involves the writing and revising of statutory language: a task which can be accomplished *after* the work of the Task Force has been finished.

## Appendix A Task Force Members

Senator Jane A. Amero (co-chair)  
Cape Elizabeth  
*Education Committee and former  
Chair, State Board of Education*

Weston Bonney  
Portland  
*General Public*

Rep. Donnell P. Carroll  
Gray  
*Appropriations Committee*

Thomas K. Edwards  
Portland  
*Supt. of Schools, Portland*

Stephen C. Estes (co-chair)  
Kittery  
*Former Senate Chair  
Education Committee*

Lawrence (Skip) Greenlaw Jr.  
Stonington  
*Maine School Boards Assoc.*

Jill Goldthwait  
Bar Harbor  
*Maine Municipal Assoc.*

Idella Harter  
Auburn  
*Maine Education Assoc.*

Rodney Hatch  
Anson  
*Supt. of Schools, SAD 74*

Betty A. Jordan  
East Machias  
*Supt. of Schools, SAD 77*

Barbara Kelley  
Brewer  
*Maine Education Assoc.*

Jack McKee Jr.  
Kingfield  
*Maine Municipal Assoc.*

Marjorie Murray Medd  
Norway  
*Chair, State Board of Education*

H. Sawin Millett  
Waterford  
*Dept. of Admin. & Financial Svcs.*

Rep. Elizabeth H. Mitchell  
Vassalboro  
*House Chair, Education Committee*

Rep. Omar P. Norton  
Winthrop  
*Education Committee*

Senator John J. O'Dea  
Orono  
*Senate Chair, Education Committee*

Rep. Gary W. Reed  
Falmouth  
*Appropriations Committee*

Harold Stewart II  
Presque Isle  
*General Public*

Mavourneen Thompson  
South Portland  
*Maine School Board Assoc.*

Polly Ward  
Freeport  
*Maine Department of Education*

Jim Watkins  
Portland  
*Maine Department of Education*





OFFICE OF  
THE GOVERNOR

NO. 1 FY 92/93

DATE July 8, 1992

AN ORDER ESTABLISHING A TASK FORCE TO PROVIDE RECOMMENDATIONS  
REGARDING SCHOOL FUNDING ISSUES

WHEREAS, the education of Maine students is among the highest priorities of state and local government; and

WHEREAS, between FY 80 and FY 90 total spending on general purpose aid for education by the state rose from \$183.4 million to \$475.5 million; and

WHEREAS, spending for K-12 education at the local level rose from \$364.5 million to \$939.1 million over this same period; and

WHEREAS, over the past two years Maine and the Nation have been caught in a severe economic recession; and

WHEREAS, the resultant decline in state revenues has forced the restriction of general purpose aid to \$523.2 million in FY 1991 and \$512.9 million in 1992; and

WHEREAS, the current economic down-turn has also produced unusual pressures on local governments and on local property taxpayers; and

WHEREAS, the reliance of the current school funding formula (20-A M.R.S.A. Chapter 606) upon the assessed value of local property is perceived by many to have placed an undue burden on certain sectors of the state; and

WHEREAS, a strong consensus continues to require a school funding formula that is designed to assure an equitable distribution of the property taxpayer burden throughout the state; and

WHEREAS, the allocation of the general purpose aid appropriations in the past two years have required a significant departure from the "certified funding level" and from the standard allocation mechanism of the current formula; and

WHEREAS, a strong consensus continues to require a school funding formula designed to achieve equity, with the fundamental recognition that the educational opportunities available to Maine children should not be determined by family wealth or by the wealth of the community;

NOW THEREFORE, I, John R. McKernan, Jr., Governor of the State of Maine, do hereby establish a Task Force To Provide Recommendations Regarding The School Funding Formula as follows:

Purpose

The purpose of the Task Force to Provide Recommendations Regarding The School Funding Formula is to consider the current issues regarding school funding in Maine and to suggest resolutions for these issues, particularly in the form of a new mechanism for the allocation of state resources to local school districts. In developing its recommendations, the Task Force should seek and consider public input and aim towards the development of a mechanism which is likely to have the support of the majority of the Maine citizens and their elected representatives.

The responsibilities of the committee shall be:

1. To consider the elements of the "recommended funding level," and to determine what factors should be considered in setting the total statewide appropriation for educational subsidies;
2. Consider the mechanisms necessary to adapt the recommended funding level to the amount actually appropriated by the Legislature and approved by the Governor for each budget year;
3. To consider how pupil educational needs and unit-wide educational needs should be measured, and how the total allocation of funds for school units should be calculated to equitably reflect these needs;
4. To consider the fiscal capacity of each school administrative unit and to develop a method of measuring the fiscal capacity for the purpose of the equitable allocation of resources in any school funding formula recommended by the Task Force;
5. To consider what incentives for local unit performance, size, and efficiency should be incorporated into the new school funding formula;
6. To consider the relationship between school funding and the cost of state educational mandates, along with the cost of optional local programs and services;
7. To consider means by which the school funding formula could promote cost-awareness so that there is full awareness of pupil and school unit needs and of the funds needed to address these needs, and how scarce the state and local revenues can be most efficiently used and targeted at the greatest of these needs;
8. To consider how the school funding formula, and the statutory language which describes this funding model, should be constructed to make the school funding formula more understandable to all groups that are affected by it;
9. To consider the interrelationship of the above issues to each other, or such other issues as the Task Force may deem necessary.

Goals

By September 14, the Task Force should issue a preliminary report to the Governor containing the following:

1. For each of the issues listed above:
  - a. A brief description of the issue and resolutions that were considered by the Task Force;
  - b. A more detailed description of the recommended resolution, including its relationship with each of the other recommended resolutions; and
  - c. A recommended implementation year (based on considerations of the immediacy of the need for resolution, and the availability of data and programming resources that would be necessary to implement the recommendation).
2. The Task Force's public comment plan, describing the activities which the Task Force will perform to (a) disseminate its preliminary recommendations to Maine citizens, (b) encourage public comment on these recommendations, and (c) receive comments from interested individuals and groups.
3. By December 9, the Task Force will present its final report to the Governor, the Education Committee of the Legislature, and the State Board of Education. The content of the final report will reconsider the issues discussed in the preliminary report, with the following additions:
  - a. A summary of the major concerns and recommendations, as provided during the statewide discussions, together with Task Force recommendations.
  - b. A list of statutory changes recommended by the Task Force, to be effective beginning July 1, 1993.
  - c. All necessary details needed to support the Task Force recommendations for implementation in FY 94, including any necessary detail sufficient to collect further data, develop appropriate computer programs, and draft additional statutory language.
  - d. A list of additional statutory changes recommended by the Task Force, to be effective beginning July 1, 1994.
  - e. All necessary details needed to support the Task Force recommendations for implementation in FY 95, including any necessary detail sufficient to collect further data, develop appropriate computer programs, and draft additional statutory language.
4. During the first regular session of the 116th Legislature, the Task Force will communicate its recommendations according to a plan developed by the Task Force.

Membership

The membership of the Task Force shall be composed of representatives from the following organizations:

1. The State Board of Education
2. The Maine Department of Education
3. The Education Committee of the Maine Legislature
4. The Appropriations Committee of the Maine Legislature
5. The Maine Aspirations Foundation
6. The Maine Department of Administrative and Financial Services

The membership of the Task Force shall also include individuals who, by background and experience, are affiliated with the following interests:

1. School Superintendents
2. K-12 Teachers
3. Elected municipal officials
4. The Chamber of Commerce
5. The local school boards

The Task Force shall have the following joint chairs:

Jane Amero, currently the Chairman of the State Board of Education, and Senator Stephen Estes, currently Senate Chair of the Legislature's Education Committee.

Others may be asked to participate from time-to-time as needed.

The committee membership shall be appointed by the Governor in consultation with the joint chairs. Members shall be selected with consideration for geographic distribution and the need for balance in representation among high-receivers, middle-receivers, and low-receivers under the current school funding formula.

Terms of Membership

The members of this committee shall serve until the business of the Task Force is completed, unless they should resign from the Task Force before that time. In the event of a vacancy, the Governor, in consultation with the joint chairs of the Task Force, shall select an appropriate replacement.

Administration

The Maine Department of Education shall serve as executive secretary to the Task Force and provide technical and administrative support, as needed.

Meetings

The co-chairs shall develop a meeting schedule for the Task Force. Subcommittees may be established as needed to carry out the work of the Task Force.

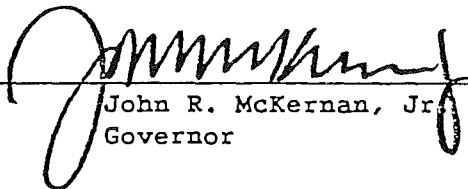
Compensation

Members shall serve without compensation. Necessary expenses incurred by members in the performance of their duties which are allowed by state law shall be reimbursed as allowable expenses. If the member's parent organization does not provide this reimbursement, then reimbursement will be provided by the Department of Education.

Period of Authorization

The Task Force shall perform its duties through the final day of the first regular session of the 116th Legislature. The Task Force will dissolve following this date, unless the Governor further extends its work.

The effective date of this Order is July 9, 1992.

  
John R. McKernan, Jr.  
Governor

## Appendix C SCHOOL FUNDING TERMS

**Appropriation.** An appropriation is the maximum amount of money that may be legally spent during a fiscal year by a governmental body, such as the State, a municipality, or a school administrative unit. Each year's appropriation for a governmental body is set by the legislative body of that governmental body.

**Circuit breakers.** A school funding circuit breaker is the *maximum required* mill rate that must be raised through local taxes by a school administrative unit for certain purposes. There are two circuit breakers: a program costs circuit breaker, and a debt service circuit breaker.

**Debt service costs.** Most of these are costs incurred by a school administrative unit for repayment of bonds issued for state-approved school construction projects.

**Debt service subsidy.** A debt service subsidy is provided to each eligible school administrative unit. This is the state share of the school unit's debt service costs.

**Educational needs.** Educational needs are factors that (1) are unique to a particular school unit (such as the number and types of students which the unit must educate, or the size of the geographical area which must be covered for school transportation), (2) are not controllable by local policies and practices, *and* (3) affect the total costs of the educational services provided by the school unit.

**Fiscal capacity.** The fiscal capacity of a school unit is its ability to obtain revenues through property taxes.

**Foundation per-pupil operating rates.** The foundation per-pupil operating rates are statewide per-pupil costs that are based on *operating costs*. Three rates are calculated: a K-8 rate, for elementary per-pupil costs, a 9-12 rate for secondary per-pupil costs, and a K-12 rate for the combined elementary and secondary per-pupil costs.

**Hold Harmless.** The school funding formula has a "hold harmless" provision that requires that each school unit's subsidy for operating costs be *at least* 90% of that unit's operating cost subsidy for the prior year.

**Minimum subsidy.** The school funding formula has a "minimum subsidy" provision that requires that every school unit receive a minimum subsidy, often called the "5% minimum" subsidy.

**Operating cost mill rate.** The operating cost mill rate is established annually by the State, and may be levied by each school unit to raise its local contribution for funding education. This mill rate is set so that the state's share of education funding in the basic formula will, *on average*, be 55% or the percentage established by statute.

**Operating costs.** Operating costs include all subsidizable costs that are *not* program costs and are *not* debt service costs.

**Operating cost subsidy.** An operating cost subsidy is provided to each eligible school administrative unit. This is the state share of an amount calculated by multiplying the number of pupils in the school unit by the foundation per-pupil operating rates.

**Optional property tax levy for education.** The school funding formula calculates a minimum property tax levy for each school administrative unit. Most school units raise *more* than this minimum levy. This *additional* levy is called a optional property tax levy.

**Out-of-district placements.** An out-of-district placement is the placement of a special education student living in one school administrative unit and attending school in a different public or private school system.

**Program costs.** Costs incurred by a school administrative unit for certain programs. These programs include the following: early childhood, special education, vocational education, and transportation.

**Pupil equity.** Pupil equity requires that for each school unit, the combined total of the state subsidies and required property tax levy should take into account the unique educational needs of the unit's pupils and also other unit-wide educational needs that are unique to the school unit.

**Recommended Funding Level.** The Recommended Funding Level is a statewide plan for funding public schools. The plan is developed by the Department of Education and approved by the State Board of Education. It may be modified by the Governor and the Legislature.

**State valuation of property.** State valuation of property is based on the *local* property valuation, but is adjusted if necessary to reflect 100% of the market value of the property.

**Subsidizable service.** A subsidizable service is one for which the local school unit's expense is reflected in the total school funding dollar amount that is calculated by the formula for that school unit. "Subsidized *costs*" has essentially the same meaning.

**Subsidy.** The total dollar amount calculated by the school funding formula and provided by the State to a school administrative unit. The subsidy consists of four parts: subsidies for (1) operating costs, (2) program costs, (3) debt service costs, and (4) adjustments, such as for geographic isolation.

**Taxpayer equity.** Taxpayer equity requires that for each school unit, the required property tax levy should take into account the unit's fiscal capacity, or its ability to raise tax revenues.

## **Appendix D**

### **Processes used by the Task Force**

#### **The Balanced Composition of the Task Force**

There are 22 members of the Task Force. The membership has been designed to provide a balanced perspective on funding issues.

- The Legislature and education, municipal, and business organizations that are affected by school funding issues are represented on the Task Force.
- There is geographical balance among the members, with representatives from the coastal, interior, northern, and southern parts of the state.
- Finally, there is a balance between representatives of high property value school units and low property value school units.

The members of the Task Force, their affiliation, and their home are presented in Appendix A of this *Final Report*.

#### **How the Task Force Approached Its Task**

The Task Force did not immediately jump to solutions. Instead, it chose to first acquire a solid understanding of the *nature* of the school funding issues, listening to the suggestions of school funding experts in Maine and studying what other states were doing. The Task Force then developed a wide range of possible resolutions. The Task Force has described each of these issues, and its list of possible resolutions for each issue, in a publication called *School Funding Issues and Options: A Working Paper*.

The Task Force considered these alternative resolutions carefully, and spent much time in listening to the concerns and suggestions of Maine residents. The Task Force held meetings and forums in many different parts of the State in order to secure as much public input as possible. Opportunities for public comment were provided at each regular meeting. Based on input received, as well as its own deliberations, the Task Force re-examined the school funding issues and determined that Issue #2, pertaining to subsidy reductions in difficult economic times, the most immediate resolution. Additional study was accomplished for this issue. The recommendations that were derived from that study were the focus of an *Interim Report*.

In all of its deliberations, the Task Force's intent has been to build a *consensus* among all Task Force members for the overall package of recommendations. The Task Force viewed consensus as having everyone's support for the package as a whole. This consensus goal, and the diverse composition of the Task Force membership, were both parts of a strategy aimed at achieving the Task Force mission. This mission, as stated in Governor McKernan's Executive Order, is that the Task Force recommendations should be "likely to have the support of the majority of Maine citizens and their elected representatives".



## Appendix E

### Detailed description of Recommendation #1 for Issue #4

Recommendation #1 for Issue #4 is based on a proposal included in Dr. Josephine LaPlante's report to the Task Force, entitled *Measuring Relative Local Ability to Finance Education in Maine: A Proposal for Reform*, issued by the Edmund S. Muskie Institute of Public Affairs, University of Southern Maine in August, 1993.

The recommendation is technical in nature. Interested individuals are referred to that report for a detailed discussion. This appendix provides a *brief* summary of the highlights of the recommendation, and emphasizes two points in the recommendation which differ from the original proposal.

#### The three extenuating circumstances

Three *extenuating circumstances* would be considered for each municipality:

- *poverty rate*, defined as  
$$\frac{\text{percentage of the municipality's population below poverty}}{\text{percentage of the statewide population below poverty}}$$
  
- *tax "bite"*, defined as  
$$\frac{\text{amount of property taxes for education for a median-valued home in the municipality}}{\text{amount of property taxes for education for a median-valued home in the state}}$$

*It should be noted that in Dr. LaPlante's original proposal, "tax bite" was defined by considering all property taxes, rather than just property taxes for education.*
  
- *housing costs in relation to income*, defined as  
$$\frac{\text{median monthly housing cost in the municipality (expressed as a percentage of the median monthly household income in the municipality)}}{\text{median statewide monthly housing cost (expressed as a percentage of the statewide median monthly household income)}}$$

#### Combining indicators for the three extenuating circumstances into a composite "Index of Fiscal Hardship"

Each of these three extenuating circumstances is then expressed as a "z-score". The following quotation from Dr. LaPlante's report discusses the rationale for using "z-scores".

To overcome the problems of lack of comparability among different

variables of percentages of the state average, we use a process called "standardization" or "normalization" to convert all values into a common measure, the standard deviation unit. Under this approach, each town's values for each of the three indicators would be expressed in terms of the number of standard deviations it lies above or below the mean, an indicator known as a "z-score".

Converting values of indicators into the number of standard deviations that lie above or below the mean permits ready comparison across distributions and mathematical manipulation without fear of bias. For example, a town may be at 150% of the state average for one variable and 230% for the second, but due to the average spread in the two variables distribution, both positions might be one standard deviation above average. We may sum the three "z-scores" to obtain a total, composite "Index of Fiscal Hardship" to gauge precisely how every community's set of fiscal circumstances compares to those facing other towns.

**Using the composite "Index of Fiscal Hardship" to adjust state valuation of property**

Five adjustment tiers are defined. Each municipality is classified as being in Tier 1, 2, 3, 4, or 5 depending on its composite "Index of Fiscal Hardship". These tiers are defined below:

<b>Adjustment Tier</b>	<b>Range of composite "Index of Fiscal Hardship" (sum of 3 "z-scores")</b>	<b>Reduction in State Valuation of Property</b>
1	less than 1	to be decided
2	1 or greater, less than 2	to be decided
3	2 or greater, less than 3	to be decided
4	3 or greater, less than 5	to be decided
5	5 or greater	10%

In Dr. LaPlante's original proposal, the reduction percentages ranged from 3.8% (in Tier 1) to 13% (for Tier 5). The Task Force recommendation reduced the maximum reduction percentage, for Tier 5 municipalities, to 10%. Reduction percentages for other tiers would be less, but the Task Force did not decide what these other reduction percentages should be.

## **Appendix F Statements of Concern**

### **Issue #1, Recommendation #9 (submitted by Mavourneen Thompson)**

The state school funding formula should provide support for education from the broadest, most progressive tax base possible. Requiring local property taxpayers to assume yet another cost associated with education will clearly exacerbate the already severely-burdened homeowner. Because many low-receiving districts are now generally making a higher-than-average tax effort, students' programs there will certainly suffer in the struggle to pick up the cost of this new mandate.

The argument that the Tax Force's retirement proposal will redistribute wealth in concert with pupil and taxpayer equity is unsubstantiated. One must prove that higher salaries mean higher buying power. Employees in districts with higher-than-average salary scales are drained by high tax efforts, high housing costs, and high cost-of-living. A low-receiving district will retrieve ten 10¢ on a \$1.00 of retirement paid in; a high-receiver will retrieve 75¢ on a \$1.00 paid in. The absence of an analytical database that compares cost-of-living once again heightens the probability that crucial decisions will be made in the realm of high-receiver, low-receiver politics rather than cold, hard, but fair facts.

The unfunded liability skews Maine's per pupil education costs. The payment on that debt should be removed from the calculation of per pupil costs, and it should be made clear that consideration of a local contribution does NOT include any portion of that debt.

Prior history clearly shows the State to have no credibility as a fiscal partner. Since there is no contemplation of a constitutional amendment requiring the State to fully fund 100% of the employers' share of GPA, prior to distribution through the formula, it is naive to expect the legislature would continue to do so in times of fiscal crisis. The legislature opposes dedicated revenues, and one legislature does not have the power to bind another.

Historically, teachers have all participated in the MSRS because the State was contributing 100% of the cost. The possibility exists that low receivers in particular might choose to opt out of the MSRS, thereby straining an already under-funded system.

Further burden on the property tax in low-receiving districts delays the State's chance for economic recovery. The southern urban tier, Portland, South Portland, Westbrook and other low-receivers are the economic hub of the state. These communities provide the infrastructure for businesses to locate and operate. These communities also have some of the highest property-tax burdens in the state. Higher property taxes in these areas, predicted by the Task Forces retirement proposal, will discourage economic revitalization and prolong the recession in Maine.

**Issue #1, Recommendation #9**  
**(submitted by Skip Greenlaw, Barbara Kelley, and Idella Harter)**

The undersigned members of the Governor's Task Force on Education Finance vigorously dissent from the recommendation to include school employee's retirement costs in the education funding formula. The net impact will be that local school districts will pay approximately one-half of those costs.

LD 1994 was the legislative document which shifted the burden of funding education from the property tax to General Fund revenue sources. When it was enacted in June 1973, the law was written so that the State of Maine continued to pay the cost of retirement for school employees. The commitment has remained constant although the education funding law has been amended several times over twenty years. The issue of shifting costs of the retirement system into the school funding formula has never been raised until the 1993 legislative session, when the Legislature was groping to find revenue to balance the State budget.

The Legislature has the power to amend the law if they wish to, but we believe that the time has come for the Governor and Legislature to stop trying to shift the cost of programs currently funded by the General Fund back onto the property tax. There must be a commitment by the Governor and the Legislature to accept responsibility for their previous actions.

Local school units did not participate in the establishment of the retirement system. If one-half of the costs of the retirement system are returned to school districts, will retirement costs become a negotiated item between school boards and local school employee associations? We believe that the enactment of this recommendation is so inflammatory that it will set advances made in education back many years. There will be considerable labor unrest with school employees. Taxpayers will be unwilling to pass large increases in the budget to pay for this cost. The result will be, we believe, fewer teachers and less money spent directly for the education of our children.

The consideration of this recommendation seems preposterous in light of the recent amendment to the Maine Constitution which requires the Legislature to appropriate 90% of the funding for any mandate placed on local governments or school budget. We think so.

We strongly urge the Governor and the Legislature not to embrace this recommendation. If the recommendation is considered favorably, we request that the Attorney General, and if necessary the Maine Supreme Judicial Court be requested to render an opinion on the constitutionality of this proposal.

**Issue #2, Recommendation #2**  
**(submitted by Libby Mitchell, Rod Hatch, and Betty Jordan)**

**HOW SHOULD THE RECOMMENDED FUNDING LEVEL BE ADAPTED  
TO AN ACTUAL APPROPRIATIONS LEVEL OF STATE FUNDS?**

Some members of the Task Force believe that reducing the state share of education costs by a fixed percentage if the required amount of state aid is not available creates a disproportionate hardship for communities who are most dependent on state subsidy dollars. The following example illustrates that point. If Community A needs \$400,000 to educate its 100 students and receives 75% of those dollars (\$300,000) from state subsidy, a 10% reduction in state subsidy translates to a loss of \$30,000. If Community B also needs \$400,000 to educate its 100 students, but is wealthy enough to require only 25% of those dollars (\$100,000) from state subsidy, a 10% reduction in state subsidy translates to a loss of \$10,000.

Both units have endured a 10% cut in state subsidy, but the poorer community (Community A) must absorb a cut three times as great as Community B, and try to make up the difference from a tax base that is considerably poorer than Community B's. If Community A does raise the dollars lost in state subsidy, its taxpayers will have to make a greater tax effort than the taxpayers in Community B. If Community A cannot make up the loss of state subsidy with local funds, it will have to cut some portion of its education program. Whatever the outcome, either taxpayers or students in Community A stand to lose more than those in Community B.

Another method that was supported by some members of the Task Force was to reduce the state aid by increasing the operating cost mill rate. When adjusting the mill rate the state share of operating cost is reduced and the local share is increased. The impact on local communities would be minimized because nearly all of the school systems in Maine currently raise local option levies above the foundation mill rate. An additional factor could be added to further protect local communities by permitting, but not requiring, towns to raise more funds than they currently do through the combination of required and optional levies. This method of reducing state aid would also recognize the availability of wealthier communities to raise education dollars with less tax effort than poorer communities. It would also diminish the impact of cuts in state aid to poor communities who are most dependent on state aid and most vulnerable to cuts in their basic education programs.

Neither the percentage reduction method nor the mill rate reduction method are ideal solutions to inadequate state subsidy for education. The best solution is the Task Force recommendation for State support of essential programs and essential services, with local support of programs and services that exceed those levels.

**Issue #4, Recommendation #1**  
**(submitted by Sawin Millett and Jim Watkins)**

In this recommendation, one of the factors that could result in increased subsidies is a high education tax rate. This creates an incentive to raise property taxes, including property taxes that might go *beyond* the need for supporting the *essential programs and services* which the Task Force has described in its Recommendation #1 for Issue #1. Furthermore, during any year of limited state funds for subsidies, this part of the recommendation could benefit some school administrative units which provide *more than essential programs and services*, but at the expense of *reducing* subsidies to other school units which have chosen not to go beyond these *essential programs and services*.