

# MAINE STATE LEGISLATURE

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STATE AND LOCAL GOVERNMENT  
FINANCES IN MAINE:  
EARLY IMPACTS OF LD 1

REP Staff Paper 557

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## 1. INTRODUCTION

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In January of 2005, the Maine State Legislature enacted into law LD 1, also known as Public Law 2005, Chapter 2. A goal of this law is to lower Maine's total state and local tax burden as compared to those of other states. LD 1 seeks to achieve this goal by placing limits on the growth of state and local governments, including School Administrative Units, operating in Maine.

LD 1 provides several formulae that constrain year-to-year increases of municipal property tax levies, county assessments, and state General Fund appropriations. Factors used to set these limits include real personal income growth, population change, and increases in real and personal property values attributed to new development and investments. In addition, LD 1 sets a target for the amount of property taxes raised for schools at the local share of 100 percent of the costs of K-12 education, estimated by the Essential Programs and Services funding model. Along with these guidelines, LD 1 develops processes for units of government and school departments to exceed or permanently increase their limits.

LD 1 is a new law aimed at lowering the tax burden in Maine by moderating government spending and directing more state funding to property tax relief.

The effective date of LD 1 was July 1, 2005. Since many municipal and county governments operate on fiscal years that begin prior to July 1, the law does not impact the current appropriations of all local governments. As of December 31, 2005, the spending limits outlined in LD 1 applied to only one county and, according to a list provided by the Maine Municipal Association, 211 cities and towns. In addition, LD 1 impacts current state government appropriations in the two-year General Fund that took effect on July 1. Likewise, the limits imposed by LD 1 apply to the 2005-06 budgets for all of Maine's School Administrative Units.

### **Report Overview**

This study examines state and local government finances in Maine, and provides an early assessment of the impacts of LD 1. Our analysis uses data from the U.S. Census Bureau, Maine Municipal Association, Maine Department of Administrative and Financial Services, Maine Revenue Services, Maine State Planning Office, Maine Office of Fiscal and Program Review, and the Maine Department of Education. We note upfront that the findings presented in this report are based on data available as of December 2005. Some of the information needed for a complete assessment of LD 1 was not available at that time. Likewise, we acknowledge that the impacts of LD 1 will best be measured once the law applies to all units of government in Maine. The analysis presented in this report is based primarily on the first year of experience for state government, and partial sets of Maine municipalities and

School Administrative Units. These caveats aside, we believe that the information at hand is sufficient to provide an early assessment of LD 1's impacts on state and local government activity, and to establish baseline measures for future comparisons.

The report is organized as follows. Section 2 presents a summary of public finances in Maine. This overview is based on the most currently available data on municipal, county and state government expenditures and revenues. Section 3 presents information on government finances in Maine relative to the rest of the country. This analysis is based on information from U.S. Census Bureau datasets (e.g., 2002 Census of Governments, Public Employment and Payroll data) that allow us to compare Maine to other states. In section 4, we look at the early impacts of LD 1 on state government, municipalities, School Administrative Units and Maine counties. Section 5 of the report provides a summary and conclusions.

## 2. STATE AND LOCAL GOVERNMENT FINANCES

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State and local governments in Maine provide a wide range of public services, financed by a combination of taxes, fees and intergovernmental transfers. Tables 1 and 2 show government expenditure and revenue information, compiled by the Maine Municipal Association, for city and town governments in Maine. These are estimated figures extrapolated from survey data. Based on these estimates, Maine municipal governments spent just below \$3.0 billion in FY 2003. The largest budgetary item for municipal governments is K-12 education, which accounted for 63 percent of total spending. Other key expenditure items include general administration (7.8 percent of spending), road maintenance (5.3 percent of spending), debt service (3.5 percent of spending), law enforcement (3.4 percent of spending), fire protection (3.1 percent of spending) and county taxes (3.1 percent of spending).

Municipalities raise about 2/3 of their revenue locally through property taxes, excise taxes, and fees. Property taxes account for about 80% of that revenue. The remaining 1/3 of municipal revenue comes from the State. K-12 education is by far the largest budget item for municipalities, accounting for about 2/3 of spending.

**Table 1**  
**Estimated Maine Municipal Government Expenditures, FY 2003**

Category	Amount	% of Total
K-12 Education	1,872,845,304	63%
General Administration	232,359,565	7.8%
Law Enforcement	100,663,106	3.4%
Fire Protection	90,546,773	3.1%
EMS	17,191,829	0.6%
Road Maintenance	157,681,927	5.3%
Solid Waste & Recycling	74,750,310	2.5%
Water & Sewer	20,920,549	0.7%
General Assistance	9,820,618	0.3%
Code Enforcement	8,296,675	0.3%
Social Service Programs & Agency	8,471,697	0.3%
Parks and Recreation	31,685,576	1.1%
Libraries	22,227,767	0.7%
County Taxes	92,302,143	3.1%
Debt Service	104,443,517	3.5%
Other	121,143,466	4.1%
Total	2,965,350,822	

Source: Maine Municipal Association, *2004 Fiscal Survey Report & Analysis*.

As shown in Table 2, Maine's city and town governments received an estimated \$2.9 billion in revenue in FY 2003. About 64 percent of municipal government revenue is generated locally, while 33 percent is transferred from the state government. The most important source of revenue for city and town governments in Maine is property taxes, which accounted for 52 percent of total municipal government revenue in FY 2003. (Property taxes accounted for 82 percent of locally-generated municipal government revenue.) Subsidies provided by the state government in the form of General Purpose Aid for Education, which preceded the Essential Programs and Services funding model, made up 25 percent of the revenue available to Maine's municipal governments.

**Table 2**  
**Estimated Maine Municipal Government Revenues, FY 2003**

Category	Amount	% of Total
Locally Generated Revenue:		
Property Tax	1,524,878,760	52%
Excise Tax	189,674,755	6.5%
Interest	14,123,824	0.5%
Permit Fees	39,916,597	1.4%
Service Fees	59,595,471	2.0%
Other	37,050,289	1.3%
Subtotal	1,865,239,696	64%
Revenue Received From State Government:		
General Purpose Aid	718,432,424	25%
Other Education	53,797,840	1.8%
Revenue Sharing	113,791,154	3.9%
Homestead	36,512,215	1.3%
URIP (Road Funds)	21,901,214	0.8%
General Assistance	4,619,821	0.2%
Tree Growth	5,530,823	0.2%
Veterans	861,000	0.0%
Other	7,103,189	0.2%
Subtotal	962,549,680	33%
Revenue Received From Federal Government		
Other	66,105,147	2.3%
Total	2,916,717,900	

Source: Maine Municipal Association, *2004 Fiscal Survey Report & Analysis*.

Financial information for Maine's School Administrative Units is presented in Table 3. School Administrative Units spent \$1.9 billion on K-12 education in FY 2004-05. This amount includes revenue from local sources and subsidies from the state government. The largest budgetary item for School Administrative Units is instructional expenditures, which accounted for 68 percent of total spending. Other key expenditure items are school operations (10 percent of spending), debt service

Student instruction is the largest budget item for schools, accounting for over 2/3 of spending.

(5.9 percent of spending), school administration (5.2 percent of spending) and transportation (5.1 percent of spending).

**Table 3**  
**School Budget Expenditures, 2004-05**

Category	Amount	% of Total
General Administration	93,100,596	4.9%
School Administration	99,252,940	5.2%
Instruction	1,299,562,421	68%
Nutrition	6,203,176	0.3%
Operation	195,408,661	10%
Transportation	96,634,849	5.1%
Debt Service	112,526,303	5.9%
Facilities	3,198,689	0.2%
Total	1,905,887,635	

Source: Maine Department of Education, *2004-05 School Budget Report*.

Table 4 shows county government expenditure information, compiled by Kennebec County Administrator Robert Devlin. County governments in Maine spent a combined \$125.7 million in FY 2003, which is equivalent to just above four percent of the total expenditures made by municipal governments. The largest expenditure item for county governments is corrections (county jails), which accounted for 36 percent of total spending. The second largest budgetary item is law enforcement (county sheriff), which made up 16 percent of total county government expenditures in FY 2003.

**Table 4  
Maine County Government Expenditures, FY 2003**

Category	Amount	% of Total
District Attorney	5,127,962	4.1%
Emergency Management Agency	1,420,930	1.1%
Executive - Commissioners	3,670,970	2.9%
Facilities	5,650,227	4.5%
Registry of Deeds	4,811,554	3.8%
Registry of Probate	2,925,024	2.3%
Sheriff	19,643,281	16%
Corrections	45,135,303	36%
Debt Service	6,714,876	5.3%
Communications	7,030,206	5.6%
Other	23,547,285	19%
Total	125,677,618	

Source, Robert Devlin, Kennebec County Administrator. Note that "other" category includes, among other things, Cooperative Extension, County Treasurer, and Finance Department.

The largest revenue source available to county governments is tax payments received from municipalities and the unorganized territories. As shown in Table 1, Maine municipalities paid \$92.3 million in county taxes in FY 2003. Based on data from 14 of 16 Maine counties, we find that tax payments from municipalities and the unorganized territories accounted for 72 percent of the revenue available to county governments in FY 2003. Other sources of revenue to counties include transfers from the State to cover, among other things, the salaries and fringe benefits paid to District Attorneys.

Counties receive about 3/4 of their funding from municipalities. Jails and law enforcement are the largest budget items for counties, accounting for over 50% of spending.

Tables 5 to 7 present information on Maine state government finances. In FY 2004, state government operating expenditures totaled \$5.8 billion. The largest budgetary item for the state government is human services, which accounted for 42 percent of total spending. Other key expenditure items include K-12 education (20 percent of spending), transportation (7.5 percent of spending), mental health, mental retardation and substance abuse services (5.5 percent of spending), higher education institutions and programs (4.1 percent of spending), and administrative and financial services (3.7 percent of spending). The K-12 education spending figure shown in Table 5 includes

state subsidies in the form of General Purpose Aid for Education, and other state expenditures on primary and secondary education.

**Table 5**  
**Maine State Government Operating Expenditures, FY 2004**

Category	Amount	% of Total
Administration and Financial Services	213,214,431	3.7%
Agriculture, Food & Rural Resources	26,549,116	0.5%
Attorney General	23,185,483	0.4%
Conservation	58,253,969	1.0%
Corrections	122,576,010	2.1%
Cultural Agencies	9,789,753	0.2%
Def., Veterans and Emer. Mgmt.	56,430,573	1.0%
Economic and Community Development	35,310,076	0.6%
Education (K-12)	1,130,281,107	20%
Higher Education Institutions and Programs	234,711,046	4.1%
Environmental Protection	51,981,051	0.9%
Executive Department	11,355,552	0.2%
Human Services	2,460,153,601	42%
Inland Fisheries and Wildlife	28,915,190	0.5%
Judicial Department	56,763,543	1.0%
Labor	117,015,649	2.0%
Legislature	20,660,407	0.4%
Marine Resources	15,812,139	0.3%
Men. Health, Men. Ret & Sub. Ab. Serv	320,213,683	5.5%
Professional & Financial Regulation	20,725,882	0.4%
Public Safety	70,038,362	1.2%
Secretary of State	33,040,420	0.6%
Transportation	431,731,165	7.5%
Treasurer of State	186,498,383	3.2%
Other	55,283,950	1.0%
Total	5,790,490,538	

Source: Maine State Legislature, Office of Fiscal and Program Review, *Table OPF-2 Total Operating Funds – Expenditures by Departments and Major Programs, Fiscal Years 2000 – 2004.*

A substantial amount of the expenditures made by state government is disbursed to municipalities and counties in Maine. According to a report issued by the Office of Fiscal and Program Review, municipalities and counties received \$1.1 billion in disbursements from state government in FY 2004. As shown in Table 6, some of the major categories of funds disbursed to municipalities and counties include education funding (e.g., General Purpose Aid, teachers' retirement), revenue sharing, and property tax reimbursements (e.g., tree growth tax law, homestead exemption).

**Table 6**  
**State Funding Dispersed to Maine Municipalities and Counties, FY 2004**

Category	Amount
Transportation Funding	21,704,921
General Assistance	5,518,412
Education Funding	901,894,267
Revenue Sharing	110,663,051
Property Tax Reimbursement	41,223,017
Natural Resource Agencies	9,100,439
Criminal Justice	12,898,299
Economic Development	1,039,918
Emergency & Disaster Assistance	410,543
Total	1,104,452,867

Source: Maine State Legislature, Office of Fiscal and Program Review, *State of Maine: Summary of Major State Funding Dispersed to Municipalities and Counties*.

Table 7 shows that Maine state government received \$5.9 billion in operating revenue in FY 2004. The largest source of revenue for state government is transfers from the federal government, which accounted for 40 percent of total operating revenue in FY 2004. Other key sources of state government operating revenue include personal and corporate income taxes (22 percent of revenue), and sales and use taxes (16 percent of revenue).

The State receives about 40% of its funding from the federal government, 22% from income taxes and 16% from sales tax. The remaining revenue comes from other taxes and fees. Human services and K-12 education are the largest budgetary expenses for the State, accounting for about 2/3 of spending.

**Table 7  
Maine State Government Operating Revenues, FY 2004**

Category	Amount	% of Total
Income Taxes	1,271,644,111	22%
Sales and Use Taxes	917,248,437	16%
Cigarette Tax	92,625,638	1.6%
Insurance Premium Tax	72,206,153	1.2%
Gasoline Tax	175,970,766	3.0%
Motor Vehicle & Oper. License Fees	94,397,920	1.6%
Service Charges - Current Services	198,768,390	3.4%
From Federal Government	2,330,556,025	40%
Other	743,783,850	13%
Total	5,897,201,290	

Source: Maine State Legislature, Office of Fiscal and Program Review, *Table OPF-1 Total Operating Funds – Revenue (General Fund, Highway Fund, & Other Special Revenue Funds), Fiscal Years 2000 – 20004.*

### 3. COMPARISONS TO OTHER STATES

An explicit goal of LD 1 is to lower Maine's state and local tax burden compared to the rest of the nation. To provide a set of baseline measurements from which the state can monitor its progress, this section presents information on public finances in Maine relative to other states. This information is from the 2002 U.S. Census of State and Local Governments, which is the most currently available data of its kind. Some limitations of using the Census data are that the information is collected using different expenditure and revenue categories, and with less frequency than data reported by state agencies and organizations. An advantage of using these federal government statistics is that common information is available for all 50 states. This allows us to make comparisons across states, which could not be made using data solely from state agencies and organizations.

State and local governments annually spend a combined \$6,703 per Maine resident. That's about \$400 less than other states. Compared to other states, governments in Maine are above the national average in reliance on taxes as a source of general revenue and below the national average in reliance on other sources, such as fees.

## **State and Local Government Revenues**

Table 8 shows an overview of revenue sources available to state and local governments in Maine. The state and local government total revenue figure of \$8.0 billion includes non-general revenue sources such as the state liquor store, government-operated utilities, and insurance trust revenue, which posted a loss in 2002. State and local government general revenues in Maine totaled \$8.1 billion, with \$4.5 billion of this amount collected in taxes. The three largest sources of tax revenue included property taxes (\$1.9 billion), sales and gross receipts taxes (\$1.2 billion), and individual income taxes (\$1.1 billion). These taxes accounted for 93 percent of total state and local tax revenues.

**Table 8**  
**Maine State and Local Government Revenue, FY 2002**

<b>Category</b>	<b>Total S&amp;L</b>	<b>State</b>	<b>Local</b>
Total Revenue ('000s)	8,019,443	5,451,423	3,622,932
General Revenue ('000s)	8,076,693	5,600,245	3,531,360
Intergovernmental Revenue			
From Federal Government ('000s)	1,900,585	1,816,913	83,672
From State Government ('000s)	NA	NA	1,041,427
From Local Governments ('000s)	NA	13,485	NA
Subtotal ('000s)	1,900,585	1,830,398	1,125,099
Own-Source General Revenue ('000s)	6,176,108	3,769,847	2,406,261
Percent General Revenue from Own Sources	76%	67%	68%
Taxes ('000s)	4,541,146	2,626,830	1,914,316
Property Taxes ('000s)	1,912,158	48,136	1,864,022
Sales and Gross Receipts Taxes ('000s)	1,241,788	1,237,259	4,529
Individual Income Taxes ('000s)	1,072,861	1,072,810	51
Percent Own-Source General Revenue from Taxes	74%	70%	80%
Charges and Misc. General Revenue ('000s)	1,634,962	1,143,017	491,945
Percent Own-Source General Revenue from Non-Tax Sources	26%	30%	20%

Source: U.S. Census Bureau, *2002 Census of Governments*.

Information on state and local government revenue relative to total personal income and population is shown in Tables 9 and 10. The total revenue available to state and local governments in Maine is equivalent to 22 percent of total personal income, which places the state 16<sup>th</sup> nationally. On a per capita basis, state and local governments in Maine received \$6,195 in total revenue per person. The state ranks 20<sup>th</sup> nationally according to this measure. General revenue available to governments in Maine is also equivalent to about 22 percent of total personal income, which places the state 9<sup>th</sup> nationally by this measure of government activity.

**Table 9**  
**State and Local Government Revenue as a Percentage of**  
**Total Personal Income, FY 2002**

Category	Maine	U.S. Rank	U.S. Average
Total Revenue	22.30%	16	20.37%
General Revenue	22.46%	9	18.99%
Intergovernmental Revenue			
From Federal Government	5.28%	15	4.06%
From State Government	NA	NA	NA
From Local Governments	NA	NA	NA
Subtotal	5.28%	15	4.06%
Own-Source General Revenue	17.17%	7	14.93%
Percent General Revenue from Own Sources	76.47%	31	78.60%
Taxes	12.63%	2	10.20%
Property Taxes	5.32%	1	3.15%
Sales and Gross Receipts Taxes	3.45%	30	3.65%
Individual Income Taxes	2.98%	11	2.29%
Percent Own-Source General Revenue from Taxes	73.53%	7	68.34%
Charges and Misc. General Revenue	4.55%	32	4.73%
Percent Own-Source General Revenue from Non-Tax Sources	26.47%	44	31.66%

Source: U.S. Census Bureau, *2002 Census of Governments*. Personal income figures from U.S. Bureau of Economic Analysis.

**Table 10**  
**State and Local Government Revenue Per Capita, FY 2002**

<b>Category</b>	<b>Maine</b>	<b>U.S. Rank</b>	<b>U.S. Average</b>
Total Revenue	6,195	20	6,268
General Revenue	6,239	11	5,842
Intergovernmental Revenue			
From Federal Government	1,468	13	1,250
From State Government	NA	NA	NA
From Local Governments	NA	NA	NA
Subtotal	1,468	13	1,250
Own-Source General Revenue	4,771	14	4,592
Percent General Revenue from Own Sources	76.47%	31	78.60%
Taxes	3,508	8	3,138
Property Taxes	1,477	4	968
Sales and Gross Receipts Taxes	959	35	1,124
Individual Income Taxes	829	15	703
Percent Own-Source General Revenue from Taxes	73.53%	7	68.34%
Charges and Misc. General Revenue	1,263	38	1,454
Percent Own-Source General Revenue from Non-Tax Sources	26.47%	44	31.66%

Source: U.S. Census Bureau, *2002 Census of Governments*. Population estimates from U.S. Census Bureau.

We find that the state and local taxes collected in Maine are equivalent to 13 percent of total personal income. By this measure of state and local tax burden, Maine ranks 2<sup>nd</sup> nationally. Governments in Maine collected \$3,508 in taxes per capita, which is \$370 more than the national average. By the measure of taxes per capita, Maine ranks 8<sup>th</sup> nationally. However, Maine relies heavily on taxes as a source of general revenue. Charges and miscellaneous general revenue collected in Maine are equivalent to 4.6 percent of total personal income, which is lower than the national average. On a per capita basis, Maine collected \$191 less in fees and miscellaneous general revenues than the national average. Comparing states by total general revenue collected from own sources, whether in fees or taxes, Maine ranks 14<sup>th</sup> nationally on a per capita basis. Again, however, almost three-fourths of the

revenue collected by state and local governments in Maine is in the form of taxes. Maine ranks 7<sup>th</sup> nationally in terms of its reliance on taxes as a source of state and local government general revenue.

### **State and Local Government Expenditures**

Revenues raised by state and local governments in Maine are used to fund a wide range of public services. The close connection between government revenues and the provision of public services is recognized by LD 1, which attempts to reduce taxes by placing limits on the growth of government revenues and expenditures. Table 11 provides an overview of state and local government expenditures in Maine. The state and local government total expenditure figure of \$8.7 billion includes intergovernmental expenditures, and spending related to the state liquor store and government-operated utilities. The direct general expenditures by Maine state and local governments, which does not include these categories, totaled \$7.9 billion in 2002. The two largest expenditure categories are education services, and social services and income maintenance. They accounted for 61 percent of state and local government direct general expenditures.

**Table 11**  
**Maine State and Local Government Expenditures, FY 2002**

Category	Total S&L	State	Local
Total Expenditure ('000s)	8,677,113	6,264,883	3,386,270
Direct General Expenditure			
Education Services ('000s)	2,516,514	704,743	1,811,771
Social Services and Income Maintenance ('000s)	2,316,926	2,199,661	117,265
Transportation ('000s)	689,040	446,133	242,907
Public Safety ('000s)	448,513	197,817	250,696
Environment and Housing ('000s)	553,605	216,113	337,492
Government Administration ('000s)	423,684	253,057	170,627
Interest on General Debt ('000s)	328,936	238,184	90,752
General Expenditures, n.e.c. ('000s)	670,826	404,854	265,972
Subtotal ('000s)	7,948,044	4,660,562	3,287,482

Source: U.S. Census Bureau, *2002 Census of Governments*.

Per capita state and local government spending figures are shown in Table 12. Maine ranks 24<sup>th</sup> nationally in total state and local government expenditures per capita. Governments in Maine spent an average of \$6,703 per person, which is \$402 less than the national average. Comparing states by total general expenditures per capita, Maine ranks 17<sup>th</sup> nationally. State and local governments allocated an average of \$6,140 per person in direct general expenditures, which is \$138 more than the national average.

**Table 12**  
**State and Local Government Expenditures Per Capita, FY 2002**

Category	Maine	U.S. Rank	U.S. Average
Total Expenditure	6,703	24	7,105
Direct General Expenditure			
Education Services	1,944	35	2,091
Social Services and Income Maintenance	1,790	10	1,496
Transportation	532	20	475
Public Safety	346	45	544
Environment and Housing	428	26	465
Government Administration	327	20	322
Interest on General Debt	254	20	261
General Expenditures, n.e.c.	518	9	349
Subtotal	6,140	17	6,002

Source: U.S. Census Bureau, *2002 Census of Governments*. Population estimates from U.S. Census Bureau.

Since education services make up such a large part of state and local government spending in Maine, we look at this category in more detail in Table 13. State and local governments spent a combined \$1.8 billion on elementary and secondary education, which accounts for 72 percent of spending on education services. Table 14 shows that, within the broader education expenditure category, Maine ranks 46<sup>th</sup> nationally in per capita state and local government spending on higher education. On the other hand, Maine ranks 23<sup>rd</sup> nationally in per capita state and local government spending on elementary and secondary education.

**Table 13**  
**Maine State and Local Government Expenditures on Education Services,**  
**FY 2002**

Category	Total S&L	State	Local
Education Services			
Higher Education ('000s)	559,307	559,307	0
Elementary and Secondary Education ('000s)	1,802,826	11,013	1,791,813
Other Education ('000s)	129,031	129,031	0
Libraries ('000s)	25,350	5,392	19,958
Subtotal ('000s)	2,516,514	704,743	1,811,771

Source: U.S. Census Bureau, *2002 Census of Governments*.

**Table 14**  
**State and Local Government Expenditures Per Capita on Education**  
**Services, FY 2002**

Category	Maine	U.S. Rank	U.S. Average
Education Services			
Higher Education	432	46	544
Elementary and Secondary Education	1,393	23	1,426
Other Education	100	25	93
Libraries	20	37	29
Subtotal	1,944	35	2,091

Source: U.S. Census Bureau, *2002 Census of Governments*. Population estimates from U.S. Census Bureau.

**State and Local Government Employment**

Table 15 provides an overview of state and local government employment in Maine. In 2004, state and local governments employed about 75,000 Maine workers. Just over one-half of the government workers are employed in elementary and secondary education. Other categories of state and local government with employment levels greater than 2,000 workers include higher education, government administration, streets and highways, public welfare, police, fire, and corrections.

**Table 15**  
**Maine State and Local Government Employment, 2004**

Category	Total S&L	State	Local
Administration	4,808	1,520	3,288
Judicial and Legal	955	712	243
Police	3,023	537	2,486
Fire	2,571	0	2,571
Correction	2,096	1,314	782
Streets and Highways	4,072	2,458	1,614
Airports	177	0	177
Water Transportation	99	69	30
Public Welfare	2,366	1,969	397
Health	1,532	1,277	255
Hospitals	1,338	618	720
Social Insurance Administration	484	484	0
Solid Waste Management and Sewerage	1,328	0	1,328
Parks and Recreation	905	146	759
Housing and Community Development	447	0	447
Natural Resources	1,184	1,127	57
Water Supply, Electric Power, and Gas Supply	795	0	795
Transit	102	0	102
Elementary and Secondary Education	37,902	27	37,875
Higher Education	5,307	5,307	0
Other Education	256	256	0
Libraries	423	0	423
State Liquor Stores	56	56	0
Other	2,009	1,023	986
Total	74,235	18,900	55,335

Source: U.S. Census Bureau, *Public Employment and Payroll Data*.

Table 16 shows information on the percentage of Maine workers that are employed by the state and local government. Governments in Maine employed 13 percent of all Maine workers in 2004, which places the state 18<sup>th</sup> nationally in terms of this indicator of public sector activity. Compared with other U.S. states, Maine has a relatively high proportion of employment in government administration, fire protection, elementary and secondary education, streets and highways, water transportation, and solid waste management and sewerage. Maine has a relatively low proportion of

employment in the areas of judicial and legal, police protection, corrections, hospitals, higher education, transit, and libraries.

**Table 16**  
**State and Local Government Employment as a Percentage of Total Employment, 2004**

Category	Maine	U.S. Rank	U.S. Average
Administration	0.81%	2	0.50%
Judicial and Legal	0.16%	50	0.31%
Police	0.51%	44	0.69%
Fire	0.43%	2	0.25%
Correction	0.35%	44	0.54%
Streets and Highways	0.69%	8	0.41%
Airports	0.03%	23	0.03%
Water Transportation	0.02%	10	0.01%
Public Welfare	0.40%	17	0.38%
Health	0.26%	36	0.32%
Hospitals	0.23%	43	0.68%
Social Insurance Administration	0.08%	14	0.06%
Solid Waste Management and Sewerage	0.22%	10	0.18%
Parks and Recreation	0.15%	34	0.20%
Housing and Community Development	0.08%	22	0.09%
Natural Resources	0.20%	15	0.13%
Water Supply, Electric Power, and Gas Supply	0.13%	35	0.19%
Transit	0.02%	42	0.18%
Elementary and Secondary Education	6.38%	5	4.98%
Higher Education	0.89%	43	1.10%
Other Education	0.04%	42	0.07%
Libraries	0.07%	40	0.10%
State Liquor Stores	0.01%	12	0.004%
Other	0.34%	28	0.34%
Total	12.50%	18	11.74%

Source: U.S. Census Bureau, *Public Employment and Payroll Data*. Total employment figures from U.S. Bureau of Labor Statistics.

#### 4. EARLY IMPACTS OF LD 1

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LD 1 attempts to lower the tax burden in Maine, relative to the rest of the nation, by placing limits on the growth of state and local government appropriations and revenues. Given this objective, a straightforward way of measuring LD 1's impact would be to compare Maine's national ranking of state and local tax burden before and after its implementation. This may be a reasonable approach in the future, however it is not possible at the present time for several reasons. As noted above, LD 1 does not govern the current appropriations of all units of government operating within the state. In addition, several key provisions of LD 1, notably those related to the Essential Programs and Services model of state funding for local education, are to be implemented over a several year period. This makes any analysis of the impacts of LD 1, conducted at the present time, incomplete. Furthermore, comparable data for other states will not be available until the next U.S. Census of State and Local Governments, which is scheduled for 2007. This data will likely become available in 2009.

In this section, we use information from a variety of sources to perform several partial analyses of LD 1. First, the Maine Department of Administrative and Financial Services compiled appropriations data for the state government's current two-year budget, which took effect on July 1. We use this information to examine state government's experience with LD 1. Second, the Maine State Planning Office surveyed Maine cities and towns during the fall of 2005 to collect municipal spending and revenue data. Among other things, the questionnaire asked if the city or town exceeded its property tax levy limit set by LD 1.

Deadlines for implementing some elements of LD 1 have not yet passed. At the State level, increases in the state share of education funding are scheduled through FY 2009. At the local level, some municipalities and almost all counties have not yet begun fiscal years to which the limits of LD 1 apply. This report uses currently available data to assess the early impacts of LD 1.

We use information from these surveys to examine the impacts of LD 1 on local governments.

Third, Maine Revenue Services annually collects information on local government spending, which is reported in the *Municipal Valuation Return Statistical Summary*. Since the spending limits outlined by LD 1 apply to the current appropriations of a partial set of municipalities, we use this information to compare the growth of spending between the cities and towns governed by LD 1 and those that are not. Fourth, we examine School Administrative Units' experience with LD 1 using school budget data collected by the Maine Department of Education. Finally, using preliminary data for a sample of Maine counties with fiscal years that begin on January 1, 2006, we comment briefly on county governments' experience with LD 1.

## **State Government's Experience with LD 1**

As noted above, LD 1 provides a set of formulae that limit the growth of appropriations and revenues by state and local governments in Maine. Applied to the state government, LD 1 constrains the growth of General Fund appropriations. For the current two-year budget that covers FY 2006 and FY 2007, the spending limits provided by LD 1 indicate that the General Fund budget may not exceed the

FY 2005 General Fund appropriations, adjusted to account for real personal income growth and population change. Excluded from the current spending limits are appropriations for local school funding, above FY 2005 levels calculated using the General Purpose Aid for local education spending model, until the state subsidy accounts for 55 percent of the cost of local education in FY 2009.

The State has stayed within its biennial budget growth limit of 3.11%. Growth of General Fund appropriations is lower this year than the past two years, 1.2% versus 5.4% and 4.0%, respectively.

The state government calculated an appropriations growth factor of 3.11 percent, comprised of an income growth factor of 2.58 percent plus a 10-year average population growth rate of 0.53 percent. This means that LD 1 will limit the annual growth of state General Fund appropriations, not including local school subsidies above FY 2005 levels, by 3.11 percent in FY 2006 and FY 2007. Over the five years prior to FY 2006, the annual growth of General Fund appropriations ranged from a decrease of 3.0 percent to an increase of 14.2 percent, with an average of a 3.9 percent increase in spending.

Information provided by the Maine Department of Administrative and Financial Services shows that state government has a General Fund spending limit of \$2,895,759,678 for FY 2006. Compared to the FY 2006 appropriation of \$2,817,738,125, we find that the state is currently \$78.0 million (2.7 percent) below the limit imposed by LD 1. For FY 2007, the state has a spending limit of \$3,020,174,855. The FY 2007 General Fund appropriation of \$2,869,153,863 is currently \$151 million (5.0 percent) below the limit.

The ultimate success of LD 1 at lowering the tax burden in Maine will be determined, at least in part, by its ability to reduce the growth of state and local government. Table 17 presents information on the growth of General Fund appropriations in recent years. As noted above, the total General Fund appropriation for FY 2006 is \$2,817,738,125, which represents a 1.2 percent increase over the FY 2005 General Fund appropriation of \$2,784,473,472. By comparison, General Fund appropriations grew by 5.4 percent between FY 2004 and FY 2005, and by 4.0 percent between FY 2003 and FY 2004. The current 1.2 percentage point increase in General Fund appropriations is 78 percent lower than the increase between FY 2004 and FY 2005, and 70 percent lower than the increase between FY 2003 and FY 2004. This suggests that

the growth rate of General Fund appropriations is lower in the current year, the first under LD 1, than in the recent past.

**Table 17**  
**Growth of General Fund Appropriations**

	<b>Growth Rate of General Fund Appropriations</b>
Growth of General Fund Appropriations, FY 2005 - FY 2006	1.2%
Growth of General Fund Appropriations, FY 2004 - FY 2005	5.4%
Growth of General Fund Appropriations, FY 2003 - FY 2004	4.0%
Change in General Fund Appropriations Growth between FY 2004 - FY 2005 and FY 2005 - FY 2006	-78%
Change in General Fund Appropriations Growth between FY 2003 - FY 2004 and FY 2005 - FY 2006	-70%

Source: Author's calculations using data from the Maine Department of Administrative and Financial Services, and the Office of Fiscal and Program Review, Maine State Legislature.

**Municipal Governments' Experience with LD 1**

Applied to city and town governments, LD 1 constrains the growth of property taxes raised to fund municipal operations (also called the "base municipal commitment"). This is the amount of revenue available to fund municipal services and operations, not including budget items such as county taxes and local school funding. These items are excluded from the municipal commitment limits because they are considered elsewhere in LD 1 as it relates to county governments and School Administrative Units. LD 1 sets the property tax levy limit such that the base municipal commitment may not exceed the prior year's base commitment, adjusted to account for growth in real personal income (i.e., income growth factor), increases in property values attributed to new development and investments (i.e., property growth factor), and net new funding from the State.

The property tax limits of LD 1 applied to about 214 municipalities this year. Of municipalities for which data is available, about 60% stayed within their limit.

The Maine State Planning Office conducted a voluntary two-page survey to collect data on municipal government experiences with LD 1. The form was sent as an attachment to the Maine Revenue Services *Municipal Valuation Return* questionnaire, and was collected by the Maine State Planning Office and Maine Municipal Association. These organizations forwarded the surveys they received to the University of Maine and we entered them into a database. We note that the surveys collected data that

were self reported by the individual municipalities. Like any information of this kind, it is subject to errors in respondent recall and interpretation of the survey questions.

Given our interest in the impacts of LD 1, we focus our analysis on usable surveys received from 139 cities and towns with fiscal years that begin on or after July 1; 136 of these municipalities are included in a Maine Municipal Association list of 211 municipalities that operate on a July 1 fiscal year. The other three municipalities reported on the State Planning Office survey and the Maine Revenue Services questionnaire that they have fiscal years that begin on July 1.

Table 18 presents information on the characteristics of the 139 municipalities included in the sample, and the entire set of 211 cities and towns included on the Maine Municipal Association list. The average municipality in the sample had a 2004 population size of 5,219 residents. About 43 percent of the sample had a population size of less than 2,500 people. The municipalities included in the sample had a combined tax base of real and personal property valued at \$82,431 per person, and a commitment level of \$1,413 per person in 2004.

**Table 18**  
**Characteristics of Sample Municipalities that Completed**  
**State Planning Office Survey**

Characteristic	Municipalities that Completed Survey	Municipalities with July 1 Fiscal Year
Population Size, 2004	5,219	4,638
Percent with Population less than 2,500	43%*	50%*
Percent Service Centers	32%	29%
Commitment Per Capita, 2004 <sup>^</sup>	\$1,413	\$1,374
Tax Base Per Capita, 2004 <sup>^</sup>	\$82,431	\$78,868
Property Tax Rate, 2004 <sup>^</sup>	0.0171	0.0174
Growth of Commitment, 2003 to 2004 <sup>^</sup>	5.1%	4.9%
Growth of Commitment, 2002 to 2003 <sup>^</sup>	4.9%	4.8%
Growth of Tax Base, 2003 to 2004 <sup>^</sup>	8.9%	8.3%
Growth of Tax Base, 2002 to 2003 <sup>^</sup>	13.8%	11.8%
Number of Observations	139	211

Source: Author's calculations using data from the U.S. Census Bureau, Maine State Planning Office and Maine Revenue Services. <sup>^</sup> indicates that variable is constructed by aggregating data across municipalities in sample. Tests of statistical significance are not performed for variables marked with a <sup>^</sup>. \* indicates that differences across samples are statistically significant at a 90 percent confidence level.

We use several questions from the State Planning Office survey to determine the proportion of municipalities that stayed within the property tax levy limits set by LD 1. First, the survey asked cities and towns to self report if they exceeded the LD 1 limit. Of those that answered the question, we find that 79 out of 132 municipalities (60 percent) stayed within their LD 1 limits. Characteristics of sample municipalities that exceeded the limit and those that did not are presented in Table 19. Cities and towns in the sample that exceeded the property tax levy limit have an average 2004 population size that is 32 percent smaller than the average population size of those that did not exceed the limit. The 2004 property tax rate, constructed by dividing the aggregate commitment by the aggregate value of real and personal property, is lower in the sample of municipalities that exceeded the LD 1 limit than in the sample of cities and towns that did not.

**Table 19**  
**Characteristics of Sample Municipalities Governed by LD 1**

Characteristic	Municipalities that Exceeded LD 1	Municipalities that Did Not Exceed LD 1
Population Size, 2004	4,115*	6,080*
Percent with Population less than 2,500	47%	39%
Percent Service Centers	34%	30%
Commitment Per Capita, 2004 <sup>^</sup>	\$1,326	\$1,460
Tax Base Per Capita, 2004 <sup>^</sup>	\$88,572	\$78,896
Property Tax Rate, 2004 <sup>^</sup>	0.0150	0.0185
Growth of Commitment, 2003 to 2004 <sup>^</sup>	5.7%	4.7%
Growth of Commitment, 2002 to 2003 <sup>^</sup>	5.0%	5.2%
Growth of Tax Base, 2003 to 2004 <sup>^</sup>	10.7%	7.8%
Growth of Tax Base, 2002 to 2003 <sup>^</sup>	14.3%	12.4%
Number of Observations	53	79

Source: Author's calculations using data from the U.S. Census Bureau, Maine State Planning Office and Maine Revenue Services. <sup>^</sup> indicates that variable is constructed by aggregating data across municipalities in sample. Tests of statistical significance are not performed for variables marked with a <sup>^</sup>. \* indicates that differences across samples are statistically significant at a 90 percent confidence level.

Second, the survey collected expenditure figures and other pertinent information (e.g., property growth factor) used to calculate the FY 2006 base municipal commitment limit. We use this information to obtain additional insights into municipal experiences with LD 1. The survey asked municipalities to provide the total commitment level for FY 2005. (A comparison of this information to similar figures provided by Maine Revenue Services shows that, across the 130 municipalities included in the analysis,

expenditures reported on the survey are about six percent higher than figures from Maine Revenue Services.) From the total FY 2005 commitment level, the State Planning Office survey directed municipalities to subtract the FY 2005 education commitment, the FY 2005 county tax assessment, TIF payments (or other special tax districts) and the FY 2005 overlay. These calculations determine the FY 2005 base municipal commitment. Across the 130 municipalities included in the analysis, the base municipal commitment is about 31 percent of the total FY 2005 commitment.

The FY 2006 municipal commitment limit is set by adjusting the FY 2005 base commitment to account for growth in real personal income and property values attributed to new development and investments, collectively referred to as the “growth limitation factor,” and net new funding from the state. The growth limitation factor used to adjust the FY 2005 base municipal commitment is the local property growth factor, calculated by the municipality and reported on the survey, plus an additional 2.58 percent to account for growth in real personal income, calculated by state government.

Inspection of the data indicates that in 36 of 130 surveys (28 percent) the growth limitation factor minus the property growth factor does not equal 2.58 percentage points, or the town did not report a growth limitation factor. For these municipalities, we adjusted the survey data to correct for this miscalculation or omission. After making these changes, we find that the growth limitation factor ranged from 2.58 percent to 19.2 percent, with a weighted average of 5.3 percent. (The average prior to making the changes to the survey data is 4.6 percent.) After making a final adjustment for net new state funds, we find that the FY 2006 municipal commitment limit is 4.0 percent higher than the FY 2005 base municipal commitment. This indicates that, for the municipalities in the sample, LD 1 limits the growth of the municipal commitment by about four percent between FY 2005 and FY 2006.

Along with the information required to calculate the FY 2006 municipal commitment limit, the State Planning Office survey asked municipalities to provide information on the planned municipal commitment for FY 2006. First, cities and towns reported the total budgeted commitment for FY 2006. From this amount, municipalities were directed to subtract the FY 2006 education commitment, FY 2006 county assessment, TIF payments (or other special tax districts), and the FY 2006 overlay. These calculations determine the FY 2006 base municipal commitment. A comparison of this amount to the FY 2006 municipal commitment limit, calculated above, determines whether or not the city or town exceeded the limit set by LD 1.

We find that, as a group, the 130 cities and towns in the sample stayed within the property tax levy limits set by LD 1. These municipalities have a combined FY 2006 base municipal commitment of \$356.1 million, which is about 0.31 percent lower than the combined limit of \$357.3 million. Of the 130

municipalities in the analysis, we find that 75 (58 percent) stayed within the limit dictated by LD 1. This proportion, which is based on survey responses that were adjusted to correct for apparent miscalculations, is similar to the 60 percent of municipalities that self reported that they did not exceed the LD 1 limit. Our analysis confirmed the self-reported responses in 92 percent of the municipalities.

LD 1 provides two options to municipalities with FY 2006 base commitments that exceed the municipal commitment limit. One option is to vote to increase the limit. Such a vote would increase the current limit, which in turn would permanently increase the limits in future years (based on the formula outlined in LD 1). The second option is to vote to exceed the property tax levy limit in the current year, without affecting the limit in future years.

Of the 47 Maine cities and towns that exceeded the municipal commitment limit and responded to the question on the State Planning Office survey, 36 (77 percent) voted to increase the limit. Three additional municipalities also indicated on the survey their intent to increase the limit. In response to an open-ended question about the budgetary factors that led to the increase, municipalities provided a wide range of responses. Several municipalities cited an increase in insurance and benefit costs, and spending on roads and capital improvements as the reason they increased the property tax levy limit.

Whereas a total of 39 municipalities reported that they voted to increase their limits, only 11 noted on the survey that they voted to exceed the property tax limit in the current year. Nine of these 11 municipalities had, in fact, exceeded their tax levy limits according to the Maine State Planning Office survey. One of the two towns that had not exceeded the cap claimed it voted just “in case of errors or omissions.”

### **Impact of LD 1 on the Growth of Municipal Property Tax Commitments**

A key indicator of LD 1's ability to achieve its goal of lowering the tax burden in Maine is the extent to which the limits translate into a reduction in the growth of property tax commitments. Since the property tax limits outlined in LD 1 do not impact the current appropriations of all cities and towns in Maine, we have a comparison group that can be used to measure the impact of LD 1 on the growth of municipal property tax commitments. As of November 2005, Maine Revenue Services had received and compiled municipal commitment information for 368 cities and towns. This represents more than 75 percent of the 489 municipalities that Maine

Across all municipalities, the growth rate of local property tax commitments is lower this year than in the past two years, 1.7% versus 5.1% and 5.5% respectively. The reduction of growth is greater in municipalities to which LD 1 applies.

Revenue Services includes in its annual *Municipal Valuation Return Statistical Summary*. The 368 municipalities included in the sample had a combined property tax commitment of \$1.38 billion in 2004, which represents about 82 percent of the total commitment across all Maine municipalities.

Of the 368 municipalities in the sample, 156 cities and towns reported to Maine Revenue Services that they have fiscal years that begin on or after July 1. Thus, the limits outlined by LD 1 apply to 42 percent of the municipalities in the sample. According to the Maine Municipal Association, 211 Maine municipalities have fiscal years that begin on or after July 1. This represents about 43 percent of all Maine municipalities. The municipal commitment dataset compiled by Maine Revenue Services has a proportion of municipalities impacted by LD 1 that is similar to the overall population of Maine cities and towns.

Table 20 presents information on the growth of local property tax commitments by Maine municipalities. The 368 municipalities included in the sample have a combined commitment for the present year of \$1.40 billion. This represents a 1.7 percent increase over last year's \$1.38 billion commitment by the same municipalities. By comparison, the commitments made by these municipalities grew by 5.1 percent between 2003 and 2004, and by 5.5 percent between 2002 and 2003. The 1.7 percentage point increase in the current municipal commitment is 67 percent lower than the increase between 2003 and 2004, and 69 percent lower than the increase between 2002 and 2003. This suggests that, across all municipalities in the sample, the growth rate of local government property tax commitments is lower in the current year than in the recent past.

Focusing on the 156 municipalities in the sample with fiscal years that begin on or after July 1, we find that the commitments made by these cities and towns grew by 1.2 percent between FY 2005 and FY 2006. The 1.2 percentage point growth rate in the commitment level of municipalities impacted by LD 1 is about 33 percent lower than the 1.7 percentage point current commitment increase across all 368 municipalities included in the sample. The commitments made by municipalities governed by LD 1 grew by 4.90 percent between 2003 and 2004, and by 5.1 percent between 2002 and 2003. The current commitment increase of 1.2 percentage points by these municipalities is 77 percent lower than the increase between 2003 and 2004, and 78 percent lower than the increase between 2002 and 2003. In both cases, the percentage reduction in commitment growth is higher in the sample of municipalities impacted by LD 1 than the total sample of Maine municipalities.

**Table 20**  
**Commitment Growth in Sample Municipalities**

	<b>Municipalities Governed by LD 1</b>	<b>Municipalities Not Governed by LD 1</b>
Growth of Municipal Commitment, 2004-2005 <sup>^</sup>	1.2%	3.9%
Growth of Municipal Commitment, 2003-2004 <sup>^</sup>	4.9%	6.0%
Growth of Municipal Commitment, 2002-2003 <sup>^</sup>	5.1%	7.1%
Change in Municipal Commitment Growth between 2003-2004 and 2004-2005 <sup>^</sup>	-77%	-35%
Change in Municipal Commitment Growth between 2002-2003 and 2004-2005 <sup>^</sup>	-78%	-45%
Number of Observations	156	212

Source: Author's calculations using data from Maine Revenue Services. <sup>^</sup> indicates that variable is constructed by aggregating data across municipalities in sample. Tests of statistical significance are not performed for variables marked with a <sup>^</sup>.

Looking at the 212 municipalities in the sample with fiscal years that begin prior to July 1, we find that the commitments made by these cities and towns grew by 3.9 percent between 2004 and 2005. This growth rate of local government activity is about 126 percent higher than the 1.7 percent increase across all 368 municipalities included in the sample. The commitments made by municipalities not impacted by LD 1 grew by 6.0 percent between 2003 and 2004, and by 7.1 percent between 2002 and 2003. The current increase of 3.9 percentage points by these municipalities is 35 percent lower than the increase between 2003 and 2004, and 45 percent lower than the increase between 2002 and 2003. In both cases, the reduction in property tax commitment growth is lower in the sample of municipalities that are not impacted by LD 1 than the total sample of Maine municipalities.

Table 21 presents additional information on the impacts of LD 1 on the growth of local governments' property tax commitments. This analysis focuses on the proportion of municipalities with current growth rates of local commitments that are lower than the growth rates of local commitments in previous years. We find that the growth rate of the base municipal government commitment in the current year is less than the growth rate between 2003 and 2004 in 62 percent of the 368 municipalities included in the sample, and less than the growth rate between 2002 and 2003 in 65 percent of the municipalities. The growth rate of the commitment in the current year is less than the growth rates in both of the past two years in 53 percent of the municipalities.

**Table 21**  
**Proportion of Sample Municipalities that Experienced a**  
**Reduction in Commitment Growth**

	<b>Municipalities Governed by LD 1</b>	<b>Municipalities Not Governed by LD 1</b>
Proportion of Sample with 2004 to 2005 Commitment Growth Rate Less Than Growth Rate from 2003 to 2004	0.70**	0.57**
Proportion of Sample with 2004 to 2005 Commitment Growth Rate Less Than Growth Rate from 2002 to 2003	0.72**	0.59**
Proportion of Sample with 2004 to 2005 Commitment Growth Rate Less Than Growth Rates from 2002 to 2003 and 2003 to 2004	0.60**	0.48**
Number of Observations	156	212

Source: Author's calculations using data from Maine Revenue Services. \*\* indicates that differences across samples are statistically significant at a 95 percent confidence level.

Looking at cities and towns governed by LD 1, we find that the growth rate of the local government commitment between FY 2005 and FY 2006 is less than the growth rate between 2003 and 2004 in 70 percent of the municipalities, and less than the growth rate between 2002 and 2003 in 72 percent of the municipalities. The growth rate of the commitment in the current year is less than the growth rates in both of the past two years in 60 percent of these municipalities. Focusing on municipalities that are not impacted by LD 1 in the current year, we see that the growth rate of the commitment is less than the growth rate between 2003 and 2004 in 57 percent of the municipalities, and less than the growth rate between 2002 and 2003 in 59 percent of the cities and towns. The growth rate of the commitment in the current year is less than the growth rates in both of the past two years in 48 percent of these municipalities. In all three cases, the differences across the two samples are statistically significant at a 95 percent confidence level.

We use the municipal commitment information from Maine Revenue Services along with the State Planning Office surveys to investigate the growth of the municipal property tax commitment in cities and towns that exceeded the LD 1 limits. We were able to match the State Planning Office surveys and the Maine Revenue Services commitment information for 113 municipalities. Out of these 113 Maine cities and towns governed by LD 1, 44 municipalities (39 percent) reported on the State Planning Office survey that they exceeded the limit. This proportion is similar to the 40 percent of municipalities that exceeded the LD 1 limit, reported in the analysis presented above.

Table 22 shows that the sample of municipalities that exceeded the LD 1 commitment limits has a municipal commitment level that grew by a combined 2.4 percent between FY 2005 and FY 2006. The current growth rate of the municipal commitment in these cities and towns is 59 percent lower than the growth rate between FY 2004 and FY 2005, and 53 percent lower than the growth of the municipal commitment between FY 2003 and FY 2004. On the other hand, the property tax commitment of the municipalities in the sample that did not exceed the LD 1 limits increased by 0.1 percent. This suggests that the growth of municipal property tax commitments across these cities and towns is essentially flat.

**Table 22**  
**Commitment Growth in Sample Municipalities Governed by LD 1**

	Municipalities that Exceeded LD 1	Municipalities that Did Not Exceed LD 1
Growth of Municipal Commitment, 2004-2005 <sup>^</sup>	2.4%	0.1%
Growth of Municipal Commitment, 2003-2004 <sup>^</sup>	6.0%	4.6%
Growth of Municipal Commitment, 2002-2003 <sup>^</sup>	5.1%	4.9%
Change in Municipal Commitment Growth between 2003-2004 and 2004-2005 <sup>^</sup>	-59%	-98%
Change in Municipal Commitment Growth between 2002-2003 and 2004-2005 <sup>^</sup>	-53%	-98%
Number of Observations	44	69

Source: Author's calculations using data from Maine Revenue Services. <sup>^</sup> indicates that variable is constructed by aggregating data across municipalities in sample. Tests of statistical significance are not performed for variables marked with a <sup>^</sup>.

Table 23 shows that 59 percent of the sample of cities and towns that exceeded LD 1 limits experienced a lower growth rate of the municipal commitment between FY 2005 and FY 2006 than in the previous year. On the other hand, 78 percent of those that did not exceed the LD 1 limits had a lower growth rate of the municipal commitment between FY 2005 and FY 2006 than in the previous year.

**Table 23**  
**Proportion of Sample Municipalities Governed by LD 1 that Experienced a Reduction in Commitment Growth**

	Municipalities that Exceeded LD 1	Municipalities that Did Not Exceed LD 1
Proportion of Sample with 2004 to 2005 Commitment Growth Rate Less Than Growth Rate from 2003 to 2004	0.59**	0.78**
Proportion of Sample with 2004 to 2005 Commitment Growth Rate Less Than Growth Rate from 2002 to 2003	0.66	0.75
Proportion of Sample with 2004 to 2005 Commitment Growth Rate Less Than Growth Rates from 2002 to 2003 and 2003 to 2004	0.50*	0.67*
Number of Observations	44	69

Source: Author's calculations using data from Maine Revenue Services. \*\* and \* indicate that differences across samples are statistically significant at 95 and 90 percent confidence levels, respectively.

**School Administrative Units' Experience with LD 1**

Along with the various formulae used to limit the growth of state and local government appropriations and revenues, LD 1 provides a set of guidelines to constrain the amount of property taxes raised to pay for local education. For budgets that cover the 2005-06 school year, LD 1 limits property taxes raised for education, excluding “local only” debt, to the local share of 100 percent of the costs allowed by the Essential Programs and Services model of school funding.

Information provided by the Maine Department of Education shows that 196 of 286 School Administrative Units (69 percent) have 2005-06 budgets that are above 100 percent of Essential Programs and Services. However, when considered as a whole, the 286 School Administrative Units have a combined budget of \$1.78 billion, which is only 3.4 percent (\$57 million) above the amount estimated by Essential Programs and Services.

About 2/3 of SAUs spent more than 100% of Essential Programs and Services (EPS). Across all SAUs, spending is 3.4% above EPS.

Table 24 presents information on the recent growth of school appropriations from state and local sources. The total amount currently budgeted by state and local governments for K-12 education, including “local only” debt, is \$1.82 billion. This represents a 3.5 percent increase over the total amount appropriated for K-12 education by state and local governments for the 2004-05 school year. By comparison, school appropriations grew by 3.8

percent between the 2003-04 and 2004-05 school years, and by 2.9 percent between the 2002-03 and 2003-04 school years. The current 3.5 percentage point increase in school appropriations from state and local sources is 7.9 percent lower than the increase between the 2003-04 and 2004-05 school years, and 21 percent higher than the increase between the 2002-03 and 2003-04 school years.

**Table 24**  
**Growth of State and Local Appropriations for K-12 Education**

	<b>Growth Rate of K-12 Education Appropriations</b>
Growth of K-12 Education Appropriations, 2004-05 – 2005-06	3.5%
Growth of K-12 Education Appropriations, 2003-04 – 2004-05	3.8%
Growth of K-12 Education Appropriations, 2002-03 – 2003-04	2.9%
Change in the Growth of K-12 Education Appropriations between 2003-04 – 2004-05 and 2004-05 – 2005-06	-7.9%
Change in the Growth of K-12 Education Appropriations between 2002-03 – 2003-04 and 2004-05 – 2005-06	21%

Source: Author's calculations using data from the Maine Department of Education.

Given the law's goal of reducing the tax burden in Maine, perhaps the best way to assess the impact of LD 1 as it pertains to local education is the extent to which increased state subsidies for local education translate into a reduction in local property tax commitments. This analysis is based on 139 cities and towns that are not part of multi-town School Administrative Districts, and that are included in the municipal commitment dataset provided by Maine Revenue Services. These municipalities will receive a combined \$316.1 million in state education subsidies for the 2005-06 school year, which reflects a \$35.5 million increase from the \$280.6 million subsidy received in 2004-05. In the two previous years (2002-03 and 2003-04), these municipalities received \$269.2 million and \$269.8 million in state subsidies for local education. Thus, the current subsidy of \$316.1 million received by these municipalities represents a substantial increase over the last three years.

In FY 2005, the 139 cities and towns included in the analysis had a combined municipal commitment of \$854.2 million, which accounted for 51 percent of the \$1.69 billion commitment across all Maine municipalities in that year. The municipalities included in the analysis had combined commitment levels of \$777.7 million in FY 2003 and \$818.4 million in FY 2004. For each of the 139 cities and towns, we calculated an estimated FY 2006 commitment level based on the annual growth rates of municipal commitments between FY 2003 and FY 2004, and between FY 2004 and FY 2005.

In single-municipality School Administrative Units (SAUs), spending projections based on past commitments exceed actual current spending by \$34.0 million. The lower amount of actual spending corresponds closely to increased state subsidies for education received by those municipalities (\$35.5 million).

Our calculations show that, based on the growth in recent years, these municipalities would have a combined commitment of an estimated \$898.1 million in FY 2006. The actual FY 2006 commitment level in these municipalities is a combined \$864.1 million, which is \$34.0 million less than our estimate based on past years growth. A comparison of the increased state subsidy for local education of \$35.5 million to the difference between estimated and actual municipal commitments of \$34.0 million suggests that the increase in state spending for local education is contributing to a reduction in municipal spending.

### **County Governments' Experience with LD 1**

Applied to county governments, LD 1 constrains the growth of county assessments. LD 1 sets the limit on a county's assessment such that it may not exceed the prior year's assessment, adjusted to account for growth in real personal income, increases in property values attributed to new development and investments within the county, and net new funding from the state.

As noted throughout the report, our analysis of the impacts of LD 1 focuses on the first partial year of implementation in FY 2005. Since most counties have fiscal years that begin prior to July 1, the spending limits outlined in LD 1 applied to only 1 of 16 Maine counties in FY 2005. In order to comment on county governments' experience with LD 1, we use preliminary FY 2006 data that are currently available for 13 counties.

Based on information provided by Kennebec County Administrator Robert Devlin, we find that 11 of 13 counties (85 percent) expect to be at or below their assessment limits for FY 2006. The LD 1 growth limitation factors for these 13 counties, computed using information that municipal officials provided to the county governments, ranged from 4.3 percent to 25.1 percent. LD 1 constrained the growth of assessments in these counties by an average,

weighted by 2005 state valuations, of 5.8 percent. By comparison, assessments are expected to rise in the same counties by an average of 4.2 percent.

## 5. SUMMARY AND CONCLUSIONS

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The Maine State Legislature enacted LD 1 as a way to decrease the tax burden in Maine compared to other states. LD 1 attempts to lower taxes by limiting the growth of state and local government appropriations and revenues. The effective date of LD 1 was July 1, 2005. As of December 31, 2005, LD 1 governed the current appropriations of the state government, one county, over 200 municipalities, and all School Administrative Units. The purpose of this report is to provide background information on state and local government finances in Maine, and to provide an early assessment of the impacts of LD 1.

### **Overview of State and Local Government Finances**

To summarize results presented above, we find that Maine municipal governments spent about \$3.0 billion in FY 2003. In that year, spending on K-12 education accounted for 63 percent of local government budgets. Property taxes provided 52 percent of total municipal government revenue, and 82 percent of funds that were locally generated. Maine's School Administrative Units spent \$1.9 billion on K-12 education during the 2004-05 school year. In 2004-05, instructional expenditures accounted for 68 percent of school department budgets.

County governments in Maine spent \$125.7 million in FY 2003, which is equivalent to four percent of the total expenditures made by city and town governments. The largest expenditure category for county governments is corrections (i.e., county jails), which accounted for 36 percent of total spending. Tax payments from municipalities and the unorganized territories made up 72 percent of the revenue available to county governments in FY 2003.

In FY 2004, Maine state government had operating expenditures that totaled \$5.8 billion. Human services accounted for 42 percent of total spending, while K-12 education made up 20 percent of the state government's total operating budget. Federal government transfers provided 40 percent of total operating revenues, and income and sales taxes contributed another 38 percent to state coffers.

## **Summary of Comparisons to Other States**

Based on information from the 2002 U.S. Census of State and Local Governments, we find that Maine ranks 16<sup>th</sup> nationally in terms of the total revenue available to state and local governments as a percentage of total personal income. On a per capita basis, the state ranks 20<sup>th</sup>. Focusing just on taxes, we see that Maine has the 2<sup>nd</sup> highest tax burden, defined as total state and local taxes as a proportion of total personal income. However, Maine has a high reliance on taxes compared to other forms of government revenues. The state ranks 7<sup>th</sup> nationally in terms of the proportion of state and local government revenues provided by taxes.

Maine ranks 24<sup>th</sup> nationally in terms of the total state and local government expenditures per capita. With 13 percent of all workers employed by state and local governments, Maine ranks 18<sup>th</sup> nationally in the proportion of total employment in state and local governments as of 2004.

## **Summary of LD 1 Impacts**

In our early analysis of the impacts of LD 1, we find that the law limits the annual growth of state government appropriations by 3.11 percent over the two-year budget covering FY 2006 and FY 2007. Information provided by the Maine Department of Administrative and Financial Services shows that the state is under its limit for both years. LD 1 limits the annual growth of local property tax levies in the municipalities in our sample by an average of 4.0 percent. As a group, the 130 cities and towns in the sample stayed within the LD 1 limits.

The early impact of LD 1 in reducing government spending is positive. The current state biennial budget and combined commitments of sampled municipalities governed by LD 1 are within their growth limits. The combined budgets of SAUs are 3.4% above their limit. Increased state subsidies provided for local education are contributing to the reduction in municipal government spending.

Looking at each of the municipalities in the sample individually, we find that 60 percent of the cities and towns reported that they did not exceed the LD 1 limit. Over 75 percent of the municipalities in the sample that exceeded the limit voted to increase the property tax limit. LD 1 appears to have slowed the growth of local property tax commitments. The growth rate of the municipal commitment between FY 2005 and FY 2006 is lower in the sample of cities and towns impacted by LD 1 than in those that were not governed by the law.

Information provided by the Maine Department of Education indicates that 69 percent of School Administrative Units have 2005-06 budgets that are above 100 percent of the costs allowed under Essential Programs and Services, which is the education spending target set by LD 1. However, as a

group, School Administrative Units have a combined budget that is only 3.4 percent above the costs estimated by Essential Programs and Services. Our analysis, based on a sample of municipalities, shows that the increased state subsidies provided for local education are contributing to a reduction in local government spending and supplanting property taxes raised for education.

Preliminary data for FY 2006 shows that 85 percent of reporting counties expect to be at or below their LD 1 assessment limits. LD 1 constrained the growth of assessments in 13 sample counties by an average of 5.8 percent.

## **Conclusions**

We find that LD 1, in its early impact, has constrained the growth of state and local governments in Maine. The law establishes limits for year-to-year increases of municipal property tax levies, county assessments, and state General Fund appropriations. In addition, LD 1 sets a target for property taxes raised for schools at the local share of 100 percent of the costs of K-12 education, estimated by the Essential Programs and Services funding model.

State appropriations for FY 2006 and FY 2007 are under the limit. Sixty percent of the municipalities impacted by LD 1, included in our sample, are under the limit. Although 40 percent of the sample municipalities governed by LD 1 report that they have exceeded the limit, the cities and towns in the sample have a combined municipal commitment that falls under the limit. Thirty-one percent of School Administrative Units have 2005-06 budgets that are below the targets set by LD 1. Although 69 percent of School Administrative Units exceeded this amount, the combined budget is only 3.4 percent above the LD 1 target.

Anecdotal evidence obtained from the State Planning Office surveys suggests that some confusion exists about the limits imposed by LD 1, especially in smaller municipalities. In future years, as public officials and Maine citizens become better acquainted with LD 1, a higher proportion of municipalities and School Administrative Units may stay within the limits. In addition, state government will increase its share of local education funding to 55 percent by FY 2009. The first year of experience shows that, based on a sample of municipalities, the increased state subsidies provided for local education are contributing to a reduction in municipal government spending. If this continues into the future, further reductions in local government spending are possible. Finally, the quality of data available for assessment purposes is likely to improve in future years.

The early impacts of LD 1 on reduced government spending appear to be positive. LD 1 establishes a process for lowering Maine's tax burden compared to other states. As that process continues to unfold, further data and analysis will be needed to determine LD 1's ultimate success.