

MAINE STATE LEGISLATURE

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2011 LD 1 Progress Report

Prepared by:
Maine State Planning Office
38 State House Station
Augusta, Maine 04333
207-624-7660
www.maine.gov/spo

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Authors and contributors to this report include:

Joel Johnson, Economist

Thank you to those who contributed to the preparation of this report: countless local and county officials who provided data and technical guidance, Michael Allen and David Ledew (Maine Revenue Services), Jim Rier, Paula Gravelle, and Suzan Beaudoin (Maine Department of Education), Grant Pennoyer (Maine State Legislature, Office of Fiscal and Program Review), and Kate Dufour (Maine Municipal Association).

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Executive Summary

In January 2005, Governor John E. Baldacci signed into law LD 1: An Act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels (Public Law 2005, Chapter 2). The goal of LD 1 is to lower Maine’s state and local tax burden ranking to the middle one-third of states by 2015. The State Planning Office (SPO) annually reports on the progress made by the state, counties, municipalities, and school administrative units toward reaching the tax burden reduction goal.

In the first LD 1 report, released in January 2006, the University of Maine’s Dr. Todd Gabe stated, “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.” Below, for each level of government, two simple questions are used to assess progress toward the LD 1’s tax burden reduction goals: “Is aggregate spending within the LD 1 limit?” and “Is aggregate spending growing at a slower rate than in pre-LD 1 years?” Within the report, each level of government’s spending and/or tax revenue is investigated in greater depth.

State

General Fund Appropriations within LD 1 Limit? Yes No
Appropriations Growth Compared to Pre-LD 1 Years: Lower Higher

For the seventh year in a row, growth of the state’s General Fund appropriations has remained below the limit set by LD 1. General Fund appropriations in FY 2012 were \$415 million (12.0%) below the limit. General Fund appropriations grew 6% from FY 2011 to FY 2012, a sharp increase after decreasing in FY 2009 and FY 2010 and growing less than 1% in FY 2011. The average annual growth for the ten years prior to LD 1 was 5.4%. The higher growth in appropriations in FY 2012 was mostly due to the expiration of federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA) on June 30, 2011.

Municipalities

Combined Property Tax Levy within LD 1 Limit? Yes No
Combined Tax Levy Growth Compared to Pre-LD 1 Years: Lower Higher

For the seventh year in a row, survey-based estimates show the aggregate municipal property tax levy was below the aggregate LD 1 limit. 73% of municipalities in this year's sample stayed within their municipal property tax levy limit, which is the highest percentage since LD 1 took effect. Based on preliminary data from Maine Revenue Services (MRS), aggregate municipal property tax commitments grew by a rate of 2.8% in 2011, which is slightly higher than last year but well below rates in years before LD 1. Small municipalities showed higher property tax commitment growth than large municipalities (3.9% vs. 2.7%) and were more likely to exceed their LD 1 limit (42% vs. 19%). Overall, property tax commitment growth in 2011 remained below pre-LD 1 years. In the three years prior to LD 1, annual commitment growth ranged from 5.2% to 6.9%.

School Administrative Units

Appropriations within LD 1 Limit? Yes No
Appropriations Growth Compared to Pre-LD 1 Years: Lower Higher

As in previous years, K-12 schools exceeded appropriations targets set by LD 1, which uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. The LD 1 limit for schools is 100% of EPS, but some school units might be exceeding 100% of EPS by small margins in order to provide programs and some services that are not recognized as essential in the EPS benchmark cost calculation: extracurricular activities including sports and transportation to events, Advanced Placement classes offered at some high schools, unique onetime costs incurred for facilities improvements, and even in some cases local tax dollar support for school lunch programs.

The number of local schools exceeding their limit (73% of this year's sample) decreased slightly from last year but the amount by which they exceeded EPS stayed about the same. A record-high number (25% of this year's sample) were under 100% of EPS. Non-federal K-12 appropriations increased substantially (2.4%) in FY 2012, but American Recovery and Reinvestment Act (ARRA) funding expired in June, 2011, so total K-12 appropriations declined 0.5% from FY 2011 to FY 2012.

Counties

Combined Assessments within LD 1 Limit? Yes No
Combined Assessment Growth Compared to Pre-LD 1 Years: Lower Higher

Counties stayed within their combined LD 1 limit in 2011. County assessments were \$1.3 million (1.0%) below the limit. Overall, assessments increased 1.2% from 2010, which is the lowest annual growth rate since LD 1 took effect. The new law unifying state and county correctional facilities and capping county jail assessments at 2008 levels coincides with this reduction in growth. Individually, nine counties stayed within their limits and seven surpassed them.

I. Introduction

In January 2005, Governor John E. Baldacci signed into law LD 1: An Act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels (Public Law 2005, Chapter 2). The goal of LD 1 is to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015. It has three components:

- **Spending limits:** LD 1 limits the growth of the state's General Fund appropriations, county assessments, and local property taxes to rates reflective of Maine's income and population growth. It ties school spending to the level of student enrollment. Governing bodies may surpass the limits, but only through an explicit, public vote.
- **Targeted tax relief:** LD 1 increased the amount of property tax relief available through the Maine Residents Property Tax and Rent Relief Program (the "Circuit Breaker"). This program reimburses Maine homeowners and renters whose property tax bill exceeds 4% of their income. LD 1 expanded eligibility and increased the maximum refund from \$1,000 to \$2,000. Furthermore, LD 1 increased the Homestead Exemption, the amount Maine residents can subtract from the taxable value of their home, from a maximum of \$7,000 to \$13,000. A 2009 amendment (Public Law 2009, Chapter 213) reduced the Homestead Exemption to \$10,000 beginning in the 2010 tax year.
- **Increased school funding:** LD 1 set the course for increasing state spending on K-12 education to an amount that is 55% of the costs covered under Essential Programs and Services (EPS). In FY 2012 alone, that meant \$160 million in additional state funding was made available to offset local property tax commitments for schools (compared to 2005). However, state revenue shortfalls in the context of a national recession beginning in 2007 have delayed attainment of the 55% goal.

LD 1 charges the State Planning Office (SPO) with annually reporting the progress made by state, county, and local governments, and school administrative units, toward reaching the tax burden reduction goal. The U.S. Census Bureau compiles the tax collection data necessary to compare Maine's state and local tax burden with other states. The Census Bureau currently has tax collection data through FY 2009. Dividing total state and local tax revenue (from Census

Bureau data) by total statewide personal income (from the US Bureau of Economic Analysis), as LD 1 prescribes, SPO calculates Maine's total state and local burden for FY 2009 to be 11.7%, which is the sixth highest among the fifty states. Maine has ranked sixth highest among the fifty states for three straight years (FY 2007 – FY 2009). In FY 2009, Maine's state tax burden (7.2%) ranks 10th highest, and the local tax burden (4.5%) ranks 15th highest. An important limitation of the Census Bureau's revenue data is that it does not account for who pays the tax. Since a sizeable portion of Maine's tax revenue comes from seasonal residents and tourists, the tax burden on Maine residents may be overestimated.

For the first LD 1 report, released in January 2006, SPO contracted with Assistant Professor Todd Gabe and the Margaret Chase Smith Policy Center at the University of Maine to assess LD 1's early impact. Dr. Gabe found that "the early impact of LD 1 on reducing government spending is positive," and that, "LD 1, in its early impact, has constrained the growth of state and local governments in Maine." In 2005, state government stayed within its LD 1 limit and growth in General Fund appropriations declined. In aggregate, county assessment growth was within its limit. Approximately 60% of municipalities subject to LD 1 in 2005 stayed within their property tax levy limits. Maine Revenue Services reported that in LD 1's first year, Maine's combined state and local tax burden declined from 11.7% to 11.5%, with most of the reduction occurring at the local level. They found that statewide property taxes grew by 1.7%, the lowest rate in at least eight years. LD 1's early impact on school administrative units (SAUs) was smaller than its impact on other levels of government. Over two-thirds exceeded their spending targets and aggregate school appropriations were 3.4% over the LD 1 limit in 2005.

Replicating the core indicators first reported by Dr. Gabe, SPO found that LD 1's impact in 2006-2010 was mostly positive, but confounded by other variables. The state and a majority of county and municipal governments stayed within their limits, and revenues and/or appropriations grew slowly at all levels of government. However, much of the overall reduction in growth is due to the recession of 2007-2009 and the sluggish recovery from 2009-2011. In addition, the jail unification law that took effect in 2008 has clearly reduced growth in county tax assessments and further confounded the analysis of LD 1's impact.

This report updates last year's analysis of LD 1 and assesses progress made during 2011.

II. State Government's Experience with LD 1

LD 1 limits growth of the state's General Fund appropriations to the ten-year average annual growth rate of Maine's population plus Maine's ten-year average personal income growth (adjusted for inflation). The LD 1 appropriations limit is the previous year's limit increased by that growth factor. LD 1 provides an allowance for the additional funds expended by the state as it increases General Purpose Aid (GPA) for local schools to 55% of covered costs. The 55% goal was scheduled to be achieved in FY2010, but severe state government revenue shortfalls in the context of a national recession beginning in 2007 have delayed achievement of that goal. Once the state reaches this target, all GPA funds will be subject to the same growth limit. The state may temporarily exceed or permanently increase its limit, but only through an explicit vote of the Legislature.

The state's growth factor for FY2012 and FY2013 was set in December 2010 using the most current data available at the time. The ten-year average income growth was 1.66% and population growth was 0.40%, resulting in a growth limit of 2.05% (after rounding). That limit applies to both years of the biennium.

The appropriations limit for FY2012 was determined by applying the 2.05% growth factor to the FY2011 base appropriations limit, \$3,299 million, and adding \$160 million in increased state funding for GPA. The resulting FY2012 General Fund appropriations limit under LD1 is \$3,459 million (See Table 1).

State appropriations in FY 2012 are below the LD 1 limit. Current FY2012 General Fund appropriations are \$3,044 million, which is \$415 million (12%) below the limit.

Table 1: State General Fund Appropriations Limit Calculation*Note: All dollar figures are in millions*

| Fiscal Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Annual Growth Factor | -- | 3.11% | 3.11% | 3.08% | 3.08% | 2.76% | 2.76% | 2.05% |
| Base General Fund Appropriations | \$2,710 | \$2,794 | \$2,881 | \$2,970 | \$3,061 | \$3,146 | \$3,233 | \$3,299 |
| General Purpose Aid to Schools | \$735 | \$836 | \$914 | \$972 | \$956 | \$909 | \$872 | \$894 |
| Additional GPA above FY2005 GPA | -- | \$102 | \$180 | \$237 | \$222 | \$175 | \$138 | \$160 |
| LD 1 Appropriations Limit (Base plus Additional GPA) | -- | \$2,896 | \$3,061 | \$3,207 | \$3,283 | \$3,320 | \$3,370 | \$3,459 |
| Actual Appropriations | \$2,784 | \$2,872 | \$2,978 | \$3,129 | \$3,018 | \$2,849 | \$2,873 | \$3,044 |
| LD 1 Limit Minus Actual Appropriations | -- | \$24 | \$82 | \$78 | \$265 | \$471 | \$498 | \$415 |
| Percent Under LD 1 Limit | -- | 0.8% | 2.7% | 2.4% | 8.1% | 14.2% | 14.8% | 12.0% |

Source: Maine Department of Administrative and Financial Services; Maine State Legislature, Office of Fiscal and Program Review

Table 2 displays the growth of all General Fund appropriations, including the additional GPA funding. Total General Fund appropriations increased by 6.0% in FY2012, which is the highest annual rate of growth since LD 1 took effect and higher than the pre-LD 1 10-year average of 5.4%. The higher growth in appropriations in FY 2012 was mostly due to the expiration of federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA) on June 30, 2011.

Table 2: Growth of State General Fund Appropriations

| | |
|--|-------|
| Growth of General Fund Appropriations FY2011 - FY2012 | 6.0% |
| Growth of General Fund Appropriations FY2010 - FY2011 | 0.8% |
| Growth of General Fund Appropriations FY2009 - FY2010 | -5.6% |
| Growth of General Fund Appropriations FY2008 - FY2009 | -3.6% |
| Growth of General Fund Appropriations FY2007 - FY2008 | 5.1% |
| Growth of General Fund Appropriations FY2006 - FY2007 | 3.7% |
| Growth of General Fund Appropriations FY2005 - FY2006 | 3.1% |
| Growth of General Fund Appropriations FY2004 - FY2005 | 5.4% |
| Growth of General Fund Appropriations Pre-LD 1 10-Year Average | 5.4% |

Source: Maine Department of Administrative and Financial Services and Maine State Legislature, Office of Fiscal and Program Review

Table 3 shows the growth of General Fund appropriations by GPA and non-GPA funding. For current FY2012 appropriations, GPA funding increased by 2.5% and non-GPA funding increased by 7.4%. From FY2006 to FY2010 the growth of GPA appropriations exceeded the growth of non-GPA appropriations, but in FY2011 and FY2012 non-GPA appropriations growth exceeded GPA appropriations growth. GPA appropriations grew steadily from FY2005 until the

recession hit mid-way through FY2008. This reflects the increase of state education funding towards 55% of covered costs.

Table 3: Growth of GPA and non-GPA General Fund Appropriations

Note: All dollar figures are in millions

| Fiscal Year | GPA | Annual Change in GPA | Non-GPA | Annual Change in Non-GPA | Total General Fund Appropriations | Annual Change in Total |
|-------------|-------|----------------------|---------|--------------------------|-----------------------------------|------------------------|
| 2012 | \$894 | 2.5% | \$2,149 | 7.4% | \$3,044 | 6.0% |
| 2011 | \$872 | -4.0% | \$2,000 | 3.1% | \$2,873 | 0.8% |
| 2010 | \$909 | -5.0% | \$1,940 | -5.9% | \$2,849 | -5.6% |
| 2009 | \$956 | -1.6% | \$2,061 | -4.4% | \$3,018 | -3.6% |
| 2008 | \$972 | 6.3% | \$2,157 | 4.5% | \$3,129 | 5.1% |
| 2007 | \$914 | 9.3% | \$2,064 | 1.4% | \$2,978 | 3.7% |
| 2006 | \$836 | 13.8% | \$2,036 | -0.7% | \$2,872 | 3.1% |
| 2005 | \$735 | 4.6% | \$2,050 | 5.6% | \$2,784 | 5.4% |
| 2004 | \$702 | -1.6% | \$1,941 | 6.2% | \$2,643 | 4.0% |
| 2003 | \$713 | | \$1,827 | | \$2,540 | |

Source: Maine Department of Administrative and Financial Services and Maine State Legislature, Office of Fiscal and Program Review

In addition to limiting General Fund appropriations, LD 1 strengthened two targeted property tax relief programs: the Maine Residents Property Tax and Rent Refund program, better known as the “Circuit Breaker,” and the Homestead Exemption.

The Circuit Breaker provides a refund to households whose property tax bill exceeds 4% of their income. Households may receive 50% of the amount by which property taxes exceed 4% to 8% of their income and 100% of the amount over 8%. Renters may receive reimbursement for property taxes paid indirectly through rental payments. LD 1 increased the maximum refund amount from \$1,000 to \$2,000. Refunds for FY2012 are estimated to be \$42.1 million. About 89,000 Maine homeowners and renters received Circuit Breaker refunds in 2009. Maine Revenue Services estimates that about 200,000 are eligible.

The Homestead Exemption reduces the assessed value of Maine homeowners’ primary residences for the purpose of property tax calculations. The property tax rate is applied to a lower value in order to lower residents’ tax bills. Prior to LD 1, the Homestead Exemption was

available on a sliding scale determined by the assessed value of the property. The deduction was limited to \$7,000 and the state reimbursed municipalities for 100% of the foregone tax revenue. LD 1 increased the exemption to \$13,000 for all homesteads, with the state reimbursing municipalities for 50% of the foregone tax revenue. From FY2004 to FY2010, the amount of state funding distributed to municipalities to pay for the Homestead Exemption declined primarily due to the growth in municipal valuations that lowered the mil rates applied to the \$13,000 exemption. A 2009 amendment (Public Law 2009, Chapter 213) reduced the Homestead Exemption to \$10,000 beginning in the 2010 tax year. In addition, the state now splits the reimbursement of foregone tax revenue to municipalities into two payments: 75% of the total is reimbursed in the current fiscal year and 25% is reimbursed in the following fiscal year. As a result of these two recent changes, FY2011 appropriations for the Homestead Exemption were \$16.2 million, a sharp decline from FY2010.

Table 4: State Appropriations for Circuit Breaker and Homestead Exemption

Note: All dollar figures are in millions.

| Fiscal Year | Homestead Exemption | Circuit Breaker | Total |
|-----------------|---------------------|-----------------|--------|
| 2012 (Estimate) | \$23.6 | \$42.1 | \$65.7 |
| 2011 | \$16.2 | \$41.4 | \$57.6 |
| 2010 | \$28.4 | \$40.9 | \$69.3 |
| 2009 | \$27.6 | \$48.7 | \$76.3 |
| 2008 | \$27.8 | \$46.7 | \$74.5 |
| 2007 | \$28.8 | \$44.4 | \$73.2 |
| 2006 | \$31.2 | \$42.8 | \$74.0 |
| 2005 | \$32.3 | \$26.0 | \$58.3 |
| 2004 | \$34.3 | \$23.3 | \$57.6 |

Source: Maine Revenue Services

Note: The state now reimburses the Homestead Exemption across two years. The Homestead Exemption fell sharply in 2011 because 25% of it is reimbursed in 2012 and because the exemption was reduced from \$13,000 to \$10,000 beginning in 2010.

SUMMARY

For the seventh year in a row, the state's General Fund appropriations were below the limit set by LD 1. Based on legislation enacted during the First Regular Session of the 125th Legislature, total General Fund appropriations increased 6.0% in FY2012. Within these appropriations was an additional \$160 million for local K-12 education compared to 2005. Setting aside that additional GPA funding as LD 1 directs, General Fund appropriations increased by 5.4%.

III. Effect of LD 1 on Local Property Tax Commitments

This section focuses on local property tax commitments as an overall indicator of LD 1's impact on property tax relief. Commitments are the amount of property tax collections approved by each municipality to finance anticipated expenditures for municipal government operations, public schools, and county government. Other sections of this report look at those three categories individually. This section looks at *total* local property tax commitments, which combines all three.

Combined Statewide Municipal Commitment Growth

Calculations of state tax burden use aggregate measures of the total amount of taxes collected within a state. To test whether LD 1 successfully reduces the growth of property tax collections, the State Planning Office compared Municipal Valuation Returns (MVRs)¹ for years before and after LD 1. The analysis in this section is based on a sample of municipalities that had filed this year's MVR form by early December 2011. The sample of reporting municipalities differs from previous years, so figures differ slightly from past LD 1 progress reports. Furthermore, figures reported here may differ slightly from numbers reported in the future by Maine Revenue Services based on 100% of filed MVRs.

In early December 2011, 448 communities had filed the MVR, representing 92% of all municipalities in the state and accounting for 96% of the total statewide commitment in 2010. Results here are thus broadly representative of the total population of Maine municipalities.

¹ The Municipal Valuation Return is an annual report summarizing local tax information that assessors are required to file with Maine Revenue Services.

² "Small municipalities" have a population less than 1263, the median population of all towns in Maine. "Large municipalities" have a population greater than 1263. There were 239 large municipalities and 209 small municipalities in this year's MVR sample.

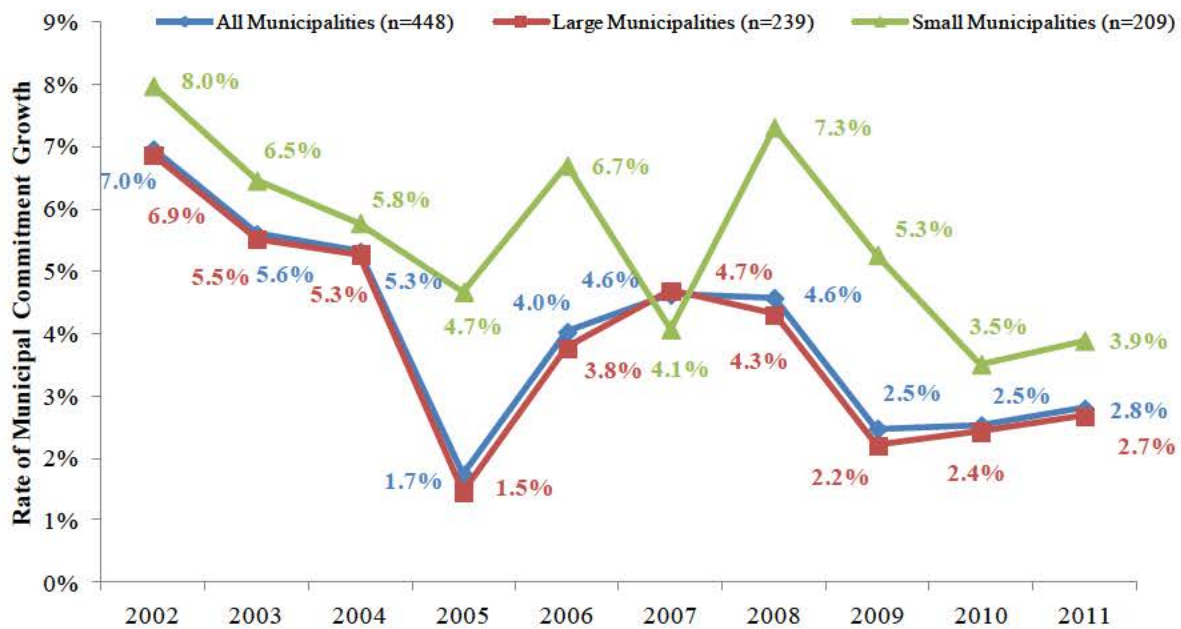
³ A municipality identified as having a personal property factor that exceeds 5%, as determined pursuant to Title 36,

Figure 1 shows recent annual growth of aggregate municipal commitments for small municipalities, large municipalities, and the entire sample of 448 municipalities as a whole.² In 2005, the first year of LD 1, large communities showed a dramatic reduction in commitment growth – from 5.3% in 2004 to 1.7% in 2005. This is partly due to the fact that LD 1 in its first year only applied to towns with fiscal years beginning on or after July 1st, and 64% of large towns met this criterion. The overall FY 2005 growth rate was considerably lower than the 4.7% commitment growth in small municipalities in 2005, 67% of which had fiscal years beginning earlier than the July 1st and thus were not covered by LD 1 at the time. After 2005, LD 1 applied to all municipalities. In aggregate, all municipalities increased commitment growth from 2005-2007 but remained below pre-2005 growth rates. The growth rate flattened at 4.6% in 2008, then fell to 2.5% in 2009 and 2010, and then ticked up to 2.8% in 2011. Small and large municipalities showed significant differences in commitment growth. Commitment growth in small municipalities was more volatile year-to-year than in large municipalities and was also greater than large municipalities in every year except 2007.

² “Small municipalities” have a population less than 1263, the median population of all towns in Maine. “Large municipalities” have a population greater than 1263. There were 239 large municipalities and 209 small municipalities in this year’s MVR sample.

Figure 1: Annual Growth in Municipal Property Tax Commitments

Calculations based on the 448 municipalities reporting on the 2011 MVR as of December 2011



Source: Maine Revenue Services Municipal Valuation Reports (2001-2011) & author's calculations.

Note: "Small municipalities" have a population less than 1263, the median population of all towns in Maine.

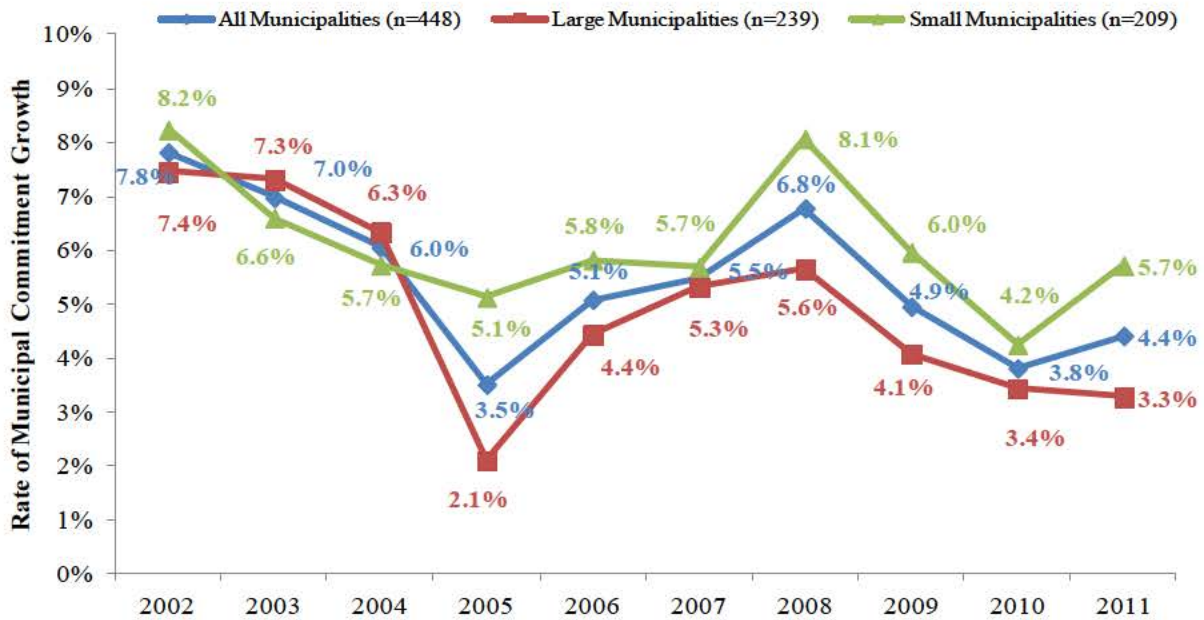
"Large municipalities" have a population greater than 1263.

The overall decrease in commitment growth in 2009 was driven in part by the recession and in part by the county jail unification law (Public Law 2008, Chapter 653). Municipalities responded to the unemployment and anxiety caused by the recession by limiting commitment growth. In addition, the jail unification law limited the amount of taxes that counties can collect from municipalities for county corrections.

Commitment Growth of Individual Municipalities

The previous section focused on aggregate property tax commitments to assess the progress toward reducing overall local property tax burden. Aggregate measures can be influenced by the relatively small number of large municipalities whose budgets are enormous compared to those of Maine's smaller towns. To better understand decisions being made by individual municipalities, Figure 2 reports *average* municipal commitment growth in the years before and after LD 1 took effect in 2005.

Figure 2: Average Annual Growth in Municipal Property Tax Commitments
Calculations based on 448 municipalities reporting on the 2011 MVR as of December 2011



Source: *Maine Revenue Services Municipal Valuation Reports (2001-2011) & author's calculations.*
 Note: "Small municipalities" have a population less than 1263, the median population of all towns in Maine.
 "Large municipalities" have a population greater than 1263.

Figure 2 shows that average growth in municipal commitments is similar to aggregate commitment growth (Figure 1), with one notable exception. Compared to aggregate annual growth, average annual growth is more influenced by the higher and more variable growth of Maine's small municipalities and less influenced by the lower and less variable growth of Maine's large cities.

Similar to aggregate municipal commitment growth, average growth in municipal commitments declined in 2005. This reduction was only temporary, as average growth climbed steadily to 6.8% in 2008, eclipsing the pre-LD 1 2004 growth rate. In 2009, declines in average commitment growth among both small and large municipalities helped pull the average for all municipalities down to 4.9%, below the 2006 growth rate and well below pre-LD 1 growth rates. Average growth declined to 3.8% in 2010 before ticking up to 4.4% in 2011.

IV. Municipal Governments' Experience with LD 1

The preceding section examined the effect of LD 1 on local property tax commitments to assess its influence in reducing the growth of local government expenditures and the property tax burden. Local commitments are the combined sum of the local property taxes collected for financing public schools, municipal government services and operations, and county government operations.

This section addresses the impact of LD 1 on local property tax revenues used to finance municipal operations and services. LD 1 does this by limiting the growth of municipal operational expenditures to a specified rate (i.e., “growth limitation factor”). The limit applies to a municipality’s municipal property tax levy, meaning the amount of property tax revenue approved to fund municipal operations and services, excluding funds allocated for county taxes and local schools. These budget items are addressed elsewhere under LD 1. The growth limitation factor allows property taxes to increase at the rate of Maine’s ten-year average annual personal income growth (adjusted for inflation) plus growth in the value of new taxable property (i.e., “property growth factor”), adjusted for any change in state funding for existing services previously funded by property taxes. A municipality wishing to either temporarily exceed or permanently increase its municipal property tax levy limit must explicitly vote to do so.

Survey Methodology

To determine the impact of LD 1 on property tax commitments raised for municipal operations, the Maine Municipal Association (MMA) and SPO distributed a voluntary survey (2011 Municipal Property Tax Levy Limit Survey) to all of Maine’s municipal governments. The survey guides municipalities through the calculation of their municipal property tax levy and municipal property tax levy limits for both the past (2010) and current (2011) years. These calculations are used to determine whether or not the municipality surpassed the municipal property tax levy limit, as defined by LD 1.

MMA and SPO received a total of 188 useable responses to the 2011 survey, representing roughly 38% of all Maine municipalities. This is less than last year’s response rate of 58% (283

useable responses). The municipalities included in the sample of 188 useable responses represent approximately 55% of the statewide aggregate municipal commitment in 2010, and 57% of the 2011 municipal commitment of the 451 communities that had filed their 2011 MVR by early December, 2011.

Past years' analyses of the municipal survey responses suggested that sample municipalities are sufficiently representative of all municipalities according to most criteria. The major differences between respondents and non-respondents were that non-respondents tended to be smaller and have slightly lower median household incomes. Smaller communities are somewhat underrepresented in this year's sample as well. Past analyses have shown that smaller communities generally have greater difficulty complying with LD 1's limits. Therefore, based on the underrepresentation of smaller communities in the sample, this year's analysis may slightly overstate municipal government compliance with LD 1.

Survey Results

As prescribed by LD 1, the survey asked municipalities to use their 2010 LD 1 limit (municipal property tax levy limit) as a starting point for determining their 2011 LD 1 limit. "Municipal property tax levy" refers to property taxes raised to fund municipal governments. It excludes property taxes raised for schools, counties, and Tax Increment Financing (TIF) and is calculated by subtracting total municipal deductions (Line 11, Municipal Tax Assessment Warrant) from municipal appropriations (Line 2, Municipal Tax Assessment Warrant) and adding any revenue included in the total municipal deductions that paid for non-municipal appropriations, such as schools. Municipalities that explicitly voted to increase their limit in 2010 were asked to use their voter-approved limit as the base for calculating their 2011 limit.

Next the survey asked municipalities to calculate their 2011 growth limitation factor as prescribed by LD 1. The growth limitation factor is the sum of the state's ten-year inflation-adjusted average annual personal income growth (1.66% for calendar year 2011 or fiscal year 2011-12) and the local property growth factor. The property growth factor is calculated as the total value of newly taxable real and personal property divided by the total value of all real and

personal property in the community.³ Some municipalities made noticeable errors in completing their survey. In most cases, the errors were simple arithmetic mistakes and MMA and SPO made the appropriate corrections. In cases where errors were not obviously correctable, SPO attempted to contact the municipality in question to gain clarification. In cases where errors could not be corrected, the survey response was not included in the analysis.

Table 5: Summary Statistics, 2011 Municipal Property Tax Levy Limit Survey Results

| | |
|--|-----------------|
| Number of Municipalities | 188 |
| Aggregate Municipal Commitment, 2011 (from MVR) | \$1,160,764,780 |
| Aggregate Municipal Property Tax Levy Limit, 2011 | \$420,956,943 |
| Aggregate Municipal Property Tax Levy, 2011 | \$381,209,952 |
| Ratio of Municipal Property Tax Levy to Total Commitment, 2011 | 32.8% |
| Percent by which Levy was Below Limit, 2011 | 9.4% |
| Mean Growth Limitation Factor, 2011 | 3.2% |
| Mean Growth Limitation Factor, 2010 | 3.6% |
| Mean Growth Limitation Factor, 2009 | 4.3% |
| Number of Municipalities Surpassing 2011 LD1 Limit (as percent of 2011 sample) | 27% |
| Average Margin by which Municipalities over LD 1 Limit exceeded the limit | 14% |
| Average Margin by which Municipalities below the LD 1 Limit were under the limit | 13% |
| Percent of Municipalities over the Limit who reported voting to increase the limit | 40% |
| Percent of Municipalities over the Limit who reported voting to exceed the limit | 36% |
| Percent of Municipalities over the Limit who did not report voting to increase or exceed | 24% |

Source: Maine Revenue Services Municipal Valuation Returns, MMA/SPO Municipal Survey, and author's calculations

Among the 188 useable responses, the average growth limitation factor was 3.2% (Table 5). This was lower than last year's average growth limitation factor of 3.6%.

The growth limitation factor was applied to last year's limit to estimate this year's LD 1 limit („property tax levy limit“). As shown in Table 5, the aggregate 2011 commitment was \$1.161

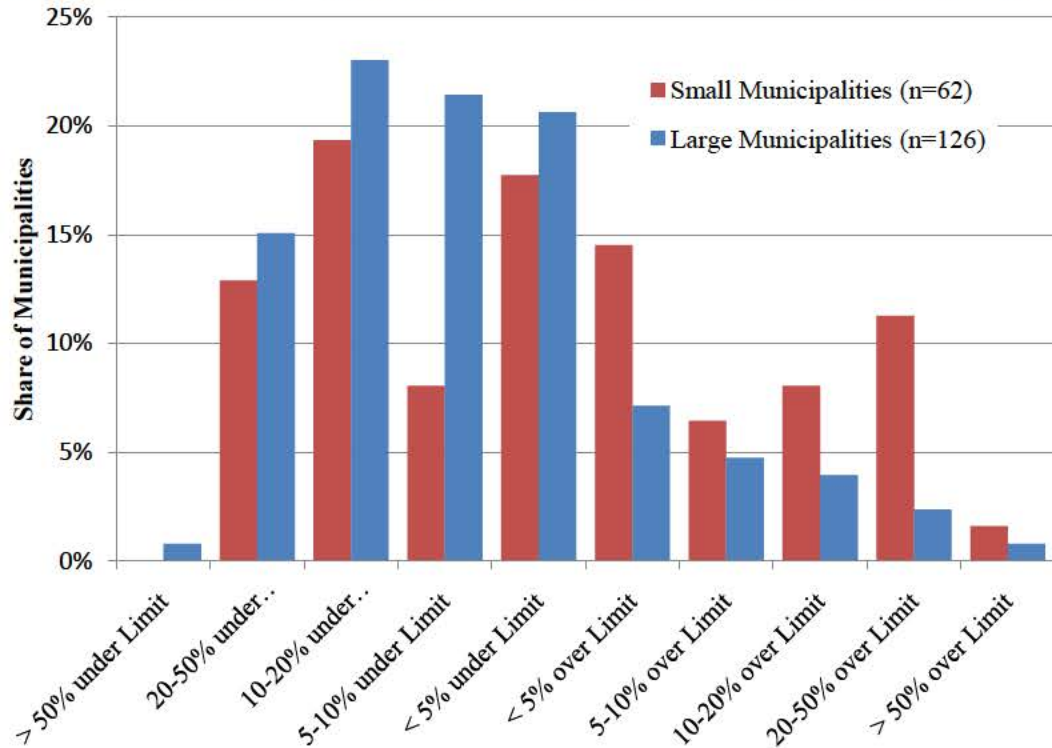
³ A municipality identified as having a personal property factor that exceeds 5%, as determined pursuant to Title 36, section 694, subsection 2, paragraph B, may calculate its property growth factor by including in the numerator and the denominator the value of personal and otherwise qualifying property introduced into the municipality notwithstanding the exempt status of that property pursuant to Title 36, chapter 105, subchapter 4-C.

billion for the 188 municipalities in the sample.⁴ The combined 2011 municipal property tax levy was \$381 million or 32.8% of the aggregate 2011 commitment. The aggregate property tax levy limit for 2011 was \$421 million. This means that when aggregated across the survey sample, Maine communities kept the municipal property tax levy below the total amount allowable under LD 1 by \$39.7 million, or 9.4% of the LD 1 limit. Stated differently, municipalities' aggregate property tax levy equaled about 90.6% of that allowable under LD 1. This is consistent with last year's report and is the seventh year that municipalities came in under the statewide LD 1 limit. In 2010, Maine municipalities kept the aggregate municipal property tax levy below the aggregate LD 1 limit by \$49 million, or 9.4%. In 2009, the aggregate levy was 6.7% below the aggregate LD 1 limit, and in 2008, the aggregate levy was 3.2% below the aggregate LD 1 limit.

Although the aggregate municipal property tax levy was easily below the aggregate limit, the experiences of individual communities varied considerably. Of the 188 municipalities in the 2011 sample, 138 (73%) stayed within their individual LD 1 limit. This is a higher percentage than in any previous year. The 27% of municipalities who surpassed their 2011 limit were, on average, 14% over the limit. Municipalities that stayed within their 2011 limit were, on average, 13% below the limit. 32 municipalities (17% of the sample) were more than 5% over their limit and 22 (12% of the sample) were more than 10% over their limit. Figure 3 shows the distribution of small and large municipalities in the survey sample above and below their individual LD 1 limits.

⁴ Estimates for three responding towns that were missing 2011 MVR commitment data at the time of this report were produced by applying the 2011 aggregate commitment annual growth rate (2.67%) to their 2010 MVR commitments.

Figure 3: Distribution of Small and Large Municipalities Above and Below LD 1 Limits



Source: MMA/SPO 2011 Municipal Property Tax Levy Limit Survey

Note: "Small municipalities" have a population less than 1263, the median population of all towns in Maine.

"Large municipalities" are towns with a population greater than 1263.

Tables 6 and 7 present percentages and statistical tests to help identify some of the characteristics of municipalities that were either over or under their LD 1 limit. Small municipalities and slow growing municipalities had greater difficulty staying within their commitment limits. Table 6 shows that the average population of municipalities surpassing the LD 1 limit was 1,910 and the average population of municipalities that stayed within the LD 1 limit was 4,394. It also shows that the populations of municipalities that stayed within the LD 1 limit grew at an average rate of 7.5% from 2001 to 2010, whereas municipalities that went over their LD 1 limit grew at an average rate of -0.3% over the same period. Similarly, Table 7 shows that municipalities with small and/or shrinking populations went over their LD 1 limit at a significantly greater rate than larger municipalities.

Table 6: Characteristics of Municipalities that are Over/Under LD1 Tax Levy Limit
Comparisons based on municipalities reporting on 2011 MMA/SPO Survey

| Characteristic | All Municipalities | Over LD 1 Limit | Under LD 1 Limit |
|---|--------------------|-----------------|------------------|
| All Municipalities | 188 | 50 ^ | 138 ^ |
| Average population, 2010 | 3,733 | 1,910 ** | 4,394 ** |
| Average population growth rate, 2001-2010 | 5.4% | -0.3% ** | 7.5% ** |
| Commitment per capita, 2011 (Millions) | \$1,772 | \$1,860 | \$1,740 |
| Aggregate municipal commitment growth rate, 2010-2011 | 2.7% | 3.8% ^ | 2.5% ^ |
| Average property tax rate, 2011 | 1.35% | 1.34% | 1.36% |
| Median household income, 2010 | \$45,609 | \$44,180 | \$46,127 |
| Average Growth Limitation Factor | 3.2% | 2.9% ** | 3.3% ** |

*Indicates statistically significant difference between over/under samples (90% confidence level)

**Indicates statistically significant difference between over/under samples (95% confidence level)

^Based on aggregate data, no statistical tests are available

Source: Maine Revenue Services, Municipal Valuation Returns 2011 & 2010; US Census Bureau, 2011 MMA/SPO Municipal Survey, and author's calculations.

Table 7: LD 1 Compliance in Subgroups of Municipalities

Comparisons based on municipalities reporting on 2011 MMA/SPO Survey

| | All Municipalities | | Municipalities Over LD 1 Limit | |
|--|--------------------|-----------------------------------|--------------------------------|---------------------|
| | Number | Percent of All Survey Respondents | Number | Percent of Subgroup |
| All Municipalities | 188 | 100% | 50 | 27% |
| Small Municipalities (Pop < 1263) | 62 | 33% | 26 | 42% ** |
| Shrinking Municipalities (Pop '01 > Pop '10) | 58 | 31% | 22 | 38% ** |
| Central Municipalities | 20 | 11% | 6 | 30% |
| Downeast Municipalities | 28 | 15% | 8 | 29% |
| Mid-Coast Municipalities | 30 | 16% | 8 | 27% |
| Northern Municipalities | 51 | 27% | 15 | 29% |
| Southern Municipalities | 31 | 16% | 5 | 16% |
| Western Municipalities | 28 | 15% | 8 | 29% |

**Indicates subgroup is statistically different than the rest of the survey sample (95% confidence)

Sources: US Census Bureau, 2011 MMA/SPO Municipal Survey, and author's calculations.

The survey also asked municipalities surpassing the LD 1 limit to report whether they voted to temporarily exceed or permanently increase it, as required by LD 1. A vote to *exceed* allows the municipality to surpass the limit in that year but requires that year's limit to be used as the base

for the next year's limit calculation, as usual. A vote to *increase* allows the municipality to surpass the limit in that year and resets the limit so that the amount that was actually levied becomes the new limit and is used as the base for the next year's limit calculation. Municipalities were then asked to explain why they chose to exceed or increase their base commitment limit. This year, 50 municipalities (27% of the sample) went over their LD 1 limit. 20 of these communities voted to increase their limit, 18 voted to exceed their limit, and 12 did not report voting to exceed or increase. In the past, some municipalities have explained this non-compliance by indicating that they were unaware of the necessity of voting, had trouble calculating growth limits, or did not think LD 1 applied to them.

The survey provided municipalities space to comment on why they decided to vote to exceed or increase their LD 1 limit. This year, the most common responses cited reductions of other revenue sources such as revenue sharing and excise taxes, road and paving costs, increasing costs of providing services, and costs for capital improvements such as buildings and equipment. Some towns said they voted to exceed or increase simply to comply with LD 1.

Summary

For the seventh year in a row, municipalities held property taxes raised for municipal operations below their aggregate statewide LD 1 limit. Among the 188 useable responses to the MMA/SPO survey, the aggregate municipal property tax levy was 9.4% below the aggregate LD 1 limit. A record number of municipalities (73% of the sample) stayed within their LD 1 limit. Those surpassing the limit did so by an average margin of 14%. Municipalities under the limit were more likely to have larger, growing populations.

V. School Administrative Units' Experience with LD 1

The second and frequently largest component of municipal property taxes is raised to finance local public schools. LD 1 uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. Essential Programs and Services are those educational resources required for all students to meet the knowledge and skill standards set by the Maine Learning Results. Under LD 1, K-12 school appropriations are constrained to 100% of the costs calculated by the EPS formula, excluding “local-only” debt. It should be noted, however, some school units might be exceeding 100% of EPS by small margins in order to provide programs and some services that are not recognized as essential in the EPS benchmark cost calculation: extracurricular activities including sports and transportation to events, Advanced Placement classes offered at some high schools, unique onetime costs incurred for facilities improvements, and even in some cases local tax dollar support for school lunch programs.

LD 1 also set the course for increasing the state’s share of school funding to 55% of EPS over five years. The 55% goal was scheduled to be achieved in FY 2010, but state revenue shortfalls in the context of a national recession beginning in 2007 have delayed achievement of that goal. The state’s contribution in the 2011-2012 school year was 43% of the costs covered under EPS.

The Maine Department of Education (MDOE) collects information on school appropriations from state, local, and other sources on an annual basis. Preliminary data⁵ on state and local educational appropriations for FY 2012 was used to determine the share of local school districts that kept appropriations below 100% of EPS, and those results were compared to previous years (Table 11). The significant reorganization of school districts that began in FY 2010 continued in FY 2012.⁶ Overall, the number of School Administrative Units (SAUs) was reduced from 287 in

⁵ Data available at the time of writing reflects state funding approved through the end of the First Regular Session of the 125th Legislature.

⁶ Public Law 2007, Chapter 240, Part XXXX (enacted by passage of LD 499, the two-year budget, on June 11, 2007) and Public Law 2007, Chapter 668 (enacted by passage of LD 2323, An Act to Remove Barriers to the Reorganization of School Administrative Units, on April 18, 2008).

FY 2009 to 218 in FY 2010 to 179 in FY 2011 to 164 in FY 2012. 94% of Maine's school children are enrolled at SAUs now conforming to the new reorganization laws.

Although there are now 164 SAUs, MDOE has continued to collect and provide EPS and budget information for many former school districts that have consolidated into new SAUs, so the analysis in this section is based on samples of 229 "local schools" that constitute the 164 SAUs. To allow comparisons across years, school districts that had not yet reported appropriations to MDOE for FY 2012 at the time of writing were excluded from the analysis. Also excluded were school districts with missing appropriations data from past years. As a result, the numbers included in this year's report differ slightly from numbers in previous LD 1 progress reports.

Appropriations Growth of Individual School Budgets

Table 8 and Figure 4 examine state and local K-12 appropriations across time. To help distinguish between local schools that exceeded EPS by small margins and local schools that exceeded EPS by large margins, Table 8 differentiates between a target of 100% of EPS and a target of 105% of EPS. Table 11 also shows how the number of local schools that are falling short of funding 100% of EPS has changed over time.

Table 8 shows that the margin by which aggregate state and local appropriations exceed 100% of EPS has fallen every year since FY 2009, and now stands at 5.3%. The percentage of local schools exceeding 100% of their EPS target also declined steadily between FY 2009 and FY 2012, from 88.5% to 73.2%. Local schools that exceeded 100% EPS did so by a margin of 19.2% in FY 2012, compared to 23.6% in FY 2009. Similarly, after peaking at 80.3% in FY 2009, the percent of local schools exceeding 105% of EPS has declined for two years and is now at 55.7%.

Consistent with these trends, the number of schools that have fallen short of 100% of EPS has increased steadily since 2009. As shown in Table 8, 25% of local schools appropriated less than 100% of EPS in FY 2012, compared to only 9.3% in 2009.

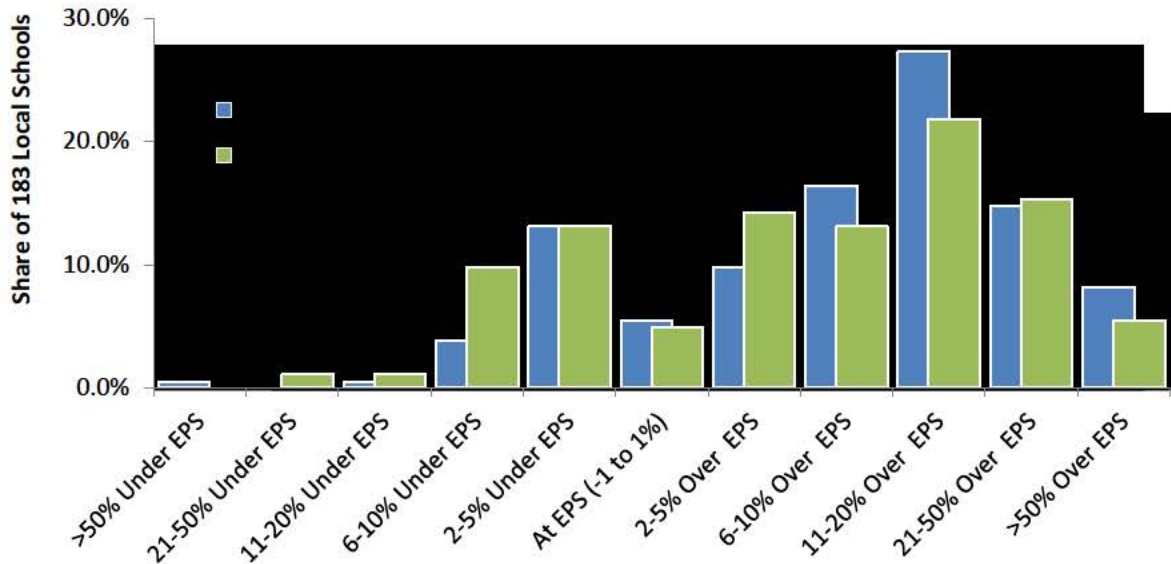
Table 8: Overall School Compliance with LD 1: FY 2006 – FY 2012**Note: Based on a sample of 183 out of 229 local school budgets*

| | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
|---|---------|---------|---------|---------|---------|---------|---------|
| Aggregate EPS (\$ millions) | \$1,722 | \$1,759 | \$1,811 | \$1,781 | \$1,842 | \$1,871 | \$1,899 |
| Total K-12 Appropriations (\$ millions) | \$1,793 | \$1,890 | \$1,971 | \$2,007 | \$2,006 | \$2,009 | \$2,000 |
| Difference as Percent of EPS | 4.1% | 7.4% | 8.8% | 12.7% | 8.9% | 7.4% | 5.3% |
| Percent of local schools exceeding 100% of EPS... | 73.8% | 79.8% | 81.4% | 88.5% | 83.6% | 79.2% | 73.2% |
| ...Percent by which they exceeded 100% of EPS | 18.6% | 19.0% | 18.3% | 23.6% | 20.4% | 20.4% | 19.2% |
| Percent of local schools exceeding 105% of EPS... | 57.4% | 65.6% | 64.5% | 80.3% | 69.9% | 66.7% | 55.7% |
| ...Percent by which they exceeded 105% of EPS | 17.1% | 16.7% | 16.6% | 19.8% | 18.0% | 17.9% | 18.5% |
| Percent of local schools under 100% of EPS | 22.4% | 15.3% | 16.9% | 9.3% | 13.1% | 18.0% | 25.1% |

*Source: Maine Department of Education and author's calculations*** Calculations include state transitional funds but exclude local-only debt*

Figure 4 shows the distribution of local schools around their targeted EPS funding levels. Compared to FY 2011, the percentage of districts appropriating amounts greater than EPS by more than 20% decreased in FY 2012, and the percentage of districts appropriating amounts less than EPS increased.

Figure 4: Distribution of local schools above and below EPS*



Source: Maine Department of Education and author's calculations

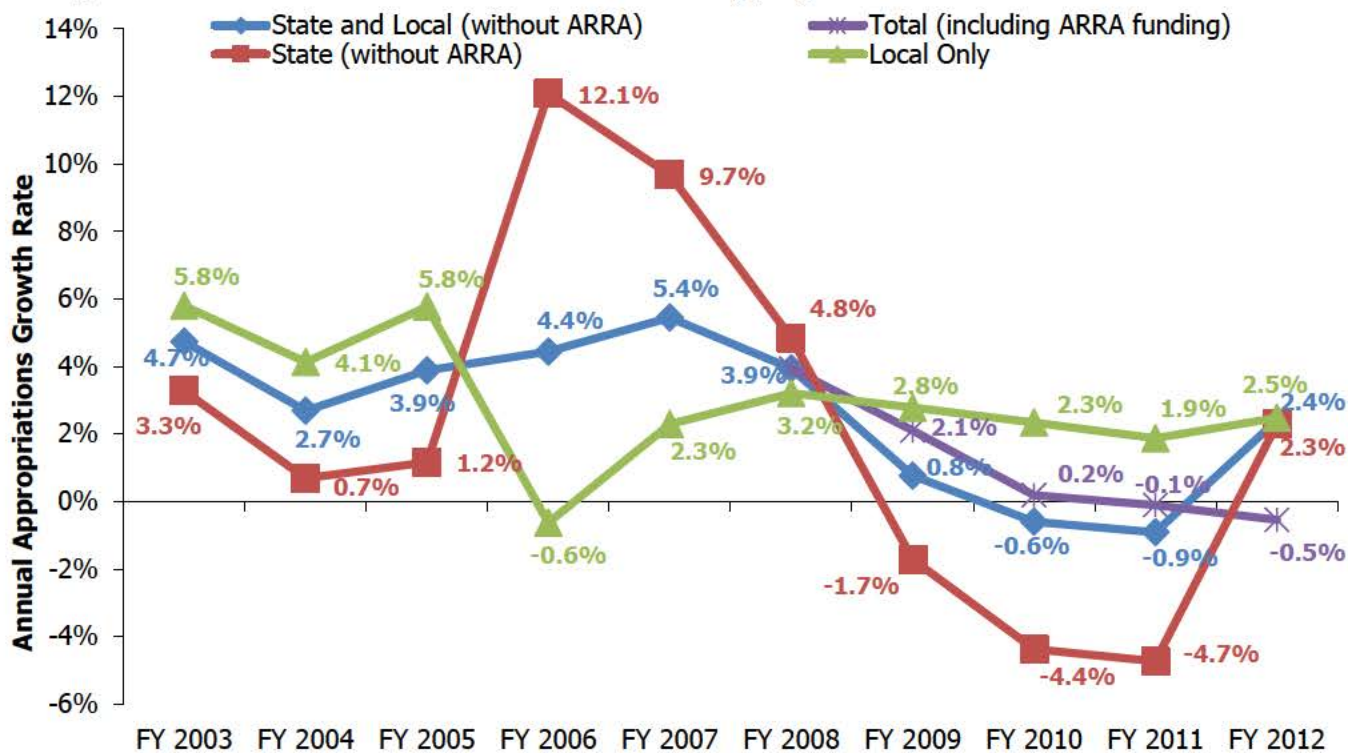
*Calculations include state transitional funds but exclude local-only debt

Combined Statewide K-12 Education Appropriation Growth

Figure 5 uses a longer time horizon to assess the impact of LD 1 on total K-12 appropriations to schools. Both state transitional funds and local-only debt are included in the analysis.⁷ Numbers may not match those reported in previous year's LD 1 reports because only 175 of 229 local schools are represented in this year's sample.

⁷ The vast majority of the local appropriations are raised through local property tax commitments. In FY 2011 local-only debt accounted for about 3.5% of local school appropriations, and in FY 2012 local-only debt accounted for about 3.2% of local school appropriations.

Figure 5: Annual Growth of State* and Local Appropriations for K-12 Education**



Source: Maine Department of Education and author's calculations

*State funds include transitional EPS funding

**Local funds include local only debt for all years

Note: This graph shows growth rates. Any number greater than zero indicates a year-over-year increase in appropriations.

In the years immediately prior to FY 2006 (the year LD 1 took effect), the growth rate of combined state and local appropriations fluctuated between 2.7% and 4.7%. With the passage of LD 1 the state dramatically increased its share of school funding, increasing the annual growth rate of its share from 1.2% in FY 2005 to 12.1% in FY 2006. Corresponding with the increased state funds, annual growth in local appropriations to schools declined from 5.8% in FY 2005 to -0.6% in FY 2006. Annual growth in total non-federal state and local appropriations to schools increased from 3.9% FY 2005 to 4.4% in FY 2006.

State appropriations for K-12 education began a three-year run of negative growth in FY 2009, before turning positive again in FY 2012. At the local level, following the brief decline in FY 2006, K-12 appropriations grew steadily from FY 2007 to FY 2012. In FY 2011, a third straight year of decreasing state appropriations combined with slightly slower growth in local

appropriations left K-12 schools with a 0.1% decrease in total appropriations.⁸ FY 2012 saw a return to growth in state appropriations for K-12 schools, but the expiration of American Recovery and Reinvestment Act (ARRA) funding meant total K-12 appropriations declined by 0.5% in FY 2012.

Summary

LD 1 uses the Essential Programs and Services (EPS) model of school funding to set targets for the amount of property taxes raised for local education. Although the LD 1 target for K-12 schools is 100% of EPS, some schools might be exceeding 100% of EPS by small margins in order to provide programs and some services that are not recognized as essential in the EPS benchmark cost calculation: extracurricular activities including sports and transportation to events, Advanced Placement classes offered at some high schools, unique onetime costs incurred for facilities improvements, and even in some cases local tax dollar support for school lunch programs. Approximately 73% of local schools exceeded their individual limit for FY 2012, and combined state and local appropriations to local schools exceeded 100% of EPS by 5.3%. FY 2012 also saw a significant increase in the number of schools that fell short of 100% of EPS funding, with approximately 25% of local schools not meeting the EPS minimum.

Growth in combined non-federal state and local appropriations to schools (including local debt for schools) slowed steadily in FY 2008 and FY 2009, and turned negative in FY 2010 and FY 2011. These declines were driven by state revenue shortfalls in the context of an economic recession that began in 2007. State appropriations (not including ARRA funds) for K-12 schools declined on an annual basis in FY 2009, FY 2010 and FY 2011, before recovering somewhat with 2.3% growth in FY 2012.⁹ However, the expiration of ARRA funding in June 2011 left K-12 schools with an overall 0.5% decline in funding.

⁸ In FY 2009 thru FY 2011, Maine received K-12 stabilization funds through the American Recovery and Reinvestment Act (ARRA): \$26.8 million in FY 2009, \$42.6 million in FY 2010, and \$58.5 in FY 2011.

⁹ In FY 2009 thru FY 2011, Maine received K-12 stabilization funds through the American Recovery and Reinvestment Act (ARRA): \$26.8 million in FY 2009, \$42.6 million in FY 2010, and \$58.5 in FY 2011.

VI. County Governments' Experience with LD 1

LD 1 limits the growth of each county's assessment, an amount charged to municipalities within the county and paid through property taxes. For each county assessment growth is limited to the ten-year average annual growth rate of state personal income (adjusted for inflation) plus the county's property growth factor. The property growth factor is calculated by totaling growth in newly taxable property reported by each town and dividing by the towns' total property valuation. The LD 1 county assessment limit is based on the previous year's limit increased by the combined income-plus-property growth factor. If the county has received net new state funds for existing services funded by the assessment, then the limit is reduced by that amount. A county wishing to either temporarily exceed or permanently increase its limit must explicitly vote to do so.

With the passage of Public Law 2008, Chapter 653, "An Act to Better Coordinate and Reduce the Cost of the Delivery of State and County Correctional Services" (Jail Unification) the amount counties can assess for corrections-related expenses was frozen at 2008 levels. Only assessments for non-correctional-related costs are allowed to increase by the LD 1 growth factor. Counties have struggled to interpret this law and the vast majority of them have miscalculated their LD 1 limits in 2009-2011. In some cases, conversations between SPO and county officials resulted in revised LD 1 calculations. When this was not possible, SPO used the best available data to correct the LD 1 calculations so that the analysis below reflects current law as closely as possible.

Somerset County built a new jail in 2008 and switched to a July 1-June 30 fiscal year starting in 2008. Despite the fact that their assessments increased substantially from calendar year 2007 to FY 2009, Somerset County officials did not vote to increase or exceed their LD 1 limit in 2008 (FY 2009). Conversations in 2009 between SPO and Somerset County staff members revealed confusion due to the timing of their budget approval process, the change to a fiscal year accounting period, and Jail Unification. Jail Unification directed counties to exclude assessments or correctional-related services from the LD 1 calculation for budget years starting after January 1, 2009. For FY 2009, however, which started July 1, 2008, the LD 1 limit still included both correctional- and non-correctional-related assessments; Somerset County was required to vote to

exceed or increase their LD 1 limit. SPO calculated that Somerset surpassed its FY 2009 LD 1 limit by \$3.4 million primarily because of an increase in assessments for its new jail. Likewise, since Somerset did not vote to increase its limit for FY 2010, SPO calculated that its assessment in FY 2010 was \$2.7 million over its LD 1 limit. However, Somerset County officials may have voted to increase their LD 1 limit in FY 2009 had they understood they were required to. Table 13 includes a column that assumes Somerset County had voted to increase its LD 1 limit in FY 2009.

In 2010 and 2011, confusion arose about Somerset County's statutory corrections assessment cap. Jail Unification set the corrections cap for Somerset County at \$5,363,665. However, it further stipulated that "the county assessment for correctional services-related expenditures in Somerset County must be set at the fiscal year 2009-10 level when the new Somerset County Jail is open and operating at a level sufficient to sustain the average daily number of inmates from Somerset County." Somerset County's reported corrections assessment for fiscal year 2009-10 was \$5,281,630, so SPO used that number for FY 2011 and FY 2012 despite the fact that Somerset County reported a lesser corrections assessment figure for FY 2011 and FY 2012.

With the passage of Public Law 2011, Chapter 315, "An Act To Amend the Laws Governing the Tax Assessment for Correctional Services in Lincoln County and Sagadahoc County" the corrections assessment caps for Lincoln and Sagadahoc Counties were changed to create an even split between the two counties for the funding of the Two Bridges Regional Jail. Effective January 1, 2012 for Sagadahoc County and July 1, 2011 for Lincoln County, each county is required to raise \$2,657,105 for the jail. In addition, Lincoln County was required to pay all withheld revenue from its tax assessment for correctional services from July 1, 2009 to June 30, 2011 directly to the Two Bridges Regional Jail by July 1, 2011 for the jail's correctional services operations in fiscal year 2012-13.

In 2010 and 2011, confusion arose about the actual figure for Lincoln County's correctional services-related assessment. Part of this confusion may be due to the fact that Lincoln County is on a calendar year budget but the Two Bridges Regional Jail is on a fiscal year budget. Lincoln County reported a correctional services-related assessment of \$3,017,292 for 2011 (FY 2012). That figure includes withheld revenue specified in PL 2011, Chapter 315 equal to \$257,870, but

the balance is still greater than the cap of \$2,657,105. For the purposes of this report, SPO assumed \$2,657,105 to be the correct figure.

Similarly, Lincoln County’s reported corrections assessment for 2010 (FY 2011) was \$3,262,957, which is greater than the amount of \$3,018,361 specified by Jail Unification. For the purposes of this report, SPO assumed \$3,018,361 to be the correct figure.

Combined Statewide County Assessment Growth

Calculations of state tax burden use aggregate measures of the total amount of taxes collected within a state. To assess LD 1’s impact on the growth of county assessments, Table 9 presents the combined assessment growth of all sixteen counties. The counties’ combined assessment limit was \$137.3 million. Actual assessments were \$136.0 million (1.0% below the limit). This is consistent with counties’ experience last year as well.¹⁰

Table 9: Combined County Assessment Limit Calculation**

Note: All dollar figures in millions

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2011* |
|--|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| LD 1 Average Annual Growth Factor | -- | -- | 6.1% | 5.2% | 5.6% | 4.8% | 4.1% | 3.5% | 3.5% |
| Base Assessment Limit | \$99.4 | \$104.4 | \$110.8 | \$119.4 | \$130.1 | \$132.7 | \$135.7 | \$137.3 | \$140.2 |
| Exempt L-S Jail Funding | -- | \$0.4 | \$4.2 | \$2.7 | - | - | - | - | - |
| LD 1 Assessment Limit (Base plus Lincoln-Sagadahoc Jail Project) | -- | -- | \$115.0 | \$122.1 | \$130.1 | \$132.7 | \$135.7 | \$137.3 | \$140.2 |
| Actual Total Assessments | \$99.4 | \$104.8 | \$111.3 | \$119.8 | \$128.8 | \$131.0 | \$134.4 | \$136.0 | \$136.0 |
| Amount Below LD 1 Limit | -- | -- | \$3.7 | \$2.2 | \$1.3 | \$1.7 | \$1.3 | \$1.3 | \$4.2 |
| Percent Below LD 1 Limit | -- | -- | 3.2% | 1.8% | 1.0% | 1.3% | 1.0% | 1.0% | 3.0% |

Source: Maine State Planning Office

** If Somerset had voted to increase its LD 1 Limit in FY 2009*

***Sagadahoc County did not submit LD 1 data for 2011, so SPO used 2010 property growth and budget data to estimate the limit.*

¹⁰ When LD 1 became law, Lincoln and Sagadahoc counties were given a two-year exemption, ending in 2007, on funds used to construct and start operations at the new Two Bridges Regional Jail (Public Law 2005, Chapter 348). Lincoln and Sagadahoc voters approved funding for the jail in November 2003, prior to the passage of LD 1. Sagadahoc County, which operates on a July 1-June 30 fiscal year, included all jail spending under its limit in the 2007 LD 1 report. Lincoln County included all jail spending in the 2008 LD 1 report. Table 13 isolates this exemption from other spending.

Table 10 shows annual growth of total county assessments. Assessments increased 1.2% between 2010 and 2011, the smallest annual increase since LD 1 took effect. A major reason for the reduction in growth of total county assessments is that assessments for jails are now capped and cannot be increased. Non-correctional-related expenses grew 3.5% in 2011.

Table 10: Growth of Total County Assessments
Note: All dollar figures in millions

| Year | Total Assessments | Annual % Change |
|------|-------------------|-----------------|
| 2011 | \$136.0 | 1.2% |
| 2010 | \$134.4 | 2.6% |
| 2009 | \$131.0 | 1.7% |
| 2008 | \$128.8 | 7.5% |
| 2007 | \$119.8 | 7.7% |
| 2006 | \$111.3 | 6.2% |
| 2005 | \$104.8 | 5.4% |
| 2004 | \$99.4 | -- |

Source: Maine State Planning Office

Assessment Growth of Individual Counties

In 2011, every county was allowed to increase their assessment by the 1.66% income growth factor plus the growth in newly taxable property in the county. New property growth ranged from 0.52% in Piscataquis County to 6.42% in Washington County.¹¹ Adding together personal income and property growth factors produced LD 1 assessment growth factors ranging from 2.18% to 8.08%.

In 2008-2010 many counties reported difficulty obtaining information on new property growth from their member municipalities. Only a few counties were able to calculate a property growth factor based on new valuations from all of their member towns. In 2011 many counties had similar difficulties. In addition, obtaining accurate information from most counties was challenging. Some counties did not seem to understand what information was needed for this report. Some counties made noticeable errors in the information they provided, and other

¹¹ Sagadahoc County did not provide a property growth factor or limit calculation, so SPO used the 2010 property growth factor of 0.83% to estimate the LD 1 limit in 2011. Oxford County uses the state valuation to calculate its property growth factor, a method different than the one prescribed by law.

counties likely made unnoticeable errors. Most counties calculated their limit incorrectly with respect to Jail Unification. Most counties that did calculate their limit correctly were calculating it based on an incorrect number for their 2010 LD 1 limit, thus making their reported 2011 limit incorrect. Oxford County was not able to supply SPO with an accurate property growth factor. Instead it used growth in total state valuation to calculate its LD 1 limit, which includes growth in the valuation of existing property. Somerset and Lincoln Counties provided assessments for jails that did not match statutory limits.^{12,13} Sagadahoc County did not provide a property growth factor or LD 1 limit calculation. SPO attempted to correct and verify all information used in this report, but some questionable numbers remain.

Nine counties stayed within their LD 1 limits, the same number as in 2009 and 2010 and three fewer than in 2008. The nine that stayed with their limits reported assessments ranging from 27.0% to 1.2% below the limit. Of these, three counties were more than 10.0% below the limit and six counties were between 1.2% and 10.0% below their limit. On average these nine counties were 8.7% below their limit.

Of the seven counties that surpassed their LD 1 limit, only Penobscot voted to exceed or increase their limit. Many of the other counties assumed they were under their LD 1 limit, and there are several potential explanations for this confusion:

1. They incorrectly included correctional-related assessments in their LD 1 calculation.
2. They began their 2011 limit calculation with the incorrect limit they reported in 2010.
3. They mistakenly believe LD 1 has a “banking” provision where the “surplus” from one year can be added to the following year’s limit.

¹² Per PL 2008, Chapter 653, Somerset County’s correctional services-related assessment limit is set at the fiscal year 2009-10 level. Somerset County’s reported corrections assessment for fiscal year 2009-10 was \$5,281,630, so SPO used that number despite the fact that Somerset County reported a lesser correctional-related assessment figure.

¹³ Per PL 2011, Chapter 315, Lincoln County’s correctional-related assessment limit is set at \$2,657,105 for FY 2012 and beyond. Lincoln County reported a correctional services-related assessment of \$3,017,292 for 2011 (FY 2012). That figure includes withheld revenue specified in PL 2011, Chapter 315 equal to \$257,870, but the balance is still greater than the cap of \$2,657,105. For the purposes of this report, SPO assumed \$2,657,105 to be the correct figure.

Summary

In aggregate, counties stayed within their LD 1 limit in 2011. County assessments were \$1.3 million (1.0%) below the limit. Total statewide county assessments grew 1.2% from 2010 to 2011, which was the lowest annual growth rate since LD 1 took effect. Individually, nine counties stayed within their limits and seven surpassed them. Only one of the seven counties surpassing their limit voted to exceed or increase their limit as prescribed by law, most likely due to errors in calculating LD 1 limits.

VII. Summary

The growth of local property tax commitments and state general fund appropriations has clearly declined since LD 1 took effect. However, a major cause of the slower growth seen in the 2008-2011 period is the global recession that began in December, 2007. The recession and sluggish recovery have reduced revenues for state and local governments, so the effect of LD 1 is difficult to isolate.

In FY 2012, the state stayed within its General Fund appropriations limit for the seventh year in a row. Declining state revenue in the context of a global recession that began in December, 2007 severely curtailed growth in General Fund appropriations, including General Purpose Aid for local schools. Although the expiration of ARRA funding in FY 2012 coincided with a return to general fund growth, the state remained 12% below the limit. In aggregate, municipal property taxes levied to fund municipal operations and services were within their combined LD 1 limit. The growth of property taxes was lower than before LD 1 took effect, but a major reason for this slow growth is the recession and sluggish recovery. A record high of 73% of municipalities stayed within their limits.

Nine of Maine's sixteen counties stayed within their LD 1 growth limits in 2011 (or FY 2012 for counties operating on fiscal year budgets). Overall, total county assessment growth was 1.2%, which is the lowest rate of annual growth since LD 1 took effect. This is primarily because of the new law creating a unified correctional system and capping county jail assessments at 2008 levels. All sixteen counties continue to have difficulty calculating their LD 1 limits, which became considerably more complicated with the 2008 jail unification law and the 2011 amendments to that law.

For a seventh year, Maine's K-12 schools exceeded their aggregate limit, which is 100% of EPS. Combined state and local appropriations for schools exceeded 100% of EPS by 5.3%. Seventy-three percent of schools exceeded their individual 100% of EPS target, and 56% of schools exceeded 105% of EPS. Compared to last year, the percentage of schools exceeding 100% of EPS decreased, but the amount by which they exceeded EPS stayed about the same. FY 2012 also saw a significant increase in the number of schools that fell short of 100% of EPS funding,

with approximately 25% of local schools not meeting the EPS minimum. Combined state and local appropriations for K-12 schools increased 2.4% in FY 2012. This was the first increase since FY 2009, but it coincided with the expiration of ARRA funding, which had bolstered K-12 schools in FY 2009 – FY 2011. As a result, overall appropriations (federal, state, and local) for K-12 schools decreased by 0.5% in 2012.