2013 Tax Levy Limit Progress Report

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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 Office of Policy and Management (OPM) annually reports on the progress made by the state, counties, municipalities, and school administrative units toward reaching the tax burden reduction goal. This report was previously issued by the State Planning Office (SPO).

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 ninth 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 2014 were $452 million (12.5%) below the limit. General Fund appropriations grew 3.0% from FY 2013 to FY 2014, which is the second smallest increase since the tax levy limit law took effect. The average annual growth for the ten years prior to LD 1 was 5.4%. In FY 2012, total appropriations grew 9.0% due in large part to the expiration of federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA) on June 30, 2011, and accounting for an additional $63.6 million for GPA.

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 ninth year in a row, survey-based estimates show the aggregate municipal property tax levy was below the aggregate LD 1 limit. 65% of municipalities in this year's sample stayed within their municipal property tax levy limit, down from a record of 75% of the sample in 2012. Based on preliminary data from Maine Revenue Services (MRS), aggregate municipal property tax commitments grew by a rate of 4.8% in 2013, which is higher than last year but below rates in years before LD 1. Overall, property tax commitment growth in 2013 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 (86.8% of this year's sample) increased from last year as did the amount by which they exceeded EPS. Fewer schools than last year (10.8% of this year's sample) were under 100% of EPS. Total state and local K-12 appropriations increased 3.3% in FY 2014. At the same time, K-12 public school enrollment declined 0.6% in FY 2014 and a total of 8.6% since FY 2007.

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 2013. County assessments were $1.4 million (1.0%) below the limit. Overall, assessments increased 3.8% from 2012, which was the largest annual growth rate since county jail assessments were capped at 2008 levels. Individually, nine counties stayed within their limits and seven surpassed them, with one county voting to exceed the limit.

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 had three components:

- Spending limits: LD 1 limits the growth of the state's General Fund appropriations to rates reflective of Maine's income and population growth, county assessments and municipal assessments are limited by income and property growth factors, and school spending is tied 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. In addition, the Circuit Breaker Program has since been repealed as part of the enacted state budget for claims beginning on or after August 1, 2013. It has been replaced by a refundable Property Tax Fairness Credit that can be claimed on the Maine Individual Income Tax Form.
- 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 2014, that meant $213 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 Office of Policy and Management (OPM) with annually reporting the progress made by state, county, and local governments, and school administrative units, toward reaching the tax burden reduction goal. This reporting was previously required of the State Planning Office (SPO). 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 2011. 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, OPM calculates Maine's total state and local burden for FY 2011 to be 12.3%, which is the sixth highest among the fifty states. Maine has ranked sixth highest among the fifty states for five straight years (FY 2007 – FY 2011). In FY 2011, Maine's state tax burden (7.4%) ranks 10^{th} highest, and the local tax burden (4.8%) also ranks 10^{th} 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 and OPM found that LD 1's impact in 2006-2013 was mostly positive, but confounded by other variables. The state and a majority of 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 since then. 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 2013.

II. State Government's Experience with the Tax Levy Limit

Public Law 2005, Chapter 2 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 appropriations limit is the previous year's limit increased by that growth factor. The law 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 the 2007-2009 national recession and subsequent slow recovery 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 FY2014 and FY2015 was set in September 2012 using the most current data available at the time. The ten-year average income growth was 1.05% and population growth was 0.33%, resulting in a growth limit of 1.37% (after rounding). That limit applies to both years of the biennium.

The appropriations limit for FY2014 was determined by applying the 1.37% growth factor to the FY2013 base appropriations limit, \$3,366 million, and adding \$213 million in increased state funding for GPA. The resulting FY2014 General Fund appropriations limit is \$3,625 million (See Table 1).

State appropriations in FY2014 are below the LD 1 limit. Current FY2014 General Fund appropriations are \$3,173 million, which is \$452 million (12.5%) below the limit. Note that the FY2014 GPA appropriations have not been adjusted for the Part F streamlining changes passed in the FY14-FY15 biennial budget as they are not yet considered adjustments to appropriations. The reductions are, however, included in total appropriations.

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	2013	2014
Annual Growth Factor	--	3 11%	3 11%	3 08%	3 08%	2 76%	2 76%	2 05%	2 05%	1 37%
Base General Fund Appropriations	$2,710	$2,794	$2,881	$2,970	$3,061	$3,146	$3,233	$3,299	$3,366	$3,413
General Purpose Aid to Schools	$735	$836	$914	$972	$956	$909	$872	$887	$875	$947
Additional GPA above FY2005 GPA	--	$102	$180	$237	$222	$175	$138	$152	$140	$213
LD 1 Appropriations Limit (Base plus Additional GPA)	--	$2,896	$3,061	$3,207	$3,283	$3,320	$3,370	$3,451	$3,507	$3,625
Actual Appropriations	$2,784	$2,872	$2,978	$3,129	$3,018	$2,849	$2,873	$3,130	$3,082	$3,173
LD 1 Limit Minus Actual Appropriations	--	$24	$82	$78	$265	$471	$498	$321	$425	$452
Percent Under LD 1 Limit	--	0 8%	2 7%	2 4%	8 1%	14 2%	14 8%	9 3%	12 1%	12 5%

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 3.0% in FY2014, which is the second smallest increase since the tax levy limit law took effect. This increase follows a decrease of 1.5% for FY2013, one of three years when appropriations decreased. FY2012 had the largest increase of 9.0%, which was mostly due to the expiration of federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA) on June 30, 2011 and accounts for an additional $63.6 million for GPA.

Table 2: Growth of State General Fund Appropriations

Growth of General Fund Appropriations FY2013 - FY2014	3.0%
Growth of General Fund Appropriations FY2012 - FY2013	-1.5%
Growth of General Fund Appropriations FY2011 - FY2012	9.0%
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 FY2014 appropriations, GPA funding increased by 8.3% and non-GPA funding increased by 0.9%. This reflects the increase of state education funding towards 55% of covered costs and returns to a trend seen from FY2006 to FY2010 when the growth of GPA appropriations exceeded the growth of non-GPA appropriations. As noted earlier, the GPA appropriations have not yet been adjusted for the Part F streamlining changes passed in the FY14-FY15 biennial budget.

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
2014	$947	8.3%	$2,226	0.9%	$3,173	3.0%
2013	$875	-1.4%	$2,207	-1.6%	$3,082	-1.5%
2012	$887	1.7%	$2,243	12.1%	$3,130	9.0%
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, Public Law 2005, Chapter 2 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 Program has since been repealed as part of the enacted state budget for claims beginning on or after August 1, 2013. Around $750,000 in refunds from late 2012 applications are expected to be paid in FY2014. The Circuit Breaker has been replaced by a refundable Property Tax Fairness Credit that can be claimed on the Maine Individual Income Tax Form. The estimated FY 2014 state expenditure for the new Property Tax Fairness Credit is $34 million.

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 the tax levy limit law, 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. Public Law 2005, Chapter 2 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. Appropriations for FY2014 are estimated to be slightly lower than expenditures for FY2013.

Table 4: State Expenditures for Homestead Exemption, Circuit Breaker, and Property Tax Fairness Credit

Note: All dollar figures are in millions.

Fiscal Year	Homestead Exemption	Circuit Breaker	Property Tax Fairness Credit	Total
2014 (Estimate)	$24.9	$0.8	$34.0	$59.7
2013	$25.3	$41.8	-	$67.1
2012	$23.6	$43.4	-	$67.0
2011	$16.2	$41.4	-	$57.6
2010	$28.4	$40.9	-	$69.3
2009	$27.6	$48.8	-	$76.4
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 was reimbursed in 2012 and because the exemption was reduced from $13,000 to $10,000 beginning in 2010.

The Maine Residents Property Tax and Rent Refund "Circuit Breaker" Program has been repealed as part of the enacted state budget for claims beginning on or after August 1, 2013. Around $750,000 in refunds from late 2012 applications are expected to be paid in FY2014. The Circuit Breaker has been replaced by a refundable Property Tax Fairness Credit that can be claimed on the Maine Individual Income Tax Form.

SUMMARY

For the ninth year in a row, the state's General Fund appropriations were below the limit set by LD 1. Based on legislation enacted by the 126th Legislature, total General Fund appropriations increased 3.0% in FY2014. Within these appropriations was an additional $213 million for local K-12 education compared to 2005. Setting aside that additional GPA funding as LD 1 directs, General Fund appropriations increased by 0.9%.

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 Office of Policy and Management 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 2013. 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 2013, 433 communities had filed the MVR, representing 88% of all municipalities in the state and accounting for 99% of the total statewide commitment in 2012. Results here are thus broadly representative of the total population of Maine municipalities.

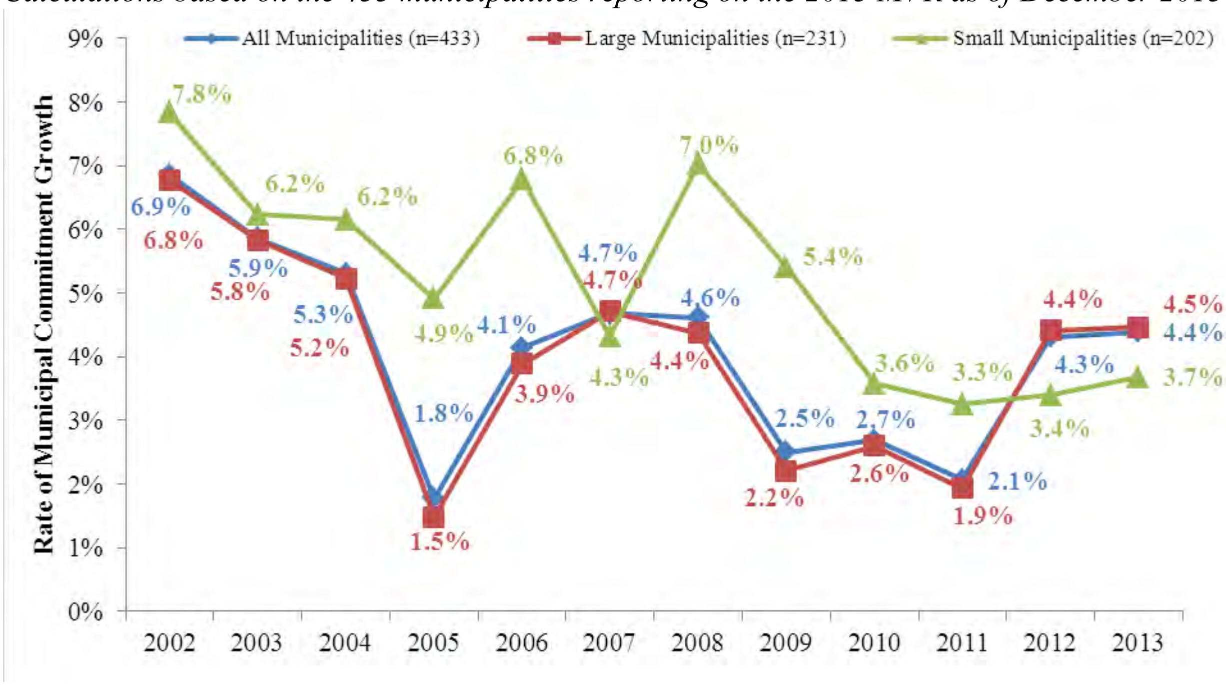
Figure 1 shows recent annual growth of aggregate municipal commitments for small municipalities, large municipalities, and the entire sample of 433 municipalities as a whole.[2] In 2005, the first year of LD 1, large communities showed a dramatic reduction in commitment growth – from 5.2% in 2004 to 1.5% 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 4.8% 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

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 1255, the median population of all towns in Maine "Large municipalities" have a population greater than 1255 There were 231 large municipalities and 202 small municipalities in this year's MVR sample

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 2.7% in 2010 before dropping further to 2.1% in 2011. Commitment growth jumped to 4.3% in 2012 and increased slightly to 4.4% in 2013. Small and large municipalities showed significant differences in commitment growth. Commitment growth in small municipalities had been volatile year-to-year before flattening out around 3.5% from 2010 on. Growth in small municipalities also was greater than growth in large municipalities in every year except 2007, 2012, and 2013.

Figure 1: Annual Growth in Municipal Property Tax Commitments
Calculations based on the 433 municipalities reporting on the 2013 MVR as of December 2013



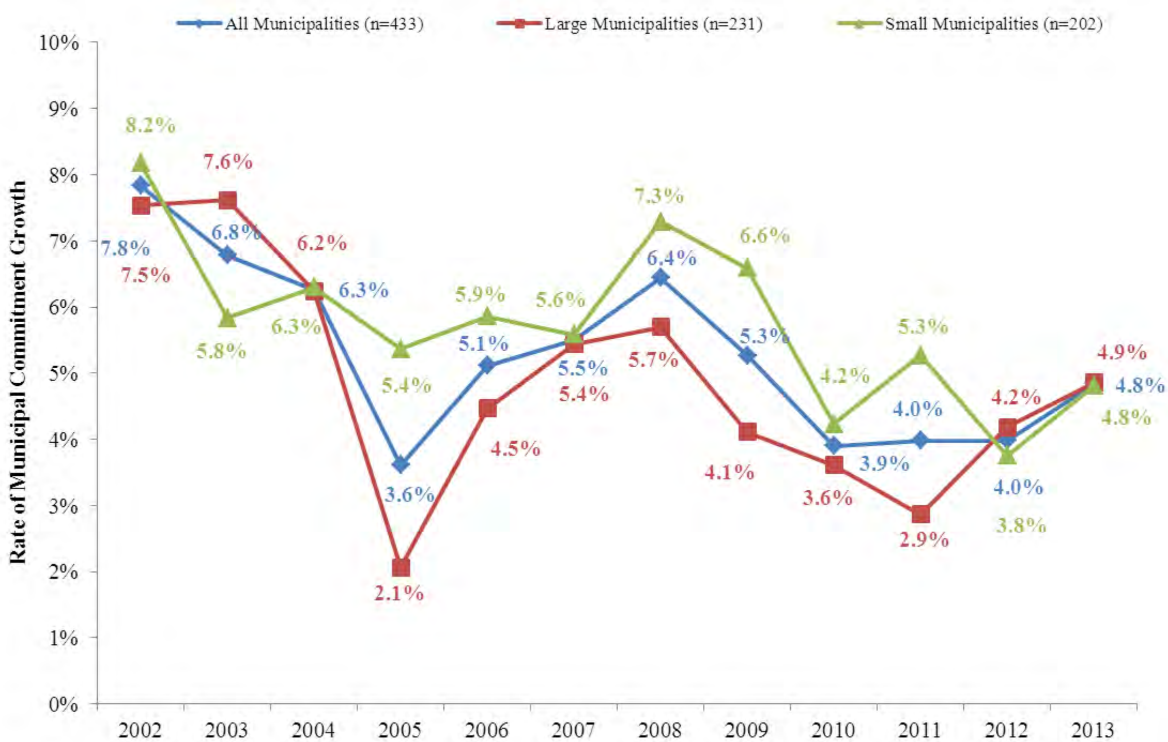
Source: Maine Revenue Services Municipal Valuation Reports (2001-2013) & author's calculations.
Note: "Small municipalities" have a population less than 1255, the median population of all towns in Maine. "Large municipalities" have a population greater than 1255.

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 433 municipalities reporting on the 2013 MVR as of December 2013



Source: Maine Revenue Services Municipal Valuation Reports (2001-2013) & author's calculations.
Note: "Small municipalities" have a population less than 1255, the median population of all towns in Maine. "Large municipalities" have a population greater than 1255.

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 6.4% in 2008, surpassing 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 5.3%, below the 2006 growth rate and well below pre-LD 1 growth rates. Average growth declined to 3.9% in 2010 before ticking up to 4.0% in 2011 and 2012. The average growth for all municipalities increased to 4.8% in 2013. Average growth has converged in 2012 and 2013 among large and small municipalities, with large municipalities experiencing commitment growth of 4.9% and small municipalities experiencing growth of 4.8% in 2013.

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 OPM distributed a voluntary survey (2013 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 (2012) and current (2013) 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 OPM received a total of 196 useable responses to the 2012 survey, representing roughly 40% of all Maine municipalities. This is slightly less than last year's response rate of 41% (204 useable responses). The municipalities included in the sample of 196 useable responses represent approximately

50% of the statewide aggregate municipal commitment in 2012, and 53% of the 2013 municipal commitment of the 433 communities that had filed their 2013 MVR by early December 2013.

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 2012 LD 1 limit (municipal property tax levy limit) as a starting point for determining their 2013 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 2012 were asked to use their voter-approved limit as the base for calculating their 2013 limit.

Next the survey asked municipalities to calculate their 2013 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 (1.05% for calendar year 2013 or fiscal year 2013-14) 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. Some municipalities made noticeable errors in completing their survey. In many cases, the errors were simple arithmetic mistakes and MMA and OPM made the appropriate corrections. Additionally, many municipalities incorrectly used their 2012 *levy* as the base rather than the 2012 *limit*. Many towns also incorrectly used historical forecasts of revenue sharing amounts instead of actual revenue sharing amounts. In these cases, OPM replaced the incorrect forecasts with correct actual figures from the Office of the Maine State Treasurer. In cases where errors could not be corrected, the survey response was not included in the analysis.

Table 5: Summary Statistics, 2013 Municipal Property Tax Levy Limit Survey Results

Number of Municipalities	196
Aggregate Municipal Commitment, 2013 (from MVR)	$1,143,146,474
Aggregate Municipal Property Tax Levy Limit, 2013	$419,014,652
Aggregate Municipal Property Tax Levy, 2013	$379,970,221
Ratio of Municipal Property Tax Levy to Total Commitment, 2013	33.2%
Percent by which Levy was Below Limit, 2013	9.3%
Mean Growth Limitation Factor, 2013	2.8%
Mean Growth Limitation Factor, 2012	2.9%
Mean Growth Limitation Factor, 2011	3.2%
Number of Municipalities Surpassing 2013 LD1 Limit (as percent of 2013 sample)	35%
Average Margin by which Municipalities over LD 1 Limit exceeded the limit	36%
Average Margin by which Municipalities below the LD 1 Limit were under the limit	20%
Percent of Municipalities over the Limit who reported voting to increase the limit	32%
Percent of Municipalities over the Limit who reported voting to exceed the limit	28%
Percent of Municipalities over the Limit who did not report voting to increase or exceed	40%

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

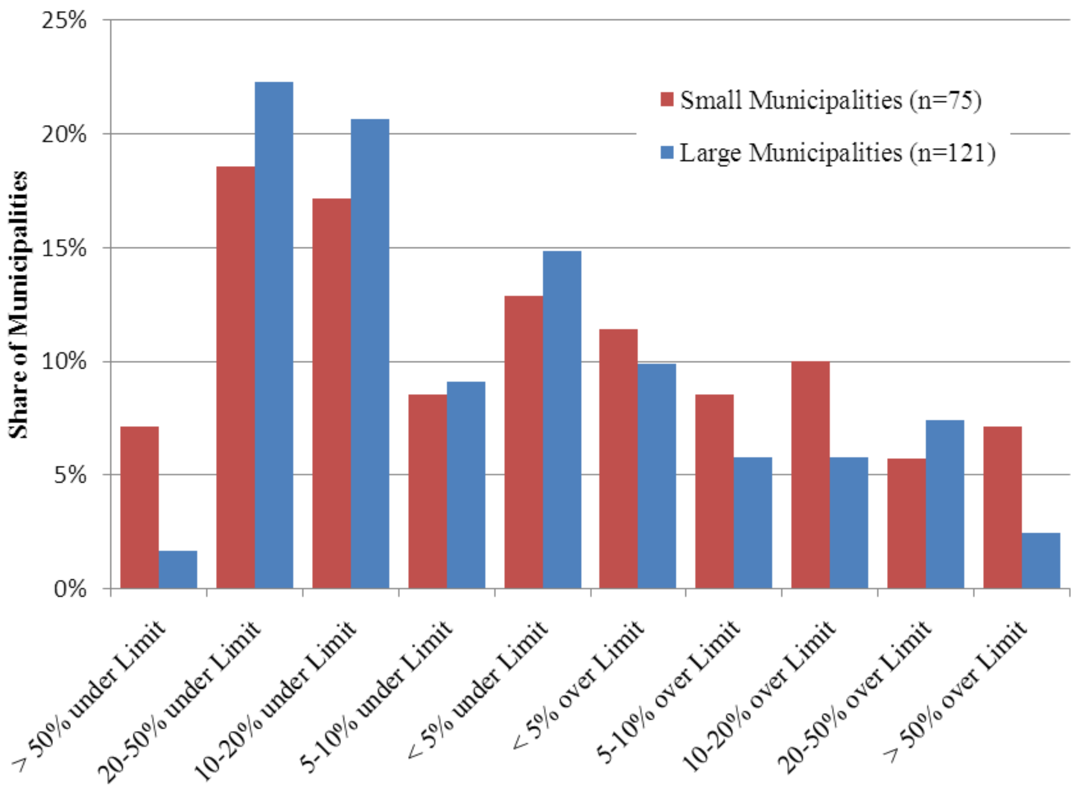
Among the 196 useable responses, the average growth limitation factor was 2.8% (Table 5). This was lower than last year's average growth limitation factor of 2.9%.

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 2013 commitment was $1.143 billion for the 196 municipalities in the sample. The combined 2013 municipal property tax levy was $380 million or 33.2% of the aggregate 2013 commitment. The aggregate property tax levy limit for 2013 was $419 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 about $39 million, or 9.3% of the LD 1 limit. Stated differently, municipalities' aggregate property tax levy equaled about 91% of that allowable under LD 1. This is consistent with last year's report and is the ninth year that municipalities came in under the statewide LD 1 limit. In 2012, Maine municipalities kept the aggregate municipal property tax levy below the aggregate LD 1 limit by $52 million, or 11.1%. In 2011, the aggregate levy was also below the aggregate LD 1 limit by 9.4%. In 2010, the aggregate levy was also

9.4% below the aggregate LD 1 limit, and in 2009, the aggregate levy was 6.7% 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 196 municipalities in the 2013 sample, 128 (65%) stayed within their individual LD 1 limit. This is lower than last year's all-time high of 75%. The 35% of municipalities who surpassed their 2013 limit were, on average, 7% over the limit. Municipalities that stayed within their 2013 limit were, on average, 18% below the limit. 48 municipalities (24% of the sample) were more than 5% over their limit and 35 (18% 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.

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



Source: MMA/OPM 2013 Municipal Property Tax Levy Limit Survey
Note: "Small municipalities" have a population less than 1255, the median population of all towns in Maine. Large municipalities are towns with a population greater than 1255.

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. Table 6 shows that towns that were over their LD 1 limit tended to have a larger commitment per capita in 2013 than towns that were under their limit. While past years have shown that smaller towns have a harder time staying within their LD 1 limits, the differences between large and small towns were not statistically significant this year, although the numbers do appear to reflect a continuation of this trend.

Table 6: Characteristics of Municipalities that are Over/Under LD1 Tax Levy Limit

Comparisons based on municipalities reporting on 2013 MMA/OPM Survey

Characteristic	All Municipalities	Over LD 1 Limit	Under LD 1 Limit
All Municipalities	196	68 ^	128 ^
Average population, 2012	3,346	2,574	3,756
Average population growth rate, 2002-2012	4.4%	4.4%	4.3%
Commitment per capita, 2013 (Millions)	$1,877	$2,279 **	$1,663 **
Aggregate municipal commitment growth rate, 2012-2013	4.5%	6.0% ^	3.9% ^
Average property tax rate, 2013	1.39%	1.38%	1.39%
Median household income, 2012	$47,414	$47,635	$47,296
Average Growth Limitation Factor	2.8%	2.1%	3.2%

*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 2013 & 2012; US Census Bureau; 2013 MMA/OPM Municipal Survey; and author's calculations.

Table 7: LD 1 Compliance in Subgroups of Municipalities

Comparisons based on municipalities reporting on 2013 MMA/OPM Survey

	All Municipalities		Municipalities Over LD 1 Limit	
	Number	Percent of All Survey Respondents	Number	Percent of Subgroup
All Municipalities	196	100%	68	35%
Small Municipalities (Pop < 1255)	75	38%	30	40%
Shrinking Municipalities (Pop '02 > Pop '12)	63	32%	26	41%
Central Municipalities	23	12%	10	43%
Downeast Municipalities	27	14%	11	41%
Mid-Coast Municipalities	32	16%	13	41%
Northern Municipalities	51	26%	16	31%
Southern Municipalities	25	13%	5	20%
Western Municipalities	38	19%	13	34%

Sources: US Census Bureau, 2013 MMA/OPM 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, 68 municipalities (35% of the sample) went over their LD 1 limit. 22 of these communities voted to increase their limit, 19 voted to exceed their limit, and 27 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. Many towns reported that voting is done annually, whether necessary or not. Other reasons given included road and paving costs, reductions of other revenue sources such as revenue sharing and excise taxes, increasing school costs, and costs for capital improvements such as buildings and equipment.

Summary

For the ninth year in a row, municipalities held property taxes raised for municipal operations below their aggregate statewide LD 1 limit. Among the 196 useable responses to the MMA/OPM survey, the aggregate municipal property tax levy was 9.3% below the aggregate LD 1 limit. 65% of municipalities stayed within their LD 1 limit, down from a record of 75% of the sample in 2012. Those surpassing the limit did so by an average margin of 36%.

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. Beginning with FY 2012, the calculation of the state's share includes the state contributions to teacher retirement, retired teachers' health insurance, and retired teachers' life insurance.[3] The state's contribution in FY 2014 was 50.4% of the costs covered under EPS including the retirement costs listed above.

The Maine Department of Education (MDOE) collects information on school appropriations from state, local, and other sources on an annual basis. Preliminary data[4] on state and local educational appropriations for FY 2014 were used to determine the share of local school districts that kept appropriations below 100% of EPS and were compared to previous years (Table 8). Beginning in FY 2010, school districts experienced a significant reorganization.[5] The analysis in this section is based on samples of the 230 School Administrative Units (SAUs) including the individual component schools of the Alternative Organizational Structure (AOS) districts.

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3 Public Law 2011, Chapter 655, Part C, §§2-4 (AMD)

4 Data available at the time of writing reflects state funding approved through the end of the First Regular Session of the 126th Legislature

5 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)

To allow comparisons across years, school districts that had not yet reported appropriations to MDOE for FY 2014 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 8 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 rose for the second year in a row to 12.7% in FY 2014. This follows declines from FY 2009 to FY 2012. The percentage of local schools exceeding 100% of their EPS target also rose in FY 2014, from 83.8% to 86.8%, although it remains well below the FY 2009 peak of 93.1%.

Local schools that exceeded 100% EPS did so by a margin of 21.9% in FY 2014 compared to 20.7% in FY 2013 and 23.2% in the peak year of FY 2009. Similarly, after peaking at 86.8% in FY 2009, the percent of local schools exceeding 105% of EPS rose to 74.0% in FY 2014 from 69.6% in FY 2013.

Consistent with these trends, the number of schools that have fallen short of 100% of EPS dropped in FY 2014. As shown in Table 8, 10.8% of local schools appropriated less than 100% of EPS in FY 2014, down from 13.2% in FY 2013.

Table 8: Overall School Compliance with LD 1: FY 2006 – FY 2014*

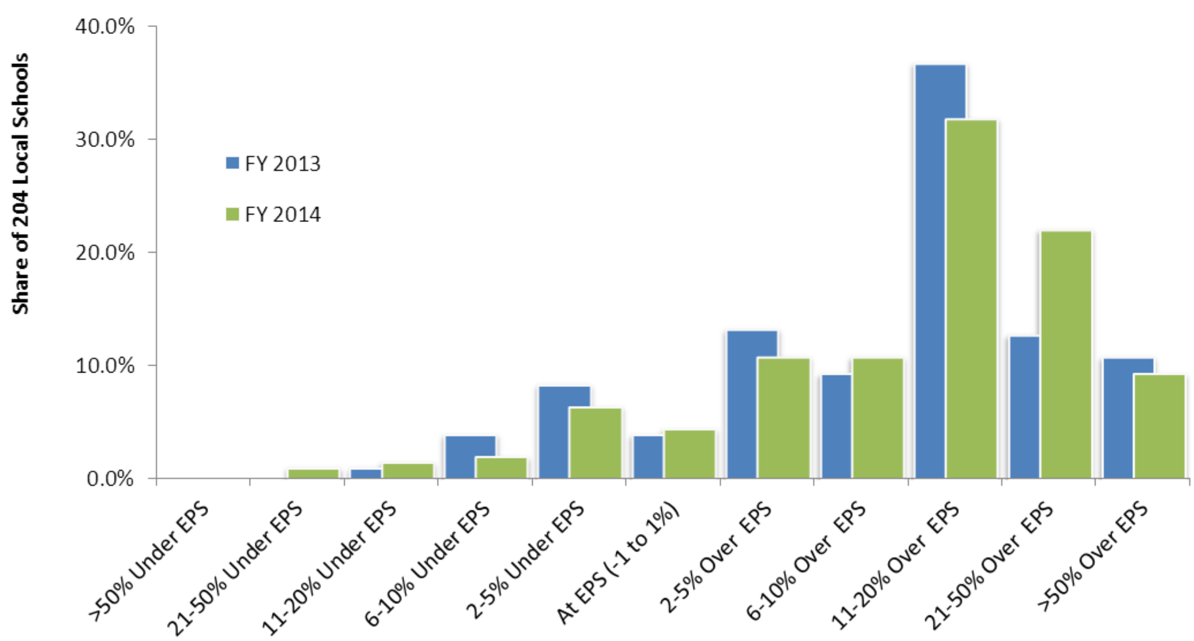
Note: Based on a sample of 204 out of 230 local school budgets

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Aggregate EPS ($ millions)	$2,275	$2,326	$2,372	$2,348	$2,423	$2,457	$2,484	$2,515	$2,539
Total K-12 Appropriations ($ millions)	$2,439	$2,576	$2,643	$2,714	$2,728	$2,716	$2,707	$2,787	$2,862
Difference as Percent of EPS	7.2%	10.8%	11.4%	15.6%	12.6%	10.5%	9.0%	10.8%	12.7%
Percent of local schools exceeding 100% of EPS…	78.9%	87.3%	89.2%	93.1%	89.7%	83.8%	79.9%	83.8%	86.8%
...Percent by which they exceeded 100% of EPS	18.9%	19.3%	18.9%	23.2%	20.5%	20.1%	19.2%	20.7%	21.9%
Percent of local schools exceeding 105% of EPS…	66.2%	73.5%	75.0%	86.8%	76.5%	75.0%	66.2%	69.6%	74.0%
...Percent by which they exceeded 105% of EPS	14.6%	16.6%	16.2%	18.8%	17.6%	16.3%	16.8%	18.5%	19.3%
Percent of local schools under 100% of EPS	18.6%	9.8%	9.8%	4.9%	8.8%	13.7%	18.6%	13.2%	10.8%

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

Figure 4 shows the distribution of local schools around their targeted EPS funding levels. Compared to FY 2013, the percentage of districts appropriating amounts greater than EPS by 21- 50% increased substantially in FY 2014, while the percentage of districts appropriating amounts greater than EPS by 11-20% decreased. All other categories saw only small changes.

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

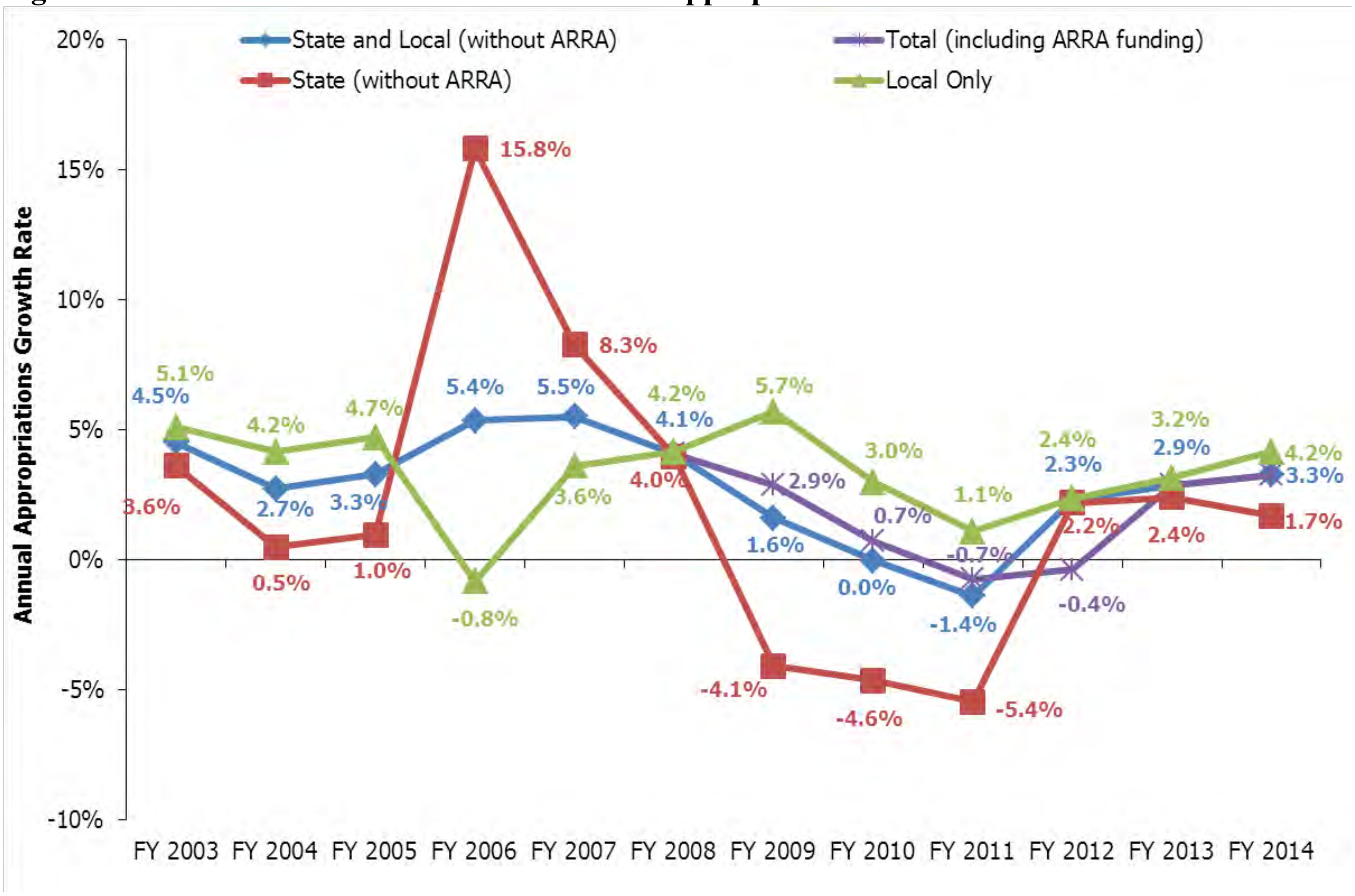


Source: Maine Department of Education and author's calculations
**Calculations include state transitional funds but exclude local-only debt*

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.[6] Numbers may not match those reported in previous year's LD 1 reports because only 201 of 230 local schools are represented in this year's sample.

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 4.5%. With the passage of LD 1 the state

[6] The vast majority of the local appropriations are raised through local property tax commitments. In FY 2013 and FY 2014 local-only debt accounted for about 3.2% of local school appropriations.

dramatically increased its share of school funding, increasing the annual growth rate of its share from 1.0% in FY 2005 to 15.8% in FY 2006. Corresponding with the increased state funds, annual growth in local appropriations to schools declined from 4.7% in FY 2005 to -0.8% in FY 2006. Annual growth in total non-federal state and local appropriations to schools increased from 3.3% FY 2005 to 5.4% 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 through FY 2014. At the local level, following the brief decline in FY 2006, K-12 appropriations grew steadily from FY 2007 to FY 2014. At the same time, the number of students educated by these funds has decreased. In FY 2014, K-12 public school enrollments declined 0.6%, continuing a trend that has been seen over the past several years. Since FY 2007, K-12 public school enrollments have declined 8.6%.

In FY 2011, a third straight year of decreasing state appropriations combined with slower growth in local appropriations left K-12 schools with a 1.4% decrease in total appropriations.[7] 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 0.4% in FY 2012. Total appropriations for FY 2014 grew 3.3%.

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 87% of local schools exceeded their individual limit for FY 2014, and combined state and local appropriations to local

[7] 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.

schools exceeded 100% of EPS by 12.7%. FY 2014 saw a decrease in the number of schools that fell short of 100% of EPS funding, with 10.8% 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, was flat in FY 2010 and turned negative in FY 2011. These declines were driven by state revenue shortfalls in the context of the 2007-2009 recession. 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 with positive growth in FY 2012 to FY 2014. The expiration of ARRA funding in June 2011 left K-12 schools with an overall 0.4% decline in funding in FY 2012, but total FY 2013 appropriations increased 2.9% and FY 2014 appropriations increased further by 3.3%. At the same time, K-12 public school enrollment declined 0.6% in FY 2014 and a total of 8.6% since FY 2007.

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 the years following this change. In some cases, conversations between SPO (in previous years) or OPM and county officials resulted in revised LD 1 calculations. When this was not possible, OPM 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 for correctional-related services from the LD l 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 9 includes figures that reflect totals had Somerset County voted to increase its LD 1 limit in FY 2009.

Beginning in 2010, 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 – FY 2013 despite the fact that Somerset County reported a lesser corrections assessment figure for FY 2011 – FY 2013.

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 is 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 and now OPM 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 and OPM assumed $3,018,361 to be the correct figure.

In 2013, York County had a six-month transitional budget covering January 1 – June 30 as they move from a calendar-year to a fiscal-year budget. While this change does not affect the 2013 limit calculation, the assessments were approximately half of what they would normally be, as they covered only a six-month period. This results in an assessment well below the limit, distorting the aggregate total assessment for all counties. For the purposes of the combined county assessment calculations, York County's assessment for 2013 was multiplied by two to estimate a full-year budget.

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 $144.8 million. Actual assessments were $143.4 million (1.0% below the limit). This is closer to the limit than counties have been in the past two years.[8]

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8 When LD 1 passed, 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 9 parses out this exemption from other spending

Table 9: Combined County Assessment Limit Calculation

Note: All dollar figures in millions

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
LD 1 Average Annual Growth Factor	--	--	6.1%	5.2%	5.6%	4.8%	4.1%	3.5%	3.1%	2.5%
Base Assessment Limit	$99.4	$104.4	$110.8	$119.4	$130.1	$132.7	$135.7	$140.2	$142.7	$144.8
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	$140.2	$142.7	$144.8
Actual Total Assessments	$99.4	$104.8	$111.3	$119.8	$128.8	$131.0	$134.4	$136.0	$138.1	$143.4
Amount Below LD 1 Limit	--	--	$3.7	$2.2	$1.3	$1.7	$1.3	$3.9	$4.5	$1.4
Percent Below LD 1 Limit	--	--	3.2%	1.8%	1.0%	1.3%	1.0%	2.8%	3.2%	1.0%

Source: Office of Policy and Management

Notes:

** 2011-2013 assume Somerset County voted to increase its limit in FY09*

*** Androscoggin, Oxford, and Sagadahoc counties did not submit LD 1 data for 2013, so OPM estimated the data using the municipal survey and county budgets*

**** York County was on a 6-month transitional budget for January 1 - June 30, 2013. For the purposes of this table, the 6-month assessment was multiplied by 2 to estimate a full-year budget*

Table 10 shows annual growth of total county assessments. Assessments increased 3.8% between 2012 and 2013, the largest increase since assessments for jails were capped in 2009. Non-correctional-related expenses grew 10.9% in 2013.

Table 10: Growth of Total County Assessments

Note: All dollar figures in millions

Year	Total Assessments	Annual % Change
2013	$143.4	3.8%
2012	$138.1	1.6%
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: Office of Policy and Management

Assessment Growth of Individual Counties

In 2013, every county was allowed to increase their assessment by the 1.05% income growth factor plus the growth in newly taxable property in the county. Three counties did not provide responses to the 2013 survey: Androscoggin, Oxford, and Sagadahoc. Lincoln County responded to the survey but provided a growth factor of 1.05%, indicating zero property growth for its municipalities. For these counties, OPM estimated property growth factors using the responses to the 2013 Municipal Property Tax Levy Limit Survey collected for this report. This follows the same methodology used by the counties in their property growth calculation. Adding together personal income and property growth factors produced LD 1 assessment growth factors ranging from 1.46% to 5.13%.

Many counties report difficulty obtaining information on new property growth from their member municipalities. In addition, obtaining accurate information from most counties was challenging. Some counties made noticeable errors in the information they provided, and other counties likely made unnoticeable errors. Many counties calculated their limit incorrectly with respect to Jail Unification. Several counties that did calculate their limit correctly were calculating it based on an incorrect number for their 2012 LD 1 limit, thus making their reported 2013 limit incorrect. To address this issue, OPM provided counties with the 2012 limit calculated by this office and several counties did use this figure as their starting point for the 2013 limit calculation. Oxford County uses a different method than the one prescribed by law to calculate its property growth factor. It uses change in total state valuation to calculate its LD 1 limit, which includes growth or decline in the valuation of existing property. Somerset County provided an assessment for jails that did not match statutory limits.[9,10] Androscoggin, Oxford,

[9] 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 OPM used that number despite the fact that Somerset County reported a lesser correctional-related assessment figure.

[10] 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 and OPM assumed $2,657,105 to be the correct figure. For 2012 (FY 2013), Lincoln County reported a correctional services-related assessment of $2,656,930, which is $175 less than the statutory limit. For 2013 (FY 2014), Lincoln County reported a correctional services-related assessment of $2,698,965, which is $41,860

and Sagadahoc Counties did not provide a property growth factor or LD 1 limit calculation. OPM attempted to correct and verify all information used in this report, but some questionable numbers remain.

Nine counties stayed within their LD 1 limits, one more than in 2012. This includes Somerset County assuming a vote to increase the limit in FY 2009. York County was significantly under their limit but only had a six-month transitional budget. Excluding York, the eight remaining counties that stayed with their limits reported assessments ranging from 23.7% to 2.1% below the limit. Of these, three counties were more than 10% below the limit and five counties were between 2.1% and 10% below their limit. On average these eight counties were 8.7% below their limit.

Of the seven counties that surpassed their LD 1 limit, only Cumberland reported voting to exceed or increase their limit. Some of the other counties assumed they were under their LD 1 limit, either beginning their 2013 limit calculation with the incorrect limit they reported in 2012, mistakenly believing LD 1 has a "banking" provision where the "surplus" from one year can be added to the following year's limit, or making simple computational errors.

Summary

In aggregate, counties stayed within their LD 1 limit in 2013. County assessments were $1.4 million (1.0%) below the limit. Total statewide county assessments grew 3.8% from 2012 to 2013, which was the largest annual growth rate since jail assessments were capped at 2008 levels. Individually, nine counties stayed within their limits and seven surpassed them, although York County was operating under a six-month transitional budget. Only one of the seven counties surpassing their limit reported voting to exceed or increase their limit as prescribed by law, most likely due to errors in calculating LD 1 limits.

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more than the statutory limit. For the purposes of this report, OPM assumed $2,657,105 to be the correct figure for FY 2013 and FY 2014.

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 2008-2013 period is the 2007-2009 recession. 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 2014, the state stayed within its General Fund appropriations limit for the ninth year in a row. Declining state revenue in the context of the national recession that began in December 2007 severely curtailed growth in General Fund appropriations, including General Purpose Aid for local schools. Appropriations grew 3.0% in FY 2014 and the state remains 12.5% 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. Sixty-five percent of municipalities stayed within their limits.

Nine of Maine's sixteen counties stayed within their LD 1 growth limits in 2013 (or FY 2014 for counties operating on fiscal year budgets). Overall, total county assessment growth was 3.8%, which was the largest annual growth rate since county jail assessments were capped at 2008 levels. Most 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 ninth 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 12.7%. eighty-seven percent of schools exceeded their individual 100% of EPS target, and 74% of schools exceeded 105% of EPS. Compared to last year, the percentage of schools exceeding 100% of EPS increased as did the amount by which they exceeded EPS. FY 2014 saw a decline in the number of schools that fell short of 100% of EPS funding, with approximately 11% of local schools not meeting the EPS minimum. Combined state and local appropriations for K-12 schools increased 3.3% in FY 2014. This was the third increase since FY 2009, following the 2012 expiration of ARRA funding, which had bolstered K-12 schools in FY 2009 – FY 2011.