

MAINE STATE LEGISLATURE

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***Commissioner's
Recommended Funding
Level
Fiscal Year 2003***

December 12, 2001

State of Maine
DEPARTMENT OF EDUCATION
Management Information Systems Team
23 State House Station
Augusta, ME 04333-0023




STATE OF MAINE
DEPARTMENT OF EDUCATION
23 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0023

ANGUS S. KING, JR.
GOVERNOR

J. DUKE ALBANESE
COMMISSIONER

TO: The Honorable Angus S. King, Jr., Governor
Members of the 120th Maine Legislature
Members of the State Board of Education

FROM: J. Duke Albanese  Commissioner of Education

DATE: December 12, 2001

SUBJECT: RECOMMENDED FUNDING LEVEL for Fiscal Year 2002-03

Please find enclosed my *Recommended Funding Level* for General Purpose Aid for Education, as proposed to the State Board of Education on December 12, 2001. The FY 2002-03 state appropriation that would be required by this *Recommended Funding Level* is \$730,041,976. This amount would represent a 4% increase over the FY 2001-02 appropriation, up from the 2.34% increase that is already in the biennium budget. The supplemental appropriation that would be necessary for this additional increase is \$11,683,385.

This recommendation is the result of considerable reflection on my part regarding these difficult times, and it is offered in the hope that the slowing economy will rebound sufficiently to allow for the revenues our state needs to assist our schools. On the one hand, a 6% increase from FY 2001-02 to FY 2002-03 has been part of a multi-year plan that I have supported; that level of funding would be required to maintain the Legislature's targets regarding increases in the Per-pupil Guarantee and the elimination of the Program Costs subsidy reduction provision – both important steps as Maine moves to adopt a school funding approach based on Essential Programs & Services. At the end of the first session of the 120th Legislature, Governor King and many members of the Legislature indicated their intent to bolster GPA funding in FY 2002-03, if at all possible, beyond the \$718 million level that is now in the biennium budget. However, I also recognize the fiscal constraints that the State is now facing because of lowered revenue projections, as well as the continuing high burden on local property taxpayers. Thus, my recommendation for a 4% increase strives for a balance that is responsive to both of these competing needs. The request to increase the present appropriation is made with the understanding that the additional \$11,683,385 in state revenues can be attained if we experience a recovering state economy.

The matter of the FY 2002-03 funding level is complicated by the possibility that before the Legislature makes its final appropriation decisions, the projected state revenues for the biennium may be adjusted. A more optimistic projection is possible, although the possibility of a grimmer revenue projection could occur. If the projected revenues improve, then at least a 4%



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GPA increase would be possible. Additionally, I am identifying an alternative funding level, complete with new targets that might be considered by the Legislature, if the current revenue picture doesn't improve. If later events suggest that this alternative should require serious consideration, then I will prepare and provide all necessary details regarding this alternative based on a GPA increase of 2.34%, as appropriated in the biennium budget. Until then, I have provided the following high-level summary of the alternative funding level, with corresponding information for my recommended funding level also displayed for comparison purposes.

	Recommended Funding Level (as proposed to the State Board of Education if additional funds become available)	Alternative Funding Level (as currently budgeted – if additional funds do <u>not</u> become available)
% Increase from FY 2001-02	4%	2.34%
Supplemental Appropriation Required	\$11,683,385	\$0
Final FY 2002-03 Appropriation	\$730,041,976	\$718,358,591
Progress toward Legislated Per-pupil Guarantee Target ✓ FY 2001-02 implementation: \$4,687 ✓ FY 2002-03 target: \$5,204	\$4,946 (1/2 of the distance to the FY 03 target)	\$4,816 (1/4 of the distance to the FY 03 target)
Progress toward Legislated Subsidy Reduction Elimination Target ✓ FY 2001-02 implementation: -4.98% ✓ FY 2002-03 target: 0%	-2.49% (1/2 of the distance to the FY 03 target)	-3.74% (1/4 of the distance to the FY 03 target)
Timeline for reaching both legislated targets (initially specified as FY 2002-03 targets)	FY 2003-04 or later	FY 2003-04 or later
Cushion Amount (included in the total appropriation)	\$3,000,000	\$4,000,000

It is important to note that in the above summaries of the two funding levels, progress towards meeting the legislated targets – increasing the Per-pupil Guarantee and eliminating the Program Costs subsidy reduction percentage – is adjusted according to the total appropriation amount. The establishment of the legislated targets was predicated on an annual 6% increase in GPA. If an increase of 4% or less is necessary, then I believe that the FY 2002-03 targets must be scaled back, and a longer timeframe would be required to reach the final targets. Despite this delay in reaching the final targets, it is important that implementation of the *Essential Programs & Services* funding approach begin, as planned, in FY 2003-04. However, in the event of such a delay, both the state and local revenue contributions for FY 2003-04 should reflect manageable growth from the corresponding FY 2002-03, and full implementation of *Essential Programs & Services* will need to be extended by one or more years.

As I indicated at the beginning of this letter, my *Recommended Funding Level* must represent a balance between Maine's educational needs and the capacity of the State and of its local taxpayers to pay for these needs. My proposal for extending the timeline for meeting the legislated targets regarding the Per-pupil Guarantee and the Program Costs subsidy reduction percentage represents our effort to acknowledge the fiscal burden that is borne by property taxpayers. I believe that two other features should also be considered, to further alleviate the pressure on local taxpayers:

- ✓ *First*, a cushion must be a part of the final funding plan. The amount of this cushion will depend on the total funds that are available for GPA. I am proposing a \$3 million cushion to accompany the proposal for a 4% overall increase in GPA. If the final amount of GPA is different from 4%, then the cushion amount should be adjusted appropriately. If the FY 2002-03 GPA level remains at a 2.34% increase, then a \$4 million cushion should be set aside.
- ✓ *Second*, it is clear that many units will experience significant subsidy losses from FY 2001-02 to FY 2002-03 due to changes in state valuation. Abrupt increases in state valuation are a significant contributing factor in these expected subsidy losses. Current law already provides for averaging state valuation to moderate the sharpness of changes in state valuation. I will be exploring this matter further and expect to offer recommendations to the Legislature for the purpose of moderating, even more than is currently provided by law, the effects of sharp increases in state valuation on the GPA calculations.

I fully understand that there are many competing demands for state funds, regardless of the projection of biennium revenues. However, I must emphasize that Maine is in the midst of its most ambitious and, one could argue, most important effort to improve our public schools, striving to raise significantly the achievement and the aspirations of our young people. Rather than view school funding simply as an expenditure, we need to consider this funding as an investment in the future of Maine. Dramatically improving the education attainment of all Maine citizens is at the heart of our collective efforts to improve the quality of life for all Mainers, realizing a sustainable prosperity that has been elusive for our state during its history. Our vision – *Maine people are among the best educated in the world* – will require our collective persistence to go beyond Maine's strong relative performance in K-12 education to a new future, where *all*, not *some* of our students demonstrate high levels of literacy.

JDA:cs



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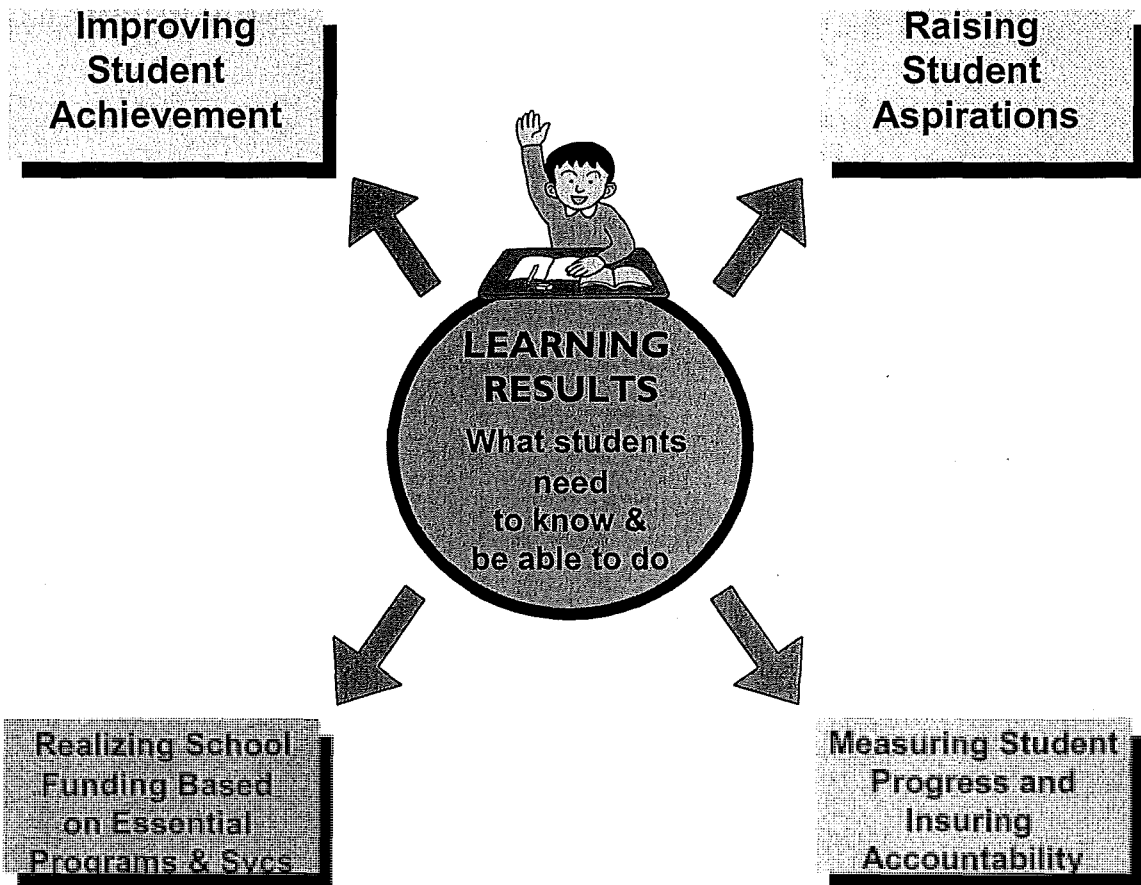
Background



A Vision for Maine Education

Maine people will be among the best educated in the world.

- **Age 0-5.** Every child starts school “ready to learn”.
- **Grades K-12.** Every student achieves at the highest level possible and leaves school prepared for post-secondary study.
- **Post-secondary.** Maine people are well educated for life and work in the 21st century.

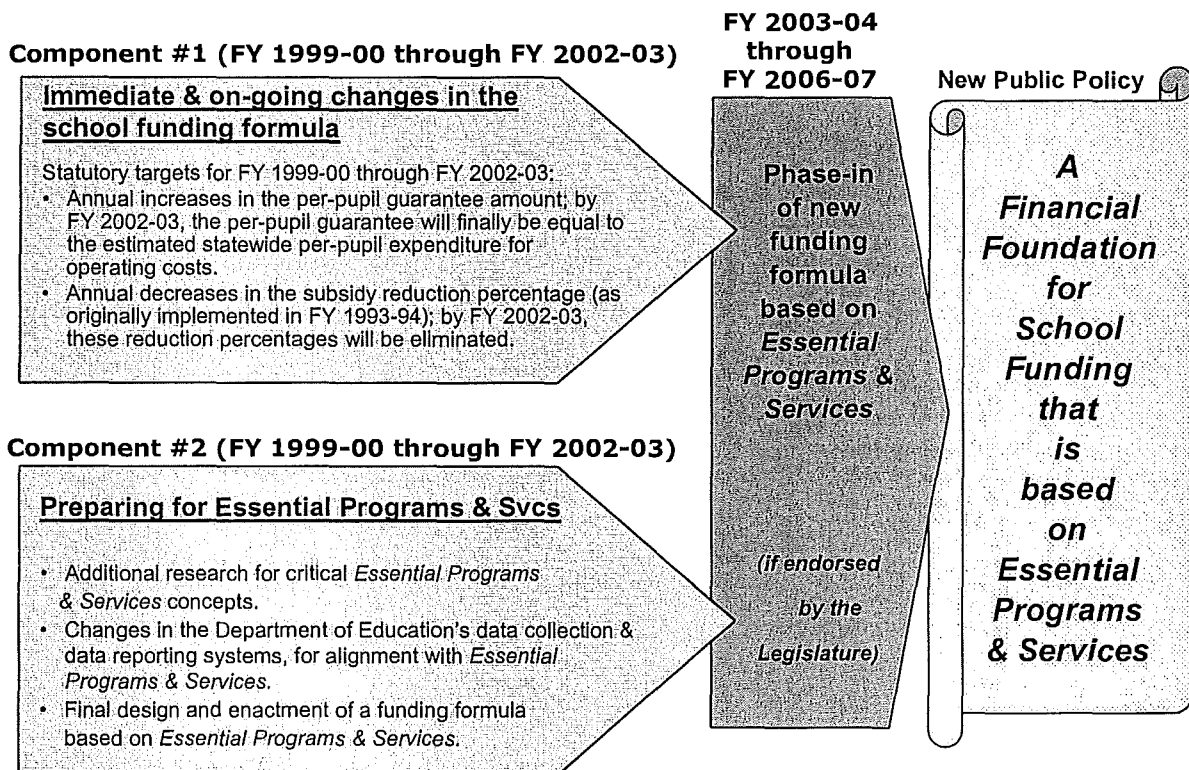


School Funding Legislation Leading to Essential Programs & Services

A plan for improving Maine's school funding formula has been enacted by the Legislature. The initial phase of this plan was enacted during the 1st session of the 119th Legislature. This initial phase, being implemented in the four-year period from FY 1999-00 through FY 2002-03, consists of two related components.

- In one component, legislation was enacted which immediately improved the funding formula.
- The second component directed additional preparations by the State Board of Education and by the Department of Education, to prepare for a phase-in to funding based on Essential Programs and Services. This phase-in, if approved by the Legislature, would begin in FY 2003-04 and be completed in FY 2006-07.

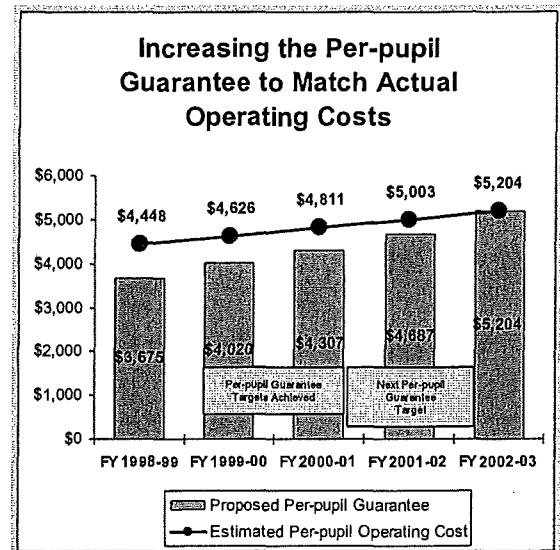
An overview of the initial phase (FY 1999-00 through FY 2002-03), and of the succeeding four-year phase (FY 2003-04 through FY 2006-07) is displayed below.



Key features of this plan are described on the next page.

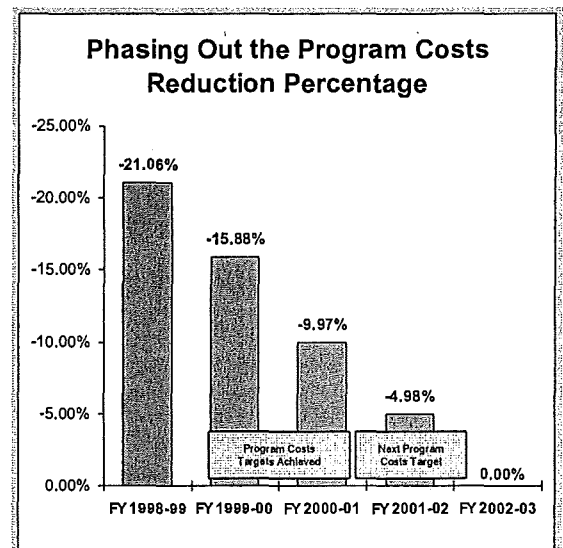
Operating Costs

- Operating costs include most salary and benefit costs, supplies, building maintenance, etc. The "Per-pupil Guarantee" is the legislatively set total dollar amount for per-pupil operating costs. The State and the local school unit jointly contribute to equalize funds for each pupil at this level.
- Until FY 1999-00, this amount was set annually, without regard to the actual level of per-pupil costs in Maine districts. For example: in FY 1998-99, the Per-pupil Guarantee was \$3,675, 82.6% of FY 1998-99's estimated per-pupil cost of \$4,448.
- In FY 1999-00, the Per-pupil Guarantee was increased to \$4,020, 86.9% of the estimated per-pupil operating costs in FY 1999-00. In FY 2000-01, the Per-pupil Guarantee was increased again, to \$4,307, representing 89.5% of FY 2000-01's estimated per-pupil operating costs. During each of the following two years, further increases in the Per-pupil Guarantee will continue to close the gap between the Per-pupil Guarantee and the actual level of per-pupil costs, thereby improving pupil equity. By FY 2002-03, the Per-pupil Guarantee would be \$5,204 and equal to the estimated per-pupil costs during that year.



Program Costs

- Program Costs include costs for Special Education, Vocational Education, Transportation, and Early Childhood. In FY 1998-99, subsidies for most Program Costs ignored 21.06% of subsidizable costs for these programs; Transportation subsidies ignore 12.89% of these subsidizable costs.
- Changes in the school funding statute will, over a four year period, lower these reduction percentages to 0%. In FY 1999-00, the reduction percentage for most Program Cost components was 15.88%, instead of 21.06% in FY 1998-99. In FY 1999-00, the reduction percentage for Transportation was 14.38%. In FY 2000-01, the reduction percentage for all Program Costs is 9.97%. The reduction percentage will be 4.98% in FY 2001-02, and it will be 0% in FY 2002-03 and in succeeding years.
- After eliminating these subsidy reductions, the state would again be paying its full share of approximately 62% of all program costs.



Preparing for Essential Programs & Services

In preparation for the phase-in to funding based on the Essential Programs & Services model:

- the State Board of Education will arrange for additional research into key areas such as transportation, special education, vocational education, best practices (high performance & efficient operations) and revenue sources for funding public education.
- the Department of Education will refine and expand its data collection and data reporting systems for alignment with the funding of Essential Programs & Services.



FY 2002-03 Recommendations

Annual Statutory Deadlines

- Prior to December 15th, the Commissioner, with the approval of the state board, shall recommend to the Governor and the Bureau of the Budget the funding levels for General Purpose Aid to Local Schools. (20-A M.R.S.A. Sec. 15606)
- No later than the Friday following the first Monday in January, the Bureau of the Budget shall annually certify to the Legislature the funding levels recommended by the Governor. (5 M.R.S.A. Sec. 1666)
- Prior to March 15th, the Legislature shall enact legislation regarding the above recommendations on the funding levels for General Purpose Aid to Local Schools. (20-A M.R.S.A. Sec. 15607)

Targets for Four Year Transition Plan to Essential Programs & Services

	1st Year FY 00	2nd Year FY 01	3rd Year FY 02	4th Year FY 03
Per Pupil Guarantee	\$4,020	\$4,307	\$4,687	\$5,204
Reduction Percentage	-15.88%	-9.97%	-4.98%	0.00%
Reduction Percentage (Transp.)	-14.38%	-9.97%	-4.98%	0.00%
	Targets Met	Targets Met	Targets Met	Recommend Adjustment to Targets

Recommended Elements 2002-03 Funding – if additional 2002-03 funds are available

Appropriations:

	2001-02 Enacted	2002-03 Recommendation
Foundation	\$600,857,743	\$619,959,820
Debt Service	\$58,446,035	\$63,899,471
Adjustments excluding cushions	\$36,459,660	\$43,182,685
Total	\$695,763,438	\$727,041,976
Cushions	\$6,200,000	\$3,000,000
Total with Cushion	\$701,963,438	\$730,041,976 4%

Appropriation needed: \$11.7 million over FY 2002-2003 \$718.4 enacted

Rates based on Chapter 606 School Finance Act of 1985

	2001-02 Enacted	2002-03 Recommendation
Operating Cost Mill Rate	8.04	9.28
Program Millage Limit	1.43	1.48
Debt Service Millage Limit	0.50	0.49
Foundation Per Pupil Operating Rate (K-12)	\$4,629	\$5,199
Elementary Per Pupil Operating Rate (K-8)	\$4,416	\$5,000
Secondary Per Pupil Operating Rate (9-12)	\$5,101	\$5,629
Reduction Percentages		
Program Cost Reduction	4.98%	2.49%
Transportation Operating Reduction	4.98%	2.49%
Insured Value Factor Reduction	4.98%	2.49%

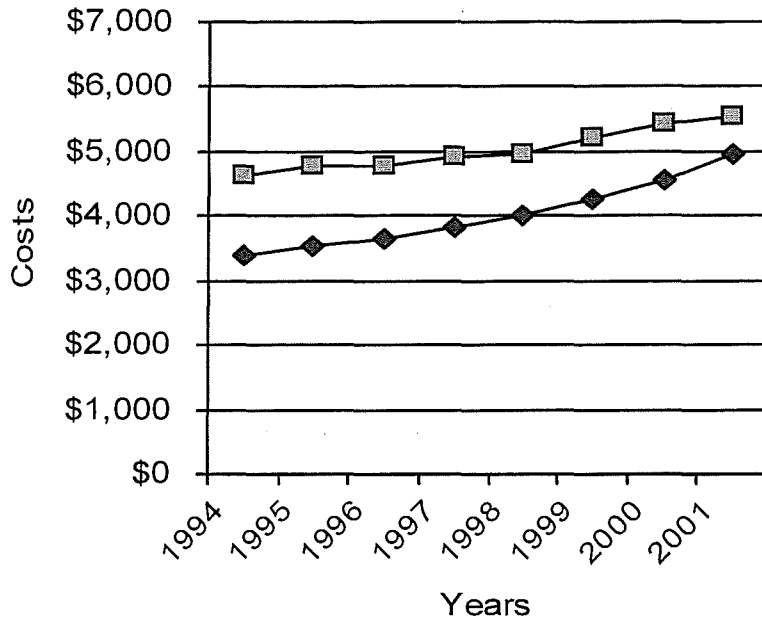
Rates based on Chapter 606-A School Finance Act of 1995

	2001-02 Enacted	2002-03 Recommendation
Statewide local share of the Per Pupil Guarantee mill rate	7.57	7.60
Per Pupil Guarantee	\$4,687	\$4,946
Statewide Factor	0.60290	0.62450



Tables and Graphs

Per Pupil Operating Costs

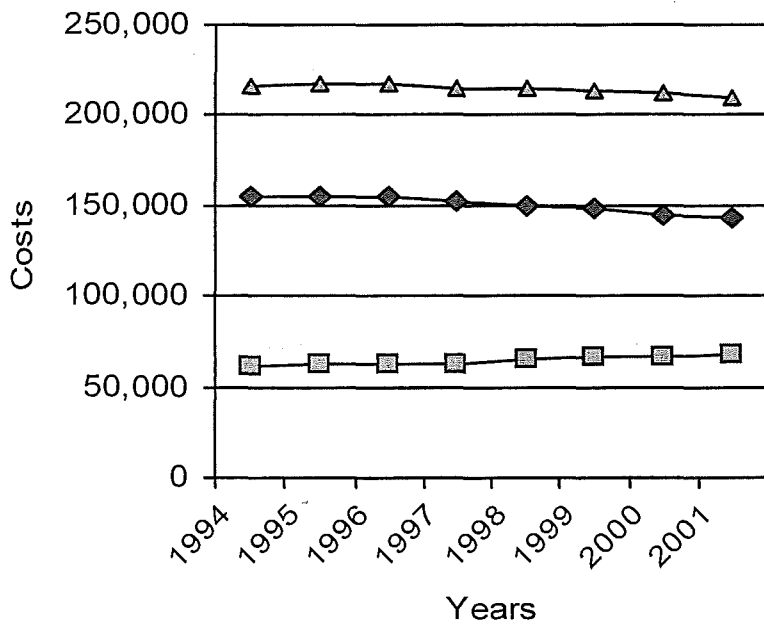


◆ Grades K-8
■ Grades 9-12

YEAR	ELEM.	SEC.
1994	\$3,396	\$4,623
1995	\$3,546	\$4,758
1996	\$3,656	\$4,786
1997	\$3,824	\$4,914
1998	\$4,014	\$4,973
1999	\$4,261	\$5,229
2000	\$4,553	\$5,422
2001	\$4,946	\$5,542

Excludes expenditures for special education, vocational education, transportation, leases, major capital and debt service.

October 1st Enrollments



◆ Grades K-8
■ Grades 9-12
▲ Total

YEAR	ELEM.	SEC.	TOTAL
1994	155,176	60,796	215,972
1995	155,309	61,926	217,235
1996	154,361	62,880	217,241
1997	152,525	62,748	215,273
1998	150,004	64,838	214,842
1999	147,859	65,807	213,666
2000	144,928	66,860	211,788
2001	142,688	67,133	209,821

Excludes pupils from the Unorganized Territory

Expenditure and Revenue Trends

EXPENDITURE AND REVENUE TRENDS

Some of the educational expenditure trends (through FY 2001) that have influenced the amount of this Recommended Funding Level are described below, and in the following tables graphs.

Recent Trends in Factors Associated With Educational Expenditures

		Percentage of Change					
		FY 96 to FY 97	FY 97 to FY 98	FY 98 to FY 99	FY 99 to FY 2000	FY 2000 to FY 2001	FY 96 to FY 2001
1	Total State & Local Expenditures	4.57%	3.55%	5.58%	6.20%	6.43%	29.23%
2	Per Pupil Operating Costs						
A.	Elementary	4.60%	4.97%	6.15%	6.85%	8.63%	35.28%
B.	Secondary	2.67%	1.20%	5.15%	3.69%	2.21%	15.80%
3	Pupil Enrollments						
A.	Elementary	-1.20%	-1.65%	-1.43%	-1.98%	-1.55%	-7.57%
B.	Secondary	3.00%	0.18%	1.49%	1.60%	0.41%	6.84%

Total State & Local Expenditures are those expenditures detailed in the tables titled "State & Local Expenditure Trends - By Function" and "State & Local Expenditure Trends - By Funding Classifications".

Per Pupil Operating Costs are all State & Local expenditures excluding Early Childhood, Special Education, Vocational Education, Transportation (Operating & Buses), Insured Value, Leases, Major Capital Outlay and Principal & Interest.

Pupil Enrollments are the resident enrollments collected on October 1st of each year.

STATE & LOCAL EXPENDITURE TRENDS – BY FUNCTION

	Annual Expenditures			Percentage of Increase in Expenditures	
	FY 99	FY 2000	FY 2001	FY 99 to FY 2000	FY 2000 to FY 2001
1. General Administration					
A. Salaries	\$27,187,976	\$29,622,139	\$31,044,994	8.95%	4.80%
B. Benefits	\$5,023,788	\$5,369,015	\$6,530,965	6.87%	21.64%
C. Other	\$16,806,191	\$18,758,450	\$19,481,987	11.62%	3.86%
D. Total	\$49,017,956	\$53,749,603	\$57,057,946	9.65%	6.16%
2. School Administration					
A. Salaries	\$56,703,750	\$60,277,955	\$63,055,008	6.30%	4.61%
B. Benefits	\$7,995,272	\$8,587,598	\$9,564,444	7.41%	11.38%
C. Other	\$7,259,275	\$7,707,984	\$7,461,615	6.18%	-3.20%
D. Total	\$71,958,297	\$76,573,538	\$80,081,068	6.41%	4.58%
3. Instruction					
A. Salaries, Professional	\$604,353,020	\$629,995,583	\$651,013,612	4.24%	3.34%
B. Salaries, Other	\$83,182,702	\$94,245,583	\$106,180,956	13.30%	12.66%
C. Benefits	\$94,623,247	\$102,821,254	\$117,018,573	8.66%	13.81%
D. Teaching Supplies	\$23,441,697	\$24,299,308	\$26,417,718	3.66%	8.72%
E. Books and Periodicals	\$12,210,431	\$13,356,029	\$13,956,050	9.38%	4.49%
F. Other	\$46,095,332	\$48,904,539	\$52,334,612	6.09%	7.01%
G. Total	\$863,906,430	\$913,622,297	\$966,921,521	5.75%	5.83%
4. Tuition to Non-Public Schools	\$31,181,253	\$32,838,473	\$32,548,862	5.31%	-0.88%
5. Tuition/Fees for State Wards	\$7,251,055	\$7,514,925	\$8,017,560	3.64%	6.69%
6. Tuition/Fees for State Agency Clients	\$17,670,243	\$18,924,228	\$22,352,540	7.10%	18.12%
7. Voc. Ed. Assessments to Regions (Operating Only)	\$9,120,979	\$9,173,769	\$9,836,080	0.58%	7.22%
8. Nutrition	\$4,899,537	\$4,645,475	\$5,108,025	-5.19%	9.96%
9. Operation & Maintenance of Plant					
A. Salaries	\$46,762,806	\$49,241,435	\$52,261,641	5.30%	6.13%
B. Benefits	\$11,664,427	\$11,825,301	\$12,764,864	1.38%	7.95%
C. Purchased Services	\$35,483,869	\$35,021,917	\$44,185,089	-1.30%	26.16%
D. Insurance	\$2,532,554	\$2,385,359	\$2,675,012	-5.81%	12.14%
E. Energy	\$24,991,796	\$29,606,375	\$33,869,567	18.46%	14.40%
F. Other	\$18,249,208	\$20,403,454	\$22,608,302	11.80%	10.81%
G. Total	\$139,684,660	\$148,483,840	\$168,364,473	6.30%	13.39%

STATE & LOCAL EXPENDITURE TRENDS – BY FUNCTION, Continued

	Annual Expenditures			Percentage of Increase in Expenditures	
	FY 99	FY 2000	FY 2001	FY 99 to FY 2000	FY 2000 to FY 2001
	FY 99	FY 2000	FY 2001	FY 2000	FY 2001
10. <u>Less Misc. Local Revenue</u>	(\$9,340,137)	(\$10,107,261)	(\$9,468,433)	8.21%	-6.32%
11. <u>Less Federal Revenues</u>	(\$2,115,083) *	(\$2,476,778) *	(\$2,843,527) *	17.10%	14.81%
12. TOTAL OPERATING COST INCLUDING SPECIAL AND VOCATIONAL EDUCATION	\$1,183,235,190	\$1,252,942,110	\$1,337,976,115	5.89%	6.79%
13. <u>Transportation, Operating</u>					
A. Salaries	\$28,879,962	\$30,332,116	\$31,665,138	5.03%	4.39%
B. Benefits	\$7,896,577	\$8,217,044	\$8,890,215	4.06%	8.19%
C. Purchased Services	\$16,701,348	\$17,606,170	\$18,733,348	5.42%	6.40%
D. Other	\$12,054,904	\$15,266,567	\$16,007,976	26.64%	4.86%
E. Total	\$65,532,790	\$71,421,897	\$75,296,677	8.99%	5.43%
14. <u>Transportation, Buses</u>					
A. Approved for subsidy	\$4,874,625	\$4,337,254	\$4,853,408	-11.02%	11.90%
B. Other	\$648,702	\$1,068,772	\$482,909	64.76%	-54.82%
C. Total	\$5,523,327	\$5,406,026	\$5,336,317	-2.12%	-1.29%
15. <u>Major Capital Outlay</u>	\$6,258,946	\$8,953,895	\$4,967,818	43.06%	-44.52%
16. <u>Insured Value</u>	\$2,408,308	\$2,701,106	\$2,812,974	12.16%	4.14%
17. <u>Leases</u>					
A. Approved for subsidy	\$6,201,648	\$6,868,374	\$7,348,422	10.75%	6.99%
B. Other	\$2,999,088	\$2,476,280	\$3,709,225	-17.43%	49.79%
C. Total	\$9,200,736	\$9,344,655	\$11,057,647	1.56%	18.33%
18. <u>Debt Service</u>					
A. Approved for subsidy	\$66,145,753	\$67,258,857	\$67,168,857	1.68%	-0.13%
B. Other	\$10,704,509	\$15,015,460	\$20,401,324	40.27%	35.87%
C. Total	\$76,850,262	\$82,274,316	\$87,570,181	7.06%	6.44%
19. <u>Less:</u>					
P.L. 81-874 Federal Revenue	(\$2,037,801)	(\$2,523,818)	(\$2,451,727)	23.85%	-2.86%
20. GRAND TOTAL	\$1,346,971,758	\$1,430,520,187	\$1,522,566,002	6.20%	6.43%

* Includes Bureau of Indian Affairs funds for reservation schools.

STATE & LOCAL EXPENDITURE TRENDS – BY FUNDING CLASSIFICATIONS

	(1)	(2)	(3)	(4)	(5)
	ACTUAL COST OF FY 99	ACTUAL COST OF FY 2000	ACTUAL COST OF FY 2001	PERCENT OF INCREASE FY 99 TO FY 2000	PERCENT OF INCREASE FY 2000 TO FY 2001
OPERATING:					
ELEMENTARY	\$637,935,898	\$671,690,159	\$715,170,386	5.29%	6.47%
SECONDARY	\$332,361,561	\$349,795,851	\$373,311,493	5.25%	6.72%
TOTAL	\$970,297,460	\$1,021,486,010	\$1,088,481,879	5.28%	6.56%
EARLY CHILDHOOD	\$554,006	\$678,712	\$935,375	22.51%	37.82%
SPECIAL EDUCATION	\$185,548,049	\$203,180,915	\$218,089,476	9.50%	7.34%
VOCATIONAL EDUCATION	\$26,835,675	\$27,596,473	\$30,469,385	2.84%	10.41%
TRANSPORTATION - OPERATING	\$65,532,790	\$71,421,897	\$75,296,677	8.99%	5.43%
TRANSPORTATION - BUSES	\$5,523,327	\$5,406,026	\$5,336,317	-2.12%	-1.29%
INSURED VALUE	\$2,408,308	\$2,701,106	\$2,812,974	12.16%	4.14%
LEASE	\$9,200,736	\$9,344,655	\$11,057,647	1.56%	18.33%
MAJOR CAPITAL OUTLAY	\$6,258,946	\$8,953,895	\$4,967,818	43.06%	-44.52%
PRINCIPAL & INTEREST	\$76,850,262	\$82,274,316	\$87,570,181	7.06%	6.44%
TOTAL	\$1,349,009,558	\$1,433,044,005	\$1,525,017,729	6.23%	6.42%
LESS P.L. 81-874 FEDERAL REV.	(\$2,037,801)	(\$2,523,818)	(\$2,451,727)	23.85%	-2.86%
TOTAL STATE & LOCAL COSTS	\$1,346,971,757	\$1,430,520,187	\$1,522,566,002	6.20%	6.43%

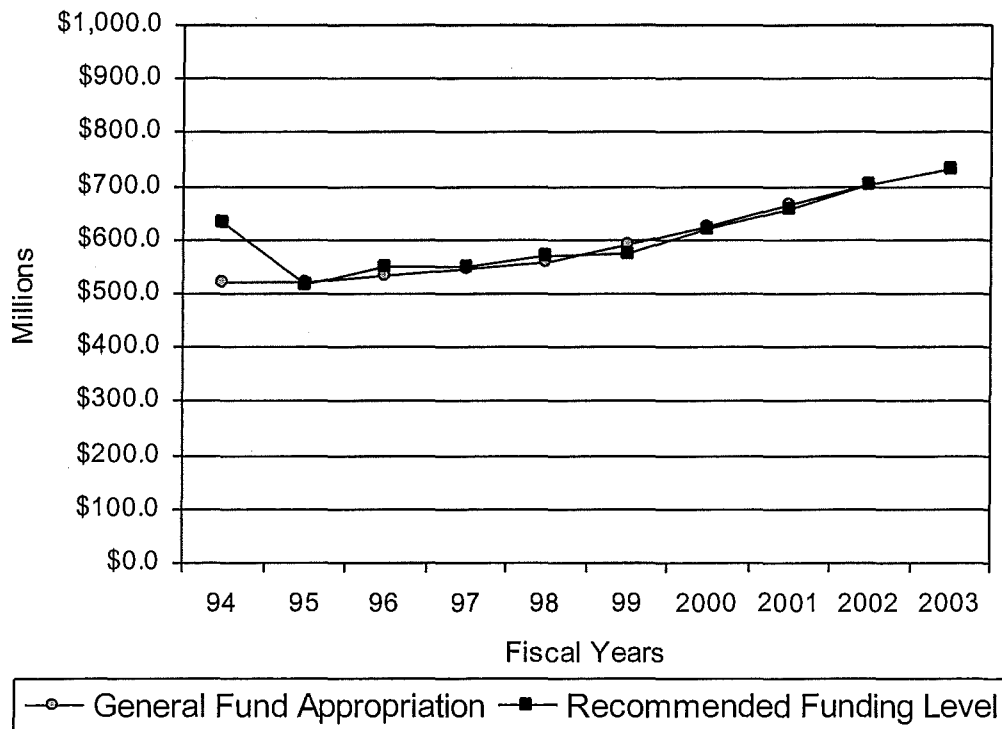
COMPARISON OF APPROPRIATIONS & PROPOSED RECOMMENDED FUNDING LEVEL from FY 99 to FY 03

	FY 99	FY 00	FY 01	FY 02	Certified Funding Level FY 03	Percentage of Increase FY 99 to FY 00	Percentage of Increase FY 00 to FY 01	Percentage of Increase FY 01 to FY 02	Percentage of Increase FY 02 to FY 03
1 Valuations (in billions)*:	\$67.2	\$68.8	\$70.9	\$74.3	\$79.6	2.4%	3.1%	4.8%	7.1%
As prescribed in CH. 606-A	\$67.0	\$68.6	\$70.8	\$74.2	\$79.5	2.4%	3.2%	4.8%	7.1%
2 Mills:									
A. Operating - CH. 606-A	6.06	6.67	7.02	7.57	7.60	10.1%	5.2%	7.8%	0.4%
B. Program	1.11	1.21	1.31	1.43	1.48	9.0%	8.3%	9.2%	3.5%
C. Debt Service	0.50	0.50	0.50	0.50	0.49	0.0%	0.0%	0.0%	(2.0%)
D. Total	7.67	8.38	8.83	9.50	9.57	9.3%	5.4%	7.6%	0.7%
3 School Finance Act of 1985 (CH. 606) Foundation Operating Rates:									
A. Total (K-12)	\$3,328	\$3,393	\$4,138	\$4,629	\$5,199	2.0%	22.0%	11.9%	12.3%
B. Elementary	\$3,107	\$3,201	\$3,908	\$4,416	\$5,000	3.0%	22.1%	13.0%	13.2%
C. Secondary	\$3,862	\$3,845	\$4,664	\$5,101	\$5,629	(0.4%)	21.3%	9.4%	10.4%
4 School Finance Act of 1995 (CH. 606-A) Rates:									
A. Per Pupil Guarantee Rates	\$3,675	\$4,020	\$4,307	\$4,687	\$4,946	9.4%	7.1%	8.8%	5.5%
B. Statewide Adjustment Factor	0.53790	0.56410	0.57186	0.60290	0.62450	4.9%	1.4%	5.4%	3.6%
C. State Average Per Pupil Fiscal Capacity	\$309,893	\$320,774	\$332,144	\$350,471	\$379,214	3.5%	3.5%	5.5%	8.2%
D. State Median Household Income**	\$31,800	\$31,348	\$31,348	\$31,348	\$31,348	(1.4%)	0.0%	0.0%	0.0%
5 Total State Funds Distributed for Local Education (in millions):									
A. State Share of the Total Allocation	\$562.4	\$591.3	\$622.6	\$659.3	\$683.8	5.1%	5.3%	5.9%	3.7%
B. Hold Harmless/ Hardship Cushion	\$0	\$1.2	\$0	\$0	\$0	100.0%	(100.0%)	0.0%	0.0%
C. Total Adjustments	\$26.2	\$30.2	\$33.0	\$36.4	\$43.2	23.3%	16.2%	44.2%	(51.6%)
D. Sub-total (A. thru C.)	\$591.6	\$622.7	\$655.6	\$701.9	\$730.0	15.3%	9.3%	10.3%	18.7%
E. Retirement	148.5	153.6	162.6	167.0	178.4	5.3%	5.3%	7.1%	4.0%
F. Total (D. and E.)	\$740.1	\$776.3	\$818.2	\$868.9	\$908.4	3.4%	5.9%	2.7%	6.8%
F. Total (D. and E.)	\$740.1	\$776.3	\$818.2	\$868.9	\$908.4	4.9%	5.4%	6.2%	4.5%

* Beginning in FY 94, this is computed as the lesser of (1) the average state valuation for the 2 most recent years or (2) the most recent state valuation.
Beginning in FY 96, this is computed as the average state valuation for the 2 most recent years.

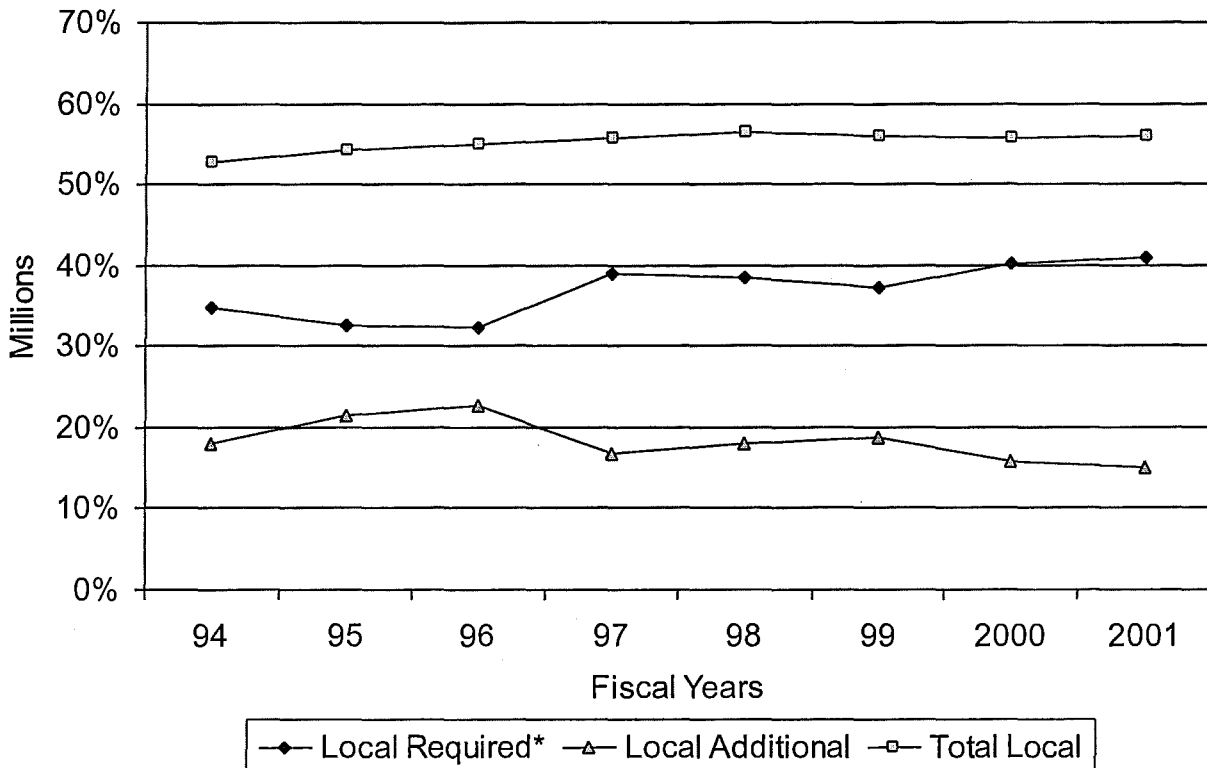
** Beginning in FY 00, this amount was frozen, via statute, at \$31,348

General Purpose Aid to Local Schools

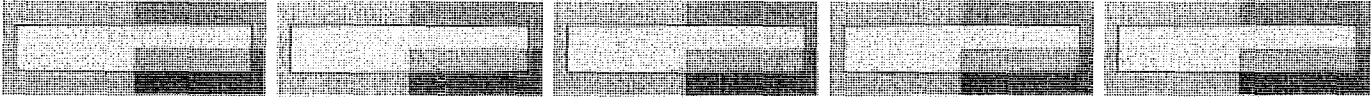


Fiscal Year	General Fund Appropriation	Recommended Funding Level
94	\$519.9	\$630.3
95	\$521.9	\$515.1
96	\$534.1	\$548.0
97	\$544.5	\$548.1
98	\$558.3	\$571.7
99	\$591.6	\$575.0
2000	\$622.7	\$621.1
2001	\$664.1	\$655.9
2002	\$701.9	\$703.9
2003	N/A	\$730.0

Local Funds for Education as a percentage of the total budget



Fiscal Year	Local Required	Local Additional	Total Local
94	34.68%	18.03%	52.71%
95	32.65%	21.51%	54.16%
96	32.33%	22.69%	55.02%
97	38.94%	16.86%	55.80%
98	38.39%	18.11%	56.50%
99	37.21%	18.73%	55.94%
2000	40.11%	15.66%	55.77%
2001	40.94%	14.93%	55.87%



How the School Funding Formula Works



GENERAL BACKGROUND

STATE

- Maine's school funding formula operates according to the requirements of two school funding statutes. The School Finance Act of 1985 still guides many components of the school funding formula. The most recent school funding statute, the School Finance Act of 1995, was first implemented in the 1996-97 fiscal year. The School Finance Act of 1995 guides the calculation of school unit operating cost subsidies, and adds median household income as an additional measure of local ability-to-pay in the operating costs portion of the formula.
- School funding in Maine is, for the most part, no longer expenditure-driven. Provisions presently exist that control the total amount of state subsidies for education. Several changes in the methods for calculating state subsidy amounts have been implemented, all for the purpose of reducing the state obligation. The method used since 1993-94 reduces both the state and local share amounts -- with some exceptions -- for each school unit by a fixed percentage, so that the state's total statewide obligation is equal to the amount appropriated for that purpose.
- All state funds for education are appropriated from the General Fund. The largest revenue sources for the General Fund are the state income tax and the state sales tax. The state appropriation for the basic support program, General Purpose Aid (GPA), is appropriated as a single amount and distributed through the school funding formula to each school administrative unit. Most state education funds are distributed to promote pupil and taxpayer equity.
- In order to obtain GPA funding, each local unit must raise its computed local share, as determined through the funding formula. If a school unit fails to raise 100% of its computed local share, its state subsidy amount is reduced by the same percentage as the reduced local share.
- There are two significant components of school funding that operate "outside the formula": (1) the state pays for 100% of the employee retirement costs for every local school unit (except for federally funded teachers); and (2) local school units may raise additional local property tax revenues without state participation and subject only to approval of the unit's voting public and local legislative body.



LOCAL

- There are currently 285 school administrative units in Maine. Of these, 198 are organized as a part of the government of a single municipality. These single municipality school administrative units are fiscally dependent on the government of that municipality, but the school administrative unit is generally independent of the municipality government for all other policy matters. The remaining 87 school administrative units are organized to provide educational services to more than one municipality. These units, known as School Administrative Districts and Community School Districts, are independent of the governments of the municipalities being served, both fiscally and for other policy matters.
- Many school administrative units do not operate schools, or operate schools for some, but not all, grades. Pupils for which instruction is not provided for in these school units enroll in nearby school administrative units that do provide instruction, or in private schools that have been approved for tuition purposes. Tuition costs for these pupils are provided by the school administrative units where the pupils reside.
- Local property tax is the only tax revenue source for school administrative units. In addition to state subsidies, federal funds, and other grants, some school administrative units also derive revenues from other sources, including tuition charges and fees for transportation. However, these revenues are ultimately derived from property tax levies of other school administrative units.
- Of the 285 local school units described above, three are Maine Indian Education school units. Maine Indian Education derives most of its funding from state and federal sources. State funding for Maine Indian Education is not treated procedurally different through the funding formula from other school units, but state aid for these units that would otherwise be received must be reduced by an amount, called an offset, which represents 15% of specific federal grant funds for Maine Indian Education.
- Education in unorganized townships is supervised by the Education in Unorganized Territories office of the Maine Department of Education. Education in Unorganized Territories operates six schools throughout the unorganized territories, but most pupils residing in these territories are tuitioned to the nearest public school system. Pupils residing in particularly remote areas are provided with education services through a variety of alternative methods. The budget for Education in Unorganized Territories is funded entirely through a local property tax levy across all the unorganized territories, and is independent from the school funding formula.

HOW THE FUNDING FORMULA WORKS

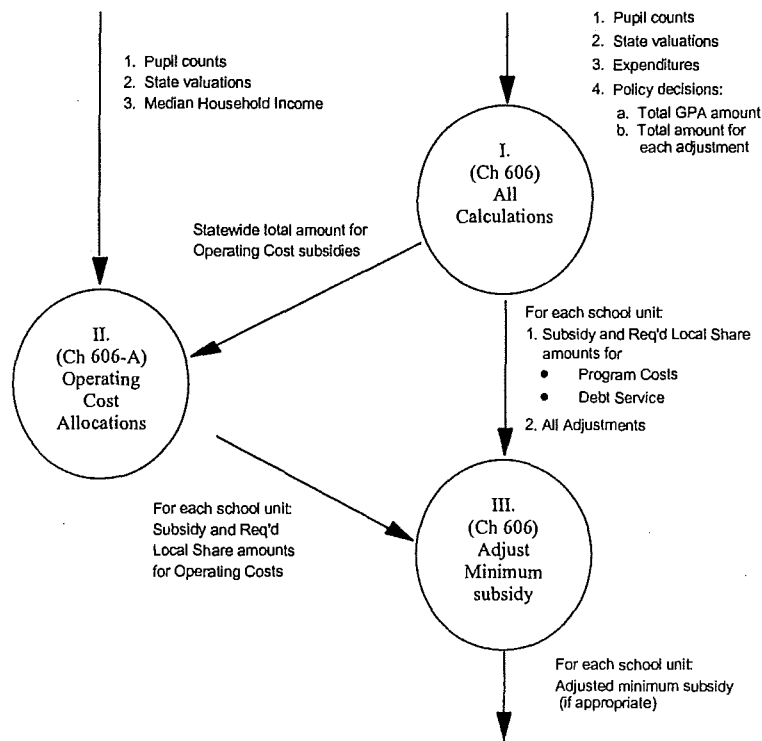
Since 1996-97, Maine's school funding formula has been based on two school funding statutes:

- "The School Finance Act of 1985" (Title 20-A, M.R.S.A., Chapter 606); and
- "The School Finance Act of 1995" (Title 20-A, M.R.S.A., Chapter 606-A).

The School Finance Act of 1985 (Chapter 606) guides the calculation of program costs, debt service, and all adjustments. This statute is also used to determine the *statewide amount* of all operating subsidies.

The School Finance Act of 1995 (Chapter 606A) guides the calculation of each *school unit* operating cost subsidy. The dollar amount represents a Per Pupil Guarantee.

The following diagram depicts the relationship between the Chapter 606 statute and the Chapter 606A statute. In this diagram, the circles represent school funding calculations, and the arrows represent data which is used in these calculations or data which results from the calculations.





PUPIL COUNTS

State subsidy is distributed based on *resident* pupil counts. Resident pupil counts are based on the number of pupils who reside in a school administrative unit and who are being educated at the expense of a school administrative unit. Two snapshot pupil counts are used: as of April 1st and October 1st of the most recent calendar year prior to the year of funding. The average of these two snapshot counts is used for funding purposes.

Pupils are counted as follows: (a) all regular pre-K through grade 12; (b) plus a calculated amount for secondary school-aged alternative education pupils seeking their high school diploma by taking Adult Education courses - 0.1 pupil is counted for each completed course. Three types of counts are taken: one count representing all pupils, a second count for elementary pupils only, and a third count for secondary pupils only.

LOCAL FISCAL CAPACITY

The fiscal capacity of each school administrative unit depends upon (a) the average of the equalized assessed value of all real and personal property valuation in the school unit during the two most recent years prior to the year of funding, and (b) *for operating costs only* -- median household income of the school unit two years prior to the year of funding.

For program costs and debt service, 100% of local fiscal capacity depends on relative property values. For operating costs only, 85% of local fiscal capacity depends upon relative property values, and 15% depends upon relative median household income.

A local unit's property factor is calculated as:

$$\left(\frac{\text{Property Per Pupil Fiscal Capacity for Unit X}}{\text{Statewide Property Per Pupil Fiscal Capacity}} \right)$$

A local unit's income factor is calculated as:

$$\left(\frac{\text{Median Household Income for Unit X}}{\text{Statewide Median Household Income}} \right)$$



EDUCATIONAL COSTS

Education costs that are subsidized through the funding formula are divided into four general categories:

- Operating costs
- Program costs
- Debt service
- Adjustments

Operating costs and program costs together are referred to as the *foundation*.

- Operating** costs include all expenditures except the following:

- subsidizable costs that are defined as program costs and debt service costs, as described below;
- school construction costs not approved by the state;
- community service costs;
- expenditures from federal sources, except federal Impact Aid;
- transportation costs not associated with transporting students from home to school and back each day; and
- teacher retirement costs.

- Program** costs are specific programs that are treated separately from operating costs because these categories of programs can have unusually high costs for an individual school unit. Program costs include:

- costs associated with transportation;
- special education;
- vocational education (applied technology); and
- early childhood education.

- Debt service** includes:

- principal and interest costs for state-approved school construction projects;
- state-approved leases; and
- insured value factor costs.

- Adjustments** include items such as:

- funding for State Wards and State Agency Clients;
- out-of-district special education placements;
- geographic isolation grants;
- audit adjustments;
- private school services;
- long term drug treatment centers;
- hardship cushions;
- English as a 2nd Language.



TECHNICAL CALCULATIONS

- **Operating Costs**

Operating costs for the year of funding are first calculated by updating all subsidizable operating costs in the base year (two year old costs) by the average of the two most recent annual increases in the Consumer Price Index (CPI). Three per-pupil rates, the Foundation Per-Pupil Operating Rates, are established: a K-12 rate, a K-8 rate, and a 9-12 rate. Each of these rates is calculated by dividing the statewide sum of all updated subsidizable operating costs by the average of the appropriate statewide pupil count, as described in the "Allocation Units" section above. An operating cost mill rate is calculated for the limited purpose of acting in tandem with the program cost and debt service millage limits (see below) in determining the state and local shares for the program cost and debt service allocations.

Since the 1996-97 fiscal year, the provisions of the School Finance Act of 1995 have governed the allocation of operating costs. Operating costs for the year of funding are now allocated through the Per-Pupil Guarantee, which replaces the Foundation Per-Pupil Operating Rates for the operating costs allocation.

The Per-Pupil Guarantee is the total amount of operating cost funds made available for each subsidizable pupil. The amount of the Guarantee is set by state policy and by the availability of state revenues. The state share for operating costs is simply what the Legislature appropriates for education for the year of funding, minus state aid for program costs, debt service, and adjustments.

For each local school unit, the unit's local share percentage (for operating costs only) is calculated as:

$$\frac{\text{Statewide Adjustment Factor}}{\text{Factor}} \times \left[(0.85 \times \text{Unit's Property Factor}) + (0.15 \times \text{Unit's Income factor}) \right]$$

The statewide adjustment factor is a percentage that is determined so that the appropriate statewide overall local share percentage will result. The percentage may be explained as the local share percentage of a school administrative unit whose property factor and income factor are equal to the state average of these factors.

If this final calculation is greater than 100% (usually for units with high local ability-to-pay), it is reduced to 100%.



- **Program Costs**

The amount of program cost funding needed for the funding year is calculated by updating program costs in the base year (two year old costs) by the average of the two most recent annual increases in the Consumer Price Index (CPI). A percentage reduction factor is used to reduce the allocation for program costs to ensure that the state's total statewide obligation is limited to the amount appropriated.

The total statewide local share for program costs is limited by statute to 40% of total statewide program costs. The state guarantees that it will fund 60% of total statewide program costs for the fiscal year.

This limitation on the local share of program costs is implemented through the use of a program cost millage limit. The millage limit is used to maintain the 40% local maximum share, and also acts as a "circuit breaker". For each school unit, there is a maximum tax effort for program costs that the unit is required to raise. Once the program cost millage limit has been reached by a local unit, the state pays the balance of program costs for that unit.

- **Debt Service**

The level of debt service is the known obligations and estimated new principal and interest costs for the year of funding that have been approved by the State Board of Education, plus state-approved leases and insured value factor costs. A percentage reduction factor is used to reduce the insured value factor allocation for debt service to ensure that the state's total statewide obligation is limited to the amount appropriated.

The total statewide local share of debt service is limited by statute to 45% of total statewide debt service costs. The state guarantees that it will fund 55% of total statewide debt service costs for the fiscal year. The limitation on the local share for debt service is accomplished by a debt service millage limit. The debt service millage limit operates exactly like the program costs millage limit described above.

- **Adjustments**

Adjustments are distributed to school units based on specialized needs. Funding for adjustments is governed by the applicable statute covering an adjustment, or at the discretion of the Commissioner.

Adjustments are added to the total state allocation after the combined state and local allocation is calculated for operating costs, program costs, and debt service. These adjustments are funded entirely with state funds, and do not affect the local allocation.



•State Share

For each school unit, the amount of state subsidy is:

1. the sum of the school unit's state aid for operating costs, program costs, debt service, and adjustments; and
2. for eligible school units, additional state subsidies that are required to bring the state share for those school units up to a minimum level (See "Districts Off Formula", below).

•Local Share

In order to obtain state share funding, each local unit is expected to raise a local property tax contribution, its computed local share of the foundation (operating costs and program costs), as determined through the funding formula. Units with debt service also must raise a computed local share for debt service. If a school unit fails to raise 100% of its computed local share, its state subsidy amount is reduced by the same percentage as the reduced local share. If a school unit's total state and computed local allocation does not cover its budget, the local unit may opt to raise additional local property tax revenues without state participation and subject only to approval of the unit's voting public and local legislative body.

•Aid Distribution Schedule

The debt service subsidy payment schedule is keyed to the due dates for principal and interest payments at the Maine Municipal Bond Bank or commercial bank. State funds for State Wards and State Agency Clients are disbursed monthly, following receipt of bills for the cost of special educational services from the school units or private school that provide these services. Out-of-district special education funds are distributed once annually, in the spring, following receipt of bills for education/room/board charges. All other subsidies described in this overview are distributed in twelve monthly payments of equal amounts.

•Minimum Subsidy Units

Some school units receive "off the formula" minimum subsidy adjustments. In general, only those school administrative units with high local ability-to-pay receive these adjustments. The amount of each school unit's minimum subsidy is calculated by multiplying 5% of the state's K-12 Foundation Per Pupil Operating Rate by the school unit's pupils.



Appendix

Chapter 606 - Computation of Allocations for FY 2003, 4% Recommendation (if additional funds for 2002-03 become available)

	FY01 Base Year Expenditures	2-Yr. Avg. CPI %	Adjusted Expenditures	TOTAL
OPERATING COSTS:				
1 Adj. Elementary Operating Expend.	\$715,170,386	2.85%	\$735,552,742	
2 Adj. Secondary Operating Expend.	\$373,311,493	2.85%	\$383,950,871	
3 Total Adjusted Operating	<u>\$1,088,481,879</u>		<u>\$1,119,503,612</u>	
4 Less Federal Impact Aid (P.L. 81-874)			\$0	
5 Operating Cost Allocation:				\$1,119,503,612
6 Less (20-A M.R.S.A. Sec. 15603, Sub-sec 26-A(F))	-2.49%			(\$27,875,640)
7 Adjusted Operating Cost Allocation:				<u>\$1,091,627,973</u>
PROGRAM COSTS:				
8 Early Childhood	\$935,375	2.85%	\$962,033	
9 Special Education (Local)	\$170,228,650	2.85%	\$175,080,166	
10 Special Education (Tuition & Board)	\$14,913,954	2.85%	\$15,339,002	
11 Vocational Education	\$30,469,385	2.85%	\$31,337,763	
12 Adjusted Transportation Oper. Costs	<u>\$71,675,710</u>	2.85%	<u>\$73,718,467</u>	
13 Total of Adjustable Program Costs:	<u>\$288,223,073</u>		<u>\$296,437,431</u>	
14 Bus Purchases			\$5,000,000	
15 Total Program Cost (Adjusted)				\$301,437,431
16 Less (20-A M.R.S.A. Sec. 15603, Sub-sec 26-A(F))	-2.49%			(\$7,505,792)
17 Adjusted Program Cost Allocation:				<u>\$293,931,639</u>
DEBT SERVICE:				
18 Principal and Interest			\$77,828,298	
19 Approved Leases			\$5,844,326	
19A Approved Leases-Purchases			\$1,752,084	
20 Insured Value Factor			<u>\$2,812,974</u>	
21 Total Debt Service:				\$88,237,682
22 Less for Insured Value Factor (20-A M.R.S.A. Sec. 15603, Sub-sec 26-A(F))	-2.49%			(\$70,043)
23 Adjusted Debt Service Allocation:				<u>\$88,167,639</u>
24 COMBINED ALLOCATIONS:				<u>\$1,473,727,251</u>
		TOTAL	LOCAL	STATE
25 COMBINED ALLOCATIONS:		\$1,473,727,251	\$792,094,189	\$681,633,062
26 Minimum State Allocation		\$2,226,229		\$2,226,229
27 TOTAL ALLOCATION:		<u>\$1,475,953,480</u>	<u>\$792,094,189</u>	<u>\$683,859,291</u>
(Local share: 53.67% State share: 46.33%)				
28 Additional to Maintain State Share of Operating Cost Allocation at the FY89 level of 54.38%		\$0		\$0
29 ADJUSTED TOTAL ALLOCATION:		<u>\$1,475,953,480</u>	<u>\$792,094,189</u>	<u>\$683,859,291</u>
(Local share: 53.67% State share: 46.33%)				
ADJUSTMENTS AND MISCELLANEOUS COSTS:				
30 Geographic Isolation				\$485,000
31 Quality Incentive				\$0
32 Audits				\$0
33 Private School Services				\$201,000
34 Special Education Hardship				\$0
35 State Wards				\$9,073,737
36 State Agency Clients				\$26,303,190
37 English as a 2nd Language				\$2,073,600
38 Out-of-District Placements				\$3,677,568
39 Long Term Drug Treatment Center				\$68,590
40 Contract for Income and Cost-of-Living Data				\$0
41 Learning Results Implementation				\$1,300,000
42 Hardship Cushion/Hold Harmless				\$3,000,000
42A Hardship Cushion/Hold Harmless				\$0
43 Total Adjustments & Misc. Costs:				<u>\$46,182,685</u>
TOTAL STATE ALLOCATION:				<u>\$730,041,976</u>

Chapter 606 and Chapter 606-A - Computation of Allocations for FY 2003 - 4% Recommendation (if additional funds for 2002-03 become available)

OPERATING COSTS PER CH. 606-A:			
1 Per Pupil Guarantee (Table 6)		\$4,946	
2 2001 Calendar Year Pupils (including Adult Education Pupils)		210,659.0	
3 Operating Cost Allocation:			\$1,041,919,414
3A Declining Enrollment Adjustment		\$4,946	
		1,807.50	
			\$8,939,895
3B Equivalent Instruction Pupils Adjustment		\$4,946	
		75.250	
			\$372,187
4 Adjusted Operating Cost Allocation:			\$1,051,231,496
	FY01 Base Year Expenditures	2-Yr. Avg. CPI %	Adjusted Expenditures
PROGRAM COSTS:			
5 Early Childhood	\$935,375	2.85%	\$962,033
6 Special Education (Local)	\$170,228,650	2.85%	\$175,080,166
7 Special Education (Tuition & Board)	\$14,913,954	2.85%	\$15,339,002
8 Vocational Education	\$30,469,385	2.85%	\$31,337,763
9 Adjusted Transportation Oper. Costs	\$71,675,710	2.85%	\$73,718,467
10 Total of Adjustable Program Costs:	\$288,223,073		\$296,437,431
11 Bus Purchases			\$5,000,000
12 Total Program Cost (Adjusted)			\$301,437,431
13 Less (20-A.M.R.S.A. Sec. 15603, Sub-sec 26-A(F))	-2.49%		(\$7,505,792)
14 Adjusted Program Cost Allocation:			\$293,931,639
DEBT SERVICE:			
15 Principal and Interest			\$77,828,298
16 Approved Leases			\$5,844,326
16A Approved Leases-Purchases			\$1,752,084
17 Insured Value Factor			\$2,812,974
18 Total Debt Service:			\$88,237,682
19 Less for Insured Value Factor (20-A M.R.S.A. Sec. 15603, Sub-sec 26-A(F))	-2.49%		(\$70,043)
20 Adjusted Debt Service Allocation:			\$88,167,639
21 COMBINED ALLOCATIONS:			\$1,433,330,774
	TOTAL	LOCAL	STATE
22 COMBINED ALLOCATIONS:	\$1,433,330,774	\$751,677,056	\$681,653,718
23 Minimum State Allocation	\$2,205,573		\$2,205,573
24 TOTAL ALLOCATION:	\$1,435,536,347	\$751,677,056	\$683,859,291
(Local share: 52.36% State share: 47.64%)			
ADJUSTMENTS AND MISCELLANEOUS COSTS:			
25 Geographic Isolation			\$485,000
26 Quality Incentive			\$0
27 Audits			\$0
28 Private School Services			\$201,000
29 Special Education Hardship			\$0
30 State Wards			\$9,073,737
31 State Agency Clients			\$26,303,190
32 English as a 2nd Language			\$2,073,600
33 Out-of-District Placements			\$3,677,568
34 Long Term Drug Treatment Center			\$68,590
35 Contract for Income and Cost-of-Living Data			\$0
36 Learning Results Implementation			\$1,300,000
37 Hardship Cushion/Hold Harmless			\$3,000,000
37A Hardship Cushion/Hold Harmless			\$0
38 Total Adjustments & Misc. Costs:			\$46,182,685
TOTAL STATE ALLOCATION:			\$730,041,976

History of Adjustments and Miscellaneous Costs

	1998-99	1999-2000	2000-01	2001-02	2002-03	
Geographic Isolation	\$250,000	\$250,000	\$250,000	\$425,000	\$485,000	14%
Quality Incentive	\$0	\$0	\$0	\$0	\$0	
Audits	\$0	\$0	\$0	\$0	\$0	
Private School Services	\$201,000	\$201,000	\$201,000	\$201,000	\$201,000	0%
Special Education Hardship	\$0	\$0	\$0	\$0	\$0	
State Wards	\$7,162,151	\$8,200,000	\$8,806,800	\$8,100,000	\$9,073,737	12%
State Agency Clients	\$18,315,237	\$18,100,000	\$19,439,400	\$21,042,552	\$26,303,190	25%
English as a 2nd Language	\$0	\$1,000,000	\$1,600,000	\$1,920,000	\$2,073,600	8%
Out-of-District Placements	\$1,751,000	\$2,411,274	\$2,592,120	\$3,405,156	\$3,677,568	8%
Long Term Drug Treatment Center	\$58,000	\$60,976	\$63,415	\$65,952	\$68,590	4%
Contract -- Income & Cost-of-Living	\$28,309	\$29,000	\$0	\$0	\$0	
Learning Results Implementation	\$0	\$0	\$0	\$1,300,000	\$1,300,000	0%
Total Adjustments & Misc. Costs:	\$27,765,697	\$30,252,250	\$32,952,735	\$36,459,660	\$43,182,685	
HOLD HARMLESS		\$1,230,000	\$0	\$0	\$0	
CUSHION	\$2,999,599	\$3,783,692	\$4,309,294	\$5,200,000	\$3,000,000	
TIER 2 CUSHION				\$1,000,000	\$0	
	\$30,765,296	\$35,265,942	\$37,262,029	\$42,659,660	\$46,182,685	

Geographic Isolation 20-AM.R.S.A. Sec. 15612(2)	<i>This amount is not sufficient for a 100% implementation, but statutes allow proration down to the amount actually appropriated.</i>
Quality Incentive 20-AM.R.S.A. Sec. 15612(1)	<i>This adjustment has been zero-funded for the past nine years. This adjustment provides an incentive to high-spending school units.</i>
Audits 20-AM.R.S.A. Sec. 15612(7)	<i>Audits may include additions to, as well as reductions from, subsidy. The amount of this adjustment has been \$0 in past years, since the net effect of these audits is usually zero.</i>
Private School Services 20-AM.R.S.A. Sec. 15613(4)	<i>The statute provides for a reimbursement, to municipalities, of up to 50% of funding by municipalities of certain private schools costs: transportation, textbooks, testing, and health-related needs. This adjustment has been level-funded at \$201,000 for each of the past six years. This amount is not sufficient for a 100% implementation, but statutes allow proration down to the amount actually appropriated.</i>
Special Education Hardship 20-AM.R.S.A. Sec. 15612(6)	<i>This adjustment has been zero funded for the past seven years, although in recent years related adjustments (such as State Agency Clients and State Ward adjustments) have been more fully funded.</i>
State Wards 20-AM.R.S.A. Sec. 15613(6)	<i>100% funding is required by law. In recent years the Department has fully funded the adjustment. FY 2003 is estimated at 100% of full funding.</i>
State Agency Clients 20-AM.R.S.A. Sec. 15613(5)	<i>100% funding is not required by law. In recent years the Department has fully funded the adjustment. FY 2003 payments will be prorated to account for both increased FY 2003 costs and excess FY 2002 costs. The matter of growing costs will be discussed with the Legislature.</i>
English as a 2nd Language 20-AM.R.S.A. Sec. 15612(12-A)	<i>FY 2003 is the fourth year of this adjustment that provides assistance for costs of certified instruction programs that teach English as a 2nd Language as part of transitional instruction program using bilingual techniques.</i>
Out-of-District Placements 20-AM.R.S.A. Sec. 15612(11)	<i>This adjustment has not been fully funded in recent years. The statute allows proration to the amount appropriated. The proration percentages have been 27% (FY98), 26% (FY99), 31% (FY2000) and 40% (FY2001). The proration % for FY 2002 is estimated at 42%. It is estimated that 100% funding would require \$7,819,747 (perhaps more, if such a large appropriation provided the incentive for more school units to apply for funds).</i>
Long Term Drug Treatment Center 20-AM.R.S.A. Sec. 15612(10)	<i>100% funding is not required by law. SAD #6 will operate the only such center in FY2003. Their estimated FY2003 budget specifies \$69,873.</i>

Foundation Per Pupil Operating Rates

The School Finance Act of 1985 (20-A M.R.S.A., Section 15605) specifies that the foundation per pupil operating rates in FY 01 shall be computed by dividing (1) the statewide adjusted operating cost expenditure amount - described in #1 below, by (2) the statewide number of pupils - described in #2 below:

- The statewide adjusted operating cost expenditure amount used as the numerator of the per pupil operating rate computation is:

- the actual local operating costs in the base year (FY 2001);
- increased by a percentage which may not exceed the average of the two most recent annual percentages of increase in the Consumer Price Index (For FY 01, this average was computed to be 2.85%).

	1998	1999	2000
Consumer Price Index	159.7	163.2	168.9
Percentage of Change	1.3%	2.2%	3.5%

- decrease by the percentage necessary to meet the level of appropriation, in accordance with 20-A M.R.S.A. Section 15603, Sub-section 26-A, Paragraph F

- The pupil count used as the denominator of the per pupil operating rate is the average number of pupils in calendar year 2001 less special education tuition pupils, plus K-12 adult education pupils and less post-secondary options pupils and attendance violations.

Table 3 provides the details of these computations:

Computation of Foundation Per Pupil Operating Cost

	Elementary (K - 8)	Secondary (9 - 12)	Total (K - 12)
1 Operating Cost in FY 01	\$715,170,386	\$373,311,493	\$1,088,481,879
2 Average Operating Percentage of Increase (2 Yr. Avg. CPI %)	2.85%	2.85%	2.85%
3 Adjusted Increase (line 1 times line 2)	\$20,382,356	\$10,639,378	\$31,021,734
4 Total (line 1 plus line 3)	\$735,552,742	\$383,950,871	\$1,119,503,613
5 Less reduction -2.49%	(\$18,315,263)	(\$9,560,377)	(\$27,875,640)
6 Reduced Operating Allocation	\$717,237,478	\$374,390,495	\$1,091,627,973
7 Average Number of Pupils in Calendar Year 2000 (less Spec. Educ. Tuition Pupils, plus K-12 Adult Education Pupils)	143,445.00	66,512.50	209,957.50
8 Foundation Per Pupil Operating Rates (line 6 / line 7)	\$5,000	\$5,629	\$5,199

Mill Rates

The School Finance Act of 1985 establishes three mill rates: the operating cost mill rate, the program cost mill rate (also called the program cost circuit breaker), and the debt service mill rate (also called the debt service circuit breaker). The purpose of these subsidy indices is to establish what the required local shares are for the program costs and the debt service allocations. Starting in FY 97, the provisions of Chapter 606-A shall govern the state and local shares of the "per pupil guarantee" (Sec. 15653). The "per pupil guarantee" replaces the foundation per pupil operating rates in Chapter 606, for the operating allocation.

These subsidy indices are computed and used as follows:

The PROGRAM COST MILL RATE computation is defined in 20-A M.R.S.A., Section 15609, subsection 1, paragraph B(1) by dividing 40% of the total program cost allocation by the total statewide valuation of all municipalities. This computation is detailed in Table 4 below:

Computation of Program Cost Mill Rate

1	Statewide Program Cost Allocation for FY 2001 (line 17, Table 1)	\$293,931,639
2	40% of line 1	\$117,572,656
3	Total Fiscal Capacity (As prescribed in Ch. 606, Section 15603, subsection 11-A)	\$79,594,550,006
4	Program Cost Mill Rate (Program Millage Limit) (line 2 divided by line 3)	0.00148 (1.48 mills)

Two points should be noted regarding the Program Cost Mill Rate:

1. For each school administrative unit, the local share amount of that unit's program cost allocation cannot be more than the product of the program cost mill rate and the fiscal capacity of that unit.
2. As a result of the method of computing the program cost mill rate, and the way that this mill rate is used as described in #1 above, the State will provide AT LEAST 60% of the statewide total allocation for program costs.

(In recent years, the state share percentage of the statewide allocation for program costs has been about 61%.)

Mill Rates, continued

The DEBT SERVICE MILL RATE computation is defined in 20-A M.R.S.A., Section 15611, subsection 1, paragraph A(1) by dividing 45% of the total debt service allocation by the total statewide fiscal capacity of all municipalities. This computation is detailed in Table 5 below:

Computation of Debt Service Mill Rate

1	Statewide Debt Service Allocation for FY 2001 (line 23, Table 1)	\$88,167,639
	Excluding 20% of Leases - (As prescribed in Ch. 606, Section 15603, sub-section 8(F))	\$1,168,865
	Statewide Debt Service Allocation for FY 2001 excluding 20% of Leases	\$86,998,774
2	45% of line 1	\$39,149,448
3	Total Fiscal Capacity (As prescribed in Ch. 606, Section 15603, subsection 11-A)	\$79,594,550,006
4	Debt Service Mill Rate (Debt Service Millage Limit) (line 2 divided by line 3)	0.00049 (.49 mills)

Two points should be noted regarding the Debt Service Mill Rate:

1. For each school administrative unit, the local share amount of that unit's debt service allocation cannot be more than the product of the debt service mill rate and the fiscal capacity of that unit.
2. As a result of the method of computing the debt service mill rate, and the way that this mill rate is used as described in #1 above, the State will provide AT LEAST 55% of the statewide total allocation for debt service.

(In recent years, the state share percentage of the statewide allocation for debt service has been about 72%.)

The method of calculating the OPERATING COST MILL RATE is not defined explicitly in the School Finance Act. However, the operating cost mill rate, however calculated, strives to satisfy the legislative intent that it, in combination with the other two subsidy indices, result in the state share percentage of the total (statewide) allocation being at least equal to the state share percentage of FY 2000 (57.31%).

The operating cost mill rate should be set at: 9.28 mills School Finance Act of 1985 (CH. 606)

It should be noted that for FY 2003, in accordance with Chapter 606A, Section 15658, the operating cost mill rate as described in Chapter 606 is in effect for the limited purpose of determining state and local shares of the program and debt service allocations.

The computation of state and local shares of the "Per Pupil Guarantee" (formerly the operating cost allocation) is shown in the following table.

Chapter 606-A

School Finance Act of 1995

Per Pupil Guarantee (20-A M.R.S.A. Section 15653)

The legislature shall annually establish a per pupil guarantee. The "Per Pupil Guarantee" means the total amount of funds that is made available for each subsidizable pupil.

Computation of Per Pupil Guarantee

1	Total Property Fiscal Capacity (As prescribed in Ch. 606A, Section 15652, subsection 6)	\$79,543,600,005
2	Local Share (7.60 Mills of line 1)	\$604,372,273
3	State Share (Available State Funds for Operating)	437,503,676.66
4	Total Funds (Line 2 plus line 3)	\$1,041,875,950
5	2001 Calendar Year Pupils (including Adult Education Pupils)	210,659.0
6	Per Pupil Guarantee (Line 4 divided by line 5)	\$4,946

Statewide Averages

State Average Per Pupil Fiscal Capacity:

Total Property Fiscal Capacity (As prescribed in Ch. 606-A Section 15652, subsection 6)	\$79,543,600,005	
Divided by 2001 Calendar Year Pupils (<i>excluding</i> Adult Education Pupils)	<u>209,759.0</u>	
Equals State Average Per Pupil Fiscal Capacity:		\$379,214

State Median Household Income: \$31,348

Statewide Adjustment Factor (20-A M.R.S.A. Section 15654)

The "Statewide Adjustment Factor" is a value between zero and one. It is used to adjust the local share percentages used to determine each school administrative unit's local share of the "Per Pupil Guarantee". It is a variable used to allow the State to stay within its available appropriation for "General Purpose Aid to Local Schools".

The "Statewide Adjustment Factor" for FY 2003 should be set at: **0.62450**