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LD 1 Progress Report 2007

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LD 1 PROGRESS REPORT 2007

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EXECUTIVE SUMMARY

In January 2005, Governor John E. Baldacci signed into law LD 1: An Act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels (Public Law 2005, Chapter 2). The goal of LD 1 is to lower Maine's state and local tax burden ranking to the middle one-third of states by 2015. The State Planning Office (SPO) annually reports on the progress made by the State, counties, municipalities, and school administrative units toward reaching the tax burden reduction goal. While adequate data to compare Maine's current tax burden with other states are not yet available, data available through in-state sources provide early indications of LD 1's impact.

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." To assess the progress made by each level of government, we ask two questions: "Are they staying within the LD 1 limit?" and "Are they growing at a slower rate than in pre-LD 1 years?" In answering these questions below, we indicate each level of government's aggregate performance, since the state's tax burden is an aggregate measure. Within the report we discuss findings at the level of individual governmental units.

STATE

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

For the third year in a row, growth of the State's General Fund appropriations has remained below the limit set by LD 1. Based on legislation enacted through the First Regular Session of the 123rd Legislature, General Fund appropriations in FY2008 were $65 million, or 2%, below the limit. Overall, appropriations increased by 5.7% over FY2007, which is slightly above the 5.4% average annual growth for the ten years prior to LD 1. However, due to a downturn in state revenues, on December 18, 2007 Governor Baldacci issued a curtailment order to reduce spending on programs approved by the Legislature. The order reduced the rate of spending for FY2008 until passage of a supplemental budget to address the revenue shortfall. The curtailment order reduced current fiscal year spending by $37.7 million. Subtracting that amount from FY2008 appropriations yields an overall increase in General Fund spending of 4.4%, below the average annual growth rate for the ten years prior to LD 1. In addition, setting aside General Fund appropriations required to increase the State's contribution to covered

K-12 education costs to 55% by FY2009, as LD 1 directs, appropriations (not curtailed) grew just 3.8%. That is also below historical levels.

MUNICIPALITIES

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

For a third year, municipalities' combined property tax commitments were below their estimated LD 1 limit. Maine Revenue Services recently reported that property tax commitments of all municipalities statewide grew by a rate of 4.7% in 2007. Based on a sample of 258 municipalities, the average municipal commitment growth limit was 5.8% and actual property tax commitments for the same municipalities grew 4.6%. By both measures, property tax growth in 2007 exceeded 2006's growth rate of 4.0% but remained below pre-LD 1 years. In the three years prior to LD 1, annual commitment growth ranged from 5.2% to 7.0%. Individual survey results show that just over half (57%) of municipalities stayed within their LD 1 limit.

SCHOOL ADMINISTRATIVE UNITS

Combined Expenditures within LD 1 Limit?	**Yes**	☐	**No**	☑
Combined Expenditure Growth Compared to Pre-LD 1 Years	**Lower**	☐	**Higher**	☑

As in previous years, School Administrative Units (SAUs) displayed the most divergence from the expenditure targets set by LD 1. 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. The LD 1 "limit" for SAUs is 100% of EPS. For the 2007-2008 school year, fully 82% of SAUs exceeded that limit. Their combined allocations were $134.5 million, or 8.1%, over EPS even while the State increased its school aid by $64 million compared to the previous school year. Compared to last year, both the percentage of SAUs exceeding their limit and the amount by which they were over has increased. Based on historical trends, it appears that about 75% of the increased state education funding is offsetting local property taxes, with the remaining 25% being a net increase in school revenues.

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 2007. County assessments were $0.5 million, or 0.5%, below the limit. Overall, assessments increased by 8.2% compared to 2006, which is above the 5.0% growth rate seen in 2005, the only pre-LD 1 year for which data are available. Setting aside the Lincoln-Sagadahoc jail costs, as a two-year exemption in statute directs, remaining assessments grew by 7.3% in 2007, which exceeds 2005's growth rate of 5.0%. Individually, fourteen counties stayed within their limits and two surpassed them. Eleven counties, 69%, reported assessment growth in 2007 that exceeded growth in 2005, the only pre-LD 1 year for which data are available.

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 approaches that goal from three angles:

- Spending Limits: LD 1 limits the growth of the State's General Fund appropriations, county assessments, and local property taxes to rates reflective of Maine's income and population growth. It ties school spending to the level of student enrollment. Governing bodies may surpass the limits, but only through an explicit, public vote.

- Targeted Tax Relief: LD 1 increases 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 expands eligibility and increases the maximum refund from $1,000 to $2,000. Furthermore, LD 1 increases 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.

- Increased School Funding: LD 1 set the course for increasing, over a four year period, state spending on K-12 education to an amount that is 55% of the costs covered under Essential Programs and Services. In FY2008 alone, that meant about $243 million in additional state funding was made available to offset property tax.

LD 1 charges the State Planning Office (SPO) with annually reporting the progress made by state, county, and local governments, and school administrative units, toward reaching the tax burden reduction goal. The U.S. Census Bureau collects the data necessary to compare Maine's state and local tax burden with other states. The Census Bureau currently has data through FY2005, the first year before LD 1 became law. Data for FY2006 should become available in mid-2008. Until that time, data from in-state sources provide early indications of LD 1's impact.

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 undertake an analysis of LD 1's initial impact. Dr. Gabe found that "the early impact of LD 1 on reducing government spending is positive." Furthermore, "LD 1, in its early impact, has constrained the growth of state and local governments in Maine." in 2005, state government stayed within its limit and General Fund appropriations declined. The overall growth of county assessments was within their limit. Of municipalities to which LD 1 applied, about 60% stayed within their property tax levy limits. Overall, 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 just 1.7%, the lowest rate in at least eight years. The experience of school administrative units (SAUs) was less favorable. Over two-thirds exceeded their spending targets; collectively SAUs were 3.4% over the LD 1 limit.

Last year, SPO conducted the analysis of LD 1 based on the analytical framework established by Dr. Gabe and refined to accommodate new data and experience. Replicating the core indicators first reported by Dr. Gabe, SPO found that evidence of LD 1's impact in its second year was mixed. The State and a majority of county and municipal governments stayed within their limits, but the overall reduction in growth was not as dramatic as the previous year. Taxes raised for a county jail project actually increased the overall growth rate of county assessments. In addition, 81% of school administrative units exceeded their LD 1 limits, with growth of total school appropriations increasing from the previous year.

This report updates last year's analysis of LD 1 and reports on progress made during 2007. It is again based on the analytical framework established by Dr. Gabe. SPO wrote the report in partnership with Dr. Henry Renski, Assistant Professor of Regional Planning at the University of Massachusetts, Amherst. Dr. Renski worked as an economist at SPO until recently accepting his current position. He was the lead author of last year's report.

II. STATE GOVERNMENT'S EXPERIENCE WITH LD 1

LD 1 limits growth of the State's General Fund appropriations to the ten-year average annual growth rate of Maine's population plus Maine's ten-year average personal income growth (adjusted for inflation). The LD 1 appropriations limit is the previous year's limit increased by that growth factor. In the current biennium, LD 1 provides an allowance for the additional funds expended by the State as it increases General Purpose Aid (GPA) for local education to 55% of covered costs. Once the State reaches this target in FY2009, 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 FY2008 and FY2009 was set at the beginning of the biennium, using the most current data available at the time. The ten-year average income growth was 2.47% and population growth was 0.61%, resulting in a growth limit of 3.08%. That limit applies to both years of the biennium. The appropriations limit for FY2008 was determined by applying the 3.08% growth factor to the FY2007 base appropriations limit, $2,881 million, and adding $243 million in increased state funding for GPA. The resulting FY2008 General Fund appropriations limit is $3,213 million.

Based on spending bills enacted through the end of the First Regular Session of the 123rd Legislature, the State has stayed within its LD 1 limit. Current FY2008 General Fund appropriations are $3,148 million. That is $65 million, or 2.0%, below the LD 1 limit. Subtracting out the $38 million in FY2008 spending reductions ordered by Governor Baldacci in December 2007, the State is $103 million, or 3.2%, below the LD 1 limit. While not an actual reduction of appropriations, the curtailment effectively reduces General Fund spending by $38 million. Maine's constitution forbids the state government from spending that amount, regardless of previous appropriations.

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

	FY2005	FY2006	FY2007	FY2008	*FY2008 w/ Curtailment*
Annual Growth Factor	--	3.11%	3.11%	3.08%	*3.08%*
Base General Fund Appropriations	$2,710	$2,794	$2,881	$2,970	*$2,970*
General Purpose Aid to Schools	$735	$836	$914	$978	*$978*
Additional GPA above FY2005 GPA	--	$102	$180	$243	*$243*
LD 1 Appropriations Limit (Base plus Additional GPA)	--	$2,896	$3,061	$3,213	*$3,213*

Actual Appropriations	$2,785	$2,872	$2,978	$3,148	*$3,148*
December 2007 Curtailment					*$38*
Appropriations with Curtailment					*$3,110*
Difference Between Actual Appropriations and Limit	--	-$24	-$82	-$65	*-$103*
Percentage Difference	--	-0.8%	-2.7%	-2.0%	*-3.2%*

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

Table 2 shows the growth of General Fund appropriations subject to the LD 1 limit (total appropriations minus additional GPA funding). Those appropriations grew by 3.8% in FY2008. That percentage exceeds the annual growth factor of 3.08% because state appropriations were 2.7% below their limit in FY2007. Thus the starting point for measuring growth is lower than if the State had spent up to its limit last year. Accounting for the impact of curtailment, appropriations grew by 2.8% in FY2008.

Table 2: State General Fund Appropriations Subject to LD 1 Limit
Note: All dollar figures are in millions.

	FY2005	FY2006	FY2007	FY2008	*FY2008 w/ Curtailment*
Actual Total Appropriations	$2,785	$2,872	$2,978	$3,148	*$3,148*
December 2007 Curtailment					*$38*
Appropriations with Curtailment					*$3,110*
Additional GPA above FY05 Level	--	$102	$187	$243	*$243*
Appropriations Subject to LD 1 Limit (Total Appropriations minus Additional GPA)	$2,785	$2,770	$2,799	$2,905	*$2,876*
Growth of Appropriations Subject to Limit	--	-0.5%	1.0%	3.8%	*2.8%*

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

Table 3 displays the growth of all General Fund appropriations, including the additional GPA funding. Total General Fund appropriations increased by 5.7% in FY2008 or, accounting for the impact of curtailment, by 4.4%. During the previous two years, total appropriations grew 3.7% and 3.1%. In the ten years prior to LD 1, annual appropriations growth averaged 5.4% and ranged from a decrease of 3.0% in FY2002 to an increase of 16.6% in FY1999.

Table 3: Comparative Growth of State General Fund Appropriations

	Growth Rate of General Fund Appropriations

Growth of General Fund Appropriations FY2007 - FY2008	5.7%
Growth of General Fund Appropriations FY2007 - FY2008 w/ Curtailment	*4.4%*
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%
Change in General Fund Appropriations Growth Rates Between FY2006 - FY2007 and FY2007 - FY2008	54%
Change in General Fund Appropriations Growth Rates Between FY2005 - FY2006 and FY2007 - FY2008	84%
Change in General Fund Appropriations Growth Rates Between FY2004 - FY2005 and FY2007 - FY2008	6%
Change in General Fund Appropriations Growth Rates Between FY2006 - FY2007 and FY2007 - FY2008 w/ Curtailment	*19%*
Change in General Fund Appropriations Growth Rates Between FY2005 - FY2006 and FY2007 - FY2008 w/ Curtailment	*42%*
Change in General Fund Appropriations Growth Rates Between FY2004 - FY2005 and FY2007 - FY2008 w/ Curtailment	*-19%*

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

Table 4 shows the growth of General Fund appropriations by GPA and non-GPA funding. Current FY2008 appropriations increase GPA and non-GPA funding by 7.0% and 5.1% respectively. Since FY2006, the growth of GPA appropriations has exceeded non-GPA appropriations. This reflects the increase of state education funding to 55% of covered costs by FY2009.

Table 4: Growth of GPA and non-GPA General Fund Appropriations
Note: All dollar figures are in millions

Fiscal Year	GPA	Change	Non-GPA	Change	Total Approps.	Change
2008	$978	7.0%	$2,170	5.1%	$3,148	5.7%
2008 w/ Curtailment	*$978*	*7.0%*	*$2,132*	*3.3%*	*$3,110*	*4.4%*
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%	$2,785	5.4%
2004	$702	-1.6%	$1,941	6.2%	$2,643	4.0%
2003	$714		$1,827		$2,540	

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

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

The Circuit Breaker provides a refund to households whose property tax bill exceeds 4% of their income. Households may receive 50% of the amount by which property taxes exceed 4% to 8% of their income and 100% of the amount over 8%. Renters may receive reimbursement for property taxes paid indirectly through rental payments. LD 1 increased the maximum refund amount from $1,000 to $2,000. Refunds for FY2008 are estimated to be $46 million. About 93,000 Maine homeowners and renters received Circuit Breaker refunds in 2007; Maine Revenue Services estimates that over 200,000 are eligible.

The Homestead Exemption reduces the assessed value of Maine homeowners' primary residences for the purpose of property tax calculations. The property tax rate is applied to a lower value in order to lower residents' tax bills. Prior to LD 1, the Homestead Exemption was available on a sliding scale determined by the assessed value of the property. The deduction was limited to $7,000 and the State reimbursed municipalities for 100% of the forgone tax revenue. LD 1 increased the exemption to $13,000 for all homesteads, with the State reimbursing municipalities for 50% of the forgone tax revenue. The amount of state funding distributed to municipalities to pay for the Homestead Exemption has declined due to municipal revaluations that have lowered the mil rates applied to the $13,000 exemption.

Table 5: State Appropriations for Circuit Breaker and Homestead Exemption

Note: All dollar figures are in millions.

Fiscal Year	Homestead Exemption	Circuit Breaker	Total
2008 est.	$28.9	$46.3	$75.1
2007	$28.9	$44.4	$73.3
2006	$31.2	$42.8	$74.0
2005	$32.3	$26.0	$58.3
2004	$34.4	$23.3	$57.7

Source: FY 2008 Circuit Breaker total based on December 2007 Revenue Forecasting Committee estimates; FY 2008 Homestead Exemption total based on the General Fund budget through the 1st session of the 123rd Legislature

SUMMARY

For the third year in a row, the State's General Fund appropriations have remained below the limit set by LD 1. Based on legislation enacted through the end of the 1st session of the 123rd legislature, total General Fund appropriations increased 5.7% in FY2008. Based on curtailed spending ordered by Governor Baldacci for

FY2008 due to declining state revenues, the growth rate was 4.4%. Within the appropriations increase was an additional $64 million for local K-12 education. Setting aside that additional GPA funding, as LD 1 directs, General Fund appropriations (not accounting for curtailment) grew 3.8%. That is lower than the 5.4% annual average growth of the ten years prior to LD 1.

III. EFFECT OF LD 1 ON LOCAL PROPERTY TAX COMMITMENTS

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

COMBINED STATEWIDE MUNICIPAL COMMITMENT GROWTH

Calculations of state tax burden use aggregate measures of the total amount of taxes collected within a state. To test whether LD 1 successfully reduces the growth of property tax collections, the State Planning Office compared Municipal Valuation Returns (MVRs)[1] for years before and after LD 1. To maintain consistency across years, we report all statistics for the sample of municipalities that had filed this year's MVR form by early December 2007.[2] Therefore, numbers reported here may vary slightly from numbers reported in the future by Maine Revenue Services based on 100% of filed MVRs.

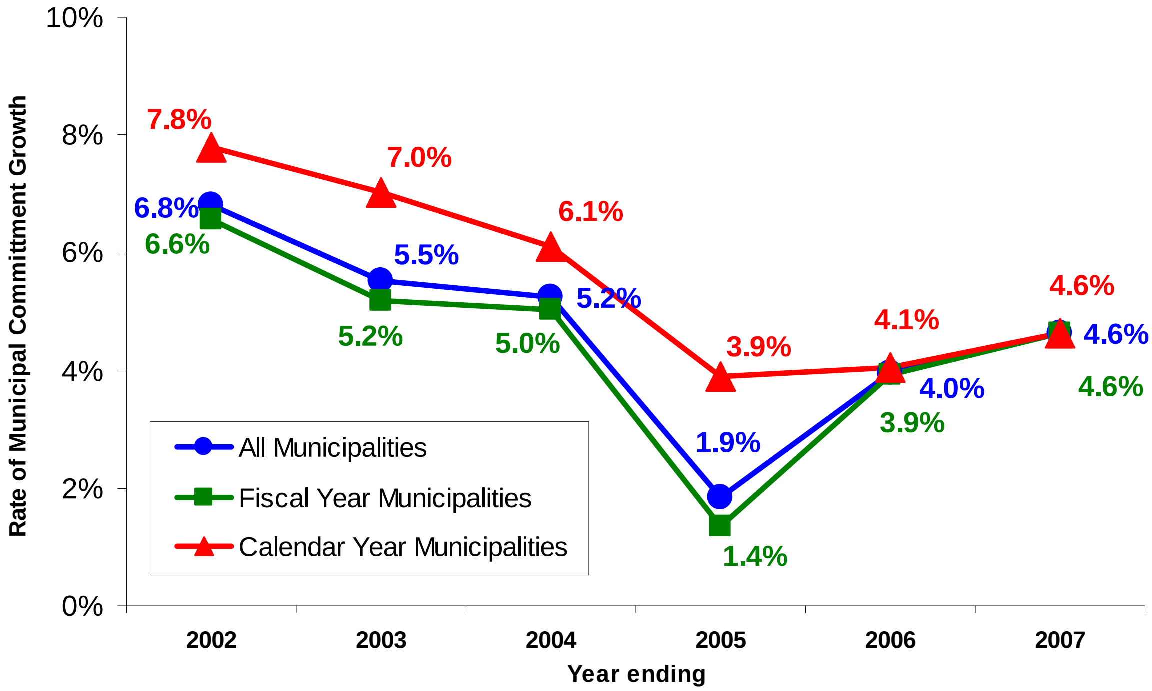
In early December 2007, roughly 449 communities had filed the MVR, representing 92% of all municipalities in the state and accounting for 97% of the total statewide commitment in 2006. The estimate of statewide commitment growth also compares similarly between the municipalities reporting on the 2007 MVR to the full population of municipalities reporting on the 2006 MVR. So while not complete, we are highly confident that our results are representative of the total population of Maine municipalities.

The rate of municipal commitment growth has been increasing since LD 1's first year, although current growth rates still remain below pre-LD 1 levels. Figure 1 shows recent annual growth of aggregate (or statewide) municipal commitments. LD 1 was enacted in January 2005, but only applied to municipalities with fiscal years beginning on or after July 1 (i.e. "fiscal year municipalities" or "fiscal year communities") during the first year. In the first year, fiscal year communities showed a dramatic reduction in commitment growth – from 5.0% in 2004 to 1.4% in 2005. The FY2005 growth rate was also considerably lower than the 3.9% commitment growth

[1] The Municipal Valuation Return is an annual report summarizing local tax information that assessors are required to file with Maine Revenue Services.
[2] The sample of reporting municipalities differs slightly from previous years. As such the reported numbers have also changed slightly from past reports.

rate of calendar year communities who were not covered by LD 1 at the time. In 2006, LD 1 applied to all municipalities. The 2006 commitment growth rates of calendar and fiscal year municipalities converged to roughly 4.0%, driven by a 2.5 percentage point increase in commitment growth among fiscal year municipalities.

Figure 1
Annual Change in Statewide Municipal Commitment Growth
Calculations based upon the 449 municipalities reporting on the 2007 MVR as of December 2007.



Source: Maine Revenue Services, Municipal Valuation Reports (2001 – 2007) & author's calculations.

In 2007, statewide municipal commitment growth increased slightly to 4.6% percent.[3] This is 0.6 percentage points *higher* than the preceding year, but still 0.6 percentage points *lower* than the pre-LD 1 year of 2004.

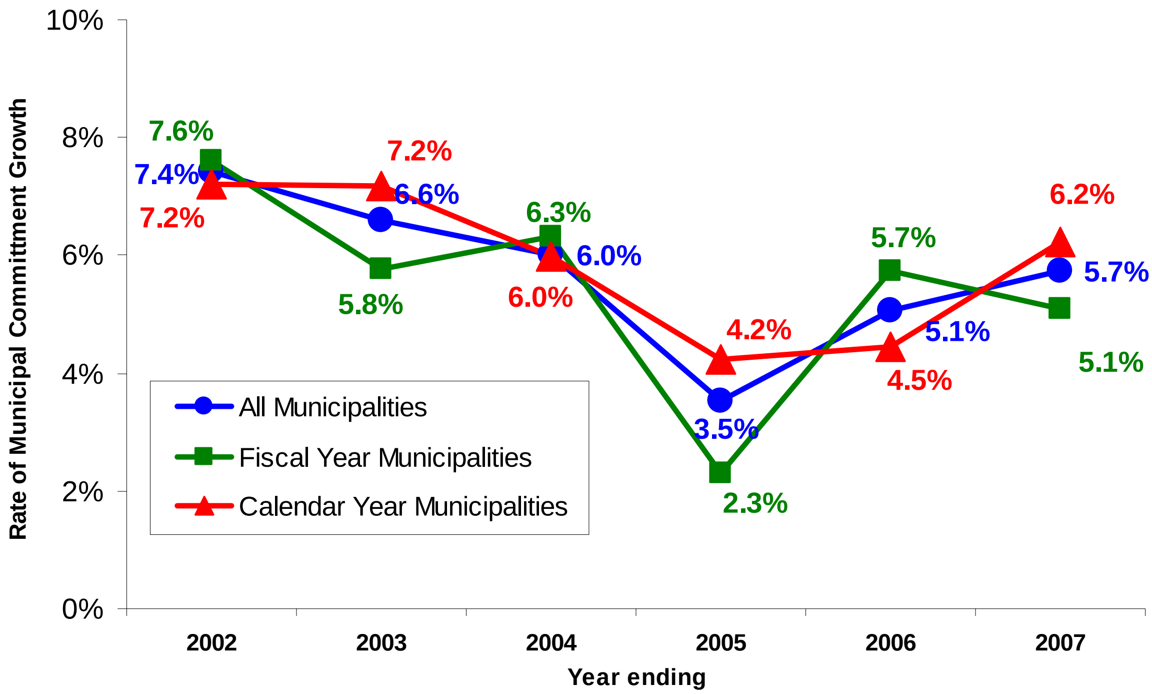
COMMITMENT GROWTH OF INDIVIDUAL MUNICIPALITIES

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 dwarf those of Maine's smaller towns. To better understand decisions being made

[3] Maine Revenue Services has estimated 2007 tax commitment growth at 4.7% using more updated MVR returns than available when this report was written. The 0.1 percentage point is explained entirely by the difference in reporting municipalities.

by individual municipalities, regardless of size, we also analyze commitment growth for the average municipality. Figure 2 reports average municipal commitment growth in the years before and after LD 1.

Figure 2
Average Annual Change in Municipal Commitment Growth
Calculations based upon 449 municipalities reporting on the 2007 MVR as of December, 2007.



Source: Maine Revenue Services, Municipal Valuation Reports (2001 – 2007) & author's calculations.

Our results for *average* municipal commitment growth largely mirror those from our analysis of the *aggregate* commitment growth, but with several notable exceptions. In general, growth rates based on municipal averages are higher than comparable growth rates calculated as a statewide aggregate. This is because the influence of Maine's numerous smaller municipalities is more pronounced in the average rates, and smaller communities tend to have higher rates of commitment growth.

Similar to *statewide* municipal commitments, *average* municipal commitments declined in the first year of LD 1, most notably among fiscal year communities. However, the reduction was only temporary. Among all municipalities, average annual commitment growth increased from 3.5% in 2005 to 5.1% in 2006. This past year, average municipal commitment growth returned to a near pre-LD 1 annual growth rate of 5.7%. This increase was driven by calendar year municipalities whose average commitment growth increased from 4.5% in

2006 to 6.2% in 2007. Fiscal year communities actually experienced a slight decline in commitment growth in 2007, with average growth rates declining by 0.6 percentage points compared to previous years. The size of the municipality may be the relevant factor in explaining the rise in commitment growth among calendar year municipalities. Calendar year municipalities are typically much smaller than municipalities that operate on a July to June fiscal year budget.[4]

Table 6
Percent of Municipalities that Experienced a Reduction in Commitment Growth

	Total	Fiscal Year	Calendar Year
Number of Observations	446	193	253
Percent of municipalities with...			
'07 Commitment Growth Rate less than '06	51%	51%	50%
'07 Commitment Growth Rate less than '05	43%	37%	**47%**
'07 Commitment Growth Rate less than '04	**59%**	**62%**	**56%**
'07 Commitment Growth Rate less than '03	**57%**	**58%**	**47%**
'06 Commitment Growth Rate less than '05	40%	31%	**47%**
'06 Commitment Growth Rate less than '04	**56%**	**57%**	**55%**
'06 Commitment Growth Rate less than '03	**57%**	**53%**	**60%**
'05 Commitment Growth Rate less than '04	62%	**68%**	57%
'05 Commitment Growth Rate less than '03	64%	**69%**	60%

Bold type indicate years allowing comparison between pre- and post-LD1
Source: Maine Revenue Services, Municipal Valuation Reports (2002 - 2007) & author's calculations.

An alternate method of measuring the impact of LD 1 on individual municipalities is to examine the share of municipalities whose commitment growth have slowed compared to previous years (Table 6). In 2007, just over half (51%) of municipalities reported slower commitment growth compared to the year ending 2006, although fewer than half (43%) had slower growth compared to two years prior when LD 1 was first implemented. So while half of the communities had higher commitment growth rates in 2007 than 2006, this is still a notable improvement compared to 2006, when only 40% of municipalities had slower commitment growth rates compared to 2005. The past year also has witnessed more communities registering lower commitment growth rates compared to the pre-LD 1 years of 2004 and 2003.

SOURCES OF APPROPRIATIONS GROWTH

[4] For example, while calendar year municipalities comprise 46% of Maine municipalities they account for only 20% of total statewide property tax commitments.

Local property taxes primarily fund three institutions: municipal government, county government, and local schools. This section looks at the relative contributions of each to the growth in municipal appropriations. Last year a similar analysis used survey data collected by SPO and the Maine Municipal Association. SPO repeated the survey this year but changed the survey instrument in an attempt to simplify the LD 1 calculations for municipal officials. Due to that change, the data on each sources' contribution to total municipal commitments are no longer collected. Instead we use data from the municipal tax rate calculation form from the 2007 and 2006 Municipal Valuation Returns, which ask communities to report the amount of municipal appropriation due to county, municipal, Tax Increment Financing,[5] and schools/education.

Among the 393 municipalities with available data, statewide local appropriations were roughly $2.1 billion in 2007. This represents a 4.1% growth in statewide local appropriations over 2006. Local schools accounted for the largest share of statewide local appropriations (54.8%) followed by municipal operations and services (38.8%). Schools and municipalities accounted for an equal share (45%) of the 2006 to 2007 increase in statewide local appropriations. Counties accounted for a smaller share of local appropriations (4.3%) and had a faster annual growth rate (4.9%) from 2006 to 2007, in part due to increased expenditures for the new Lincoln and Sagadahoc county correctional facility. TIFs accounted for the smallest portion of appropriations (2.1%) but grew at the faster annual rate (9.1%).

We compare municipal, school, and county appropriation growth rates in 2006-2007 to their respective shares of statewide local appropriations in 2006 (i.e., the appropriations growth ratio) to assess whether appropriations growth in each category is higher or lower than would be expected given each component's share of total local appropriations. If all three components grew at a level commensurate with their past year's share of statewide local appropriations, their respective growth ratio would equal one. School appropriations have a growth ratio of 0.82, meaning that, relative to its share of 2006 local appropriations, school appropriations in 2007 were 18% less than expected. Growth in municipal operations and services has a relative appropriation growth ratio of 1.17, meaning that its growth was 17% higher than expected. County tax assessment growth was roughly 20% higher than expected, although county assessments account for a relatively small amount of local appropriation growth in absolute dollars. TIF appropriations grew at more than twice their expected rate.

[5] Tax Increment Financing is a mechanism used by local governments to fund property development. When developers increase a property's taxable value, the government reimburses them a portion of the additional property tax revenue that it would otherwise receive.

Table 7
Statewide Local Appropriations Growth by Source
Based on 393 municipalities with available data

	Total	Municipal	School	County	TIF
Appropriations (millions $)					
2007	$2,124.9	$823.8	$1,165.0	$91.8	$44.3
2006	$2,041.1	$785.9	$1,127.1	$87.5	$40.6
Share of Appropriations					
2007		38.8%	54.8%	4.3%	2.1%
2006		38.5%	55.2%	4.3%	2.0%
Appropriations Growth Rate					
2006-07	4.1%	4.8%	3.4%	4.9%	9.1%
Share of Appropriation Growth					
2006-07		45.2%	45.2%	5.1%	4.4%
Relative Appropriation Growth Ratio*					
2006-07		1.17	0.82	1.20	2.22

Source: Municipal Valuation Returns
**Calculated as the share of appropriation growth divided by share of base period*

SUMMARY

The bulk of this year's evidence suggests that the initial dramatic reduction in the growth of property tax commitments immediately following the introduction of LD 1 in 2005 has not been sustained, at least when viewed from a statewide perspective. Property tax commitment growth is still slower than the years prior to the passage of LD 1 but has risen in the two years since the passage of LD 1. This year's estimated sample commitment growth rate of 4.6% is not nearly as dramatic as the increase between 2005 and 2006, when statewide local commitment growth rose sharply from 1.9% to 4.0%. Hence, commitment growth rates may be leveling off. Only time will tell if this is a long-term trend or only temporary.

Smaller municipalities appear to be having greater difficulty limiting growth in property tax commitments. With a greater reliance on property taxes as a revenue source and leaner budgets, smaller municipalities have less room to diversify revenues or cut services to keep property tax growth in check in response to rising costs, such as fuel and health care.

IV. MUNICIPAL GOVERNMENTS' EXPERIENCE WITH LD 1

The preceding section examined the effect of LD 1 on local property tax commitments as indicative of its influence in reducing the growth of local government expenditures and the property tax burden. As discussed previously, 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. The limit applies to a municipality's "base" or "core" commitment, meaning the amount of revenue approved to fund municipal operations and services, excluding funds allocated for county taxes, local schools, TIF payments, and overlays. These budget items are addressed elsewhere under LD 1. The specified growth rate (i.e., "growth limitation factor") allows property taxes to increase at the rate of Maine's ten-year average personal income growth (adjusted for inflation) plus growth in the value of new development and improvements (i.e., the property growth factor), minus any net new state funding for existing services previously funded by property taxes. A municipality wishing to either temporarily exceed or permanently increase its base commitment 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 State Planning Office distributed a voluntary survey to all of Maine's municipal governments. The survey was included as a supplemental attachment to the annual Municipal Valuation Return (MVR), with a response deadline of November 1st, or 30 days after the town's commitment, whichever is later. A blank copy of the SPO survey is included in Appendix A. The survey walks municipalities through the calculation of their base commitments and base commitment limits for both the past (2006) and current (2007) years. These calculations are used to determine whether or not the municipality surpassed the commitment limit, and, if so, whether the community explicitly voted to temporarily exceed or permanently increase the limit.

The questions and general format of the SPO survey match a survey sent out by the Maine Municipal Association (MMA), which prepares a separate annual analysis of LD 1 impacts. SPO and MMA pooled survey responses to increase sample sizes and improve consistency. We received a total of 258 useable responses from both surveys, representing roughly 53% of all Maine municipalities and 57% of all municipalities reporting on the 2006 MVR.[6] Together the responding municipalities (herein referred to as "sample municipalities") represent approximately 69% of the total statewide municipal commitment in 2006, and just fewer than 71% of the combined commitment of the 449 communities that had filed their 2007 MVR by early December.

Table 8
Characteristics of Municipalities responding to the SPO/MMA municipal survey
Comparisons based on municipalities reporting on the Municipal Valuation Returns (MVR) by December 2007

Characteristic	Sample	Non-Sample	All MVR '07 Municipalities	Difference (Sample - Non-Sample)
Number of municipalities	258	191	449	^
Percent of municipalities	57.5%	42.5%		0.15 ^
Population, 2006	3,378	2,060	2,817	1,318 **
Percent with population less than 2,500	64.3%	77.5%	69.9%	-13.1 **
Population growth rate, '01 - '06	2.6%	2.8%	2.6%	-0.20
Percent with population loss, '01 - '06	32.2%	32.5%	32.3%	-0.3
Commitment per capita, 2006	$1,546	$1,381	$1,546	$165
Statewide municipal commitment growth rate, '06 - '07	4.8%	4.4%	4.6%	0.00 ^
Average commitment growth rate, '06 - '07	5.8%	5.7%	5.7%	0.1
Average growth of tax base, '06 to '07	14.8%	17.2%	15.8%	-2.44
Average property tax rate, 2007	0.0143	0.0140	0.0141	0.00
Percent single-town school districts	34.5%	38.7%	36.3%	-4.25
School age population per capita, 2005	14.2%	14.1%	14.2%	0.02
Growth in school age population, '00 - '05	-6.2%	-3.5%	-5.1%	-2.73
Employment to population ratio, 2006	0.278	0.238	0.261	0.04
Median household income, 2000	$35,843	$34,044	$35,076	$1,798 **
Percent fiscal year budget	46.1%	39.4%	43.3%	6.8
Down East municipalities	16.7%	14.7%	15.8%	0.02 ^
Mid Coast municipalities	24.8%	23.6%	24.3%	0.01 ^
Northern municipalities	26.0%	33.0%	29.0%	-0.07 ^
Southern municipalities	16.3%	6.3%	12.0%	0.10 ^
Western municipalities	16.3%	22.5%	18.9%	-0.06 ^

**Indicates differences between sample and non-sample communities differ at a 95% level of statistical significance.
^Based on aggregate data, no statistical tests are available
Source: Maine Revenue Services, Municipal Valuation Returns; Census Current Population Estimates, Maine Labor Market Information Services, Maine Department of Education, 2000 Census of Population, and author's calculations

We compared survey sample and non-sample municipalities according to several key criteria to determine whether municipalities responding to our survey were representative of all Maine municipalities (Table 8). Sample and non-sample municipalities were similar by most indicators, but there are a few important

[6] Eleven responses were not used because of incomplete or suspected erroneous entries. This response rate is slightly lower than last year's, when we had 277 usable responses representing 60.5% of all municipalities.

exceptions. Sample municipalities tend to be significantly larger than non-respondents. On average, survey respondents had roughly 1,318 more residents than non-sample municipalities and roughly 64% of sample municipalities have populations below 2,500 persons compared to 78% among non-sample municipalities. Sample communities also have a slightly higher median household income of $35,843 compared to the non-sample median of $34,044. The remaining differences were not found to be statistically significant.

Our analysis suggests that sample municipalities are sufficiently representative of all municipalities according to most criteria. The major differences between respondents and non-respondents are that non-respondents tended to be smaller and with slightly lower income residents. Municipalities with these characteristics are slightly underrepresented in our sample. Because smaller communities are underrepresented, our study may slightly overstate municipal government compliance with LD 1, because smaller communities generally have greater difficulty complying with LD 1's limits. However, such bias would not likely result in a meaningful change of our overall conclusions since the sample includes well over half of the state's municipalities. Furthermore, the over-sampling of larger communities means that our study represents a greater portion of the state's population.

SURVEY RESULTS

Both the SPO and MMA surveys ask communities to calculate last year's levy limit (i.e. commitment limit) as a starting point for determining this year's limit. "Base commitment" refers to property taxes raised to fund municipal governments. It excludes property taxes raised for schools and counties. The limit is calculated as the preceding year's municipal appropriations minus total deductions, excluding any deductions that paid for non-municipal appropriations (such as schools). Communities that explicitly voted to increase their levy limit in 2006 were asked to use the voter-approved limit as their past year's base commitment limit.

Next the survey asks municipalities to calculate their current year base commitment growth limitation factor as prescribed by LD 1. The growth limitation factor is the sum of the state's ten-year inflation-adjusted average personal income growth (2.47% for 2007) and an allowance for local property growth (i.e., the property growth factor). The property growth factor is calculated as the total value of new real and personal property divided by the total value of all real and personal property in the community. Some municipalities made noticeable errors in calculating the property growth factor. In most cases, the errors were simple arithmetic mistakes and SPO made the appropriate corrections. In cases where mistakes could not be corrected, SPO and MMA attempted to contact the municipality in question to determine the correct growth factor. In cases where an acceptable growth factor could not be determined, we did not include the questionable survey response in our analysis. Among the useable responses, the average growth limitation factor was 5.8% (Table 9). This is slightly higher than the average growth limitation factor of 5.2% reported last year.

Table 9
Summary Statistics, 2007 SPO/MMA Municipal Survey Returns

Number of reporting municipalities	258
Aggregate Municipal Commitment, 2007 (millions, from MVR)	$1,284
Aggregate Base Commitment Limit, 2007 (millions)	$413
Aggregate Base Commitment, 2007 (millions)	$396
Ratio of Base Commitment to Total Commitment, 2007	30.8%
Dollar amount below limit as a share of Total Base Commitment, 2007	4.4%
Average Growth Limitation Factor, 2007	5.8%
Percent of municipalities surpassing 2007 LD1 limit	43%
Average amount above LD 1 limit	$75,188
Average amount below LD 1 limit	$176,205
Percent of municipalities over the 2007 LD1 limit who reported voting to increase the limit	25%
Percent of municipalities over the 2007 LD1 limit who reported voting to exceed the limit	25%
Percent of municipalities over the 2007 LD1 limit and reported not voting to either exceed or increase the LD1 limit	29%

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

The growth factor is applied to last year's limit to estimate this year's base commitment limit. The base commitment for 2007 is calculated similarly to 2006: municipal appropriations minus total deductions, excluding any deductions that paid for non-municipal appropriations. As shown in Table 9, the aggregate 2007 commitment was $1,284 million for the 258 municipalities responding to the survey. The combined 2007 base commitment was $396 million dollars -- roughly 31% of the total 2007 commitment for the same set of municipalities. The aggregate base commitment limit for 2007 was $413 million. This means that when aggregated across all municipalities reporting, Maine communities kept property tax commitments below the total amount allowable under LD 1 by $18.0 million, or roughly 4.4% of the LD 1 limit. Stated differently, municipalities' statewide property tax commitments equaled about 95.6% of that allowable under the LD 1 limit. This is the third year that municipalities came in under the statewide LD 1 limit. In 2006, Maine municipalities kept property tax commitments below the aggregate LD 1 limit by roughly 2.4%. In 2005, the towns to which LD 1 applied (fiscal year) were 0.3% under the LD 1 limit.

Although municipalities in aggregate were successful in keeping base commitments below the LD 1 limit, the experiences of individual communities varied considerably. Just over half (57%) of the municipalities responding stayed within the commitment limits imposed by LD 1 in 2007. This is consistent with the 57% of municipalities staying below LD 1 limits in 2006, and the 58% of municipalities in 2005. The 43% of municipalities who surpassed this year's limit did so by an average of $81,575, or 4.7% of the average municipal base commitment limit of $1.60 million. Communities whose base commitments were at or below the 2006 limit under spent the limit by an average of $176,205, or roughly 11.0% of the municipal average limit.

Table 10
Characteristics of Municipalities that are over/under LD 1 Commitment Limits

Characteristic	Over Limit	Under Limit	All Survey Respondents	Difference (Over - Under)	
Number of Municipalities	111	147	258		^
Population, 2006	2,384	4,128	3,378	-1,744	**
Percent with population less than 2,500	71.2%	59.2%	64.3%	12.0	**
Population growth rate, '01 to '06	2.2%	2.8%	2.6%	-0.61	
Percent with population loss, '01 - '06	31.5%	32.7%	32.2%	-1.1	
Commitment per capita, 2006	$1,537	$1,553	$1,546	-$16	
Aggregate municipal commitment growth rate, '06 - '07	7.0%	4.1%	4.8%	2.9	^
Average commitment growth rate, '06 - '07	9.2%	3.2%	5.8%	6.0	**
Average growth of tax base, '06 - '07	17.3%	12.8%	14.8%	4.5	
Average property tax rate, 2007	0.0150	0.0137	0.0143	0.0013	**
Percent single-town school districts	33.3%	35.4%	34.5%	-2.04	
School age population per capita, 2006	14.0%	14.3%	14.2%	-0.34	
Growth in school age population, '00 - '05	-7.8%	-5.1%	-6.2%	-2.72	
Employment to population ratio, 2004	0.246	0.303	0.278	-0.06	
Median household income, 2000	$34,495	$36,851	$35,843	-$2,357	**
Percent fiscal year budget	43.2%	48.3%	46.1%	-5.1	
Growth Limitation Factor	5.3%	6.1%	5.8%	-0.8	
Percent of Municipalities by Region					
Down East	22.5%	12.2%		10.3	^
Mid Coast	21.6%	27.2%		-5.6	^
Northern	27.9%	24.5%		3.4	^
Southern	9.9%	21.1%		-11.2	^
Western	18.0%	15.0%		3.1	^

**Indicates difference between over and under limit communities differ at a 95% level of statistical significance.
^Based on aggregate data, no statistical tests are available
Source: Maine Revenue Services, Municipal Valuation Returns 2006 & 2005; Census Current Population Estimates, Maine Labor Market Information Services, Maine Department of Education, 2000 Census of Population, 2006 SPO/MMA Municipal Survey, and author's calculations.

Table 10 presents percentages and statistical tests to help identify some of the characteristics associated with municipalities that were either over or under their base commitment limit. Smaller municipalities had greater difficulty staying within their commitment limits. On average, communities surpassing the LD 1 limit had a 2006 population roughly 1,700 fewer persons than those who met the commitment limit. Larger communities typically offer more services, providing them greater leeway in curtailing expenditures to stay within budgetary limits, or providing them more opportunities to secure revenue from sources other than property taxes.

Not surprisingly, communities surpassing the base commitment limit had significantly higher total property tax commitment growth and a higher average property tax rate. Municipalities with higher median household incomes were also more likely to stay within LD 1's limits. Geographically, Downeast municipalities (Hancock and Washington counties) were noticeably more likely to be over the limit while Southern municipalities (Cumberland and York counties) were considerably less likely to exceed LD 1, corresponding with previous results on the relevance of population and household income. Unlike last year, municipalities exceeding the limit were not significantly more likely to be part of an MSAD or Community School District and did not have more K-12 students per capita or slower school enrollment growth.

The survey also asked communities surpassing the LD 1 limit to report whether they voted to temporarily exceed or permanently increase it. Based on comments provided by municipal officials, some communities may not fully understand the distinction between voting to exceed or increase the limit. A vote to *exceed* temporarily lifts the limit, allowing the municipality to spend above the limit only for one year. A vote to *increase* permanently resets the base limit to a higher level for all future years. Communities were asked to explain why they chose to exceed or increase their commitment limit. Our survey results show that 36 municipalities reported explicitly voting to increase the limit while 39 voted to exceed the limit. Many of the municipalities that voted to increase or exceed the limit did not actually surpass the base limit. According to the comments included on the survey, some municipalities voted to exceed or increase the limit before knowing whether they actually surpassed it. In such cases, communities reported doing so as a precaution. Of those that in fact surpassed the limit, 25% voted to permanently increase the limit, and 25% voted to temporarily exceed the limit. A handful of communities voted both to exceed and increase the limit. An additional 29% of municipalities surpassing the limit did not indicate whether they voted to either exceed or increase the limit.

Municipalities were provided space to comment on why they decided to vote, or not vote, to exceed or increase the LD 1 limit. The comments are similar to those seen in years past. Common responses include:

- taking preventative action prior to knowing actual limit or levy;
- addressing one-time costs, such as financing for special and/or expensive equipment;
- to cover reductions in state revenue sharing allocations;
- covering the growing costs of energy, wages and salaries, insurance, and other necessary municipal operations;
- offsetting lower fund balance reserves which had been used in the past to fund operations without raising taxes; and
- voters deciding to exceed/increase the limit to avoid cutting desired municipal services.

There were also several communities who did not vote to increase or exceed the limit, despite having surpassed the limit. Municipalities commonly justified this non-action by indicating that they were unaware of the necessity of voting, had trouble calculating growth limits or lacked the necessary information, or did not think LD 1 applied to them.

SUMMARY

For the third year in a row, municipalities held property tax commitments raised for municipal operations below their aggregate statewide LD 1 limit. Among the 258 municipalities participating in the survey, aggregate commitments were 4.4% below the aggregate limit. This compares favorably with the results from last year, where municipalities reported aggregate commitments 2.4% lower than the limit. The statewide reductions in base commitments were not shared equally by all the individual municipalities. Of the municipalities surveyed, just over half (57%) stayed within their LD 1 limit, similar to last year's results. Those exceeding the limit did so by an average of $75,000. Municipalities surpassing the limit were typically smaller, had lower income households, and were more likely to be in the Downeast region. Commonly cited factors for increasing or exceeding LD 1 limits include financing one-time costs, such as expensive capital equipment; raising revenues to cover growing energy, wages and salaries, and insurance costs; replenishing lower fund balances; and wanting to maintain the existing level and quality of municipal services.

V. SCHOOL ADMINISTRATIVE UNITS' EXPERIENCE WITH LD 1

The second, and frequently the largest, component of municipal property taxes is raised to finance local public schools. LD 1 follows 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. Local school appropriations are constrained to 100% of the costs calculated by the EPS formula, excluding "local-only" debt. Under LD 1, the State is also required to increase its overall share of school funding to 55% of EPS costs by FY2009 (the 2008-2009 school year).

The Maine Department of Education collects information on school appropriations from state, local, and other sources on an annual basis. We use preliminary data on state and local educational appropriations for FY2008 to determine the share of school administrative units (SAUs) that kept expenditures below 100% of the EPS target.[7] We then compare the share of SAUs exceeding EPS to that of last year (Table 11).

EXPENDITURE GROWTH OF INDIVIDUAL SAUs

In FY2008, 82% of the 254 reporting school administrative units exceeded their target EPS funding levels. The combined allocations of all the reporting SAUs exceeded 100% of EPS by $135 million, or 8.1%, of total statewide EPS. Single-municipality SAUs were slightly less likely to exceed EPS funding targets than Maine School Administrative Districts (MSADs) or Community School Districts (CSDs). This might be attributable to differences in the budget approval process. Single-municipality SAUs are generally subject to approval by city officials, adding another layer of transparency and scrutiny to the budget process. CSDs surpassed single-town SAUs and MSADs in the relative dollar amount by which they exceeded EPS targets. In FY2007, CSDs exceeded the statewide EPS recommended level by approximately $14 million, or 24%. Single-municipality districts collectively exceeded EPS by a much larger dollar amount ($71 million) but by a much smaller share (8.5%) of their total recommended EPS target funding levels. MSADs collectively exceeded their EPS share by the lowest relative percentage (6.5%).

Table 11
School Administrative Unit Allocations and Compliance with LD 1*

[7] Thirty-six SAUs had not yet reported appropriations to the Maine Department of Education for 2007-2008 at the time of writing. To maintain consistency across years, these communities are excluded in both current and past years. As such, the numbers included in this year's report may not match those of previous years.

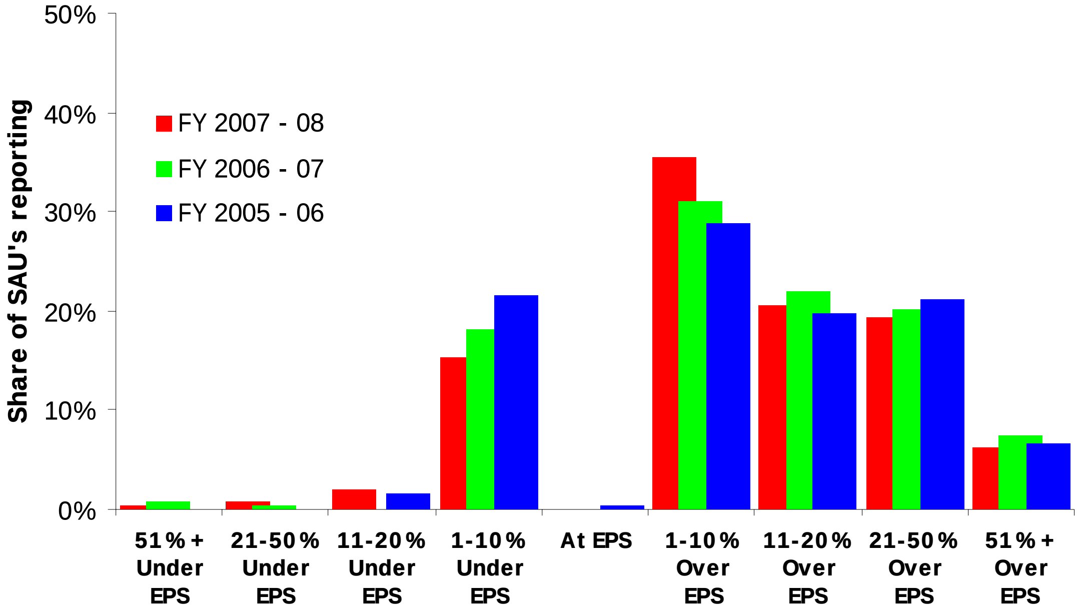
	All SAUs	Single Town SAUs	MSADs & Tribal	Community School Districts
Number of SAUs	254	172	68	14
Fiscal Year 2007-08				
Percent SAUs over 100% EPS	81.5%	79.7%	85.3%	85.7%
Amount over EPS (millions)	$134.5	$70.3	$50.3	$13.8
Amount over as a share of EPS	8.1%	8.5%	6.5%	23.8%
Fiscal Year 2006-07				
Percent SAUs over 100% EPS	80.7%	80.8%	76.5%	100.0%
Amount over EPS (millions)	$113.7	$57.8	$42.3	$13.6
Amount over as a share of EPS	7.1%	7.2%	5.7%	24.1%
Fiscal Year 2005-06				
Percent SAUs over 100% EPS	76.4%	77.9%	67.6%	100.0%
Amount over EPS (millions)	$67.5	$35.4	$21.7	$10.4
Amount over as a share of EPS	4.3%	4.5%	3.0%	18.8%

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

Both the share of SAUs exceeding EPS and the amount by which they exceeded it is similar to that witnessed last year, although notably higher than two years prior. Between FY2007 and FY2008, the percentage of SAUs exceeding EPS rose slightly from 80.7% to 81.5%, coinciding with a $21 million increase in the amount by which EPS was collectively surpassed. In FY2006, 76.4% of SAUs exceeded EPS by a combined $67.5 million, roughly 4.3% over the EPS limit.

Figure 3 shows the distribution of SAUs around their targeted EPS funding levels. The bulk of SAUs are either just over or just under their EPS targets. In FY2008 approximately 50% of SAUs fall within 10% plus or minus their target EPS funding levels. Few SAUs were far below their target EPS funding, but over 28% were more than 20% above their target EPS. The distribution is comparable to FY2006 and FY2007, with a slightly greater clustering between one to ten percent over EPS and slightly fewer SAUs either below EPS or above EPS by more than 10%.

Figure 3
Distribution of SAUs above and below EPS



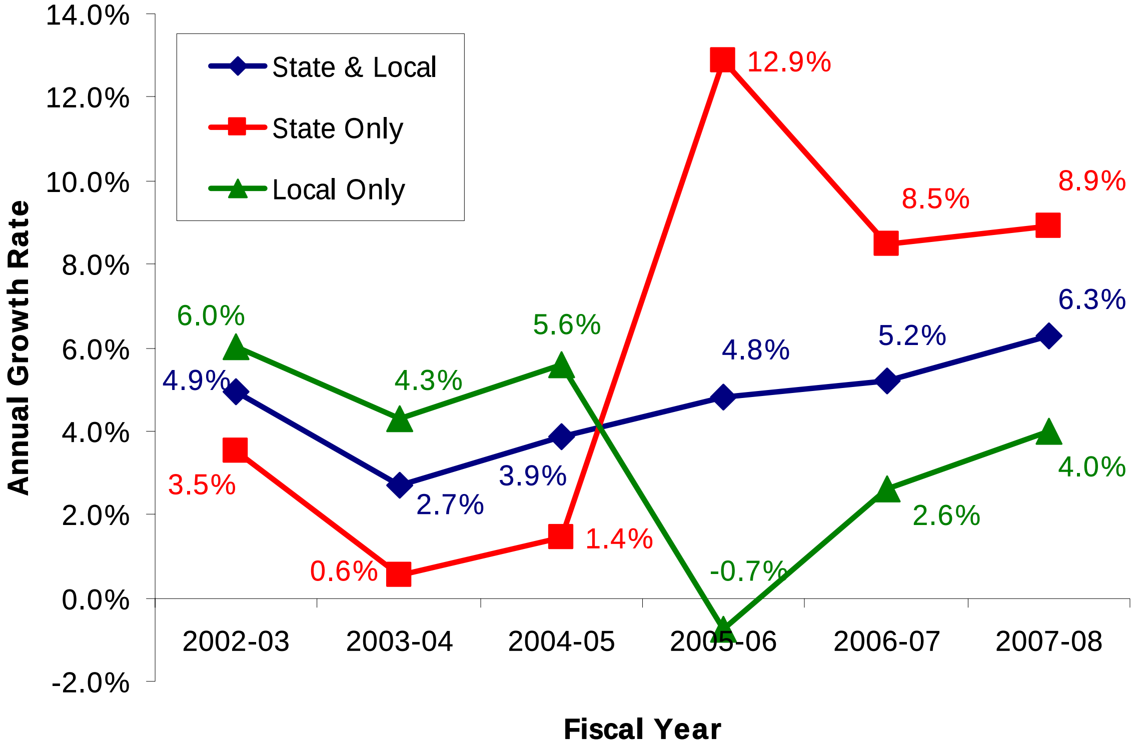
Source: Maine Dept. of Education and author's calculations
**Calculations include state transitional funds but exclude local-only debt*

COMBINED STATEWIDE SAU EXPENDITURE GROWTH

Next we examine a longer time horizon to study the impact of LD 1 on *total* state and local appropriations to schools (Figure 4). Both state transitional funds and local only debt are included in the analysis.[8] FY2006 was the first year LD 1 limits applied to SAU appropriations. In the years immediately prior to LD 1, the growth rate of state and local appropriations fluctuated between 3.7% and 4.9%, with a slight increase in both state only and local only appropriations for K-12 education. With the passage of LD 1 the state dramatically increased its share of school funding, growing from an annual growth rate of 1.4% in FY2005 to roughly 12.9% in FY2006. Corresponding with the increased state funds, growth in local appropriations to schools declined from an annual growth rate of 5.6% in FY2005 to -0.7% in FY2006. On balance, the combined state and local appropriations to schools still increased from 2.7% annual growth rate in FY2005 to 3.9% in FY 2006, as the increased state funding was only partially offset by a reduction in local appropriations.

Figure 4
Growth of State* and Local Appropriations for K-12 Education**

[8] The vast majority of the local appropriations are raised through local property tax commitments. For the past three years, local only debt has accounted for only 4 % of all total appropriations.



Source: Maine Dept. of Education and author's calculations
**State funds include transitional EPS funding*
***Local funds include local only debt for all years*

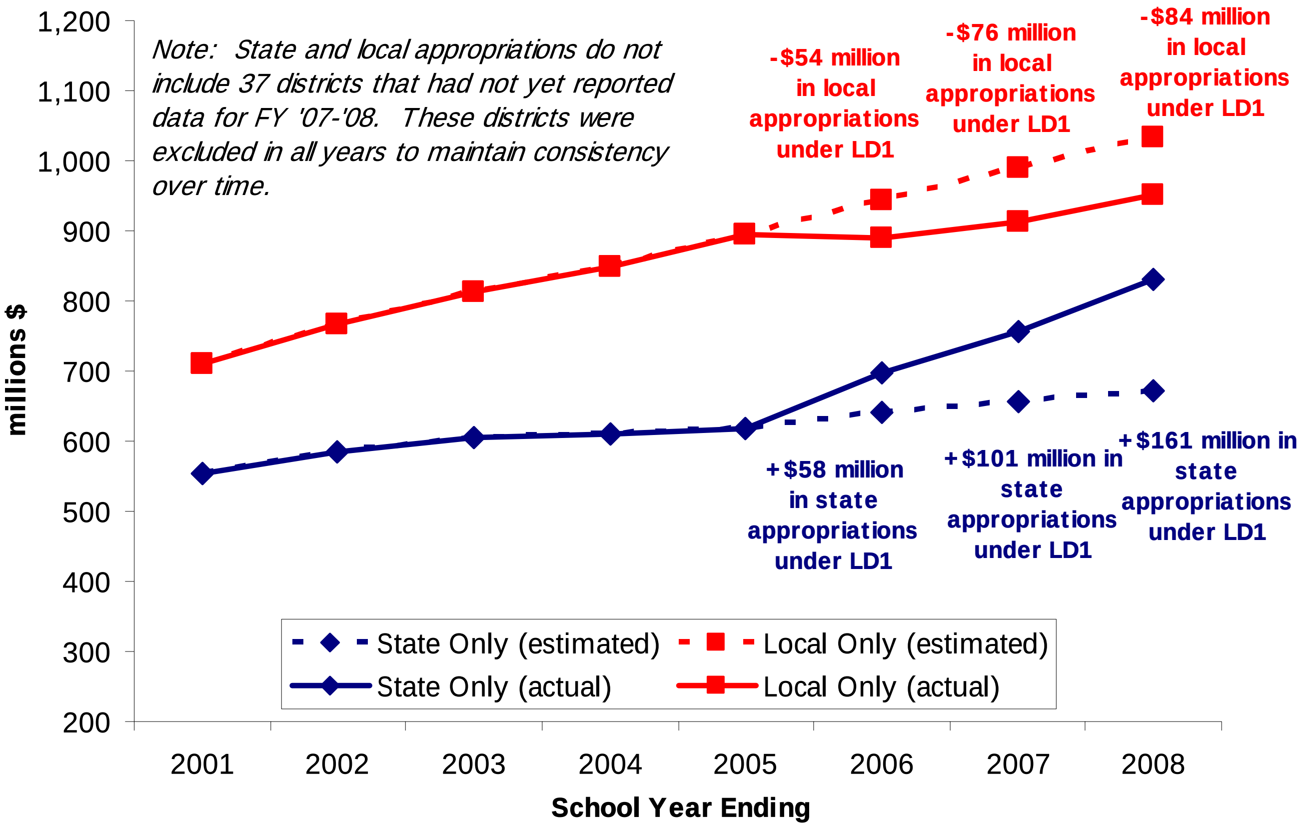
In the years following the passage of LD 1, state funding for K-12 education has continued to grow, albeit at a slower pace. The annual growth rate of state only appropriations declined to 8.5% in FY2007 and increased slightly to 8.9% in FY2008. Local appropriations have also grown during this time. Following the brief decline in local only appropriations in FY2006, K-12 allocations grew 2.6% in FY2007 and 4.0% in FY2008.

We use historical trends on state and local appropriations to SAUs to estimate what K-12 appropriations might have been if the State had not increased its share of school funding as prescribed by LD 1. Appropriations without LD 1 are estimated by a simple linear model that determines the average annual growth in state only and local only appropriations for the five years prior to LD 1 (2001 to 2005). The model is then used to extrapolate this trend forward three additional years under the assumption this rate of increase would have continued if not for the passage of LD 1.[9] The estimated appropriations are then compared to the actual

[9] Note: This is a slightly different model than used in last year's report, which used the simple average of annual growth in state only and local only appropriations to estimate future values, rather than the linear trend. Hence, the estimated dollar amounts have changed from last year's report, although the overall interpretation has not.

appropriations under LD 1. If SAUs used additional state funding to offset local appropriations, then we would expect a decline in local appropriations somewhat commensurate with the increase in state expenditures. The results of our investigation are presented in Figure 5.

Figure 5
State and Local Appropriations to School Administrative Units
Actual (with LD 1) and Estimated (without LD 1)



Source: Maine Dept. of Eductation and author's calculations

Total state appropriations increased beyond their historically predicted level by roughly $58 million in FY2006, following the introduction of LD 1. This was nearly matched by local appropriations that were $54 million below their predicted appropriation levels. In FY2007, growth in local appropriations remained below pre-LD 1 levels, but the gap between the additional state appropriations and reduced local appropriations widened. State appropriations to school districts were $101 million above the expected level in absence of LD 1, while local appropriations were $76 million below the level predicted without LD 1 – a difference of approximately $25 million of additional state funds that were not matched by local reductions. This year the gap continued to widen as both local and state appropriations grew. In FY 2008 state appropriations to school districts were $161 million dollars above the expected level in the absence of LD 1, while local appropriations were only $84 million below the level predicted without LD 1 – a difference of approximately $77 million in additional state funds not matched by local reductions.

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. The LD 1 “limit” for SAUs is 100% of EPS. As a whole, School Administrative Units (SAUs) surpassed that limit. Approximately 82% of SAUs exceeded their individual limit. For FY2008 (the 2007-2008 school year), the combined state and local allocations to local school districts were $135 million, or 8.1% over 100% of EPS among the 254 SAUs reporting. Both the percentage of SAUs exceeding their limit and the amount they were over increased between FY2008 and FY2007, but by a noticeably lower rate than between FY2006 and FY2007.

Total state and local appropriations to schools have also grown following the first year of LD 1. Initially most of the growth was due to the sharp increases in state funding for local schools under LD 1. In the first year under LD 1, state appropriations to schools increase by 12.8% compared to the previous year and were nearly matched dollar to dollar by an offsetting reduction in local appropriations. In the years since, both state and local allocations to schools have grown. State allocations have continued to increase as prescribed under LD 1, but with less and less of an offsetting reduction in local allocations. In the past year, local school appropriations rose by 4.0%, which is a lower growth rate than pre-LD 1 but higher than previous two years. The implication is that large portions of the increase in state spending to schools did not result in direct reductions in local property tax commitments.

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. Assessment growth is limited to the ten-year average growth rate of state personal income (adjusted for inflation) plus the county's property growth factor. The property growth factor is calculated by totaling the new property growth 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.

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 is the only county to operate on a July 1-June 30 fiscal year, now includes all jail spending under its limit. [10] Lincoln County will include the jail in next year's assessment limit.

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, we first look at the combined assessment growth of all sixteen counties. In 2007, Sagadahoc County's previously-exempt jail expenditures ($2.7 million) became part of its base assessment. Therefore, counties' 2007 combined base assessments ($118.3 million) increased by more than their combined LD 1 growth factor of 5.2%. This will happen again next year as Lincoln County's jail expenditures also become subject to the LD 1 limit.

The counties' combined assessment limit, including assessments for the Lincoln-Sagadahoc jail, was $121.0 million. Actual assessments were $120.4 million. This is $500,000, or 0.5% below the limit.[11] The increase in actual assessments is partially the result of Somerset County building a new jail, which increased its assessment by $1.5 million.

[10] Throughout this section, "2007" refers to the 2007-08 fiscal year for Sagadahoc County and the 2007 calendar year for all other counties.
[11] Numbers and percentages vary slightly due to rounding.

Table 12
Combined County Assessment Limit Calculation
Note: All dollar figures in millions

	2004	2005	2006	2007
LD 1 Annual Growth Factor	--	--	6.1%	5.2%
Base Assessments	$99.4	$104.4	$110.8	$118.3
Exempt Lincoln-Sagadahoc Jail Funding	--	$0.4	$4.2	$2.7
LD 1 Assessment Limit (Base Assessments plus L-S Jail)	--	--	$115.0	$121.0
Actual Total Assessments	$99.4	$104.8	$111.3	$120.4
Amount Above/Below LD 1 Limit	--	--	-$3.7	-$0.5
Percentage Above/Below Limit	--	--	-3.2%	-0.5%

Source: State Planning Office

Table 13 looks at growth in assessments excluding the Lincoln-Sagadahoc jail. Excluding the jail, total assessment increased 7.3% in 2007, which is more than double last year's growth rate of 2.7%. The counties were able to increase their assessment more than the annual growth factor because they were below the limit last year. Note that in Table 13 the line "Exempt Lincoln-Sagadahoc Jail Funding" is $5.4 million (instead of $2.7 million as above) to reflect the jail costs that recently became part of Sagadahoc's base assessment. No growth factor was applied to those funds when they became part of its base assessment.

Table 13
Growth of County Assessments Subject to LD 1 Limit
Note: All dollar figures in millions

	2004	2005	2006	2007
Actual Total Assessments	$99.4	$104.8	$111.3	$120.4
Exempt Lincoln-Sagadahoc Jail Funding	--	$0.4	$4.2	$5.4*
Assessments Subject to Limit (Total Assessments minus L-S Jail)	--	$104.4	$107.2	$115.0
Growth of Assessments Subject to Limit	--	5.0%	2.7%	7.3%
LD 1 Growth Limit	--	--	6.1%	5.2%

*$5.4 million includes the Sagadahoc jail contribution
Source: State Planning Office

The next table displays the annual growth in total county assessments, including the Lincoln-Sagadahoc jail. Assessments increased 8.2% between 2006 and 2007. That is higher than last year's growth rate of 6.2% and 2005's 5.4% growth. The growth of county assessments in 2007 exceeded the growth of state General Fund appropriations and municipal property taxes.

Table 14
Growth of Total County Assessments
Note: All dollar figures in millions

Year	Total Assessments	Annual % Change
2007	$120.4	8.2%
2006	$111.3	6.2%
2005	$104.8	5.4%
2004	$99.4	--

Source: State Planning Office

ASSESSMENT GROWTH OF INDIVIDUAL COUNTIES

Each individual county's experience with LD 1 varied greatly. All counties were allowed to increase their assessment by the 2.47% growth in real personal income plus the percentage increase in new property value in their member towns. New property growth ranged from 1.8% in Hancock County to 5.1% in Androscoggin County, with an average of 2.7%. Adding income and property growth produced LD 1 assessment growth factors ranging from 4.3% to 7.5%, with an average of 5.2%.

All counties reported difficulty obtaining information on new property growth from their member municipalities. Only two counties were able to calculate a growth rate based on new valuations from all of their member towns. Reviewing the municipal valuation totals reported to the counties suggests that smaller, slower growth towns were less likely to provide their new valuations.

Fourteen counties stayed within their LD 1 limits, with actual assessments ranging from 10% to 0.2% below the limit. Three counties were 9 to 10% below the limit and nine counties were 2% or less below their limit. On average, these counties were 2.1% below their limits. Ten counties stayed below their limit in both 2006 and 2007. In 2007, however, the amount by which they under shot their limits dropped from 2.7% to 1.8%.

Knox and Somerset counties voted to increase their LD 1 limits by 5.1% and 25.7% respectively. Somerset County attributed its increase to the construction of a new correctional facility that increased its assessment by $1.5 million. Knox County also reported increases in corrections expenses as the primary reason for voting to increase its limit.

Eleven counties, 69%, reported assessment growth in 2007 that exceeded growth in 2005, the only pre-LD 1 year for which data are available. The counties with the largest increase in assessments in 2005 had the lowest increases in 2007. Eight of sixteen counties, 50%, had higher growth rates in 2007 than 2006. Counties with large increases last year were more likely to have low or negative assessment growth in 2007.

SUMMARY

Counties stayed within their combined LD 1 limit in 2007. County assessments were $0.5 million, or 0.5%, below the limit. However, statewide assessments grew faster last year than they did immediately before LD 1. Overall, assessments increased by 8.2% from 2006 to 2007. Setting aside new assessments raised to fund the new Lincoln-Sagadahoc jail, as a two-year exemption in statute directs, remaining assessments grew by 7.3%. By either measure, the growth of county assessments in 2007 exceeded the 5.0% growth rate seen in 2005, the only pre-LD 1 year for which data are available. Individually, fourteen counties stayed within their limits and two surpassed them. Eleven counties, 69%, reported assessment growth in 2007 that exceeded growth in 2005.

VII. SUMMARY

Comparing Maine's state and local tax burden to other states will not be possible until data from other states are collected and adjusted to allow for comparison across differing tax systems, a process that happens at the national level and takes several years. However, the information provided in this report illuminates LD 1's early impact on fiscal decisions at all government levels and corresponding growth trends. The first LD 1 report, released in 2006, revealed notable constraint in the growth of local property taxes, which coincided with the law's first year of implementation. This year, like last year, evidence of LD 1's impact is mixed.

The State stayed within its General Fund appropriations limit while greatly increasing aid to local schools. Just over half of municipalities stayed within their limits, as did fourteen of Maine's sixteen counties. At the county level, however, several jail construction projects generated notable assessment increases in a few counties. Even setting aside assessments raised for the Lincoln-Sagadahoc jail, as a two-year exemption in statute directs, remaining assessments grew by 7.3% in 2007. That is a sharp increase from previous years.

For a third year, Maine's School Administrative Units (SAUs) diverged from LD 1's limits more than any other level of government. Fully 82% of SAUs exceeded their limit. Combined local allocations for schools were $134.5 million, or 8.1%, over EPS. Compared to last year, both the percentage of SAUs exceeding their limit and the amount by which they were over has increased. Based on historical trends, it appears that about 75% of the increased state education funding is offsetting local property taxes, with the remaining 25% expended by SAUs rather than used to reduce property taxes.

Statewide, total property taxes were within their combined LD 1 limit and the growth of property taxes was once again lower than before LD 1. However, it was not as low as last year. This suggests that local governments collectively tightened their belts when LD 1 passed (or used reserves) but have not maintained that low level of property tax growth.

APPENDIX A. SURVEY INSTRUMENT

The following pages display the survey instrument used by the State Planning Office to collect information on municipal commitments. The questionnaire was an attachment to the annual Municipal Valuation Return (MVR) that Maine Revenue Services sends to all municipalities.

STATE PLANNING OFFICE - 2007 MUNICIPAL PROPERTY TAX LEVY LIMIT WORKSHEET

Questions? Call the State Planning Office at 287-5649 or 1-800-662-4545. Or visit www.maine.gov/spo/economics/ld1

Municipality:__________________ Contact Person*:__________________ Phone Number:__________________

* The Contact Person should be able to answer clarifying questions about the reported information.

The following two pages show how to calculate your municipality's property tax levy limit. Completing these pages is not mandatory, but doing so will help ensure that your municipality complies with Maine law on the rate of property tax increases.

The information entered on these pages will not affect the amount of state funds your municipality receives. Upon request, it will be made available to the public and the Maine Municipal Association. The State Planning Office will also use this information in its annual report on property tax trends in Maine.

Information on new property, appropriations, and deductions should be collected from the assessor and the valuation book before completing these pages.

Thank you!

DETERMINE LAST YEAR'S PROPERTY TAX LEVY LIMIT

- If last year the municipality committed *LESS THAN* or *EQUAL TO* the limit, enter last year's limit on Line 1 below.
- If last year the municipality voted to *EXCEED* the limit *ONCE* (just last year), enter last year's limit on Line 1 below.
- If last year the municipality voted to *INCREASE* the limit *PERMANENTLY*, complete Steps A-D below. The information needed for this calculation is on the 2006 Municipal Tax Assessment Warrant, filed in the Valuation Book.

A. Last year's Municipal Appropriations (Line 2, 2006 Municipal Tax Assessment Warrant) $__________

B. Last year's Total Deductions (Line 10, 2006 Municipal Tax Assessment Warrant) $__________

C. Enter any revenue included in Total Deductions that paid for non-municipal appropriations, such as schools. (If all deductions paid for municipal appropriations, then enter "0".) $__________

D. Add Lines B and C and subtract from A. Enter on Line 1 below.

1. LAST YEAR'S PROPERTY TAX LEVY LIMIT $__________

CALCULATE GROWTH LIMITATION FACTOR

- Each municipality's Growth Limitation Factor is based on local property growth and statewide income growth.

2. Total New Taxable Value of lots (splits), buildings, building improvements, and personal property first taxed on April 1, 2006 (or most recent year available) $__________

3. Total Taxable Valuation on April 1, 2006 (or most recent year available) $__________

4. Property Growth Factor (Line 2 divided by Line 3) ___.___ ___ ___ ___

5. Income Growth Factor (provided by State Planning Office) 0 . 0 2 4 7

6. Growth Limitation Factor (Line 4 plus Line 5) ___.___ ___ ___ ___

7. Add 1 to the Growth Limitation Factor calculated in Line 6. (For example, if Line 6 is 0.0362, then enter 1.0362 on Line 7.) ___.___ ___ ___ ___

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STATE PLANNING OFFICE - 2007 MUNICIPAL PROPERTY TAX LEVY LIMIT WORKSHEET

CALCULATE NET NEW STATE FUNDING

- In this section, use FY2005-06 and FY2006-07 or the two most recent years available. Calendar-year towns use 2005 and 2006, or two most recent years available.

8. FY2005-06 Municipal Revenue Sharing $ ____

9. Apply Growth Limitation Factor (Line 7 multiplied by Line 8) $ ____

10. FY2006-07 Municipal Revenue Sharing $ ____

11. If necessary, enter any state funding that was not properly accounted for in last year's adjustment for Net New State Funding. (If that is unnecessary, enter "0" on Line 11.) $ ____

12. NET NEW STATE FUNDING (Add Lines 10 and 11, and subtract Line 9. Enter "0" if negative.) $ ____

CALCULATE THIS YEAR'S PROPERTY TAX LEVY LIMIT

- This year's Property Tax Levy Limit is last year's limit increased by the Growth Limitation Factor and reduced by Net New State Funding.

13. Apply Growth Limitation Factor to last year's limit. (Line 1 multiplied by Line 7) $ ____

14. THIS YEAR'S PROPERTY TAX LEVY LIMIT (Line 13 minus Line 12) $ ____

CALCULATE THIS YEAR'S MUNICIPAL PROPERTY TAX LEVY

- The information needed for this calculation is on 2007 Municipal Tax Assessment Warrant, filed in the Valuation Book. Use estimates if necessary.

A. This year's Municipal Appropriations (Line 2, 2007 Municipal Tax Assessment Warrant) $ ____

B. This year's Total Deductions (Line 10, 2007 Municipal Tax Assessment Warrant) $ ____

C. Enter any revenue included in Total Deductions that will pay for non-municipal appropriations, such as schools. (If all deductions pay for municipal appropriations, enter "0".) $ ____

15. THIS YEAR'S MUNICIPAL PROPERTY TAX LEVY (Add Lines A and C, and subtract Line B) $ ____

16. COMPARE this year's MUNICIPAL PROPERTY TAX LEVY to the LIMIT (Line 14 minus Line 15) $ ____
(If Line 16 is negative, then this year's municipal property tax levy is greater than the limit.)

17. Did the municipality vote to *EXCEED* the limit *ONCE* (just this year)? ☐ NO ☐ YES

If so, please describe why: ____

18. Did the municipality vote to *INCREASE* the limit *PERMANENTLY* (for current and future years)? ☐ NO ☐ YES

If so, please describe why: ____

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