

# **Analysis of First Year Impact of LD 1**

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# **Executive Summary**

## **Executive Summary**

On January 20, 2005, the 122<sup>nd</sup> Maine Legislature enacted LD 1, “An Act To Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels” (PL 2005, Chapter 2). LD 1 imposed annual growth limits on state, county, K-12 school and municipal spending. It also implemented a new school funding formula using the Essential Programs and Services (EPS) model, and put into law the citizen’s initiative, approved the previous June, that raised state contributions to General Purpose Aid school funding to 55% of the total, with the express aim of reducing property taxes.

The structure of LD 1 combines the citizen’s initiative, sponsored by the Maine Municipal Association, with portions of the “Maine Plan” recommended in 2004 by the Maine State Chamber of Commerce. The spending limitation provisions, with some changes, follow the outlines of the Maine Plan, and treat each of the four major spending components – state, county, school and municipal – separately.

LD 1 contains goals and requirements for Maine’s various units of government that need to be objectively evaluated. For that reason, the Maine State Chamber of Commerce and the Maine Municipal Association (MMA) decided last fall to jointly study and evaluate the impact of LD 1 during its first year of enactment. Specifically, the two organizations were interested in knowing how well the governmental spending limitation systems contained in LD 1 were working.

This report is written with two core goals in mind.

First, to be as objective as possible in the treatment of the available data, including being careful to identify the state appropriations and property tax expenditures that fall within the defined limits of LD 1.

Second, Maine’s tax burden is a measure of total state and local taxes as a percentage of total personal income. It is therefore a goal of this report to open up the analysis beyond the defined limits of LD 1 when the available data suggests that more complete tax burden impacts might be revealed.

### **SPENDING LIMITATION COMPLIANCE**

The purpose of the spending limitation systems of LD 1 are found in the statute’s Tax Burden Reduction goal (36 MRSA, section 7301) that states: “. . . *that by 2015 the State’s total state and local tax burden be ranked in the middle 1/3 of all states . . .*”

As determined by the U.S. Census Bureau, Maine’s total state and local tax burden in 2002 (the most recent year for which data is available) was 12.63% and the national average was 10.2%. Maine, in 2002, had the second highest state and local tax burden in the nation. Total state and local tax burden is determined by dividing all taxes collected by personal income.

The primary goal of LD 1 was to put Maine on a path towards the middle of the national state and local tax burden rankings. The data collected for this report clearly indicates that during the first year of LD 1, the various levels of government in Maine – state, school, municipal, and county – have begun the journey that will lead to a lower state and local tax burden.

Under LD 1, each level of government – state, school, municipal and county – has its own spending limitation system.

The spending limitation systems for the state, municipalities and counties are broadly similar. For each, a standard growth factor representing a 10-year average (growth) of real TPI (total personal income) is used. For the period considered by this report, that uniform TPI growth factor was 2.58%. For municipalities and counties, a “new property” growth factor is added to the TPI number to establish an overall growth factor. For state government, population growth (also a 10-year average) is the factor that is combined with the TPI number.

The key to tax burden reduction is to keep the percentage growth in taxes *below* the percentage growth in personal income. Over the past decade, personal income growth has averaged about five percent a year. [NOTE: The real TPI growth factor used in the spending limitation formulas is the growth in total personal income minus inflation, as measured by the Consumer Price Index].

## **Municipalities**

According to the 2002 data from the U.S. Census, Maine’s property tax burden is highest in the nation, at 5.32%. In Maine, property taxes are used to fund services provided by municipalities, counties and schools.

Chapter 3 of this report looks at how municipalities complied with the spending limits of LD 1. The spending limits for municipalities are pegged to the growth in property taxes that fund municipal services. LD 1’s municipal spending limitation applies only to that part of the property tax bill that pays for municipal – not county or school – services. The data on municipalities collected for this report clearly shows progress in achieving LD 1’s tax burden reduction goal.

Of the 211 municipalities that operate on a July-June fiscal year and were thus responsible for complying with the municipal spending limits in 2005, 143 (or 68%) responded to an MMA survey regarding LD 1 compliance. Survey results show the overall increase in property taxes for the municipal side of the local budgets was 2.53% in FY 06. That was just over half of the 4.8% combined growth limitation factor for the same communities and roughly half of the expected increase in personal income for 2005.

## **Counties**

Chapter 4 looks at spending limits for county government. LD 1's county spending limit applied only to the county assessments which are paid from property taxes by each municipality in the county. This report shows that the county assessment increase for the 16 counties, in the aggregate, was 3.18%. The combined growth allowance for all counties was 5.16%. The 3.18% represents about 60% of the expected increase in personal income for 2005. According to the reported data, 15 of the 16 counties stayed within LD 1's spending limitation system for counties.

There are some footnotes to be added to the county data. At the time this report was being written, Waldo County had not supplied information regarding a growth factor and county assessment for 2006. Correspondence with the county treasurer's office, just before the report was finalized, supports the conclusion that the Waldo County assessment will stay within the growth limit.

For Sagadahoc and Lincoln counties, an exemption to the growth limit was granted by the State Legislature for jail costs incurred by the Lincoln and Sagadahoc Multicounty Jail Authority (which has budget authority for a new regional jail serving the two counties). The exemption is for two years.

The effect of this exemption is significant in this first year of LD 1. If the exemption were not there, the aggregate increase in county assessments would be 6.26% instead of 3.18%. When the Jail Authority's budget is included as part of the analysis, the county assessments for both Sagadahoc and Lincoln counties exceed their growth limits and the combined spending limit of all 16 counties (5.16%) is exceeded.

The county assessment in Knox County does not include the user fee that municipalities pay to the Knox County Regional Communications Center. While this type of fee is clearly outside the limitation system in LD 1 because it is not part of the county assessment, the fee does get paid by the same entities – municipalities – that pay the county assessments and in all likelihood is paid for with property taxes.

## **State Government**

Chapter 1 of this report covers the spending limitation system on state government and the degree to which the state complied with that spending limitation system.

The spending limitation system for state government is similar to that imposed on municipalities and counties, but very different in some important respects. As stated earlier, the state's growth factor uses real TPI growth (same as for municipalities and counties) and population growth (municipalities/counties use "new" property growth). The state's overall growth factor for FY 06 was 3.11%.

The state's spending limitation system differs from those applied to municipalities and counties in important ways. First, the state limit applies to the largest source of state spending known as the General Fund. They do not limit the Highway Fund, Federal Funds account, or the Other State Funds account. Second, new education appropriations during the four-year ramp-up to get the state paying 55% of the cost of K-12 education are excluded from the limit (this state spending is required by LD 1 and therefore not considered discretionary).

The baseline for the state's LD 1 limit is the average General Fund appropriation over the two-year FY 1004-05 biennium, which is \$2.710 billion. This report adopts that figure for our analysis. The FY 06 General Fund appropriation was \$2.716 billion, which is only two-tenths of a percent increase over the FY 05 amount. This small growth in General Fund expenditures is misleading for two reasons.

First, the 0.2% growth figure is misleading because of the way that the Business Equipment Tax Reimbursement (BETR) program is handled. In FY 05, BETR was a General Fund appropriation. For FY 06, the BETR program is continued, but the \$73.5 million of BETR funding gets taken out of the state revenue stream before it goes into the General Fund and does not get appropriated. If BETR funding had been a General Fund appropriation in FY 06 (as it was in FY 05), the state would be just \$4.4 million under its limit. Using this apples-to-apples analysis, the state's spending from FY 05 to FY 06 increased 2.95%, just shy of the 3.11% growth allowance.

Second, increased state funding of local education is excluded from the calculation of General Fund appropriations totals under LD 1, as required by that statute. However, looking outside LD 1 by adding back that spending produces a much greater actual state spending growth of approximately 6.7% from the December 1, 2004 baseline to the end of calendar 2005.

The state's compliance with the spending limits of LD 1 and the effect on the overall tax burden are not as clear-cut as the effects of municipal and county compliance. The reason is that the state's spending limit does not directly affect the amount of (state) taxes collected. The limits on municipalities and counties do directly impact the amount of property taxes collected.

LD 1 handles revenues over the limit by directing the Legislature to apply these unappropriated tax revenues to a budget stabilization fund, a retirement allowance fund and a capital reserve fund. When those funds reach certain levels, the excess tax revenues collected are then put into a Tax Relief Fund for Maine Residents.

The practical effects of the state's spending limitation system are to stabilize future General Fund appropriations during economic uncertainty, to lower state government's unfunded liability for its employee retirement system, to create a savings account for future capital expenses and thereby lessen the need to borrow, and when all of the aforementioned are accomplished, return excess sales and income taxes to Maine taxpayers.

## **Schools**

Chapter 2 looks at the impact of LD 1 on schools. An evaluation of the effect of LD 1 on the budget decisions made by Maine's 286 school administrative units is less straightforward than for state, county and municipal governments.

There is no spending limitation system, per se, on schools. Instead of applying a growth factor to the FY 05 school budget and comparing that to the FY 06 school budget, LD 1 applies a brand new school funding model (Essential Programs & Services, or EPS) as each school unit's spending benchmark.

The majority of school systems (68%) are spending over the EPS model in their FY 06 budgets. That is really not a surprise. Before EPS went into effect, the Department of Education was putting out data that suggested around 215 (of the 286) school systems were spending more than the EPS model was going to allow.

School spending in FY 06 is partially but not completely described in the spreadsheets provided by the Department of Education and found in an Appendix to this report. For technical reasons, school subsidy "transition" funds don't show up in some of the spreadsheets and debt service on non-state supported school construction projects is also excluded from a strict analysis of school spending compliance with EPS.

For this report, those "off budget" expenditures were added so we could get a handle on *total* state and local education spending. This report's data shows total state & local education spending in FY 05 at \$1.779 billion and total spending in FY 06 at \$1.887 billion – a 4.9% increase. That increase will be very close to the anticipated growth of personal income in Maine in 2005.

Some of the rate of growth in school spending is tied to the implementation of EPS. Even before LD 1 was enacted, it was accurately predicted that over 25% of the state's school systems were spending below the recommended EPS level in FY 05.

The real limitation effects of the EPS model will show up as future school budgets are compared to the EPS benchmark. If school budgets remain proportional to EPS or they get closer to the EPS benchmark, then total education spending will be constrained. Particularly because of an anticipated decline in public school student enrollment, the EPS model for school costs will be growing at a much slower pace in future years than total K-12 education expenditures have grown in past years. The Department of Education estimates that the EPS model will grow at a figure that is less than inflation over the next 5 to 10 years.

## **CONCLUSION**

During its first year of enactment, LD 1 has been a step in the right direction for reducing Maine's overall tax burden. The key to achieving its goal of tax burden

reduction will be a long-term commitment to staying within the spending limits and resisting attempts to allow exemptions or find loopholes to circumvent those limits.

For LD 1, including proposed bill, amendments and finally enacted public law:  
<http://janus.state.me.us/legis/LawMakerWeb/externalsiteframe.asp?ID=280014321&LD=1&Type=1&SessionID=6>.

# **Spending Limitation Compliance**

## Chapter 1: State Government

This chapter considers the fiscal year 2005-06 performance of state government under the General Fund appropriations limits imposed by LD 1. It also looks at the larger goals of LD 1, relating first-year state performance to the statute's ultimate objectives of controlling spending and lowering the state and local tax burden in Maine.

### Purpose and Design of LD 1

LD 1's purposes are summarized in the following passage from the law:

*“It is the goal and policy of the State that by 2015 the State's total state and local tax burden be ranked in the middle 1/3 of all states, as determined by the United States Census Bureau's most recent tax burden analysis, adjusted by the assessor to reflect the State's unique expenditure tax relief programs.*

*It is the goal and policy of the State that additional state funds provided to municipalities through increases in the state share of education funding under the Essential Programs and Services funding model must, to the greatest possible extent, be available for statewide property tax reduction.”* (36 MRSA Section 7301.)

Meeting the first goal is the purpose of annual spending growth limits for General Fund appropriations. They took effect July 1, 2005, and affect each state budget passed after that date. Because the growth limits reflect only real personal income growth and population, they can be expected to bring down increases in state and local spending – and thus the tax burden -- over time. Until the passage of LD 1, both state and local budgets tended to be driven by revenue increases, which reflect both real and inflationary income growth, and historically have been significantly higher than the limits allowed under this statute.

### How the State Limits Work

The growth limitation in LD 1 crafted for the General Fund allows state budgets to grow at a measured pace, with the annual cap reflecting population and personal income growth as estimated and compiled by the federal government. During the four years in which the state is increasing school aid to 55%, that additional spending, which is targeted toward local property tax relief, is excluded from the statutory growth limit calculation. Those expenditures are referred to below as General Purpose Aid to Education or GPA.

Limits on the growth of other state spending categories, such as the Highway Fund, were considered but rejected by both the Maine Plan, and by lawmakers writing LD 1. The Highway Fund has generally increased at less than the rate of inflation – 3% annually over the last 10 years – and is largely funded by fuel taxes that are themselves indexed to inflation. Few want the state to limit acceptance of federal funds, which have

grown by 7.7% annually over 10 years, and monitoring the Other State Funds account, which includes numerous sources of revenue, would be a complex task. The General Fund is the largest and best understood of state spending categories, and it makes the most sense to place limits there.

Here is the LD 1 procedure for limiting the annual growth of state General Fund spending:

- First, the statute defines what state spending is subject to annual growth limits -- General Fund only.
- Next, the statute sets a baseline for General Fund expenditures as of Dec. 1, 2004. Appropriations beyond this baseline amount must conform to the growth limit. The 2004 baseline applies to the first year of LD 1's operation, while subsequent baselines are drawn from General Fund appropriations as of Dec. 1 in every even-numbered year, reflecting the state's two-year budget cycle.
- Not all additional General Fund appropriations are subject to the limitation on growth. As mentioned earlier, appropriations reflecting increased state funding of local education costs through GPA are excluded. This provision recognizes that such funding was required by citizen initiative; under LD 1 this is required, not discretionary, state spending.
- Another exclusion to the calculation of the state spending growth limit was made for different reasons. The state reimbursement of municipal personal property taxes paid by businesses through the Business Equipment Tax Reimbursement (BETR) program was a state appropriation in FY2004-05, but was reclassified as a "tax expenditure" in FY 2005-06 and moved "off-budget." The rationale is that, when state tax burdens are being compared, the BETR funding appears both as a tax-driven expenditure at the state level, and as a local tax collected by municipalities, counting the tax twice and making the state-local tax burden higher than it would be otherwise. The move of BETR appropriations off-budget distorts the comparison between the 2004-05 baseline and state spending in the following fiscal year. This report includes BETR reimbursements in its comparisons of annual state General Fund spending since this provides the apples-to-apples comparison the public rightly expects.
- The annual growth factor for General Fund appropriations is calculated by adding the average annual change in real personal income growth in Maine, plus population growth. Taking a 10-year rolling average reduces year-to-year fluctuations. This minimizes abrupt swings in the growth rates, and makes state budget growth limits more predictable.
- LD 1 outlines certain extraordinary circumstances that allow General Fund appropriations to become exempt from the growth limit, and describes the legislative action necessary to increase the limitation.

- Finally, it details how revenues in excess of the spending limits should be handled. It specifies transfers to the Maine Budget Stabilization Fund (“Rainy Day fund”), to retirement, operating and reserve funds, and finally to a Tax Relief Fund that could be used for rebates or other tax reduction efforts.

## **Spending limits performance in FY 2005-06**

So how is state government doing under LD 1's General Fund appropriation limits? Here are three measures of performance for fiscal year 2005-06. The first is a strict LD 1 review, the second eliminates the effect of taking BETR “off-budget” mentioned earlier and the third includes increases in GPA, which were also excluded by from the spending cap by LD 1.<sup>1</sup>

### Literal LD 1 Measure

- As of Dec. 1, 2004, FY 2005 total General Fund appropriations were set at \$2.710 billion. This is the baseline for calculating LD 1's General Fund appropriation limit for FY 2006.
- The LD 1 growth limitation allowance for FY 2006 state General Fund appropriations was 3.11%. This allowance is made up of 2 components - average real personal income growth in Maine (2.58% over the last 10 years) plus average population growth in Maine (0.53% over the last 10 years).
- Applying the growth limit allowance to the statutory FY 2005 General Fund appropriations baseline of \$2.710 billion yields \$84.3 million in allowable state General Fund appropriations growth in FY 2006. Therefore the total allowable FY 2006 General Fund appropriation is \$2.794 billion.
- As calculated by the state, General Fund Appropriations for FY 2006 when the Legislature adjourned in June 2005 were \$2.716 billion. As specified under LD 1, total General Fund appropriations were only \$6.4 million higher than the previous fiscal year, an increase over the base of just 0.2%. Accordingly, the state was well within the literal LD 1 limit.

### BETR Adjusted Measure

- The literal LD 1 calculation does not include the FY 2006 BETR expenditure of \$73.5 million, as noted above. One appropriate measure of the state's

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<sup>1</sup> The source of the state appropriation data is the Legislature's Office of Fiscal and Program Review (OFPR). The web-site citations for the specific OFPR reports are provided at the end of this chapter.

performance would be to include BETR funding in FY 2006 since it was included in the baseline year.

- If BETR expenditures of \$73.5 million are added-back to the FY 2006 appropriation of \$2.716, the BETR adjusted appropriation amount is \$2.790 billion. This amount is also below the LD 1 cap of \$2.794, by \$4.4 million. In other words, the total growth in state expenditures increased by 2.95% with BETR included, below the LD 1 cap of 3.11%.

### Education Adjusted Measure

- Under LD 1, the FY 2006 growth limit calculation excludes the growth in GPA in FY 2006 (which totaled \$101.6 million) that was in excess of the 2005 GPA portion of the state's baseline (\$734.5 million).
- Accordingly, the total FY 2006 General Fund appropriation limit under LD 1 equals the statutory FY 2005 General Fund appropriations base (\$2.710 billion) plus the FY 2006 growth limit percentage value (\$84.3 million) plus excluded FY 2006 GPA growth (\$101.6 million) totaling \$2.896 billion.
- Actual FY 2006 General Fund appropriations (including all appropriations made through the conclusion of the 122nd Legislature's 1st special session) total \$2.818 billion. This is an increase of 3.99% above the base. (Source: November 29, 2005 version of OFPR General Fund Status report). [Note: *Expenditures for BETR in FY 2006 are excluded from this analysis.*]
- Under this Education Adjusted measure, FY 2006 General Fund appropriations as of December 31, 2005 are thus \$78.1 million less than allowable limits under LD 1.

By all three measures, the state is within the spending limits established by LD 1.

A fourth measure: If BETR were added back to this third education-adjusted calculation, total spending would grow from \$2.818 billion to \$2.892 billion, which is \$4 million below the limit. However, total growth in state appropriations would equal 6.7% by this measure.

## **The Performance Continues**

These results can be also expressed in percentages, comparing actual FY 2006 spending through December 31, 2005 with the FY 2005 statutory baseline. Two things ought to be kept in mind when thinking about these percentages.

First, the Legislature and the Governor may decide to expand or reduce FY 2006 General Fund appropriations in the second regular session of the 122<sup>nd</sup> Legislature, since

the FY 2006 fiscal year doesn't close until June 30, 2006. Thus any performance assessment made now is a snapshot in time as of the end of 2005.

Second, it is important to note that new GPA funding increases can be added to the FY 2006 appropriation without reference to the statutory growth limitation. Maximum allowable growth for all programs other than GPA is 3.11%, but GPA is allowed to grow at whatever rate and amount the Legislature decides the State can afford without restriction by the growth limit until the State's share of local education costs equals 55%.

With those points in mind:

- LD 1's General Fund appropriations growth limit restricts FY 2006 General Fund appropriations growth to approximately 6.86% (comparing maximum allowable FY 2006 General Fund appropriations under LD 1 to the FY 2005 statutory baseline appropriation).
- The state's actual General Fund appropriations growth in FY 2006 as of December 31, 2005, compared to the 2005 statutory baseline, was approximately 3.99%
- With the addition of the FY 2006 BETR tax expenditure to the actual FY 2006 General Fund appropriations totals as of December 31, 2005, General Fund appropriations growth in FY 2006, compared to the 2005 baseline, was approximately 6.69%

## **Revenues Beyond Appropriations Limit**

LD 1 anticipates the time when state tax revenues placed in the General Fund exceed the maximum allowable General Fund appropriation limit. In that case, LD 1 sets up a series of financial transfers.

The Maine Budget Stabilization Fund is established in LD 1, and resembles what has been known as the "Rainy Day Fund," but with significant changes. The fund's purpose is to provide a source of funding to offset General Fund revenue shortfalls following economic downturns, most recently seen before preparation of the biennial budget approved in 2003. The Budget Stabilization Fund can grow significantly larger than in the past -- to 12% of the preceding year's General Fund revenues.

Transfers of excess General Fund revenues to the Budget Stabilization Fund are required when General Fund revenues exceed the appropriation growth limit, with the transfer made at the end of the fiscal year.

Not all excess revenues are transferred to the Budget Stabilization Fund, however. Until they reach their maximum funding limits, the Retirement Allowance Fund and the

General Fund Operating Capital Reserve Fund are also designated as recipients of a portion of the excess revenue transfer.

Finally, once the Budget Stabilization Fund, Retirement Allowance Fund and the Operating Capital Reserve Fund reach their maximums, LD 1 requires additional excess revenues to be transferred to a new Tax Relief Fund for Maine Residents.

Recent upward re-projections of General Fund revenues made in December 2005 have the potential to trigger some of these mandatory transfer provisions. Whether transfers are actually made in 2006 will depend on several factors, including how additional revenues are used in the current supplemental budget for the current and following fiscal years.

### **Is LD 1 working?**

LD 1 is working in one important respect: We have a new analytic framework for understanding how spending decisions affect the tax burden in Maine. With the creation of an annual state appropriation growth limit, we can objectively discuss how aggregate General Fund appropriations relate to both our tax burden, and other competing budget priorities. This is a tool we haven't had before.

From December 1, 2004 (the LD 1 baseline appropriation date) to December 31, 2005, total appropriations have grown 6.7% percent, a figure greater than the combined 2005 growth of personal income and population. However, most of the General Fund appropriation growth was dedicated to expanded GPA, with the expectation that those dollars would result in lower local property taxes – an expectation discussed elsewhere in this report.

If increased state aid to local education is removed from the budget growth picture (as LD 1 does), assuming flat funding of GPA at FY2004-05 levels, the overall growth of non-exempt General Fund appropriations, including BETR, was \$79.9 million, less than the allowable \$84.3 million growth, or 2.95% overall.

Thus, the results from LD 1's first year can be debated.

- The law did not produce immediate, dramatic reductions in the state and local tax burden; but then the statute anticipated attaining those goals slowly, not all at once.
- Like any statute, LD 1 is still subject to future amendment, and possible sidestepping by policymakers.
- By design, the law only applies to one category of state spending, the General Fund. It does not affect other spending categories, some of which show faster growth and others, slower increases. Other State Funds expenditures averaged 8.1% growth over the last five years, while General Fund expenditures, depressed

by revenue shortfalls, have averaged only 1.6% annual growth during the same period.

But if LD 1 isn't a silver bullet, it is a framework for future state policymaking. It does provides benchmarks and objective assessment criteria that can be used to make policy choices, such as whether to reduce spending and curtail taxes, or to accept a higher tax burden in exchange for additional government services.

It's also important to remember that the complete effect of LD 1 on state appropriations won't be felt until the state General Fund resumes more robust growth, as happened in the late 1980s and again a decade later. In those periods, the state tended to spend substantially more from the General Fund in large part because of booming revenues. In a similar future peak of the budget cycle, LD 1 will substantially limit state spending and, if it's allowed to operate unhindered, build up reserves, which may be enough to cushion any subsequent downturn, and eventually provide tax relief at the state level. For state spending, the most important tests of LD 1's effectiveness lie ahead.

We can document what LD 1 might have done had it been in place in FY1998-99, when annual General Fund expenditures grew by 13.4%, or in FY2000-01, when growth was 11.0%. A 3% growth limit in those budget years would have produced a \$198 million surplus in 1998-99, and \$184.7 million dollar surplus in 2000-01, and a lower budget baseline in future years.

LD 1 is still a work in progress. Its effect on state budgeting will become apparent over time, if lawmakers and the voters have the patience to stay with it.

### **References:**

(Documents available online are underscored)

- LD 1, including proposed bill, amendments and finally enacted public law:  
<http://janus.state.me.us/legis/LawMakerWeb/externalsiteframe.asp?ID=280014321&LD=1&Type=1&SessionID=6>
- For state baseline and annual General Fund calculations, see Office of Fiscal and Program Review (OFPR) Budget Overview 7/05 Table VI-A).
- For FY2005-06 appropriations through June 2005, Nov. 29 version of OFPR General Fund Status report.
- OFPR Budget Overview Report of July 2005, can be found on-line at:  
<http://www.maine.gov/legis/ofpr/2005%20BUDGET%20OVERVIEW/122nd%201R%201S%20Budget%20Overview.htm>)
- A useful summary of state budget funds' performance over the last decade can be found at: <http://www.maine.gov/legis/ofpr/allfunds96to05.htm>).

## **Chapter 2: Schools**

In the aggregate, Maine's schools exceeded the LD 1 spending limit by 3.4%. Further, two-thirds of Maine's 286 school administrative units exceeded the spending limit. The school limits are fundamentally different than the other limits discussed in this report and the analysis requires special treatment.

### **Model-based Limitation System**

The limitation systems established for state, county and municipal governments are very similar in structure. The government limits begin with the previous year's spending (for the state) or property taxes (for local governments). The previous year's amounts are then allowed to grow by an inflation-type index expressed as a percentage. The government's compliance with the growth allowance can be measured rather easily.

The Legislature chose not to use this kind of year-to-year spending limitation system for Maine's 286 school administrative units. Instead, LD 1 utilizes the Essential Programs and Services school funding model (EPS) to establish each school system's annual spending limit. The schools' limit is equal to the amount that the EPS formula indicates is appropriate for each school administrative unit. If the school unit spends more on education than the EPS amount, it has exceeded the LD 1 limit.

In summary, the schools were given a model-based spending limitation system that has fixed-dollar limits instead of the growth-based system like that which governs state, county and municipal governments.

### **EPS As Both Allocation Model and Benchmark System**

Essential Programs and Services was developed and implemented as a new school funding allocation model. Through LD 1, the EPS allocation model is also employed to establish a benchmark for the school spending limitation system. The term "EPS", in that sense, has two meanings. It is not the purpose of this report to describe the EPS model in detail. However, since EPS was originally devised as a new school funding allocation system and not a spending limitation system there are several facts regarding EPS that directly pertain to the analysis of LD 1's impact on school spending.

- The EPS model produces a figure that represents a recommended amount of funding (both state dollars and local property tax dollars) considered adequate to provide an opportunity for the students in the school to obtain a Learning Results level of educational attainment.
- The EPS model produces both a statewide figure and a figure for each of Maine's school administrative units.

- Although the EPS model has been many years in the development stage, it was implemented and applied for the first time during the present school year (FY 2005-06), at the same time that LD 1 and its spending limitation systems were first implemented.
- There is no EPS-modeled amount of school spending for the previous school year (FY 2004-05). The school funding formula that preceded EPS lacked a rational basis, was not integrated with either Learning Results or any other measure of educational attainment, and is otherwise entirely incomparable to EPS.

## **Challenges**

The first-year implementation of the EPS school funding model and the simultaneous use of that model to establish spending limits present a challenge to the analysis of LD 1 impacts on school funding in the first year. The EPS limits established by LD 1 to measure each school's spending compliance were both established for the first time this year, and in many cases unrelated to the previous year's expenditures.

This lack of relationship to the historical spending on education works both ways. That is, some school systems are spending far more than what EPS would indicate is needed for an adequate education. Other school systems are spending far less than the EPS figure. Further, since EPS as a funding model is so new, public confidence in its accuracy has not yet been created. Some believe it is designed to increase spending on education, others believe it is meant to slash spending on schools.

For the school units whose EPS "limit" was significantly higher than historical spending there were competing demands on the additional state aid: property tax relief and "getting up" to the EPS number. Correspondingly, the units that had historically spent amounts in excess of the EPS limit were destined to exceed the LD 1 limit unless these units actually cut spending by significant amounts.

## **Report Analysis**

For this report, the first analytical approach has two parts. First, it will compare each school system's total state and property tax school appropriations to its full EPS allocation. It will similarly compare the performance of all the school systems in the aggregate to the statewide EPS allocation.

The real usefulness of these data lies not so much in what they reveal but in their baseline value. In subsequent years, a similar analysis will be able to track school spending growth and whether it moves away from or toward the model on both the statewide and the local level.

The second analysis will compare total state and local spending on K-12 education for FY 2004-05 with state and local spending for FY 2005-06. In many

respects, it is this type of analysis that the general public might expect to be applied to analyze LD 1's impacts.

After all, the Legislature provided a \$94 million<sup>2</sup>, or a 13% increase in state funding for K-12 education. By itself, if the property taxes to support K-12 education were not increased by one penny between last year and the current year, this increased state aid would provide a 5.6% increase to the total statewide school. It might also be expected that the property tax contribution to school funding would be adjusted in response. The only issue is defining the appropriate adjustment.

The second analysis in this report responds to the public interest in identifying the property tax relief opportunity associated with increased state support for K-12 education. That legitimate interest should be understood in the real-world context that the first-year implementation of the EPS funding model exerted a separate, new and at times contradictory influence on school funding decisions.

## **Compliance with the EPS model**

Most school units exceeded their LD 1 limit. *Appendix A* compares for each school administrative unit (and for the state as a whole) the EPS spending limit with actual state and local appropriations. As indicated on that spreadsheet, 196 of Maine's 286 school administrative units, or 68% of all Maine's school systems, exceeded the schools' EPS limit. Again, the appendix includes the combined available state resources, required local appropriations, and "additional local appropriations."<sup>3</sup>

Measured by percentage, examples of compliance or noncompliance with the EPS limits runs from 66% over the model (Islesboro), 58% over the model (Mt. Desert), and 50% over the model (Southwest Harbor) to 12% under the model (SAD 24 Van Buren), 11% under the model (Sanford), and 10% under the model (Biddeford, Lewiston, Dexter).

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<sup>2</sup> Note that there is a difference between the Chapter 2 reference to a \$94 million increase in GPA from FY 2005 to FY 2006 and a Chapter 1 reference to a GPA increase of \$101.6 million. The difference is related to the data sources, the Chapter 2 reference being the Department of Education and the Chapter 1 reference being the Office of Fiscal and Program Review. It is our understanding that the \$7 million difference is based on a different understanding of the FY 2004-05 GPA base, and some relatively small GPA appropriations in FY 2005-06 that supported Department of Education staff positions rather than school subsidy distribution.

<sup>3</sup> It should be noted that the EPS-based school spending limitation system excludes three types of school appropriations from the calculation of the school's limit. The first is debt service obligations for school construction projects that are not supported by the state ("local-only debt"). Those appropriations are entirely orphaned from any LD 1 spending limitation systems. The second is "transition funding" which was provided by the Legislature to school units that were particularly disadvantaged by the new EPS formula. The third is "adjustments" which is state aid paid directly to vendors such as private schools for special needs children and those who provide laptop computers and related services. Combined, these three items account for approximately \$106 million more in education appropriation than the spreadsheet at *Appendix A* indicates.

*Appendix A* also shows that if all of Maine’s schools were considered as one single school system, the statewide EPS spending limit of \$1.78 billion was exceeded by \$57 million, or 3.4%.

The Department of Education accurately predicted both of these results. During the development of LD 1 in January 2005, the Department of Education provided to the Legislature an estimate of how close each school system was to the EPS benchmarks. The Department predicted that 215 school systems, or 75% would be noncompliant with EPS in its first year of implementation. Thus, the actual result of 196 school units in excess of the LD 1/EPS spending limit is consistent with DOE estimates.

It should also not be surprising that all schools in Maine, considered in the aggregate, adopted a collective budget that was 3.4% over the EPS model. Sidestepping, for the purpose of this report, the issues of controversy associated with some of the fledgling model’s working parts (e.g., transportation in rural districts, staffing ratios pertaining to smaller or isolated schools, the adequacy of the special education modeling, etc.), there is at least one component of most post-elementary school budgets – extracurricular activities – that the EPS model deliberately does not recognize. As a matter of policy, EPS only recognizes 10% of the statewide average cost of school sports and other extracurricular programs, and it is generally understood that a school budget that exceeds the EPS benchmark only by its extracurricular budget should be nonetheless considered EPS compliant.

**Year-to-year state and local contributions**

The above EPS limit analysis excluded approximately \$106 million in education spending. That \$106 million is comprised of local only debt (\$42 million), transition funding (\$16.4 million)<sup>5</sup> and other adjustments (\$48million). The following year-to-year analysis includes these funds.

The actual year-to-year growth in total state and local contributions between FY 2004-05 and FY 2005-06 was \$88 million, (from \$1.799 billion to \$1.887 billion), a 4.9% increase. For the previous year, the state contribution was 41% of the total. For the present year, the state contribution was 44% of the total. (See Table 1.)

Table 1

	<b>State</b>	<b>Local</b>	<b>Total</b>
FY 2004-05	\$737 million	\$1,062 million	\$1,799 million
FY 2005-06	\$831 million	\$1,056 million	\$1,887 million
Difference	\$94 million	- \$6 million	\$88 million
% Change	12.8%	- 0.5%	4.9%

<sup>5</sup> Transition funding was unencumbered revenues provided to various school units in connection with LD 1. It was excluded from the over/under EPS for technical reasons. If that funding were included in the over/under EPS analysis, the total number of units over EPS rises from 196 to 214, or from 68% to 74%; in the aggregate, the schools move from 3.4% over EPS to 4.3% above EPS.

The dollar change in state contribution to education between the previous and present year was \$94 million, a 12.8% increase. The dollar change in property tax contribution between the previous and present year was a \$6 million (.56%) decrease.

It would not be unreasonable to expect a favorable adjustment to the historical property tax contribution toward the overall school budget in direct response to increased state subsidy. However, that expectation should have an allowance for an inflationary index, whether CPI or another pertinent growth factor, similar to the other government spending limits.

For example, if the schools had been given the state's growth allowance of 3.11%, the total state and local appropriations could have grown from \$1.799 billion to \$1.855 billion between last year and this year. This is \$32 million less than was actually spent. If growth had been limited in that way, the property tax contribution to K-12 education could have decreased by this \$32 million. The actual property tax decrease was \$6 million.

## **Conclusion**

The evaluation of the effect of LD 1 on the budget decisions made by Maine's school systems is less straightforward than the same evaluation of the state, county and municipal governments. Instead of focusing on the growth of the previous school budget to the present year, LD 1 applies a brand new school funding model (EPS) as each school's spending limit. In a sense, the historical school budget is irrelevant.

As predicted, the majority of schools (68%, or 74% if the "transition" funds are included) were unable to budget within the prescribed model, but taking all schools in the aggregate, total state and local resources appropriated to K-12 education exceeded the EPS model by 3.4%. At least some of that spending over the EPS model can be justified by certain school expenditures (extracurricular activities, after school sports) that the model explicitly does not recognize.

With respect to school funding, LD 1 has put into place an extremely valuable method of measuring year-to-year changes in school budgets, both on the local level and on a statewide basis. A model-based spending limitation system, however, does not provide the same opportunity to "guarantee" a certain level of property tax relief related to increased state dollars for education because the model, in some very significant cases, actually encouraged increased spending on education for some schools, and effectively discouraged using the increased state aid for property tax relief.

As a result, LD 1 provides a valuable baseline from which all future school spending decisions can be measured, rather than an evaluative tool that can be determinative in the first year out. Looking forward, the goal in all cases will be to use the EPS model to steer school spending decisions toward the spending levels indicated by the model. In the alternative, the administration of the school system should be required

to provide a clearly articulated rationale for either deviating further away from the model or remaining chronically outside its benchmarks.

## Chapter 3: Municipalities

This chapter reviews data related to the municipalities' compliance with the "statewide property tax reduction" goal of LD 1. The first year's figures indicate that overall growth in property taxes for municipal services was well below the specified limit.

The Legislature's goal of reducing the growth in property taxes was expressed in a municipal spending limit system entirely focused on the year-to-year growth of the property tax levy related to municipal services, excluding both the school and county tax commitment, which are treated separately in the legislation.

This is the first year the municipal limit has been in effect, and, unlike school systems and the state, which operate on July-June fiscal years, not all municipalities have yet prepared budgets under these terms. Those that use the July fiscal year were the first to implement the municipal limit. Of Maine's 489 municipalities, 211, or 43%, have fiscal year budgets. It is those 211 municipalities that have been surveyed to contribute the data for this chapter.

The remaining 278 municipalities operate on a calendar fiscal year that typically begins on January 1, though a few use either February 1 or March 1. These municipalities will not deal with the municipal limit until they adopt budgets in the spring of 2006, and have not yet reported useful information.

Through separately mailed but otherwise identical forms, the Maine Municipal Association and the State Planning Office each surveyed the 211 fiscal year municipalities. Municipalities were asked to provide basic information about the implementation of the LD 1 municipal limit. In all, 143 municipalities, or 68% of the 211 July fiscal year municipalities, responded. The municipally-related property taxes assessed by the 143 respondent municipalities represents 60% of the municipally-related property taxes collected statewide. The financial data provided by the respondent municipalities are collected in *Appendix B*, while the reasons given for exceeding the municipal spending limits are listed in *Appendix C* at the conclusion of this report.

### **Municipalities and the Spending Limit**

To determine compliance with the goal of reducing Maine's tax burden to "middle of the pack" status among the 50 states, LD 1 requires combining the data of all the participating municipalities and reviewing their collective actions as though they were one big municipality. According to the available data, the year-to-year growth in property taxes related to municipal government fell well below the annual growth in Maine's personal income, and even below the real growth in personal income (i.e., excluding the effects of inflation). The average annual real growth in total personal income is one of two factors added to determine a municipality's spending limit.

Like state and county government, municipalities use a growth factor based on the rolling 10-year average of personal income growth, which this year is 2.58%. But unlike the state budget, which uses population growth as the second factor to add to personal income, municipalities (and counties) use a different system. Instead of population, municipalities are required to calculate the “new property value” added to the community in the previous year, and combine it with the standard personal income figure.

New growth does not include inflationary growth, or any increase in the value of existing property. It identifies the value of new construction, new personal property and newly created building lots in subdivisions, and then divides that “new growth” value by the municipality’s total valuation. Thus, each municipality has the same personal income factor (2.58%) but has a unique growth factor based on “new” property value created during the previous year. These growth factors are included in the listings of *Appendix B*.

The municipal tax commitment, adjusted by the municipal growth factor, forms the basis of each municipality’s spending limit. The LD 1 system requires, however, one more adjustment, that of “net new funding,” which attempts to capture any significant new state subsidy that might be provided to the municipality, and requires that the additional subsidy be used to reduce the property tax commitment.

It is clear from the survey data, and from information collected by Maine Revenue Services, that the FY 2005-06 growth in municipal commitment was well under the allowed limit. The FY 2004-05 municipal tax commitment of the 143 responding municipalities was \$339.8 million. The aggregate growth factor, after adjusting for “net new state funding,” was 4.8%. The allowable commitment for these municipalities was \$356.1 million, meaning that property taxes could have increased by \$16.3 million. Instead, the actual commitment increased only \$8.6 million – just half the allowable limit – to \$348.4 million. Against a potential increase of 4.8% allowed by the growth factor, these municipalities’ commitments increased by 2.53% – below the personal income factor taken separately. This is summarized in the table below:

**Table 1**

	<b>FY 06 Allowed Growth</b>	<b>FY 06 Actual Growth</b>	<b>Under municipal limit</b>
Aggregate (\$)	\$16,318,688	\$8,590,206	\$7,728,482
Aggregate %	4.80%	2.53%	47%

### **Town by Town, City by City**

While LD 1 focuses on the overall tax burden in Maine, another way to analyze the first-year impact of the municipal limit is on a municipality-by-municipality basis. In a reverse of the school district performance under the new Essential Programs and Services (EPS) targets, nearly two thirds of municipalities came in below the limit (62%) while a minority (38%) exceeded the limit.

Among the municipalities that did not exceed their spending limit, the average rate at which the municipal commitment was below the limit was 4.99%. Among the municipalities that exceeded their limit, the average rate above the limit was 5.46%, as summarized in Table 2 below.

	<b>Number of Municipalities</b>	<b>% Municipalities</b>	<b>Average Commitment Limit</b>	<b>Average Actual Commitment</b>	<b>Actual As a % of Limit</b>
Below Limit	88	62%	\$ 2,953,378	\$ 2,805,879	(4.99)
Above Limit	55	38%	\$ 1,750,035	\$ 1,845,516	5.46

There was no significant difference in compliance based on a community's size, but there is a correlation when considering geography. Categorized according to county, municipalities in Oxford, Washington, Piscataquis, Hancock and Aroostook – except for Hancock, all slow-growing regions, had the most difficulty staying within their spending limit. Municipalities in larger, and in some cases more rapidly growing counties such as Androscoggin, Kennebec, Cumberland and York more often stayed within their limit.

Not only did most municipalities stay with their budget growth limit, but 32% of those responding to the survey actually reduced their tax commitment from FY 2004-05 to FY2005-06. If the primary goal of LD 1 is a reduction of Maine's overall tax burden, a more immediate goal was to encourage property tax reductions in the first year. In 46 of the 143 towns and cities responding, municipal taxes did go down (see *Appendix B*).

In municipalities where the municipal commitment actually dropped, the average rate of reduction was 7.5%. Nine more municipalities (6% of respondents) experienced flat growth, defined here as a change of less than 1%.

### **Reasons for Exceeding Limit**

There were 55 responding municipalities (38%) that exceeded their growth limit. The survey asked for the reasons, and 39 of the 55 municipalities provided answers, with the results provided in *Appendix C*.

The reasons can be grouped into nine categories, with four of them most prominent. (Some responses fit multiple categories.)

*General budget forces.* 13 respondents indicated a mix of general budgetary pressures, including increases in the cost of insurance, reductions in municipal revenue sharing or other forms of non-tax revenue, increases in salaries or benefits to employees, and increases in the cost of energy.

*Capital projects.* 11 respondents indicated a one-time investment in a capital project or a capital reserve fund, often to finance a road reconstruction project, was the major factor.

*Surplus/zero commitment base.* 10 respondents said their municipality exceeded the spending limit because it had no municipal commitment base with which to work, or their base municipal commitment was abnormally small because the preceding budget was funded to an unusual degree from surplus funds. In the preceding budget year, a number of municipalities chose to dig especially deeply into surplus accounts to reduce that year's property tax commitment. These decisions were made without knowing that LD 1 would later be imposed, with its strict year-to-year budget growth limits. A number of municipalities raise no property taxes to support municipal government, supporting only schools and the county by those means. But non-property tax revenues are not always adequate. Those municipalities had no base commitment to work with, and had to override their growth limit to make any commitment at all.

*New debt service.* 9 respondents identified new debt service obligations as the factor. Some spending limit laws disregard or exempt the increased debt service authorized by the voters before the spending limitation system was imposed, but LD 1 did not include such an exemption. If the voters authorized new capital borrowing in 2004, new debt service obligations beginning in 2005 could easily put the budget over the limit.

*Private sector contracts.* Many smaller municipalities contract with the private sector to provide a wide array of services (road construction, road plowing, solid waste transportation, assessing) and the increased costs of those contracts drove increases in the budget.

*Direct town meeting action.* In some cases the budget proposed to the town meeting fell within the designated spending limit, but the town meeting itself (the designated legislative body, under LD 1) increased budget article beyond the growth limit.

*Final commitment not yet known.* At the time the municipal budget is established by the town meeting, typically in the spring, the final municipal commitment is not known. The commitment can only be determined later, often in July or August. Some municipalities believed they were within their limit at town meeting, but voted for an override in case the actual commitment exceeded projections.

*"Net new funding" and General Assistance.* Although only one municipality identified General Assistance as a factor in exceeding the limit this time, it could involve more municipalities in future years. For Maine's largest cities in particular, the General Assistance, or welfare program is a significant part of the overall social service program. Under the terms of LD 1, in addition to the new spending, the municipality must reduce its overall budget limit to reflect increased reimbursements from the state ("net new funding"). Although Maine's third largest city was the first to feel the pinch, many more municipalities could share Bangor's concern next year, considering the sharp increases in energy costs that are affecting municipal welfare budgets all over Maine.

## **Conclusion**

A clearer picture of the effects of LD 1 on municipalities will have to wait for next year's results, when all municipalities will be covered, not just those with July fiscal years. But based on the data already available, it is reasonable to predict that annual growth in the municipal property tax commitment from 2005 through 2006 will not only be significantly less than the two-part growth allowance, it will also be less than real growth in personal income, which represents a limit in spending that goes even beyond LD 1's centerpiece goal

As it applies to municipal government, the LD 1 spending limitation system is perceived by many local officials as simple in concept but overly complicated in administration. The calculation of each municipality's property growth factor can be confusing, as can the mathematics of the "net new funding" calculation. This sense of complexity and confusion will hopefully dissipate over time as municipal officials and the public become more aware of the policy behind LD 1, and its implementation.

It is important to the goal of firmly establishing this system in the operations of Maine's different levels of government that any changes to the system be modest, rather than wholesale redesign. Municipal administration would benefit from clearer instructions about the "net new funding" adjustment, for instance. The fundamental structure of LD 1, however, is a system municipalities can work with.

## Chapter 4: Counties

LD 1 establishes a county spending limitation system of the same general design as the municipal limit described in Chapter 3. Just as the municipal limit is focused on the year-to-year growth in the property tax commitment related to municipal services, the county limit focuses on the property tax demands created by its budgets. The county commitment is the portion of the county's total budget financed by an assessment against all taxable property within the county's limits.

Of Maine's 16 counties, only one, Sagadahoc, operates on a July 1-June 30 fiscal year. That county implemented the county limit in the spring of 2005 along with all fiscal year municipalities. The remaining 15 "calendar year" counties have just implemented the county limit in their December 2005 budget adoption procedures for calendar year 2006. For the purpose of this report, the fiscal year of both calendar year and fiscal year counties will be simply be referred to as "2005" or "2006".

As is the case with the municipal limit, a basic understanding of LD 1's county limit method is necessary in order to make constructive use of the collected data. The summary of the municipal limit system in Chapter 3 is a helpful starting point. An additional step in the county process that requires special attention is the calculation of a countywide "property growth factor," which combines all the locally produced property growth factors of the county's municipalities. It is fair to say that there was a good deal of confusion during the fall of 2005 as the counties and their municipalities were struggling with the mechanics of this calculation, which is not precisely described in LD 1.

In mid-December 2005, immediately prior to the adoption of 2006 county budgets throughout the state, the Maine Municipal Association surveyed all 16 counties to produce the four figures needed to determine compliance with the county limit: (1) the 2005 total county assessment; (2) the county's growth factor; (3) the 2006 county assessment limit; and (4) the projected 2006 county assessment. The data provided by the counties are collected in *Appendix D*.

Two of the counties, Lincoln and Sagadahoc, were provided a special two-year exemption by the Legislature for costs associated with a new regional jail facility, including construction costs, debt service, operations and maintenance. The special exemption for the two counties will apply for both FY 2005-06 and FY 2006-07.

For this reason, the following analysis considers the data in two formats. One format disregards the increases in assessments related to the Lincoln-Sagadahoc jail. The other format includes those increases, so that readers can see an "apples-to-apples" comparison of county spending from one year to the next, as was done for state government in Chapter 1.

## Counties and Maine's Tax Burden

As with the municipal limit, the goal of LD 1 suggests that the data of all counties be first combined so their collective actions can be reviewed as though they were one big county. According to the available data, if the two-county jail exemption is excluded from the calculation, the year-to-year growth in the total county assessment fell below the overall county growth limit. If the jail exemption is included, the year-to-year growth exceeded the county limit.

The 2005 total property tax commitment of the 16 counties was \$104.4 million. The growth factor applied to that commitment was 5.16%. The allowable commitment for the counties under the growth limit would be \$109.8 million, meaning the commitment could have increased by \$5.4 million.

Recognizing the special exemption provided for Lincoln and Sagadahoc counties, the 2006 assessment among the counties was \$107.7 million, or \$2.1 million under the limit.

If the regional jail costs increase is added back in, the 2006 commitment is \$110.9 million, or \$1.1 million over the limit.

Framed another way, the combined allowable growth factor available was 5.16%, and the actual commitment increase was 3.18% when recognizing the jail exemption. If the jail exemption is not recognized, the annual growth was 6.26% as shown in *Appendix E*.

**Table 1**

	<b>CY 06 Allowed Growth</b>	<b>CY 06 Actual Growth (with exemption)</b>	<b>Under county limit</b>
Aggregate (\$)	\$5,386,463	\$3,317,564	\$2,068,895
Aggregate %	5.16%	3.18%	38%

	<b>CY 06 Allowed Growth</b>	<b>CY 06 Actual Growth (w/out exemption)</b>	<b>Over county limit</b>
Aggregate (\$)	\$5,386,463	\$6,531,300	\$1,144,836
Aggregate %	5.16%	6.26%	21%

## County by County

While LD 1 focuses on the overall tax burden, another way to analyze the first-year impact of the county limit is by taking each county individually, as tabulated in *Appendix D*. These data show that all counties except one, Oxford, stayed within the growth limit when the exemption and fees are excluded. Without these adjustments, three counties (Oxford, Sagadahoc and Lincoln) exceeded the limits.

In Oxford County, the reason given for exceeding the limit was the addition of three deputies to augment the Sheriff's Department patrol force. As discussed above, Lincoln and Sagadahoc counties faced sharply increased costs related to their jail.

## **Conclusion**

While it is fair to say that the counties did a good job at calculating their growth limitation factors, the complexities of combining several different municipal growth factors into one countywide factor are evident. The largest hurdle for counties to overcome was that not all municipalities were required to calculate growth factors in FY 2005. In the several calendar year towns, counties were requesting data that did not exist. Without the necessary guidance on how to collect and aggregate the municipal data, counties developed their own procedures, which caused varying results. As shown in *Appendix D*, county growth factors ranged from a low of 2.86% in York County to a high of 9.44% in Oxford County. In comparison, the aggregate growth factor of the municipalities in York County that participated in the LD 1 study was 5.17%. The aggregate growth factor of the participating municipalities in Oxford County was 3.32%.

As enacted, LD 1 is also unclear as to how county fees are to be addressed; that is, should the revenues that counties collect through the assessment of fees be used to determine whether or not a county has exceeded its spending limit. For example, Knox County assesses a fee for dispatch services on each municipality in the county. The fee is assessed on the basis of population, rather than value. In 2005, the Knox County municipalities contributed nearly \$600,000 for dispatch services in addition to the \$5.3 million in taxes. However, the dispatch services fee was excluded from the impact analysis. The issue of whether or not fees should be included in the calculation of the county spending limit deserves review.

# Appendices