

LD 1 in Year 2

*A comprehensive look at the impact
of spending limits on all levels
of government in Maine.*

A report by the
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LD1 report highlights and summary

Introduction

Maine Municipal Association has conducted a second-year analysis of governmental compliance with the spending limitation systems contained in LD 1, the state law passed in January 2005 following strong voter approval of the MMA's Question 1A citizen-initiative in 2004 that required the state to pay 55 percent of the cost of K-12 education as a way to reduce the burden on Maine property taxpayers.

The MMA analysis is for budgets that began in calendar year 2006, the first year in which all governmental units came under the LD 1 spending limits. In 2005, municipalities and counties which operated on a budget year that began before July 1, 2005 were not subject to the LD 1 spending limits – state government, schools and municipalities/counties operating on a July/June fiscal year were subject to LD 1's spending limits in 2005.

The LD 1 analysis shows, in general, governmental compliance and a reduction in the tax burden in Maine for the second straight year. A similar analysis for 2005, conducted by MMA and the Maine State Chamber of Commerce, also showed a high level of spending limit compliance by the various levels of government.

The LD 1 analysis looks at compliance with the spending limits by all levels of government: state, county, municipal and school. For municipal compliance, the analysis relied on data from a survey conducted by MMA and from data provided by the Maine State Planning Office (SPO). Other data in the report analyzing state, county and school compliance was provided by the SPO, the Maine Department of Education, and the Legislature's non-partisan Office of Fiscal and Program Review.

Summary

Maine municipalities, on the whole, continued to adhere to the spending limits contained in LD 1. In the second year of LD 1, property taxes for municipal spending increased by just 2.1 percent, or less than half of the 4.75 percent aggregate growth allowance under LD 1. County and state spending also remained under the LD 1 limits for the second year. School units, which have a different type of spending limitation system from the other levels of government, were not LD 1 compliant, in the aggregate.

Specifically

- In the aggregate, the 303 Maine municipalities (61 percent) that participated in the MMA study raised \$10.8 million less in property taxes for municipal services in fiscal year 2006 than allowed under the LD1 limits -- \$8.0 million rather than the allowed \$18.2 million.
- Municipalities increased property taxes by just 2.1 percent in 2006, far below the 4.75 percent LD1 aggregate increase allowance.
- Twenty-one percent of all municipalities actually cut annual property tax collections in 2006.
- Forty percent of municipalities participating in the LD 1 study cut taxes for municipal services.
- Sixty percent of Maine municipal governments stayed at or below their LD1 limits for the second straight year.

- State government stayed below its LD1 growth limit of 3.11 percent in both FY 2006 and 2007.
- Aided by a two-year temporary exemption of funds for regional jail facilities from the LD 1 limit calculation, county government raised just \$2.2 million more in property taxes to fund county services in 2006, nearly \$4 million under their aggregate limit.
- Schools failed the LD 1 compliance test in a couple of different ways. Essential Programs and Services, the state's funding model for school budgets, is the benchmark for combined state and local school spending. School budgets that exceed 100 percent of EPS are deemed to be non-compliant with the LD 1 spending limits. Collectively, school units exceeded EPS in FY 2007 by 7.5 percent, or nearly \$132 million. In all, 81 percent of Maine's 285 K-12 school administrative units were over their EPS benchmarks in FY 2007.
- In the 101 communities that participated in both the 2005 and 2006 LD 1 surveys, property taxes for municipal services grew by 2.3 percent in the first year and just 1.0 percent in the second year.

Caution ahead

- Exemptions to the LD 1 limit end shortly:
 - FY07 for the Lincoln/Sagadahoc jail
 - FY08 for state increases in education aid
- The LD 1 limits apply to less than 40 percent of total state revenue.
- School spending is moving in the wrong direction, threatening property tax relief efforts once the state reaches its 55 percent funding obligation:
 - FY06: 67 percent of school units exceeded their LD 1 limits
 - FY07: 81 percent of school units exceeded their limits
 - FY06: Schools collectively exceeded their LD 1 limits by 4.3 percent
 - FY07: Schools collectively exceeded their limits by 7.5 percent.
- Municipalities that exceeded their LD 1 limits in 2006 did so by an average of 5 percent; those who exceeded their limits (not spending) in 2007 did so by an average of 12 percent.
- Local and county governments, and schools, should have more technical help from the state to effectively implement LD 1.

When enacted by the Legislature on January 20, 2005, the primary goal of 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), was to incrementally reduce Maine’s second-in-the-nation overall tax burden ranking to the middle one-third of all states by 2015.

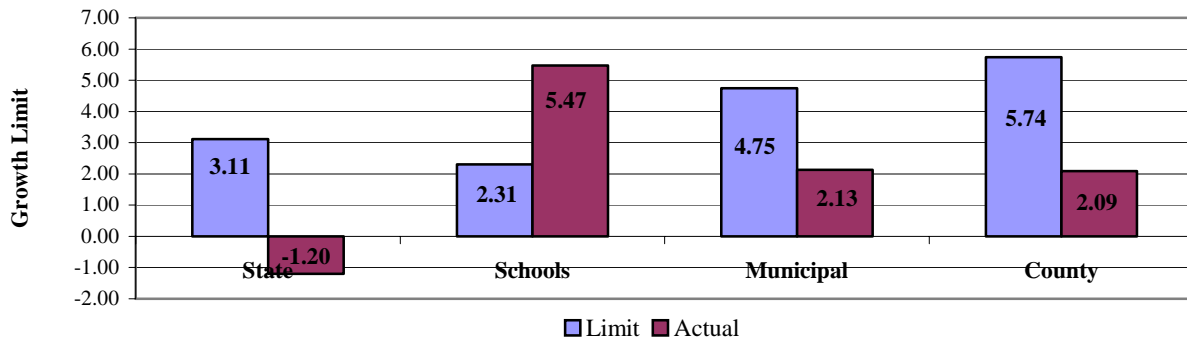
First Year Impact

In February of 2006, the Maine Chamber of Commerce and the Maine Municipal Association co-authored a report analyzing the impact of the newly adopted spending limitation system, commonly referred to as LD 1. In its first year of implementation the LD 1 limit systems applied to budgets adopted on or after July 1, 2005. For that reason the first year impact report published in 2006 examined the impacts that the LD 1 spending limitation systems had on the state, counties, schools and a subset of 211 municipalities that have a July to June fiscal year. In that analysis, the authors concluded that in its first year of enactment, “LD 1 had been a step in the right direction for reducing Maine’s overall tax burden”¹. The purpose of this report is to follow-up on that analysis and examine the impact of LD 1 on state, municipal, school and county spending in year two of its existence.

Second Year Impact

An analysis of the second year impacts of LD 1 shows that the state, municipalities and counties were able to provide government services within the LD 1 limits, while schools collectively exceeded the limits for the second year in a row (see *Chart 1*).

Chart 1
2006 LD 1 Growth Limit Impact
Growth Allowance vs Actual Growth in Spending
(including state and county exemptions)



As discussed in the section on K-12 school spending, compliance with LD 1 is not based on the amount of growth in education spending, but rather on the relationship between the EPS-calculated levels of spending on education and the actual state and local spending in each school administrative unit. Therefore, for the purposes of an “apples-to-apples” spending comparison with the other levels of government, Chart 1 converts the EPS-based spending limit for schools so that it can be analyzed on a year-to-year growth rate basis like the other levels of government.

¹ ME Chamber of Commerce & ME Municipal Association. 2006. *Analysis of First Year Impact of LD 1*

This method of analyzing the EPS-based limit identifies the growth in EPS funding from year-to-year and compares that growth to the actual growth in total state and local spending on K-12 education (see Appendix A).

The best measure of LD 1's success is the limitation system's ability to keep government spending increases at a rate that is below the increase in Maine's personal income. In other words, in order to reduce Maine's overall tax burden, personal income in Maine must increase at a rate that is higher than the growth in tax supported government spending.

There are generally two ways to calculate growth in personal income. One approach is to calculate *nominal growth*, which represents the total growth in income available to Maine residents between calendar years. The second calculation measures the *real growth*², which is the change in total personal income less the effects of inflation. Between 1994 and 2004, *average nominal growth* in total personal income was 5.03%, while the *average real growth* in total personal income was 2.62%.

Both the average nominal and real growth in total personal income factors help to determine the extent to which governments met the LD 1 spending limit challenge. In FY 2007 the state actually decreased spending in the expenditure categories covered by LD 1. Growth in aggregate county spending was 2.1% in 2006, below both the average growth in nominal and real personal income. Growth in aggregate municipal spending was 2.1%, also below the average growth in real and nominal personal income. While the state, counties and municipalities all met the spending limit challenge, the LD 1-related exemptions provided to the state and counties enhanced their ability to meet the spending limitation goal. The impacts of those exemptions are outlined in the sections of this report exploring the state and county LD 1 limitations.

State Spending Limit

As illustrated in *Chart 2* the state has adopted a General Fund budget that is within the LD 1 limit for the second year in a row. The LD 1 spending limit for the state focuses only on the state's General Fund expenditures, which are largely funded with sales and income tax revenue. According to the statistics generated by the Office of Fiscal and Program Review (OFPR), sales and income tax revenue funded 86% of all General Fund expenditures³ in FY 2007 (July 1, 2006 to June 30, 2007).

The spending limit on the state is calculated by adjusting the previous year's General Fund expenditures by the annual growth factor. The annual growth factor for General Fund appropriations is calculated by adding the ten-year average annual change in real personal income growth in Maine (2.58%), plus population growth (.53%). The growth limit applied to the state's FY 2007 General Fund expenditures was 3.11%⁴.

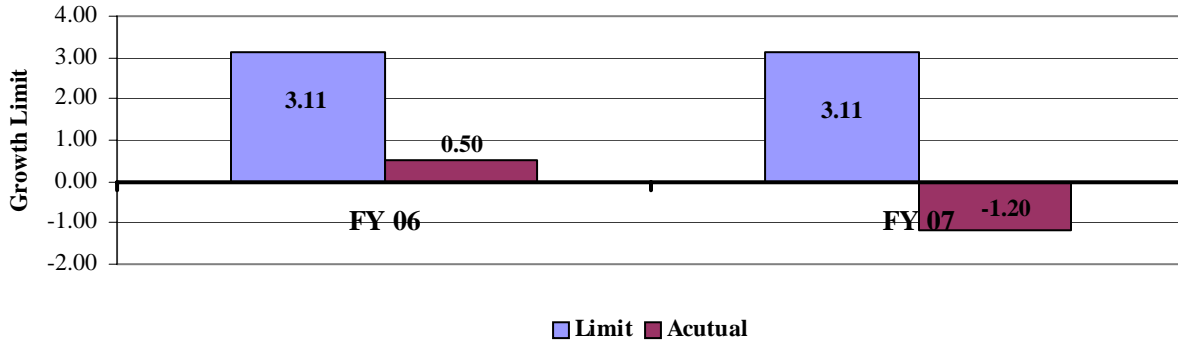
² Sources: US Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/bea/regional/data.htm>)
US Dept. of Labor, Bureau of Labor Statistics (<http://www.bls.gov/>)

³ Source: Office of Fiscal and Program Review (<http://www.maine.gov/legis/ofpr/gf/0607PIE-Revenue.pdf>)

⁴ The LD 1 limit for the state in FY 06 and FY 07 are identical at 3.11%. Although according to the State Planning Office income growth factor grew by .04% between FY 06 and FY 07, an interpretation of the LD 1 state spending limit system by OFPR holds the growth factor consistent in the second year of the biennium. According to OFPR Director, Grant Pennoyer, the appropriation limit on the state is established at the beginning of the budget process for both years of the biennium.

Chart 2

**FY 06 & FY 07 State Compliance with LD 1 Limit
Limited vs. Actual Growth in General Fund Spending**



State Limit with Education Exemption

As crafted by the Legislature, the LD 1 limit system includes a temporary exemption authorizing the state to meet the mandate to fund 55% of the cost of K-12 education throughout a four-year “penalty-free” implementation schedule. This temporary exemption excludes any additional school aid appropriated over the FY 05 base expenditure (\$734.5 million) until such a time as the state has achieved the 55% requirement⁵.

After exempting \$101.5 million in additional education funding, FY 2006 General Fund spending was \$2.77 billion⁶. LD 1 limited growth in General Fund expenditures to \$2.88 billion in FY 07. Although the Legislature can amend the existing budget by adopting supplemental appropriations before the budget closes on June 30th, current FY 2007 General Fund spending, less \$179.6 million in additional education funding, is set at \$2.74 billion, which is \$32 million under the previous year’s General Fund appropriation (see *Table 1*).

**Table 1
FY 07 LD 1 Growth Limit on State with Education Exemption⁷**

	Allowed Growth	Actual Growth	Under State Limit
\$ Growth Limit	\$ 110,779,764	\$ (32,182,424)	\$ 142,962,188
% Growth Limit	3.1%	-1.2%	

⁵ Proponents claim that this exemption is necessary because the directive to increase state education funding to 55% was a mandate from the voters of Maine and therefore “out of the hands” of the Legislature.

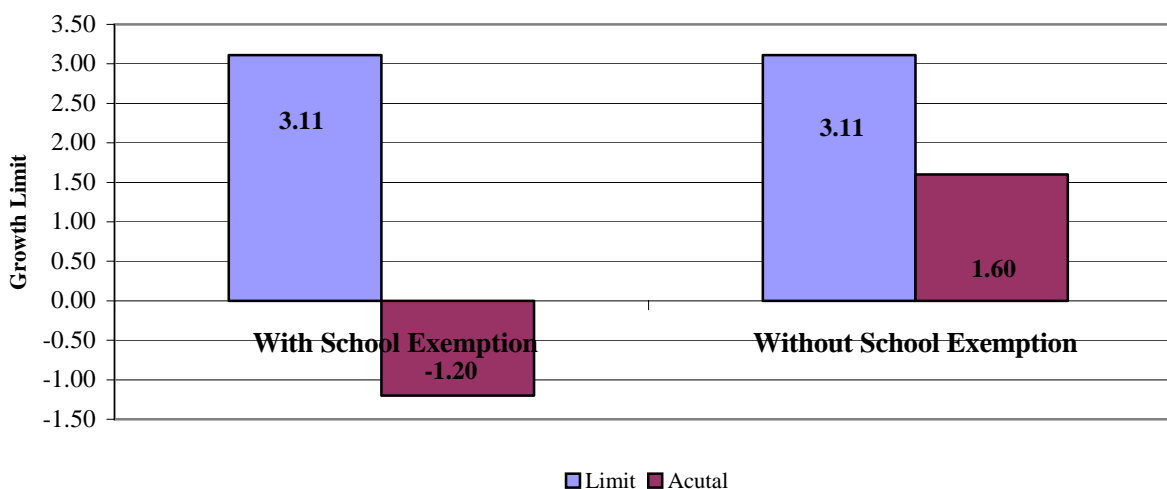
⁶ Source: Office of Fiscal and Program Review (<http://www.maine.gov/legis/ofpr/gf/GFSTAT0607.htm>)

⁷ The calculation of the FY 07 LD 1 impact analysis on the state includes only the General fund expenditures made to date. This figure does not take into account any supplemental appropriations the Legislature may enact in FY 07. A review of the FY 07 revenue projections shows an increase of \$80 million in state General Fund revenue.

State Limit without Education Exemption

Without the exemption, the state's FY 06 General Fund spending was \$2.87 billion⁸. Applying a growth factor of 3.11%, LD 1 would have limited growth in General Fund expenditures to \$2.96 billion in FY 07. Under this calculation, the FY 2007 General Fund spending would be \$2.92 billion (see *Chart 3*) and within the state's LD 1 calculated limit.

Chart 3
FY 07 Limited and Actual Growth in General Funding Spending
State Compliance With and Without Education Funding Exemption



State Limit and BETR Payments

In the first year report it was noted that in addition to the education funding exemption, the state limit calculation did not include the FY 06 BETR (Business Equipment Tax Reimbursement) program expenditure of \$73.5 million. That expenditure was excluded because the state had moved the expense of the program “off-line”; that is, the state paid its obligation to the businesses enrolled the program before any of the state income tax revenues were made available to the budget process. By using this “off-line” funding mechanism, the FY 06 cost of the program was effectively excluded from the total General Fund expenditures.

That BETR funding mechanism created a one-year LD 1 limit calculation anomaly. The FY 05 General Fund base year included BETR program appropriations, while the FY 06 budget, to which LD 1 tax limit was first applied, did not include the BETR expenditures. That calculation allowed the state to realize a “reduction” in state spending in FY 06, which also added to the state's ability to stay within the LD 1 limit. In second year analysis, the BETR expenditure is no longer an issue as both the FY 06 base year and the FY 07 limit year excluded the BETR expenditures.

As the property currently enrolled in the BETR program becomes ineligible for reimbursement, the state's obligation and expenditures will decrease. However, since the state decided to exclude BETR payments in year one of the LD 1 limitation system, for reasons of continuity, future calculations of the LD 1 should exclude the BETR expenditures.

⁸ Source: Office of Fiscal and Program Review (<http://www.maine.gov/legis/ofpr/gf/GFSTAT0607.htm>)

Other State Revenues

In FY 06, General Fund revenues accounted for 42% (\$2.8 billion) of the \$6.7 billion spent on state government programs⁹. Based on that information, critics of the LD 1 spending limitation system claim that since over one-half (58%) of the state spending goes “unchecked”, the LD 1 spending limitation system is flawed. However, the designers of the LD 1 system had reasons for excluding the other sources of revenue from the limitation system.

First, federal funds, which in FY 06 accounted for 35% (\$2.4 billion) of all state expenditures, were excluded from the limit. The Legislature did not find it prudent to limit the acceptance of federal funds. Second, Highway Fund revenues, accounting for 6% (\$370.9 million) of total FY 06 expenditures, were also excluded from the LD 1 limit system. The Legislature opted to exclude the Highway Fund from the limitation system because it is largely funded by fuel taxes that are already indexed to inflation. Finally, what remains are the dedicated funds, which in FY 06 funded 17% (\$1.1 billion) of total state expenditures. The Other State Funds account includes numerous sources of revenue, most of which are dedicated revenues, such as Fund for a Healthy Maine, Island Ferry Services Fund, Seed Potato Board Fund, etc.

K-12 School Limit.

The LD 1 limitation system for schools uses the Essential Program and Services (EPS) funding model as the basis for establishing the limit on K-12 school spending. The EPS funding model calculates how many dollars should be invested in each student in order to adequately educate to Learning Results proficiencies. That EPS figure is used to determine if actual total state and local school spending is under or over the limit. Any school administrative unit that appropriates more state, “local required”, and “additional local”¹⁰ dollars (excluding local-only debt service) than the calculated EPS funding number is deemed to have exceeded the LD 1 limit.

LD 1 Limit – Excluding “Local Only Debt”

Applying the LD 1 benchmarking system that is described in the statutes, 231 (81%) of Maine’s 285 K-12 school administrative units exceeded the FY 07 EPS benchmark¹¹. As illustrated in *Table 2*, the Department of Education calculated that \$1.762 billion was necessary to adequately fund K-12 education in FY 07. However, the actual total state and local education spending, excluding local-only debt, was \$1.895 billion, \$133 million (7.5%) over the calculated limit. In the previous year, FY 06, the schools collectively exceeded the LD 1 limit by 4.3%¹².

On average, the school units exceeded the limit by \$622,500 with the smallest override being \$314 to a high of \$5.1 million. The unit-by-unit impact analysis conducted by the Maine Department of Education is found in Appendix B.

⁹ Source: Office of Fiscal and Program Review (<http://www.maine.gov/legis/ofpr/Allfunds-Actuals-History.pdf>)

¹⁰ “Local required” expenditures are the financial investments a school unit must make in order to receive all of the state revenues available to the unit. “Additional local” expenditures include all local investments over the required amount.

¹¹ This data excludes information from Dennistown Plt, and West Forks Plt which as of December 21, 2006 had not submitted budget data to the Department of Education.

¹² In the first year report, the school’s compliance with the LD 1 limit was calculated with and without transition funds. The second year report school compliance analysis includes the transition funds.

Table 2
LD 1 Growth Limit Impact on K-12 Education

	Total K-12 EPS Model	Actual Total K-12 Spending	\$ Over EPS Limit	% Over EPS Limit
FY 06	\$ 1,722,788,902	\$ 1,797,028,309	\$ 74,239,407	4.3%
FY 07	\$ 1,762,583,400	\$ 1,895,270,194	\$ 132,686,794	7.5%
% Increase FY 06/FY07	2.3%	5.5%		

Local Education Spending on Property Taxes

In order to gauge the impact that the LD 1 benchmarking system has had on property taxes, the increase in the local share of education was also analyzed. The figures found in Appendix B which are used to calculate the statewide impact above, exclude from the local appropriation “local only” school debt. Using this data set, property tax based spending grew between FY 06 and FY 07 by 1.1% or \$11 million (see *Table 3*). Although combined state and local spending is up, the impact on property taxes is below income growth.

Table 3
LD 1 Impact on Local Appropriation – Excluding “Local Only” Debt

FY 06 Local Spending	FY 07 Local Spending	\$ Increase	% Increase
\$ 1,012,493,420	\$ 1,023,928,424	\$ 11,435,004	1.1%

However, when tracking the rate of growth using total local appropriations, which includes local-only school debt, the spending trends provide mixed results. In the first year of implementation, LD 1 seems to have had a positive impact on the level of property taxes used to fund K-12 education. The property taxes dedicated to education actually decreased by \$7.6 million in FY 06 (from \$1.063 billion to \$1.055 billion)¹³. Between FY 06 and FY 07, however, local appropriations increased by \$24.7 million to \$1.080 billion (see *Table 4*). While the local cost of K-12 education grew by 2.3% in FY 07, that single year increase compares very favorably to the average annual increases in local aid for education prior to the enactment of LD 1. Between FY 01 and FY 05, average annual growth in the local share for education was \$54.8 million or 7.1%.

That being said, the mere fact that over 80% of the school administrative units exceeded the EPS benchmark must be noted. Either the EPS school funding model establishes unreasonably low spending benchmarks for Maine’s school systems or the school administrators, school boards and ultimately the school legislative bodies are regularly supporting school budgets that exceed reasonable parameters. Perhaps there is a combination of causes.

¹³ Source: Department of Education (<http://www.maine.gov/education/data/budget/2005/ed248a05.htm>, <http://www.maine.gov/education/data/budget/2006/ed248a06.html>)

Table 4
LD 1 Impact on Local Appropriation – Including Local Debt

	\$	%
	\$ Local Spending	Increase
		Increase
FY 05	\$ 1,063,235,233	-
FY 06	\$ 1,055,621,577	\$ (7,613,656)
FY 07	\$ 1,080,338,697	\$ 24,717,120
		-0.7%
		2.3%

Municipal Spending Limit

The LD 1 spending limit system applied to municipalities creates a threshold for the number of property tax dollars used to fund municipal services. To calculate the municipal limit, a community must first determine its “core municipal commitment”; that is, the number of property tax dollars used to fund municipal services in the base year. Core municipal commitment is calculated by subtracting from the total commitment county assessments, school appropriations or assessments, tax increment financing (TIF) payments and the overlay. What remains are the property tax dollars used to fund municipal programs for the base year. The municipal spending limit is then calculated by adjusting the core municipal commitment by the growth factor¹⁴.

The growth factor is calculated by adding the municipality’s property growth factor to the state-calculated income growth factor. The property growth factor, which is unique to each community, calculates the growth in new development (i.e., property that has never been taxed before, such as new builds, lots and additions, etc.) as a percent of the total taxable value of the community. The income growth factor, as is the case with the state limit, is the annual real growth in Maine’s total personal income, which is annually calculated by the State Planning Office.

Statewide Municipal Success with LD 1

The data necessary to calculate the LD 1 impacts on municipalities were obtained from the MMA and State Planning Office (SPO) surveys responded to by 303 (61%) communities¹⁵. The communities in the survey ranged in population from 6 to 63,905 and accounted for 70% of Maine’s total population. Forty-two of the state’s 63 service center communities (67%) participated in the survey. Municipalities from each of the state’s 16 counties were also included in the analysis. While the data provided in this report do not include every Maine community, the conclusions provided by this analysis are representative of the state as a whole.

Aggregate survey results show that in 2006, the participating municipalities raised \$382.6 million in property tax revenue to help fund municipal services. After adjusting downward for any “net new state funding”, LD 1 would have allowed these municipalities to raise \$400.8 million in property taxes for municipal services and still stay within their aggregate limit. As

¹⁴ A subsequent adjustment to the municipal limit must be made if a community receives net new state revenue sharing funds. To test for net new state funding, a municipality must determine whether or not the funds received under the Revenue Sharing program in the current year exceeded the Revenue Sharing funds, received in the previous year, after the previous year’s Revenue Sharing amount is adjusted for growth.

¹⁵ The 2006 analysis applies to all communities. Fiscal year communities (July-June) were in their second year of LD 1 while all other communities (e.g., calendar year) were subjected to the municipal spending limitation system for the first time.

illustrated in *Table 5*, in 2006 property taxes for municipal services could have grown by \$18.2 million, but instead grew by only \$8.0 million, which is \$10.2 million less than what the LD 1 limited would have allowed.

Table 5
2006 LD 1 Impact on Aggregate Municipal Spending

	2006 Allowed Growth	2006 Actual Growth	Under Municipal Limit
Aggregate (\$)	\$ 18,183,910	\$ 8,032,903	\$ 10,151,007
Aggregate (%)	4.75%	2.13%	

Stated in the form of a percentage, municipalities could have increased municipal reliance on the property tax by 4.8%, but property tax revenue for municipal services grew by only 2.1%. Not only did a majority of the municipalities stay within the limit, 37% of the survey respondents actually reduced their property tax levy for municipal services between 2005 and 2006.

Exceeding the Limit

While in the aggregate municipalities lived within the LD 1 limits, 126 individual municipalities (42% of respondents) exceeded their LD 1 spending limit. (See Appendix C for a municipality-by-municipality analysis.) Based on survey data, communities that exceeded the growth limit did so by an average of 12.3% (see *Table 6*). Communities that adopted budgets that were under their LD 1 limit did so by an average of nearly 6%.

Table 6
Municipalities Above and Below the 2006 LD 1 Limits

	Number of Municipalities	% of Municipalities	% Over/(Under) Limit
Under Limit	177	58%	-5.7%
Over Limit	126	42%	12.3%

For the most part, the municipalities filling out the surveys indicated a need to exceed the LD 1 spending limit for one of three reasons: 1) increases in the cost of petroleum based products, including heating oil, fuel and road construction materials; 2) increases in health insurance costs; and 3) the desire of the town meeting to maintain and fund the existing level of municipal services. (Appendix D provides a list of the reasons councils and town meeting participants decided to exceed the limit.)

First Year vs. Second Year Success

Although this is the first year that the LD 1 limit applied to all communities, “fiscal year” towns and cities have now undertaken the process twice. In an effort to gauge the success of the state’s limitation systems, we examined the growth trends in the 101 municipalities that participated in both the 2005 and 2006 LD 1 compliance surveys. In 2005 the property taxes

used to fund municipal services in the “fiscal year” communities represented in both surveys grew by 2.3%. In 2006, the municipal commitment in those communities grew by only 1.0%.

Provided in Appendix E are cross-tabulations examining the municipal impact of the LD 1 limit on the basis of population, geography and type of community (e.g. rural vs. urban or fiscal year vs. calendar year).

County Spending Limit.

As indicated in the introduction, in its first year of implementation the LD 1 limits did not impact any level of government that operated under a calendar year budget cycle. Of Maine’s 16 counties, 15 adopt calendar year budgets. Although the first year report included information on county budgets, only Sagadahoc County has a July to June fiscal year. For that reason, with respect to the 15 counties that adopt calendar year budgets, the county data reported in the second year analysis are identical to the data found in the first year report. The data for Sagadahoc County have been updated to include FY 2007 data.

The LD 1 spending limit levied on counties applies only to the property taxes used to fund county operations. The process used to calculate the limit is nearly identical to the municipal limit described above, the major difference being that the growth factor calculation treats all the municipalities within the county as one large municipality.

Lincoln and Sagadahoc counties were provided a special two-year exemption by the Legislature for the costs associated with a new regional jail facility, including construction costs, debt service, operation and maintenance. The special exemption for the two counties will apply in both FY 06 and FY 07. For this reason, we calculated the LD 1 impact on counties both with and without the jail exemption.

In the aggregate, the 2005 statewide county tax commitment was \$105.1 million. With the regional jail facility cost exemption, LD 1 would have allowed counties to raise \$111.2 million¹⁶ in property taxes for county services and still stay within their aggregate limit. As illustrated in *Table 7*, 2006 property taxes for county services could have grown by \$6.0 million, but instead grew by only \$2.2 million, which is \$3.8 million less than what the LD 1 limit would have allowed. Stated in the form of a percentage, counties could have increased county property tax by 5.7%, but property tax revenue for county services (excluding the exempt funding for the two-county jail) grew by only 2.1%. See Appendix F for county-by-county data.

¹⁶ The information used to calculate county compliance with the LD 1 limit was collected through a telephone survey of county officials conducted by MMA. As illustrated by the variation in growth limits, counties appear to have used different methodologies for calculating the limit. In an attempt to check the outlier county growth limits, we compared the limit calculated by the county with the average growth limit of the municipalities in the county participating in the MMA survey. Using the average municipal growth rate methodology, we found the county growth limits in Oxford and Waldo counties were much larger than the average municipal limit, while the York County limit was much smaller than the average municipal growth limit. For example, Oxford County reported a 9.45% growth value. The 22 (61%) Oxford County communities included in the MMA survey had an average growth rate of 5.80%. In Waldo County, the reported growth rate was 15.50%, while the average growth rate of the 21 (81%) Waldo County communities participating in the MMA survey was 5.23%. Finally, in York County, the reported growth rate was 2.62%, while the average growth rate of the 24 (83%) of the York County communities participating in the MMA survey was 5.30%.

Table 7
2006 LD 1 Impact on Aggregate County Spending – With Regional Jail Exemption

	2006 Allowed Growth	2006 Actual Growth	Under County Limit
Aggregate (\$)	\$ 6,032,655	\$ 2,194,952	\$ 3,837,703
Aggregate (%)	5.74%	2.09%	

Without the exemption, the counties, as a whole, would have exceeded the LD 1 limit. As shown in *Table 8*, in 2006 property taxes for county services could have grown by \$6.0 million, and actual county property tax assessment statewide grew by \$8.7 million, \$2.6 million more than what the LD 1 limited allowed. Stated in the form of a percentage, counties could have increased county reliance on the property tax by 5.7%, but property tax revenue for county services actually grew by 8.3%. See Appendix G for county-by-county data.

Table 8
2006 LD 1 Impact on Aggregate County Spending – Without Regional Jail Exemption

	2006 Allowed Growth	2006 Actual Growth	Over County Limit
Aggregate (\$)	\$ 6,032,655	\$ 8,683,353	\$ 2,650,698
Aggregate (%)	5.74%	8.26%	

LD 1 Impact on Commitment

The extent to which municipalities, schools and counties adhere to the LD 1 limits has a direct impact on the state’s property tax burden. The annual average growth in total property tax commitment from 1996-2005 was 4.7%. In the first year of LD 1 implementation, property tax commitment grew by just 1.8%, far below the historical growth and the average growth in both real and nominal personal property income. According to MMA’s preliminary analysis of the available 2006 commitment data¹⁷ total property taxes raised are projected to increase by 4.0%.

There are several explanations why the property tax commitment growth rate is somewhat out of alignment with the respective LD 1 growth rates for the municipal, county and school components. First, actual county spending (excluding the regional jail exemption) and increased local school spending (including local-only debt) have an impact on commitment. These exemptions to the LD 1 spending limits apply pressure on the local property tax burden.

Second, the way the LD 1 spending limitation system applies to municipal and county government, the base of the calculation to which the growth allowance is applied is the previous year’s limit, not the previous year’s base commitment (in the case of municipalities) or assessment (in the case of counties). The LD 1 system is designed not to effectively punish a unit of local government for being especially frugal in one year and cutting the property tax

¹⁷ Maine Revenue Services is in the process of collecting all of the 2006 commitment data. To date, 26 communities have not reported commitment data to the state. In order to estimate the increase in commitment between 2005 and 2006, the 2005 data was adjusted to exclude those communities not represented in the 2006 data.

assessment so that it comes in below the formula-derived limit. In that circumstance, the municipality's or county's base for the subsequent year is its base-year limit. Accordingly, local governments in the aggregate may show a 2.5% growth over their *LD 1 base*, but register a somewhat larger growth over their *actual commitment base*.

However, it is important to note that in the first year of LD 1 implementation taxpayers in over 100 Maine towns and cities saw property tax relief. Between 2005 and 2006 21% of Maine's 489 municipalities reduced the total amount of property tax dollars necessary to fund municipal, school and county services. As seen in Appendix H, in 2005 these communities collected \$251.3 million in taxes. In 2006, these same communities collected \$242.4 million in taxes, a reduction of \$8.8 million or 3.5%.

The purpose of this analysis is not to assign blame for the state's tax burden on any one level of government, but rather to identify and address "problem" areas and to encourage continued commitment to the goal of LD 1. Representatives from all levels of government need to work collaboratively to strengthen the existing LD 1 spending limitation system and to help implement rational and reasonable plans that give local and state level decision makers and voters the ability to make fully informed decisions on governmental spending.