

LD 1 PROGRESS REPORT 2007



MAINE'S GOAL IS TO LOWER ITS STATE AND LOCAL TAX BURDEN RANKING TO THE MIDDLE ONE-THIRD OF STATES BY 2015.

2007	MEETING LD 1'S GROWTH LIMITS?	GROWTH COMPARED TO PRE-LD 1 YEARS
STATE	YES	LOWER
MUNICIPALITIES	YES	LOWER
COUNTIES	YES	HIGHER
SCHOOLS	NO	HIGHER

What is this report about?

In 2005, Maine passed "LD 1," a law that placed new limits on the growth of government at all levels and increased property tax relief for Maine homeowners. Each year, the State Planning Office publishes a report on the progress made by state, county, and municipal governments, and school administrative units, in reaching LD 1's tax burden reduction goal. In the first report, Dr. Todd Gabe and the University of Maine's Margaret Chase Smith Policy Center found that, "LD 1, in its early impact, has constrained the growth of state and local governments in Maine."

Since that first year, the State and most county and municipal governments have stayed within their LD 1 limits. Last year, however, spending in two categories grew notably. First, taxes raised for two new jails accelerated the growth of county assessments. Second, growth of total school appropriations increased for the fourth year in a row. Fully 82% of school units exceeded their limits.

This brochure summarizes SPO's 2007 LD 1 progress report. The full report is available online at www.maine.gov/spo or by calling (207) 287-6077.

We thank Dr. Henry Renski of the University of Massachusetts, Amherst for leading our analysis. We also thank the Maine Municipal Association, Maine County Commissioners Association, Maine Revenue Services, Maine Department of Administrative and Financial Services, Maine Department of Education, Robert Devlin, and the many local officials who contributed their time, data, and expertise.

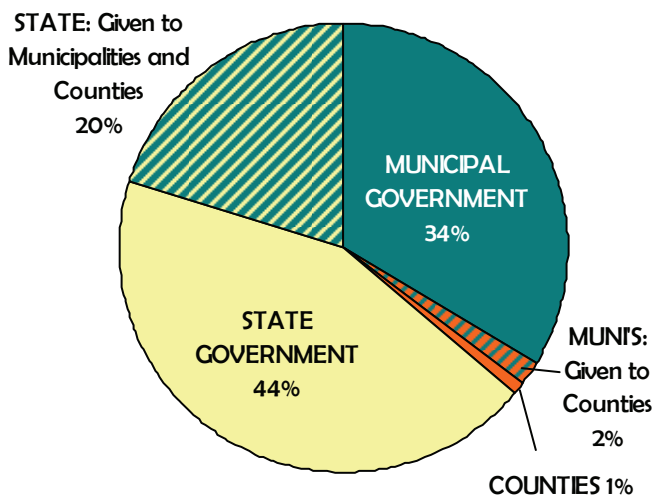
*Martha Freeman, Director
State Planning Office*

*Catherine Reilly
State Economist*

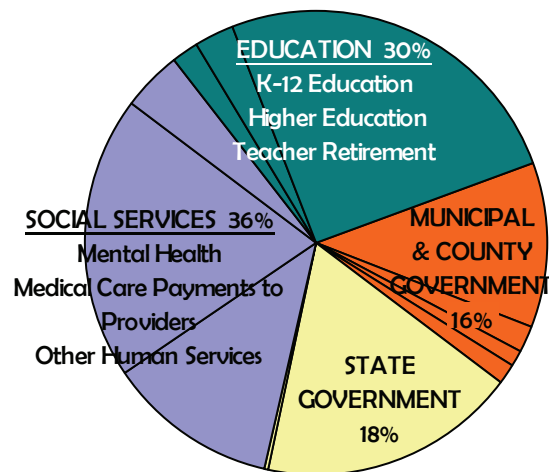
- In 2007, the State was below its LD 1 limit and increased aid to local education by another \$64 million.
- Municipal property tax commitments were below their collective LD 1 limit. However, the reduction in growth was less dramatic than before. Individually, about 57% of municipalities were under their LD 1 limit.
- County assessments grew more than in past years primarily to fund two new jail projects.
- School Administrative Units exceeded their collective LD 1 limit for the third year in a row. Both the percentage of SAUs exceeding their limit and the amount by which they were over increased. Compared to past estimates, a smaller percentage of new state aid is being used to offset local property tax revenues.

The charts below show the combined revenues and expenditures of Maine governments in 2006. The majority of tax revenues are collected at the state level, but much of that is redistributed to municipal and county governments. Education and social services are the largest budget items for government, accounting for about two-thirds of spending.

Estimated Revenues Raised by Maine Governments 2006



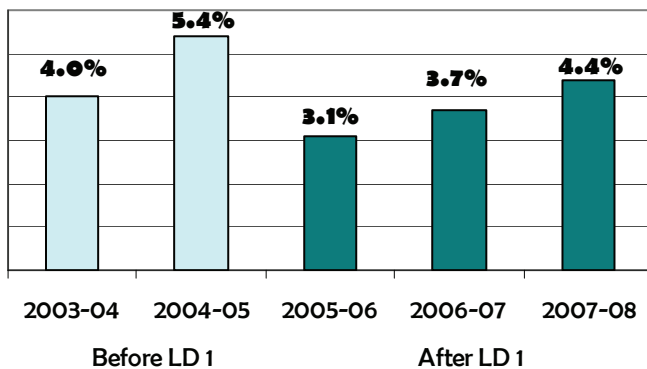
Estimated Expenditures of Maine Governments 2006
(Includes Federal Funds)



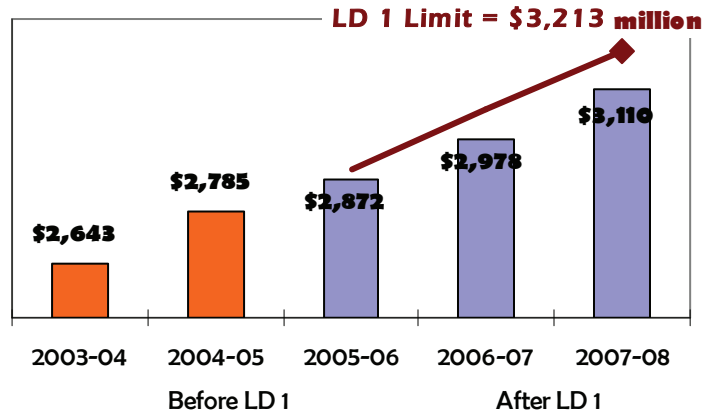
How did the State perform?

The State's General Fund appropriations have remained below the LD 1 limit. Based on spending bills enacted through the end of the First Regular Session of the 123rd Legislature, total appropriations for the 2007-08 fiscal year were \$65 million, or 2%, below the LD 1 limit. In December 2007, Governor Baldacci issued a curtailment reducing spending by another \$38 million. That places current General Fund spending \$103 million, or 3.2%, below the limit. Recognizing the curtailment, the State's General Fund will grow 4.4% in FY2008. That is below the 5.4% average growth rate for the ten years prior to LD 1.

State General Fund Appropriations Growth
(Includes 2007-08 Curtailment and School GPA Funding)

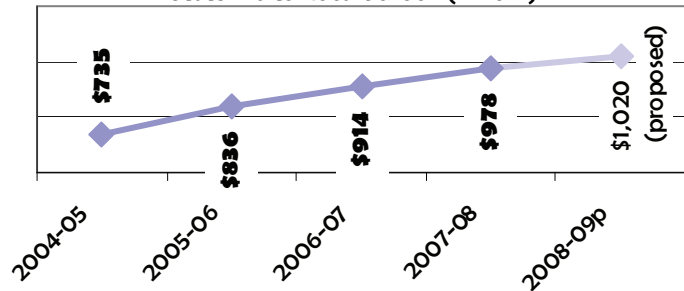


State General Fund Appropriations (millions)
(Includes 2007-08 Curtailment)



Since LD 1 became law, annual state aid to local schools has grown by one-third (\$243 million of additional funding in FY2008 alone). By FY2009, state education funding will top \$1 billion and consume fully one-third of the State's General Fund.

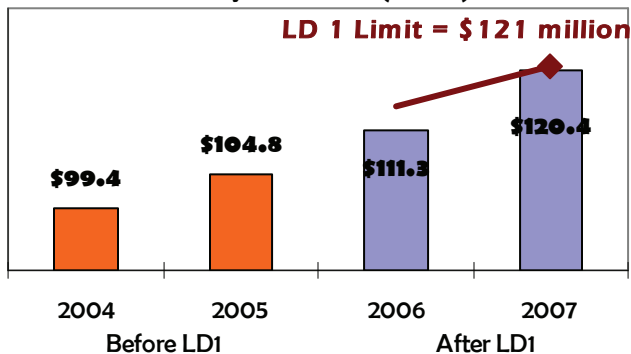
State Aid to Local Schools (millions)



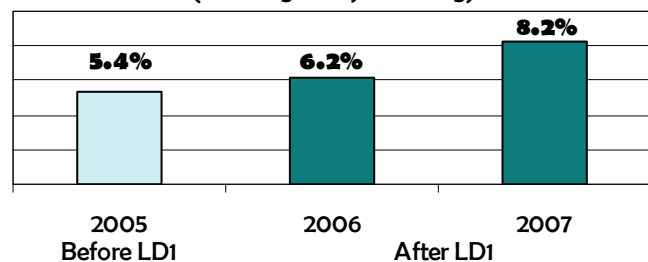
How did counties perform?

Most counties stayed within their LD 1 limit and reduced tax assessment growth in 2007. Total statewide county assessments were \$0.5 million, or 0.5%, below their combined limit. Compared to the previous year, county assessments grew by 8.2%. Setting aside funds for the new Lincoln and Sagadahoc jail, which are temporarily excluded from the LD 1 limit, remaining assessments grew by 7.3%. That is higher than the 5.4% growth rate seen in 2005, before LD 1 became law.

County Assessments (millions)

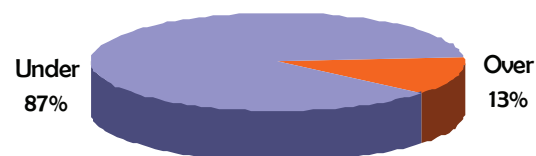


Total County Assessment Growth
(Including new jail funding)



Individually, fourteen counties stayed within their 2007 LD 1 limits and two surpassed them. Ten counties have been under their limits for the past two years. Last year, however, the average amount by which they were below their limits dropped from 2.7% to 1.8%.

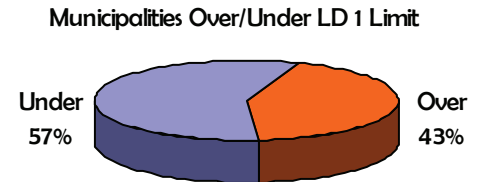
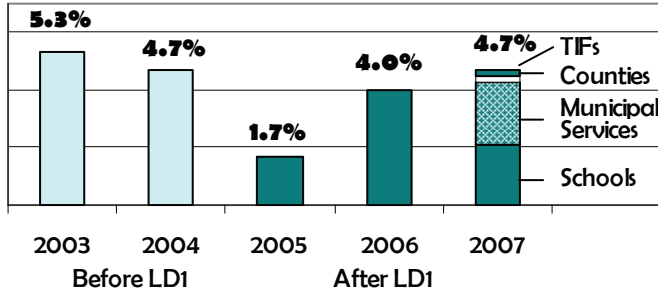
Counties Over/Under LD 1 Limit



What happened to property taxes?

Statewide, total property taxes raised for the 2007 property tax year grew by 4.7%. Those taxes fund municipal services, county government, schools, and Tax Increment Financing (TIF). TIFs are tax revenues that municipalities return to developers who have invested in their town. 4.7% exceeds the previous year's growth rate and approaches recent pre-LD 1 levels.

Statewide Property Tax Levy Growth
(2007 based on 393 municipalities with available data)

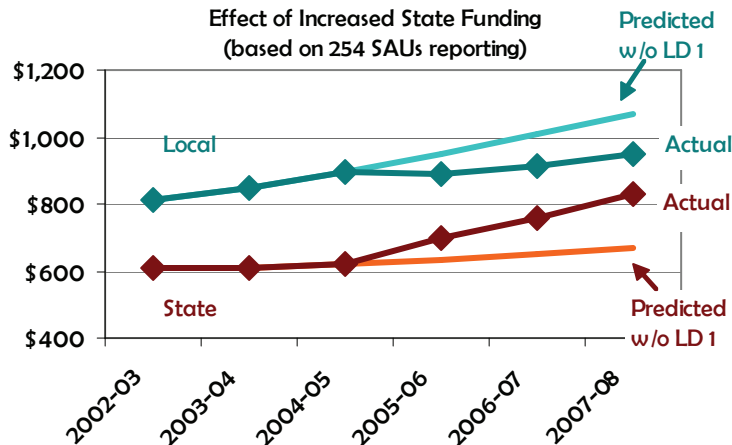


Over half of municipalities stayed under their **Estimated LD 1 Limit of 5.8%.**

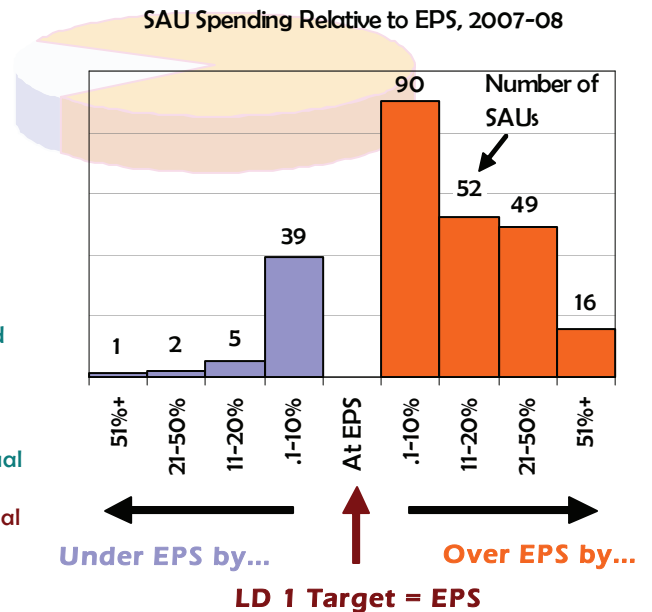
How did municipalities perform?

How did school administrative units perform?

School Administrative Units (SAUs) displayed the most divergence from the expenditure targets set by LD 1. LD 1 uses the Essential Programs and Services (EPS) model for school funding to set targets for the amount of property taxes raised for local schools. The LD 1 limit for SAUs is 100% of EPS. For the 2007-08 school year, fully 82% of SAUs exceeded that limit. Their combined allocations were \$134.5 million or 8.1% over 100% of EPS. Compared to last year, both the percentage of SAUs exceeding their limit and the amount they are over has increased.



Based on historical trends, the growth of local appropriations for K-12 schools is lower than it likely would have been without LD 1. For the 2007-08 school year, the difference between predicted and actual local appropriations was \$84 million. State funding was \$161 million higher than would have been expected without the push to fund 55% of EPS costs by 2009. According to these estimates, about 52% of increased state funding is being used to offset local property tax revenues. That is lower than last year's estimated offset rate of 70%-75%.



Growth of total state and local appropriations to schools rose for the fourth year in a row.

Growth of Total School Appropriations
(State and Local)

