

The Maine View

Published by The Maine Heritage Policy Center

Vol. 6, Issue No. 2

March 13, 2008

Transparency-Shedding Light on Government Activities II: The Hidden LD 1 Cost-Shift

by Stephen Bowen, M.Ed

In the spring of 2005, the Legislature passed LD 1, which promised to ease property tax burdens by increasing the state's share of K-12 spending statewide. While the state did increase its financial commitment to education, it also shifted much of the funding for a number of education programs from the state to local school districts. Since LD 1 was enacted, local property tax payers have been asked to pay for more than \$120 million worth of Department of Education programs that were previously paid for with 100 percent state funding.

Findings:

- In Fiscal Year 2005, prior to the passage of LD 1, nearly \$40 million worth of "Adjustments and Miscellaneous Costs" within the Education Department's General Purpose Aid to Education account were funded with 100 percent state funding.
- LD 1 contained language which allowed the Department of Education to split the funding for many of these programs between state and local sources. Since then, the Department has shifted additional programs into this shared account. If current budget proposals are enacted, by the end of Fiscal Year 2009 local school districts will have paid more than \$120 million for their share of "Adjustments and Miscellaneous Costs" that were 100 percent state funded before LD 1 was enacted.
- These cost shifts have remained a popular budget-cutting strategy for the Department of Education because they allow the state to not only cut its own General Fund budget, but also to artificially increase its own share of General Purpose Aid for schools, and allow it to claim, falsely, that it is keeping General Fund budget growth under the LD 1 growth caps.

Table 1
State and Local Cost Sharing of "Adjustments and Miscellaneous Costs"
Fiscal Year 2005 to Fiscal Year 2009

Adjustments and Miscellaneous Costs	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09*
State Wards and State Agency Clients	\$ 37,103,443	\$ 36,932,519	\$ 37,420,034	\$ 38,505,215	\$ 39,660,371
Long-Term Drug Treatment Center Adjustment	\$ 166,392	\$ 175,344	\$ 184,632	\$ 194,293	\$ 182,637
Maine Policy Research Institute Contract -	\$ 150,000	\$ 200,000	\$ 200,000	\$ 225,000	\$ 250,000
EPS Contract	\$ 75,000	\$ 150,000	\$ 250,000	\$ 250,000	\$ 250,000
Carpenter Bus Loan Payment	\$ 550,000	\$ 504,325	\$ 498,915	\$ 496,685	\$ 492,518
Regionalization/Consolidation/Efficiency Assistance	\$ 125,000	\$ 200,000	\$ 200,000	\$ 205,800	\$ 211,974
Learning Results Accountability	\$ 250,000	\$ 254,500	\$ 260,099	\$ 267,642	\$ 275,671
Learning Results Implementation	\$ 1,112,000	\$ 1,132,016	\$ 1,156,920	\$ 7,390,363	\$ 8,101,723
MLTI Program	-	\$ 8,365,847	\$ 10,378,853	\$ 11,486,124	\$ 11,736,124
Data Management & Support for EPS	-	\$ 122,723	\$ 450,000	\$ 1,000,000	\$ 1,030,000
GPA Team positions	-	-	\$ 288,898	\$ 358,737	\$ 1,171,239
Minimum Teacher Salary Supplement	-	-	\$ 623,566	\$ 1,997,650	\$ 1,598,120
NBPTS Salary Supplement	-	-	\$ 282,000	\$ 290,178	\$ 298,883
Jobs for Maine Graduates	-	-	-	\$ 1,630,266	\$ 1,635,266
Magnet School -- MSSM	-	-	-	\$ 1,782,486	\$ 1,798,691
Gov. Baxter School for the Deaf	-	-	-	\$ 6,567,800	\$ 6,611,228
Learning Systems positions for Corrections	-	-	-	-	\$ 265,281
Department of Corrections positions	-	-	-	-	\$ 272,856
Learning Through Technology - Distance Learning	-	-	-	-	\$ 922,033
TOTAL	\$ 39,531,835	\$ 48,037,274	\$ 52,193,917	\$ 72,648,239	\$ 76,764,615
State Share	\$ 39,531,835	\$ 21,224,789	\$ 25,300,479	\$ 37,572,216	\$ 42,220,538
Local Share	\$ -	\$ 26,812,485	\$ 26,893,438	\$ 35,076,023	\$ 34,544,077

* Governor's Proposed Supplemental Budget Request

Sources: Maine Legislature's Office of Fiscal and Program Review, The Maine Department of Education, The Maine Heritage Policy Center

Background: Before LD 1

Prior to the passage of LD 1, the state divided its funding for local school districts, known as General Purpose Aid, into four categories. The first three categories, known as “Operating Costs,” “Program Costs,” and “Debt Service,” were split between the state and local school units through an extraordinarily complex series of formulas. The fourth category, known as “Adjustments,” was paid for entirely with state funds.[1]

Historically, the “adjustments” category included such things as funding for the education of state wards and others in the custody of the state. It was also used to fund services for “English as a Second Language” students and students sent to specialized schools outside of their own home district.[2]

Beginning in Fiscal Year 2002, the state also began using the “Adjustments” account to fund “Learning Results Implementation, Assessment and Accountability,” which may have been the first time this account was used to fund something other than specialized services for select student populations. In retrospect, this appears to have been the start of a kind of “mission creep” on the part of the “adjustments” component of General Purpose Aid.[3]

Indeed, by Fiscal Year 2005, just before the new funding system was put into place, the “adjustments” account had come to include such things ongoing research contracts, funding for student assessment systems, and incentives for efficiency and regionalization efforts.[4]

Essential Programs and Services

By the time Governor Baldacci came to power in 2003, education officials were already well underway laying the groundwork for an entirely new means of funding schools, which came to be known as Essential Programs and Services, or “EPS.” Under this new model, the state would calculate what it *should* cost districts to ensure that all the students met the high standards established by the Maine Learning Results. The state would then pay a set share of those costs, though what share was still under debate.

Question 1A

The development of EPS came at a time when the state’s leadership was trying to respond to a property tax crisis driven in part by ongoing cuts to the state’s share of education spending. Out of frustration with legislative inaction, the Maine Municipal Association advanced a Citizen’s Initiative Referendum in 2002, known as Question 1A, that called for the state to fund “55 percent of the cost of public education” statewide. That ballot initiative was approved by voters in June of 2004 after yet another failure by the legislature to develop a comprehensive property tax relief package.[5]

When the legislature returned to session in early 2005, it set about finding a way to put into place the 55 percent funding

mandate approved by voters. Among the many issues to be settled was deciding what exactly constituted “the cost of public education.” According to voters, the state was to pay 55 percent, but 55 percent of what?

LD 1

The decision was ultimately made to simply rework the existing four-part General Purpose Aid formula. Under LD 1, which was passed in early 2005, the state would use the EPS system to establish what ought to be spent statewide in each of the four GPA categories and then commit to fund 55 percent of that amount. Because the state was suffering then, as now, under a perennial budget crunch, the decision was made to “ramp up” to a 55% state share over four years.

As part of the changes made by LD 1, the “adjustments” category, which had been funded exclusively with state dollars until this point, would now be a shared cost, with the state paying its 55 percent share and the local districts paying the remainder. The effect of this change was immediate. As Table 1 indicates, the state paid almost \$40 million for “Adjustments and Miscellaneous Costs” in Fiscal Year 2005, before LD 1 took effect. The very next year, the state’s share of that same spending category dropped to little over \$21 million. The remainder, more than \$26 million, was paid for by property tax payers.[6]

Thus began a cost-shifting trend which has lasted to the current day. In the three years since the passage of LD 1, the local share of the “adjustments” category rose from \$26.8 million to \$35 million. To date, property tax payers have paid more than \$88 million to fund programs that are either new or were 100 percent state funded prior to the passage of LD 1. If the governor’s current supplemental budget for Fiscal Year 2009 is approved, local governments are on the hook for another \$34.5 million in “adjustments” for this coming Fiscal Year. [7]

Mission Creep

In the years since LD 1, the Department of Education has sought to shift a number of other programs from full state funding to GPA by adding them to the list of “Adjustments and Miscellaneous Costs”

Last year, three programs with a long history of 100 percent state funding; the Jobs for Maine’s Graduate’s program, the Maine School of Science and Mathematics magnet school, and the Baxter School for the Deaf, were all shifted from General Fund funding to GPA, creating a local share requirement and providing the state with a multimillion dollar budget savings.

In the supplemental budget proposal currently before the legislature, the Department of Education seeks to shift more than a million dollars worth of other programs, as well as eleven staffing positions, from the General Fund to GPA. As with other such shifts in the past, the state will realize budget savings,

What are “Adjustments and Miscellaneous Costs?”

Because LD 1 allowed the state to shift some of the financial burden of the “Adjustments and Miscellaneous Costs” component of GPA onto local property taxes, the Department of Education has been steadily shifting more and more programs into that account in order to cut its own budget. So what programs are paid for with that account today?[8]

- **State Wards and State Agency Clients, and Long-Term Drug Treatment Center Adjustment:** Educational services for wards of the state and those otherwise in state custody or institutions have traditionally been funded entirely by the state. LD 1 made this a shared cost, to be funded by both the state and local property tax payers.
- **Maine Policy Research Institute Contract and the EPS contract:** Rather than accept competitive bids for research projects, the Department of Education maintains an ongoing contractual relationship with the University of Southern Maine, which conducts educational research at the Department’s request. LD 1 made this a shared cost.
- **Carpenter Bus Loan payment:** This program, which facilitates bus purchases, became a shared cost under LD 1.
- **Regionalization Assistance:** LD 1 contained language that for the first time provided funding for use at the Commissioner’s discretion to “promote regionalization, consolidation and efficiency.” This was a shared cost from the start.
- **Learning Results Accountability and Implementation:** The state fully funded the implementation of Learning Results prior to LD 1, which made this into a shared cost and also added funding for “accountability” of Learning Results.
- **MLTI (laptop) program:** Originally to be funded entirely from the proceeds of an endowment, the controversial middle school laptop program, and its now \$11 million annual expense, became a shared cost under the provisions of LD 1.
- **Data Management for EPS and GPA team positions:** These two budget lines have climbed in cost from about \$400,000 to more than \$2 million since first funded in the “adjustments” category. They pay for positions at the Department of Education that do work related to EPS.
- **Minimum teacher salary and NBPTS salary supplement:** These two new teacher compensation programs were put into law in 2006. According to published reports, funding for the minimum teacher salary supplement, which cost almost \$2 million in Fiscal Year 2008, “was to come from the General Fund.”[9] The two programs were instead put into General Purpose Aid, with property tax payers picking up about half the cost.
- **Jobs for Maine Graduates, The Maine School for Science and Mathematics, and the Baxter School for the Deaf:** These three programs were funded with 100 percent state funding until Fiscal Year 2008, when they were moved from the state’s General Fund to the shared General Purpose Aid account. The state saved itself \$4.8 million by doing so, and shifted that burden to property tax payers.
- **Learning Systems, Department of Corrections positions, and Learning through Technology:** According to the Legislature’s Office of Fiscal and Program Review, the Governor’s new Supplemental Budget proposal shifts 11 staff positions from various and seemingly unrelated General Fund accounts to General Purpose Aid, saving the state over \$650,000. That amount is to be paid by local property tax payers instead.

while property tax payers will see their share of educational spending increase.

Or will they?

Taxpayers who study their own school budgets to find their local share of the funding for these programs will look in vain. The local share of “Adjustments and Miscellaneous Costs” is simply taken “off the top” of the pool of funds to be distributed to local districts *before* the state sends it. Were the state to fund these programs 100 percent, as they once did, there would be no local share for the state to withhold, and those funds would

be available for distribution to local schools, with resulting property tax relief for taxpayers.

Instead, since LD 1 was put into place, the state has taken nearly \$100 million out of the pool of money available for schools and spent it on programs they once paid for with state funds exclusively. The governor’s new supplemental budget will cost local taxpayers almost \$35 million more.

The 55 percent illusion

The reasons why the state has become so fond of this hidden cost shift are clear. This process allows them to cut their own

General Fund budget and shift costs to local taxpayers in a way that is almost invisible.

Of perhaps more concern, however, is that these ongoing cost shifts have allowed the state to redefine the “cost of public education.” When voters approved the 2004 referendum question requiring a 55 percent state share of funding for schools, they almost certainly meant 55 percent of what their local schools were spending. An easier way for the state to get to 55 percent, though, was to take programs it was already paying for, include them as part of “the cost of public education,” then count those costs as part of the state’s 55 percent share.

The “adjustments” cost-shift does just that. The Baxter School, for instance, had always been paid for with state General Fund dollars. By moving it into GPA, as was done in Fiscal Year 2008, the state cut its own General Fund budget *and* got to count its far lower contribution to the cost of the Baxter School toward the 55 percent state share target mandated by voters.

The LD 1 budget cap

As if that weren’t enough, shifting costs from the General Fund to GPA has also allowed the state to keep its own budget under the spending cap put in place by LD 1, which requires that the state budget grow no faster than the income of the average Mainer plus population growth. Importantly, because the state was also “ramping up” its 55 percent contribution to public

education costs when LD 1 was put into place, growth in GPA spending was *not* counted against the LD 1 cap.

In Fiscal Year 2006, for instance, the cap was 3.11 percent, which meant that the General Fund budget was allowed to grow to about \$2.79 billion. Another \$102 million in GPA was added on to lift the General Fund maximum to \$2.89 billion, and the state ended up spending \$2.87 billion, just under the LD 1 limit.[10]

That same fiscal year, however, the Department of Education shifted \$48 million in “adjustments” out of the General Fund and into GPA where it no longer counted against the cap. Had it remained in the General Fund, the state would have been on pace to spend 3.3 billion, well over the LD 1 cap, and further budget cuts would have needed to be found elsewhere.

Conclusion

In summary, the “adjustments” cost-shift is a win-win-win for the state. It gets to cut its own General Fund budget, reaches the voter-imposed 55 percent state share mark with less new money, and gets to pat itself on the back for keeping the growth of its budget under the LD 1 growth cap. It is all an illusion, of course, but one with real costs. Ironically, those costs are borne by the very taxpayers that in 2004 rose up and demanded real property tax relief. Hidden cost shifts like this one are certainly not what they had in mind.

Sources:

- [1] *Commissioner’s Recommended Funding Level Fiscal Year 2004-05*, Maine Department of Education, December 10, 2003
- [2] *School Funding in Maine - 2003-04 Recommended Funding Level*, Maine Department of Education, December 18, 2002
- [3] Ibid
- [4] *Commissioner’s Recommended Funding Level Fiscal Year 2004-05*, Maine Department of Education, December 10, 2003
- [5] Maine Municipal Association State and Federal Relations website, <http://www.memun.org/Public/MMA/svc/SFR/SFR.htm>
- [6] Office of Fiscal and Program Review, The Maine Heritage Policy Center
- [7] Ibid
- [8] Information on individual adjustments from MRSA Title 20A, Chapter 606-B
- [9] *Teachers’ minimum wage bill advances*, Lewiston Sun Journal, April 27, 2006, page A3
- [10] *LD 1 Progress Report 2007*, Maine State Planning Office, February 2008

Stephen Bowen is Director of Education Policy at The Maine Heritage Policy Center. The author can be reached at sbowen@mainepolicy.org.

Maine Issue Brief is a publication of The Maine Heritage Policy Center that provides research and commentary on current public policy issues. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

The Maine Heritage Policy Center is a 501 (c) 3 nonprofit, nonpartisan research and educational organization based in Portland, Maine. The Maine Heritage Policy Center formulates and promotes free market, conservative public policies in the areas of economic growth, fiscal matters, health care, and education – providing solutions that will benefit all the people of Maine. Contributions to MHPC are tax deductible to the extent allowed by law.

Editor and director of communications, Martin Sheehan, can be reached at msheehan@mainepolicy.org.

© 2008 The Maine Heritage Policy Center

Material from this document may be copied and distributed with proper citation.

P.O. Box 7829 207.321.2550 (p)
Portland, ME 04112 207.773.4385 (f)

<http://www.mainepolicy.org>
<http://blog.mainepolicy.org>
info@mainepolicy.org