School funding in Maine: The case for reform

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Reform of Maine's school funding law has been a vexing issue for educators and politicians alike. It continues to dominate the education issue agenda in Augusta and will be a major focus of attention by the 117th State Legislature. In this article, University of Southern Maine Professor Josephine LaPlante examines two broad issue areas of educational funding reform that have been the source of much debate and contention: pupil equity and taxpayer equity. Among other things, she offers some alternatives for alleviating the most pressing problems associated with those issues.

Introduction

The past decade has been a tumultuous period for our nation's public schools. More difficult social problems and substance abuse have placed far more school children "at risk," a major recession has eroded states' financial support for education, and disenchanted taxpayers are approving fewer property tax dollars at the same time they demand improved school performance and accountability. The number of lawsuits being waged against state systems of school finance have multiplied dramatically. With the recent overturn of Ohio's finance system (Harp 1992), a total of nine state funding systems have been declared unconstitutional since 1989; nineteen other lawsuits are still in progress.

During the past several years, a quiet revolution by justices hearing arguments in lawsuits charging unequal educational opportunity has been underway. Not that long ago, making roughly equivalent per pupil expenditures, particularly if they were at a reasonably high level, provided a near guarantee that the courts would find a state's funding mechanism constitutional with regard to equal educational opportunity. Today, when a funding system is challenged on the basis of denial of equal opportunity, judges routinely discount the usefulness of per pupil expenditure evidence and instead require comparative information about resource availability including the range of courses offered, the number and condition of computers and other technology, and teachers' salaries, experience and education (Dayton 1993). Several recent cases have additionally cited disparities in the extent and condition of school facilities as an important basis for the overturn of state funding systems (Harp 1992). Hansen, Rath and Hagans (1991) have pointed out that "the results expected [by the courts] are such that the historically accepted and still often commonly employed state school finance programs are not acceptable" for achieving constitutional objectives. Despite those stricter standards for establishing equal educational opportunity, Maine recently saw its funding mechanism upheld. Does this mean that school funding reform is now unnecessary in Maine?

It is important to understand that the court considered Maine's finance system only from the perspective of the charges in the lawsuit, which were confined to the specific set of actions taken during recent state decisions. The finding for the state simply means that the plaintiffs (a group of districts heavily dependent upon state revenues) failed to prove that the state's recent compromises in the school funding distribution had seriously disadvantaged their students. The lawsuit against the state implicitly accepted the "formula" devised to implement the 1985 school funding law as equitable by arguing that a return to that formula would restore equity. Thus, unlike many states that have faced constitutional challenges, Maine's funding approach did not receive close and thorough scrutiny.

Would Maine's system have been able to withstand a more comprehensive challenge? It is, of course, impossible to predict the outcome of a hypothetical lawsuit. Nonetheless, as the result of a probing investigation of pupil equity initiated by Governor McKernan's "Task Force to Provide Recommendations Regarding School Funding" (1993) and continued by the Legislature's Joint Education Committee, we now know that substantial disparities in learning opportunities exist in Maine, not only among districts but also among schools within the same district. In addition, the condition of school buildings and labs, the availability and age of computers, and teachers' salaries were similarly found to vary widely both across and within districts. (See LaPlante 1994.) The research results also raised concerns about the way Maine organizes to deliver education, because the more loosely structured "unions" (in which member towns have separate school boards and individual budget authority) were more likely to have disparities in resources among their schools. In addition, it was suggested that a recent budgetary pattern of very low annual expenditures on equipment and other capital outlay, as well as disparities in computer and physical resources may be attributable to incentives and disincentives deriving from the state's higher rate of assistance for school construction.

These are pressing issues for Maine; when combined with continuing citizen dissatisfaction with the property tax, they signal the need to place school finance reform among the state's highest policy priorities for the near future.

The next step

In June of 1994, following discussion of the results of the research it had commissioned, the Joint Education Committee submitted a bill, later enacted into law, that establishes a committee to study school funding. Although we have seen a number of task forces come and go, this new committee has been structured for impact. First, in a marked departure from the historic practice of providing representation to every group potentially affected, the committee will consist of only five members, none of whom may be a legislator or a member or employee of a professional organization representing persons employed in K-12 education. Second, rather than "starting over," this committee will be developing the information needed to advance our understanding of several of the most crucial issues in Maine school finance. The statute requires the committee to ascertain the answers to a well-defined, small set of questions about the organization, structure, leadership, efficiency and financing of public education in Maine and to evaluate the benefits and costs of options for changes in those areas. Taken together, the group's small size,

enhanced objectivity, and unambiguous marching orders provide an important bias toward action.

The remainder of this paper will highlight and explore the two broad issue areas that are central to the deliberations of the education funding study commission: pupil equity and taxpayer equity. In some instances, options for abating some the most pressing problems will be indicated and discussed briefly. First, however, a quick review of the process Maine uses to fund schools may be helpful.

Maine's school funding formula

The formula for allocating state aid for education in Maine is essentially a two-stage process. The first stage is the determination by the state of how much of each district's projected budget will be subject to subsidy. The state uses statewide data on education spending for the previous year to determine spending "norms" for secondary and elementary education, i.e., the average per pupil expenditure amount for each level. This amount becomes the "foundation" per pupil amount.

Once the foundation amount has been determined, the number of elementary pupils in each district is multiplied by the state's average expenditure to arrive at a projected budgetary need for running an elementary education program based upon average statewide spending responses. This process is then repeated for districts that run a secondary education program and the results combined with the elementary budget estimate to obtain a district total. The total amount is updated to reflect inflation; this final figure becomes the portion of total spending for regular programs that the state will subsidize.

In addition to the regular subsidy from the state (which is the major part of state aid for education), there are a variety of special programs, such as special education, that are approved for subsidy using other methods. Debt service on school construction and expenditures for capital leases are also funded separately; there is a debt service "circuit breaker" that caps the number of mils any district must raise from property taxes for these purposes. Thus, recipient districts often find that the state share of debt service exceeds the percentage of regular spending the state subsidizes.

The second part of the state's funding process is the determination of state and local shares of financing responsibility, which requires the state to decide how each town's ability to pay for education (based upon taxable property in the town) compares to that of other Maine communities, or what may be called "relative fiscal capacity." Once the state has rank ordered the towns by property wealth, the share of approved spending the state will pay is decided.

Pupil equity and equal educational opportunity

When the extent of disparities in learning opportunities among and within Maine's school districts was revealed by the Joint Education Committee's study of resource availability, many people were understandably startled. Maine's funding system has often been cited nationally as being among the most equitable in the country. Through what is known as a

foundation funding approach, Maine attempts to ensure that a roughly equivalent number of dollars, or a "foundation" allocation, will be available to finance the education of each child in the state. This is accomplished by targeting a very large percentage of total state education aid dollars to supplement local ability to pay in the poorest districts. In addition, during the 1980s, the state had made a concerted effort to increase its share of local education spending to more than half of the total. The combination of a high state share and aggressive equalization of local ability to pay earned Maine its equity accolades.

We now know that relatively equal per pupil expenditures do not equate with equality of learning opportunities in Maine's schools. However, it may not be obvious why they do not.

At first glance, the concept of ensuring an equal number of dollars per pupil sounds like a reasonable way to guarantee learning opportunities. However, there are several problems associated with this approach.

Education is a service that is particularly burdened by what is known as the "high fixed cost problem" of the public sector, which arises because whole increments of inputs must be provided, whether the service is offered to one student or twenty. An entire building, rooms with chairs and blackboards, and teachers must be in place if any students are to be educated.

Maine's funding approach treats all expenditure needs as variable costs, which means it assumes that spending must increase by the state average per pupil amount each time a new student enters the school. In actuality, the fixed costs of delivering education do not necessarily change when one child is added to a class or when one child leaves. On the other hand, spending will need to increase sharply after the addition of a large number of students, because expansion of facilities is required along with the addition of teachers.

The fixed costs associated with educational delivery translate into a minimum or threshold expenditure that is independent of the number of students. The current funding approach does not recognize the need for a minimum outlay of funds to mount a school program.

The failure to build in an expenditure threshold for districts with low numbers of pupils results in a serious underestimate of their spending need. In some cases, such as Vanceboro, the district makes up the gap, at the expense of very high property tax rates. Other districts do not, with the result that students receive a reduced set of educational resources.

Treating expenditure requirements as fully variable causes state funding to be far more sensitive to changes in the number of pupils than it needs to be. As a result, budgets fluctuate, with aid windfalls for districts who can accommodate new students within existing facilities and funding shortages in districts with declining enrollment or recent construction.

Another problem emerges from the use of average per pupil amounts to estimate budget needs. With the exception of special education, differing pupil needs, such as language barriers, behavior problems, and characteristics that place students at risk are not considered. Student specific attributes that require additional teacher attention, special classes, or remedial services make it more expensive to educate. Factors such as these, as well as exceptionally cold weather, geographic isolation, and others are cost differences that influence the price of achieving an acceptable educational system.

If all districts had an equivalent percentage of students with exceptional needs, the school aid budget approval process might not need to specifically incorporate indicators of the extent of cost differences. However, these cost factors vary widely from one district to another. LaPlante's (1994) analysis of the correlates of resource availability determined that high percentages of students eligible for the free and reduced lunch program explained why some districts had lower levels of programming than school size, median household income and tax effort would predict. The four variables taken together explained more than half the variance in programming in Maine schools.

Reform needs and options: Pupil equity

An improved school funding approach should develop a threshold estimate of spending to be used for isolated districts, recognize cost differences that occur from district size and school size, and provide additional funds for schools with a high proportion of students with exceptional needs. In addition, a new funding method should include recognition that except in limited cases where facilities are nearing capacity (or ready to be closed), small enrollment increases (or decreases) do not result in immediate cost increases (or savings).

Although an allocation by classroom rather by pupil has been used in some states as a vehicle to prevent increases in education aid, allocating funds by blocks of students in a rural state makes a great deal of sense. Development of a state-level, local education budget estimation and approval system to define the subsidizable portion of each district's operating spending could be structured to ensure adequate spending in all districts and to more closely estimate expenditure needs for priority purposes (as defined by the state) in districts of various sizes.

A new, resource-based system could initially focus upon subsidizing the salaries of all teaching staff and administrators, with state maximum salary levels specified for each combination of education and experience. Districts whose salary levels exceeded the state maximum would be responsible for the excess portion of each salary. Eventually, the maximum numbers of teachers and administrators that are necessary, given various school conditions (number of pupils, percentage of "at risk" pupils, number of special education) could be determined through research and built into this budget approach to control costs and to promote equity.

The remaining operating costs should be allocated initially on a classroom basis (to avoid both over budgeting where additional pupils do not add to costs and under-budgeting,

when there are not enough pupils for the per pupil allocation to add up to the needed minimal outlay.)

Over time, the subsidy approach could be refined to permit targeting funds to specific sets of resources (such as science equipment, and textbooks) that are linked to state curricular objectives and establishing goals for class sizes, administrator to teacher ratios, and the size of both individual schools and school districts. More research is needed on the links between learning outcomes and resources before we can fully implement such as system.

Funding school construction and other capital costs

The state legislature establishes in statute a percentage of total debt service for school construction to be retired by the state and a maximum number of local mils for debt and capital leases. The percentage of approved school debt service paid by the state has increased substantially over the past decade, from approximately fifty percent of school's principal and interest payments, to the current level of approximately 68 percent. Need for assistance is established by the priority of the capital project.

State aid is provided for approved projects under a cost sharing arrangement that establishes a maximum mil rate for debt service. Once a district reaches the statutorily defined level, "circuit breaker" state aid pays the remaining costs. The circuit breaker for debt is applied to the debt portion of school costs only, so that a district with a low overall mil rate but high debt service expense qualifies for assistance, regardless of their own ability to pay and the number of mils raised for schools.

There are several problems that may be identified. First, some districts that make very low tax effort for schools receive "circuit breaker" funding for debt because the two expenditure areas are treated separately. Second, LaPlante's (1994) analysis for the legislature found several different types of evidence that suggest schools are deferring capital investment in plant and equipment until they can build a new school with state assistance. A third and closely related problem emerges because newly constructed schools have wonderful equipment and facilities while other schools even within the same district go without.

While some districts have growing school age populations who will not be accommodated within existing facilities and others may legitimately need to fully replace old buildings, many districts do already or eventually will face major physical plant updating. A singular emphasis on providing capital assistance in the form of substantial debt service subsidies, which made sense during the days of rapid increases in children to be educated, today is an incentive for districts to ignore alternatives that may be far more cost-effective and more quickly accomplished.

The examination of resources available in Maine schools revealed wide variations in the availability of computers and other technology and the use of what schools do have. The ability of Maine's graduates to step into jobs in a technologically sophisticated work world is compromised when we under invest in essential educational tools.

Reform needs and options: Capital investment
First and foremost, there is a critical need for an inventory of facilities and technology and an assessment of their condition. This would be followed by a statewide action plan for meeting the needs identified.

Secondly, the state should adopt a broader view of school facilities to include not only new construction but also reinvestment in existing buildings and the acquisition and maintenance of other fixed assets like science labs, machinery and technology used in the vocational education programs, and computer labs. Providing matching "capital assistance" to districts rather than only subsidizing "debt service" at a higher level would permit districts to make a more comprehensive assessment of capital investment needs and would encourage them to utilize the most cost-effective means of meeting their highest priorities.

The annual orientation of school budgets and funding mechanisms is a significant barrier to the acquisition of major pieces of equipment or reinvestment in facilities, for two reasons. First, sound budgeting strives to keep spending, and hence revenue requirements, relatively smooth, i.e., to avoid the erratic spending patterns associated with the occasional high outlay of dollars. This biases spending for equipment towards yearly purchases of inexpensive items that may be less valuable to learning than a single major expenditure -- for example, to acquire a high quality microscope or computer for classroom instruction. Second, the fact that unspent funds lapse at the end of the year encourages last minute expenditures for nonessentials, so the money will not be lost and so the next year's budget will not be reduced to reflect lower expenditures.

Given the right conditions, districts could save up for capital asset acquisition or other capital investments by establishing a reserve fund or a sinking fund, which are fund types that permit money to be carried over into another fiscal years. Many municipalities use this approach to finance fire engines, for example. However, districts would need assurances from their school boards that money placed into a reserve would not be used for other purposes. In addition, the state's budget approval and cost reimbursement procedures would need to accommodate the lumpy expenditure pattern that accompanies periodic, large outlays for capital assets. Ideally, the higher state share currently available for financing approved capital leases and debt service would be extended to match the district's capital investment dollars.

A redesigned aid program should yield significant cost savings in the short term, but more particularly in the long term, because districts could time investments in plant and equipment to take advantage of the best alternatives. District could avoid the opportunity costs that accompany deferred maintenance and doing without computers or other technology and capital asset requirements.

Taxpayer equity and property tax
Maine's school finance system has been quite successful at equalizing property tax mil rates for education across the majority of communities. Nonetheless, Maine's citizens

have become increasingly dissatisfied with the property tax and also have come to question the efficacy of using property valuation as the single measure of relative local fiscal capacity. Even in communities where tax effort is well below the norm for the state, it is becoming more difficult to obtain approval of school budget increases.

Although the majority of towns raise between seven and ten mils for schools, there are significant disparities in the extent to which the highest tax effort and lowest tax effort communities tap into their property value. In 1993-94, there was a difference of nearly 20 mils between the most heavily and most lightly taxed towns. The problem of the high tax outliers is largely explained by the state's budget approval process which ignores the necessity of a threshold expenditure and leaves isolated, low population communities on their own for large portions of their school spending.

The low effort in some towns is tied to other factors. Unlike many states that utilize a foundation funding approach with a minimum tax effort requirement, Maine does not require a minimum tax effort. In a comparatively small number of districts, the mil rate required to raise the foundation amount is very low for two reasons. First, districts with high property tax wealth may raise sufficient revenues to finance schools with a low mil rate. Second, high wealth districts that tuition their students to other districts often pay the required tuition with a comparatively low tax effort.

The minimum aid component of school funding, which guarantees each town about five percent of its budget from state aid, is another area of concern. Minimum aid has been criticized as being disequalizing, because it provides money to districts that have high wealth. Similar provisions have contributed to the overturn of state finance systems in other states, such as New Jersey (Abbott v. Burke 1988). In addition, the federal government monitors the percentage of education aid that is non-equalizing; states become ineligible for federal education impact aid if the equalization portion drops beneath seventy-five percent of the total.

Although the arguments for abolishing this part of the aid program have merit, there are also sound reasons for keeping it. First, the annual total for this financial assistance is less than one percent of the total allocation for school aid. From a legal perspective and in terms of the federal standard, this small amount would be considered negligible. Of course, mere legal acceptability should not be the rationale for keeping the minimum aid program. The better argument rests with the necessity for the state to maintain a linkage with each district, to encourage a partnership for education that will work to forward the policy agenda. Districts receiving no state aid have little reason to comply with state-initiated endeavors, unless they would have done what the state is advocating anyway.

Reform needs and options: Taxpayer equity

First, the school funding process needs to be somewhat less sensitive to changes in property values, because sudden increases and decreases in aid do not make for neither good budgeting nor content taxpayers. While it is important to differentiate the relative ability to pay of communities, real estate markets may sometimes over- or under-estimate the true, long term value of property.

Second, the significant tax disparities that exist between the high effort and low effort towns reduce an otherwise reasonably equitable distribution of tax shares. The recommendations presented in the previous section for improving the budget approval process should help towns like Vanceboro, which face very high taxes because the state views so little of what they spend as subsidizable.

In terms of the low tax effort towns, a minimum effort requirement needs to be built into our funding approach. The minimum effort could be set at five or six mils, which is still well below the state average. A phase in of the added effort requirement would permit districts to adjust to the added tax burden. A minimum mil rate requirement will result in some districts raising more tax dollars than they need for their own children.

Property tax relief, and the advisability of abolishing the property tax for education altogether, are issues the new education funding committee will need to address.

Maintaining the property tax for schools, but with a higher state share of the total has some clear advantages for Maine. First, our state revenues are extremely sensitive to economic change. The large declines in state revenues as the boom of the 1980s turned into the recession of the 1990s occurred because Maine's personal income and sales tax collections plummeted faster and further than anyone would have guessed and more than any other state. The property tax, on the other hand, is a comparatively stable tax that ensures a steady state flow of revenues during the bad times but frustrates in its unresponsiveness during the good times.

Ideally, state taxes and the property tax could be used more consciously to complement each other across economic cycles. During the prosperous times the state could undertake capital projects and other one-time expenditures for local schools to reduce the demand on the property tax. Then, during an economic downturn, the property tax could pick up some of the gap created by falling state revenues. It would need to be clear to everyone involved that property tax relief by the state during the good times would not continue in the event of a major downturn in state revenues.

Whether done as part of the school funding process, or separately as direct assistance, property tax relief needs to be adequately funded at all times to offset the regressively of the property tax. It is very important when designing tax relief mechanisms to identify the objectives of relief and the intended beneficiaries of the policy.

There are three broad types of property tax relief that may help to offset some of the disfavor that tax has fallen into in recent years. First, the most common type of relief is assistance for individuals with unusually high property tax burdens. Relief for individuals is best given directly to them, as through a circuit breaker or the tax deferral program, because it will have the greatest impact. These are excellent programs and with careful structuring can enhance the overall equity of the tax system.

The second type of relief is also aid for individuals, but it is not limited to the extraordinary cases. A good example of this type is a program of relief for resident homeowners. Homestead exemptions tend to shift the property tax burden from residential taxpayers onto commercial and industrial taxpayers. Maine had developed a "homestead exemption" program several years ago but never implemented it due to the budget crisis. The design of that particular program was based upon the exemption of a percentage of property value from the tax. The greatest beneficiaries of that design would be residents with the most property wealth. Thus, the program would reward people in accordance to their wealth.

A superior approach to a homestead exemption is to permit a dollar amount exemption. The resident with the least expensive property would receive the greatest relative benefit, because the exemption would comprise a higher percentage of home value. This would do a great deal to offset the regressively of the tax. A dollar amount is also far easier to budget for and administer, because you do not need to know home value, only how many homes there are.

A homestead exemption program for Maine residents would need to be a fully state financial responsibility or part of the objective would be lost, particularly in towns with high percentages of residential property. The reason is simple: in the absence of state aid, the local mil rate would have to be raised to offset losses due to the exemption.

A homestead program could be structured to benefit all resident property owners equally, or to provide extra relief to the elderly. If the elderly were permitted a $30,000 exemption from the school property tax and all other resident homeowners a $15,000 exemption from school taxes, approximately $60 million in new state funding would be required.

It is important to keep in mind that the homestead exemption would not benefit renters; they could be assisted under a special circuit breaker for renters.

The third type of property tax relief is community level relief. The arguments for targeting relief at towns with diminished fiscal capacity is strong. Cost of living factors and high taxes lead to relocation of residents with the ability to secure housing in other areas. In addition, research has demonstrated that home values grow more slowly or even decline in high tax areas, because the combined cost of mortgage, taxes and other social costs (such as poverty) are higher than the costs of a comparable property elsewhere.

Governor McKernan's education bill proposed a method recommended by the School Funding Task Force (1993) under which the local property valuation to be used in the state's school aid process would be reduced when a community's "Index of Fiscal Hardship" is higher than average. The extent of the reduction in valuation was linked to the degree to which the qualifying community's fiscal hardship differs from the average circumstance.

Finally, good assessments are essential to trust in any system of property taxation. Although Maine is ahead of many states because the state sets standards for assessing,

supervises local practices and offers training, there are areas where improvements could be made. In particular, we need a method for more realistically assessing property for taxation in certain coastal, island and recreational areas of the state where the occasional nature of sales of property brings high prices that do not reflect the true value of all parcels.

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