

Reforming Maine's Education Funding Process

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In recent years how Maine funds K-12 education has been a source of almost constant dissension. As authors Patrick Dow and Ralph Townsend note, much of this dissension began in the early 1990s with the Legislature's decision to reduce funding for local education. Shrinking community budgets for local education have led to political battles over who gets what and have led to changes in the school funding formula established in the 1970s. In this article, Dow and Townsend argue that the recent changes to the school funding formula have eroded the principles of equity on which the 1970s formula was built. They trace the history of education funding in Maine, explain the mechanics of the current school funding formula, and assess the impacts of recent changes to the formula. They conclude with a set of recommendations that call for, in part, setting a realistic local operating cost mill rate, the removal of income and cost of living from the formula, and modifications to the circuit breaker and homestead-exemption programs. In future volumes, MPR hopes to include additional perspectives on this issue.

INTRODUCTION

How Maine funds elementary and secondary education has been a source of almost constant contention in the 1990s. The roots of this contention can be found in Maine's budget problems of the early 1990s, which led the Legislature to reduce funding of local education. As cities and towns found their state appropriation for education declining, each community lobbied its legislators to minimize the impact upon their own schools. This political atmosphere became known as "printout politics," because the computer printouts that showed winners and losers became a central component of the debate over educational funding. As a result of this overt political competition, Maine has gradually undermined the principle of equalizing educational opportunity that was legislated in the 1970s. The negative impact upon education has been especially severe in communities with low property tax bases; indeed, the gap in educational funding between the ten property-poorest towns and the ten property-richest towns has increased from about \$1,000 per student in 1989-90 to \$2,000 in 1996-97. If this trend continues, the quality of a Maine student's education will increasingly depend upon where that student lives.

It is very difficult for most Maine citizens-including legislators and local school officials- to understand the changes in education funding since 1989-90. We hope to explain why the two most important changes in education funding both worked to increase the disparity in funding among towns. These two changes were (1) increasing the gap between actual operating costs and the state's "foundation operating costs," and (2) adding income to the funding formula. Perhaps if there is a better understanding of the funding mechanism and the recent changes, the ad hoc political approach to education funding can be replaced with a more coherent and principled approach.

PROPERTY TAX FUNDING OF EDUCATION

In most of the United States, elementary and secondary (K-12) education is a local responsibility, and the primary source of local revenues is the property tax. As a result, K-12 education relies heavily upon the property tax. How easily a community can fund its schools depends upon the ratio of taxable property to students.

Without funding equalization, great disparities in education can result. For example, in 1996-97, the lowest-valuation school district in Maine had about \$96,000 of taxable property per student. The highest-valuation school district had about \$1,720,000 per student. The statewide annual average cost was approximately \$5,100 per student. To raise this \$5,100, the lowest-valuation district would need a tax rate of 53 mills (one mill is a tax rate of \$1 per \$1,000 of valuation), while the highest-valuation district would need a tax rate of less than 3 mills. Serious problems can be created by over-reliance on the property tax to fund K-12 education.

The differences among school districts in valuation per pupil are not determined primarily by differences in values of primary residences. Rather, the differences in valuation usually are determined by how much commercial, industrial, and recreational (especially waterfront) property is within a town's boundaries. For example, in Maine the ten highest-valuation, per-student towns include Wiscasset (with Maine Yankee), four towns with paper mills, and five towns with extensive coast lines.

Until the 1970s, many states did little to offset the inequities of property tax funding of education. Great disparities in spending per student developed. A combination of Court challenges and political pressure has caused most states to adopt some kind of property tax equalization. The goals of equalization are two-fold: student equity (to ensure an adequate education for all students) and taxpayer equity (to promote comparable tax impacts upon taxpayers in different jurisdictions). Although there are many ways to accomplish these objectives, the overall goal is to ensure that all towns can fund some minimally acceptable education programs at a reasonable mill rate.

HISTORY OF MAINE EDUCATION FUNDING

Maine has been regarded as a leader in equalizing educational opportunity across its towns. While that leadership was most evident in the funding equalization formulas adopted in the 1970s, a state commitment to ensuring educational opportunity has been evident since statehood. When Maine was incorporated as a state in 1820, its constitution included a provision that directed the Legislature to ensure that public schools were available to all communities in the state, although financing was to be a local, rather than a state, responsibility (Maine State Legislature, 1989; Maine Department of Educational and Cultural Services, 1987; and Rydell, 1983).

The state soon became directly involved in school funding. In 1828, the Permanent School Fund was established, which introduced the student-equity principle into school financing by distributing funds from the sale of public lands among communities on a per-pupil basis. In 1833, the first state tax to support education was levied on the banking industry. In 1872, the

slate established the School Mill Fund, which was the genesis of the taxpayer-equity principle. The School Mill Fund provided a pool of money for public school funding through use of a property tax. A one mill property tax was collected from each community and redistributed on a per-pupil basis. In 1909, the Common School Fund was established alongside the School Mill Fund and the Permanent School Fund. The Common School Fund redistributed additional assistance to poorer communities with low property valuations. The mill rate for the School Mill Fund and the Common School Fund was set at 1.5 mills, and was raised to 3 mills in 1913. In 1917, the School Equalization Fund was created from the sale of timber on state land, which was also distributed on a per-pupil basis. In 1921, all existing funds were merged into the State School Fund.

When the Legislature delegated use of the property tax to communities in 1951, it also began to implement the foundation formula, which would guarantee a minimum level of basic education for each pupil in the educational system. The full foundation program was enacted in 1957.

Major changes in school funding were initiated in 1974 with the State Uniform Property Tax system. Under this system, all communities were directed to set a specified mill rate for education; they were to collect the tax, and turn the funds over to the state. The state returned both its share and a school district's local share as each district's state-local allocation. During the first year, the state share from non-property tax sources was 50% of total education costs, with the intention of raising the state share to 55% in the second year and to 60% in the third year. The Legislature did not implement these increases, and the state share remained at 50% during the uniform property tax program. A provision called local leeway was added, guaranteeing a certain dollar amount per student if school districts raised a certain number of additional mills as specified by the state. This was essentially a state subsidy for current year programs. A highly unpopular feature of the uniform system, which would lead to its downfall four years later, was that any community which raised funds in excess of its local leeway was required to "pay-in" the extra into a pool of funds that was used to help finance poorer districts.

Due to dissatisfaction with the uniform property tax, particularly to the pay-in provision, it was repealed by referendum vote in 1978, whereupon the Legislature enacted the School Finance Act of 1978. The School Finance Act of 1978 applied an equalization approach similar to that in the Uniform Property Tax system. However, equalization only applied to state funds used to supplement local property tax collections. Individual towns no longer had to pay-in funds, which particularly allowed high-valuation towns to increase spending. The School Finance Act built a two-year time lag into the funding mechanism, which allowed for the collection of necessary data on spending and valuations.

The School Finance Act of 1985 required the Legislature to maintain at least the previous year's level of state share for operating costs and program costs. The matching provision of local leeway was eliminated, and three separate millage rates were established: an operating costs mill rate; a program costs mill rate limit, and a debt service mill rate limit. Program costs include special education, vocational education, early childhood education, operations of a district's transportation system, and bus purchases. Debt service costs are the costs involved in satisfying construction and leasing commitments for buildings. Operating costs are all costs that are not included in the other two categories, excluding community service costs and expenditures from

any federal revenue sources. The local share of debt service costs was capped by the lesser of (1) a maximum percent of the total debt service costs, or (2) a debt service millage limit. Similar calculations applied for program costs. Prior to 1985, debt service was paid by every district in the state, regardless of whether they had any debt. Under the School Finance Act of 1985, units that have no debt do not need to raise funds for debt service.

Under the School Finance Act of 1978, if a district did not raise all of its local share, it still received the state's share of the state-local allocation. The School Finance Act of 1985 penalized a district that did not raise the target foundation mill rate by reducing its state subsidy proportionately.

Beginning in 1990, the Legislature enacted a series of ad hoc reductions in the state-aid allocation. Beginning in 1993-94, there was an explicit "reduction percentage" that was applied to the foundation allocation. That reduction percentage acted to reduce the theoretical cost of education to the level where the state would pay 55% of total costs.

In 1995, the Legislature revised the funding formula. The first major change added relative income-adjusted for cost of living-to the funding formula (the implications of this change are examined below). Second, the foundation allocation for operating costs was replaced with a "per-pupil guarantee." The per-pupil guarantee was explicitly determined by the size of the state allocation for K-12 education. The per-pupil guarantee serves the same purpose as the "percentage reduction," but in a more transparent way.

THE MECHANICS OF THE FUNDING FORMULA

This analysis focuses on operating costs, which are approximately 75% of total costs for each school district and which account for most of the equalization in the funding mechanism. Program costs are about 20% of total costs, and debt service is approximately 5% of total costs. Program costs and debt service are equalized in a somewhat similar fashion, but these items are also subject to caps on local spending determined by local millage requirements.

To understand how recent changes affected education, this article compares fiscal year 1989-90 to 1996-97. Fiscal year 1996-97 is the most recent year for which comparison data are available. In fiscal year 1989-90, state support for education was 55% of K-12 costs. Subsequent state budgets have slowly eroded the state share of K-12 funding. To simplify comparisons, the analysis uses districts which operated both elementary and secondary schools. There are large differences between the smaller districts that operate only elementary schools and the larger districts that operate secondary schools.

In 1989-90, the foundation per-pupil operating cost was \$2,972 (Maine Department of Education, 1991). On average, the state paid 40% of this cost, or \$1,162 per pupil. The foundation operating cost was determined by reference to actual operating costs two years earlier. The share of operating costs paid by the state was determined by a formula that fixed the state share of education costs at 55%. The state paid less than 55% of operating costs because it paid for a much larger share of program costs and debt service. In 1989-90, the 55% state share requirement obligated state education funding to grow with local education spending, although

with a lag. From this state commitment of funds, payments were apportioned among school districts to equalize education spending. That is, local education subsidies were structured to offset differences in the local property base.

The state/local share of operating costs in the 1985 statute was based upon the "operating cost mill rate." A town with exactly the average amount of property value per pupil would have to set the operating cost mill rate as a property tax rate to raise the difference between the foundation cost and the state subsidy for operating costs. In 1989-90, the operating cost mill rate for each town was 6.63 mills (Maine Department of Education, 1991). The equalization formula guaranteed that every district which raised the operating cost mill rate would receive enough subsidy to spend at the foundation operating cost level. A town with \$100,000 of property per student (the ten lowest-valuation districts each fell below this) received \$2,309 and raised \$663 ($.00663 \times \$100,000$) locally. A town with the 1989 state average of \$273,000 of property per student received \$1,162 and raised \$1,810 ($.00663 \times \$273,000$) locally. A town with \$600,000 of property per student (the ten highest-valuation districts were above this) could raise \$3,978 ($.00663 \times \$600,000$) locally, which exceeded the foundation level. The town with \$600,000 would, however, receive a minimum 5% contribution from the state. This town would therefore be receiving \$149 per student. This funding formula guaranteed that no town would fall far behind the rest of the state simply because its tax base was small.

Even in 1989-90, the formula did not guarantee complete equity in spending among districts. The foundation operating cost was actually below the state average per pupil operating cost of \$4,032. To reach the average level, an extra \$1,060 per pupil was needed. The burden of raising the extra \$1,060 per pupil varied among towns. In order to raise an additional \$1,060 per student, a town with \$100,000 of taxable property per student must increase the mill rate by 10.6 mills, or 160%. A town with \$273,000 of property per student must raise the rate by 3.9 mills, or 59%. A town with \$600,000 per student need only to raise its mill rate by 1.77 mills, or 27%.

Not surprisingly, the poorest towns did not raise 17 mills (that is, the 6.63 operating cost mill rate plus the 10.6 mills required to reach the average spending level) to fund education. Rather, they tended to spend less than the state average. In 1989-90, the gap in per-student spending between the ten property-richest towns and the ten property-poorest towns was 22%. The mill rate in the ten lowest-valuation towns averaged about 12 mills, while the ten richest-valuation towns had an average tax rate of about 8 mills. While the formula did not ensure either complete equality in funding or property taxation, the disparities among towns in Maine were low in comparison to most other states.

For fiscal year 1990-91, the Legislature faced the first of a series of budget shortfalls. Since local education is a large part of the state budget, reductions in local education funding were inevitable. The political climate at the time was strained. The Democratic legislature was accusing a Republican administration of hiding the budget problems until after a gubernatorial election. There was on-going "North versus South" dissension. In this atmosphere, the complexities of the funding formula were a serious liability. Rather than debating how to maintain educational equity while cutting spending, printout politics dominated.

In its decisions to reduce education subsidies, the Legislature may have been reacting to the cost-driven nature of the state commitment to education. The foundation operating costs were tied to spending in previous years, so there was a built-in tendency for educational costs to increase. As subsidies increased, towns could spend more, which increased the subsidies in future years. Some legislators and members of the administration seem to have believed that school districts were not spending money carefully in this environment.

In altering the school funding formula in the 1990s, the Legislature had two choices: (1) cap the foundation operating cost, or (2) lower the share of covered costs paid by state government. Had it done the latter, it would have preserved the existing equalization principles. Instead, the Legislature nominally held its share of K-12 costs at 55% by arbitrarily reducing the computed cost of running schools.

The Legislature arrived at this result in a decidedly ad hoc fashion. For fiscal years 1990-91 through 1992-93, across-the-board cuts were applied to the state subsidies for local districts. Beginning in fiscal year 1993-94, the Legislature reduced the foundation operating cost to match its budget. That is, the Legislature decided how much it wanted to spend on K-12 education. A "percentage reduction factor" was then computed, which cut the foundation allocation (and program costs) to a level that could be funded by the budget. As a result, after applying the reduction percentage the foundation allocation was increased only slightly between 1989-90 and 1996-97, and increases fell far behind the rate of inflation. However, the gap between the foundation cost and the average cost grew substantially.

For fiscal years 1996-97 and thereafter, the Legislature adopted a slightly different approach to match the allocation for operating costs to its budget. For operating costs, the foundation allocation was replaced by a "per-pupil guarantee." To get the per-pupil guarantee, the state first computes the total dollars available for operating costs; this is the sum of the state dollars plus the local dollars. The state dollars are simply whatever the state allocated for operating costs. The local dollars are computed as 6.06 mills multiplied by the total value of taxable property in all communities. The total budget for operating costs is divided by the total number of pupils to get the per-pupil guarantee.

There is an additional confusing element in the 1995 law: The 1995 law does keep the foundation allocation and the reduction percentage. The reduction percentage is applied to the foundation allocation and to program costs. After reduction, the foundation allocation is then used in the computation of local shares for program costs and debt service. That the "foundation allocation" persists, but in a very different role, causes considerable confusion in discussions of the latest law.

By 1996-97, the foundation operating cost per pupil (after the percentage reduction) in Maine had only been increased to \$3,139 and the per-pupil guarantee was \$3,525. The average per-pupil cost in 1996-97 had increased to \$5,159. The foundation tax rate for operating costs was 5.02 mills (Maine Department of Education, 1996). [Figure 1](#) illustrates the increasing gap between average operating cost and the operating cost used in the formula. The amount "outside the formula" had increased from \$1,060 to \$1,634. Again, the burden of raising the extra \$1,634 per pupil varies among towns, depending upon the amount of property tax base. To raise its total

spending to the average level of \$5,159 per student, a town with \$100,000 of taxable property per student must increase the mill rate by 16.34 mills, or 325%. A town with \$346,000 (the new state average) of property per student must raise the rate by 4.72 mills, or 94%. A town with \$600,000 per student need only raise its mill rate by 2.72 mills, or 54%.

Given this increasing disparity between high-valuation and low-valuation towns, low-valuation towns must either increase taxes or decrease spending relative to high-valuation towns. This has come about primarily as an increasing gap in spending between the richest towns and the rest of the state. In [Figure 2](#), Maine's school districts are divided into four groups, or quartiles, from the 25% of K-12 districts with the lowest property valuation per pupil to the 25% with the highest valuation per pupil. This figure shows that spending in the richest 25% of towns has moved away from the spending in the rest of the state.

The tax data for these same quartiles is presented in [Figure 3](#). Lower-valuation towns levied higher tax rates in 1989-90 than high-valuation towns, and there has been little change in this relationship in 1996-97. The data show that while most districts have responded to reduced state subsidies by holding down spending, the richest towns have funded increased K-12 spending from their ample property tax base. By 1996-97, the gap in spending between the ten property-poorest towns and the ten property-richest towns had increased from 22% to 31%. Thus far, low-valuation towns have generally resisted increasing property taxes. However, the data for the ten lowest-valuation towns shows a slightly different effect. Between 1989-90 and 1996-97, the ten poorest districts raised their mill rates by an average of 1.3 mills, or about 11%.

These results are perhaps unsurprising. From 1989-90 to 1996-97, the state essentially held its spending on K-12 education constant in dollar terms. Therefore, in inflation-adjusted terms, the state has been reducing its commitment to education by the rate of inflation, or 2% to 4% per year. Many affected towns adjusted to these gradual changes by reducing or deferring costs in the short run. The very poorest towns have had more difficulty adjusting, and have also increased taxes. If the present trend continues, more towns will find it necessary to raise property tax rates, as the lowest-valuation towns have done.

ADDING INCOME AND COST OF LIVING TO THE FUNDING FORMULA

As schools have faced lower subsidies, towns rather naturally lobbied for ways to reduce their individual cuts. This re-opened the debate over the mechanics of the state funding formula. The Legislature appointed a commission to look at the issue. This commission came to be known as the Rosser Commission, after its chair, John Rosser. The Rosser Commission suggested a wide range of changes in state funding of education. Although the Legislature ignored a large portion of the Rosser Commission's

recommendations, it did adopt the recommendation of changing the funding formula to add household income and cost of living.

In the 1995 statute, the Legislature changed the funding formula so that local "ability-to-pay" was no longer determined only by the ability to raise property tax revenues. Instead, 85% of the ability-to-pay depends upon relative property values and 15% depends upon relative income. The

income factor is adjusted for local cost of living. The plausibility of the argument that income belongs in the funding formula is easy to understand. Aren't school districts with higher incomes better able to fund education? Won't adding income to the formula favor poorer districts? Unfortunately, both of these apparent truths are wrong. Income has nothing to do with a school district's ability to fund education, because the only source of revenue is the property tax. Towns are not permitted to levy broad-based taxes, such as sales or income taxes, that are related to income. Adding income to the formula favors property-rich towns, as we explain below.

The debate over adding income to the formula often proceeds under the assumption that differences in home values determine the differences in the property tax base. This is a serious error. Per-pupil valuation varies greatly because commercial, industrial, and recreational valuations vary greatly. Some towns are fortunate to have large industrial facilities, and others have little non-residential property. These variations have nothing to do with income. If a high-valuation town is able to lower its property tax rate when income is added to the funding formula, much of the tax savings goes to commercial, industrial, and recreational taxpayers. One effect of adding income to the formula may be to increase taxes in towns that rely primarily upon taxation of primary residences and to decrease taxes in towns that rely heavily upon non-residential property. Funding reform may have the perverse effect of shifting the responsibility for educational funding from non-residential property onto residential property in the state as a whole.

There has been a great deal of debate over the appropriate measure of income and how to measure the cost of living. The Legislature appointed a committee to study how to measure these two and how to incorporate them into the funding formula. However, focusing on how these two factors are measured entirely overlooks the bigger picture. Regardless of how income and cost of living are measured, adding income and cost of living to the formula increases the disparities in educational funding in the state. Using income (adjusted for cost of living) to determine 15% of the ability-to-fund education is virtually identical to assuming that all communities have an equal ability to fund 15% of the costs of education. Reducing the level of spending that is being equalized benefits high-valuation towns at the expense of low-valuation towns.

While differences in per-pupil valuation are very large, the differences in median household income among towns in Maine are relatively small. The highest-valuation per-pupil town has about seventeen times more valuation per pupil than the lowest-valuation district, or \$1.7 million versus about \$100,000. The difference between the highest median-income district is only about three times as great as the poorest median-income district: \$47,000 in the richest town versus \$16,000 in the poorest town.

[Figure 4](#) illustrates the differences in variation of valuation versus income. (Both valuation and income have been standardized by dividing by their averages.) Replacing valuation with income replaces a factor that varies substantially with one that varies much less. If a town has both below-average valuation and below-average income, its subsidy must be reduced as income replaces valuation in the formula. Conversely, an above-average valuation and above-average income town will see its subsidy rise as income replaces valuation in the formula. This explains the apparent political contradiction that above-average income regions of the state favor adding income to the formula, while low-income regions oppose adding income.

Of course, the measurement of income and cost of living is not an irrelevant issue if these factors are included in the formula. Measuring these two components generates a range of issues, both conceptional and technical. There is no source of cost-of-living data at the town level, so an index had to be developed specifically for use in the funding formula. Computing cost-of-living indices requires a great deal of careful and expensive work. It would be cost-prohibitive to use the same methodology as the federal government applies, but a less-rigorous approach is difficult to defend either economically or politically. Even the proponents of cost-of-living indices seem prepared to concede that the low-budget approach currently in use is difficult to defend.

A number of measures of local income are available from U.S. Census data, but converting these income measures into an index of economic welfare involves some complexities. The state chose median household income, which is a frequently used measure. However, this measure incorporates the problematic concept of the definition of a household. An income of \$25,000 for a household of one is quite different from \$25,000 for a household of five. Single-adult households tend to have lower household income but higher per-capita income than families. If all communities had a similar mix of small and large households, this would create minimal problems. But cities have many more single-person households than smaller towns. For example, Portland has a median income for families of \$34,837, which is above the state median of \$32,422 for families. Portland's median income for single-person households is \$18,357, which is well above the state median for single-person households of \$15,514. However, Portland's median household income of \$26,576 is actually below the state median of \$27,854. This apparent contradiction occurs because Portland has many more single person households (U.S. Census Bureau, 1990).

ALTERNATIVE EQUITY GOALS IN FUNDING EQUALIZATION

There is no single equity objective in the design of an education funding formula. Rather, there are at least three different equity objectives. First, there is the goal of providing equity in educational opportunity for students in different districts. Second, there is the aim of providing equity in the treatment of property in different towns. Third, there is the objective of providing equity in the treatment of households in different towns. There are some inherent conflicts among these different goals.

Maine's 1985 funding formula was relatively effective in achieving the first objective, equity in per-student funding. The pre-1990s funding system set a realistic minimum per-pupil expenditure guarantee. While high-valuation districts could and did spend more than low-valuation districts, these differentials were small in comparison to most other states. However, as the foundation per-pupil operating cost was reduced further below actual operating costs, equity in per-student funding has suffered. In six years the gap in spending between high-valuation districts and the rest of the state nearly doubled.

The 1985 funding formula was also effective in pursuing the second goal, equity in property tax rates across towns. Every town could achieve a reasonable minimum level of spending at the state average mill rate, so mill rates on property were quite similar across the state. Again, the high-valuation towns had somewhat lower mill rates, but these differences were small in comparison to many other states. Since the low-valuation towns generally responded to funding

reductions by reducing spending, the changes in the funding formula have not had an appreciable impact upon relative mill rates.

The third equity concern, over treatment of similarly situated residential taxpayers, has become more important in recent debates over revising the equalization formula. By design, Maine's 1985 funding formula worked to equalize property tax mill rates, not property tax payments. Two specific taxpayer equity issues have been raised. First, do households with similar incomes pay higher property taxes because home values vary, even if mill rates are similar? (This question is prompted largely by higher real estate values in southern Maine.) Second, there are complaints that some districts, which receive large subsidies, cut their property taxes, rather than expand educational opportunities for their students.

The extent to which differences in real estate values create inequities among residential taxpayers cannot be assessed with current data. Appropriate town-level data on the relation between incomes and home values is not available. The only data, from the U.S. Census, on housing values and income cannot be compared. Census data reports median income for all households and median home value for all owner-occupied units. In towns where much of the population lives in rental units, the median owner-occupied unit is not owned by the median household. For example in Portland, only 42% of the housing units are owner-occupied, so the median house value of \$112,000 is not owned by a family with the median income. In a rural town such as Bradford, where 82% are owner-occupied, the median house value of \$57,300 more accurately reflects the home owned by the median family (U.S. Census Bureau, 1990). Unfortunately, the Census data has been misrepresented in public presentations by some in southern Maine to argue that the problem is obvious. In principle, the state could answer the question by linking property tax records and state income tax records. In light of the political importance of this issue, development of such data, or at least a representative sample, may become necessary.

The second concern-over the failure of some towns that receive a high state subsidy to raise adequate taxes-is easily assessed. On average, the mill rates in the lowest-valuation towns are higher than mill rates in towns with higher valuations. The data presented in [Figure 3](#) indicates that mill rates are 20% higher in low-valuation towns than in high-valuation towns. However; in a few towns, this criticism may have some validity. Simply by examining the tax ratios in high-receiving towns, there do seem to be a small number that have opted for lower-tax rates. The funding formula already penalizes towns that fail to tax themselves at some minimum level. By adjusting this penalty mechanism (for example, more than one dollar of state revenues lost for every dollar not raised locally) and by raising the minimum mill rate, it should be easy to eliminate free-riding on the state subsidy.

POLICY OPTIONS

The educational funding mechanism in Maine is complex enough to make policy development difficult. We hope that our explanation may have clarified both the formula and the impact of the post-1989 changes. Still, where does this understanding lead?

The simple conclusion might be that increasing the state funding of K-12 education back to inflation-adjusted levels of the 1980s would substantially reduce the disagreement surrounding the funding formula. If the pie were no longer shrinking, the arguments over exactly how to cut the pie would dissipate. In the current formula, increasing funding would directly increase the per-pupil guarantee. But neither the Legislature nor the Governor seem inclined to commit substantially more funds to local education. Increased state taxes are very unlikely. Further, the last session of the Legislature suggests that local education will not be able to take large blocks of money from competing uses of state revenues. Solving the conflict by raising subsidies is not likely.

It is clear that any concept of student equity requires that funding be available in every school district to provide minimally adequate education. In any formula that uses a foundation operating cost or per-pupil guarantee, this foundation cost must reflect the real cost of meeting a minimum standard. The Legislature made a serious error in tying this figure to its falling budget, rather than to the costs of education. That is not to say that using average costs-as was done before 1989-is necessarily appropriate, but the current foundation cost and per-pupil guarantee are well below the actual costs of even the lowest-spending town. No one could defend the current foundation cost as sufficient to fund an adequate minimum standard in education.

Fortunately, the 1995 changes to the funding mechanism provide a simple way to increase the per-pupil guarantee to a realistic level without increasing state aid. The per-pupil guarantee is too low because the mill rate to compute the target local contribution is set in the statute at 6.06 mills. In fact, the average mill rate raised for operating costs (that is, excluding the local revenues that go to program costs and debt service) is about 9 mills. By raising the local contribution used in the formula to the actual average level, the per-pupil guarantee would increase to a realistic level. For example, if the 1996-97 per-pupil guarantee were computed using a 9 mill local contribution, the per-pupil guarantee would have been about \$4,600.

While we have not focused on program costs or debt service in this analysis, there are two technical changes on the distribution of these costs that would also improve equity. First, the per pupil guarantee should be used to determine the local share, rather than the foundation operating cost (the foundation operating cost is an anachronism of previous statutes). Second, the millage caps on program costs and debt costs should be linked in some way to total local mill rates. At present, a town with a very low mill rate of 5 mills for education has the same mill-rate cap for debt service (about .5 mills) as a town raising a high rate of 15 mills. These caps decrease equity under the current system. A single millage cap on all expenses would be more equalizing than the individual caps on program costs and debt service.

The way to correct the effect of adding income to the formula is clear: remove income and cost of living from the formula. Adding income to the formula has proven an inappropriate way to improve taxpayer equity. The Legislature has found a much more appropriate way to address taxpayer equity: through the homestead exemption of \$7,000 per residence. Having acted to address equity outside the formula, the Legislature can let the funding formula revert to its original purpose: to ensure an adequate minimum level of education funding in all communities.

Finally, there is the question of how to address the perceived inequities created by differences in residential real estate values. The circuit-breaker program and the new homestead-exemption program directly address taxpayer equity. If inequities are created by the differences in real estate values within the state, then the obvious way to address this problem is through modifications to one or both of these programs. For example, the homestead exemption could vary with the level of the real estate prices. Dealing directly with taxpayer equity through modifications to the circuit-breaker and homestead-exemption programs avoids the problems that have been created by trying to manipulate the formula to address this problem.

We have suggested a three-part approach to restoring equity to the distribution of school aid, while also addressing concerns over taxpayer equity. First, by setting a realistic local operating cost mill rate, raise the per-pupil guarantee to a level that affords an adequate education. Second, remove income and cost of living from the formula; the property tax base is the only local revenue source available to fund schools, and it alone determines the ability-to-fund education. Third, address the concerns over unequal home values by modifying the circuit-breaker and homestead-exemption programs.

Maine addressed fundamental questions about equity in educational opportunity and in taxpayer equity when it established the school funding formula of the 1970s. Maine clearly articulated the principle that every district should be able to achieve a minimum spending level at a reasonable mill rate. However, Maine is slowly abandoning the principles of those earlier decisions. Some amendment of those principles may indeed be warranted; both the definition of pupil-equity and of taxpayer-equity may require redefinition, but the de facto replacement for these carefully constructed principles has been political self-interest. Educational funding in Maine in the 1990s has been overwhelmed by the divisive politics of carving up a shrinking pie. When school districts face unpleasant cuts, a parent's first instinct will be to resist those cuts for their children's schools. Every parent is understandably concerned about the quality of education for his or her children. However, we refuse to believe that the commitment to public education in Maine has become so shallow that we cannot see the difference between being concerned about one's own children and being concerned about only one's own children. Maine's historic commitment to equality in educational opportunity bespeaks a civic conscience that cherishes the future of all of our children.

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FIGURE 1
Comparison of Formula Per-Pupil Costs
and Average Per-Pupil Costs

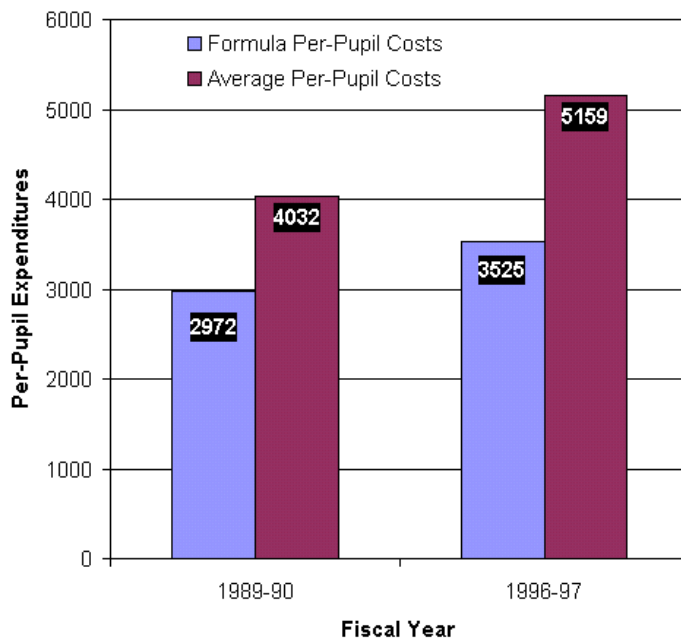


FIGURE 2
Comparison of Average Per-Pupil Spending Costs
by Quartiles

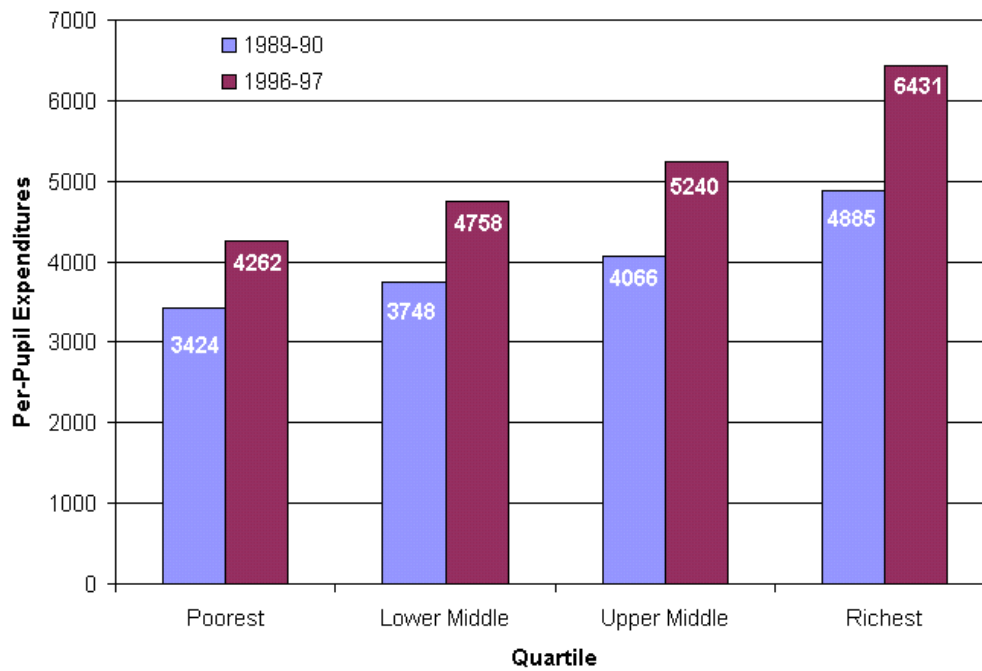


FIGURE 3
Comparison of Average Mill Rates
by Quartiles

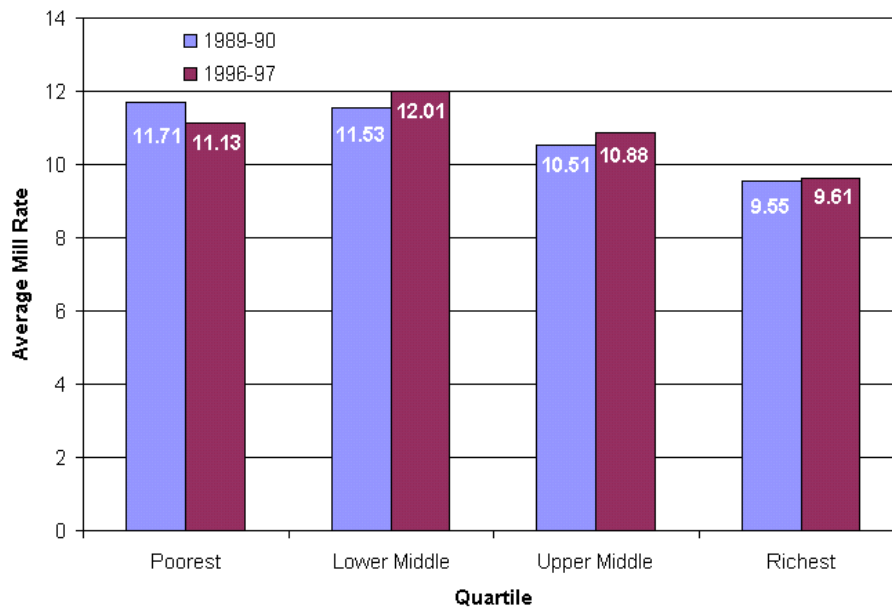


FIGURE 4
Property Per Pupil & Income Distributions

