

Education and Cultural Affairs  
Committee  
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# State Share and Local Ability to Pay

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## Study Overview

### LD 2286 Addressed in Five Parts:

- I: Data trends (2/2025)
- **II: State share & local ability to pay**
- III: Regional cost variation (3/2025)
- IV: Special education (3/2025)
- V: All Other (?)

## Agenda

- *How Does Maine Fund Its PK-12 Schools?*
- *How are State and Local Shares Calculated?*
  - *Equity Implications*
- *Analysis of Current Method*
- *Other Alternative Policy Approaches*

## EPS: Maine's Approach to Equitable Funding

**Two parts to the EPS funding system:**

Part I: Cost model (total EPS allocation)

Part II: Distribution of state aid (today's topic)

## EPS: Cost Model

### **Part I: Cost model** emphasizes **student** equity.

- Sets a minimum resource level based on SAU's students (#, characteristics, needs).
- Intended to provide adequate resources for a basic education (opportunity to achieve the Learning Results) regardless of zip code.

## EPS: Distribution of Subsidy

### **Part II: Distribution of State General Purpose Aid (GPA)** targets **taxpayer** equity.

- Directs more state subsidy to towns with less “ability to pay.”
- State funds are allocated to help districts meet the EPS cost model floor.
- Some districts can (and do) raise above EPS
  - Differences in student opportunity remain.

## Determining “Ability to Pay”

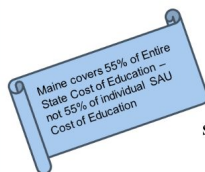
- Statewide mil rate expectation: Founded on the idea that all towns will make a similar effort to fund their local schools.
- Town valuation x statewide mil rate = local expectation.
  - Yields more total \$ in some towns than others.
- The state allocates subsidy when local expectation is less than the EPS cost estimate.
  - In RSUs, each town’s EPS cost estimate is based on their proportion of the district’s students.

## How Does Maine Fund Pk-12 Schools?

### A Refresher!

How much pie is needed for the EPS formula?

Total Cost of Education FY 25 EPS Calculation = \$2,621,942,627



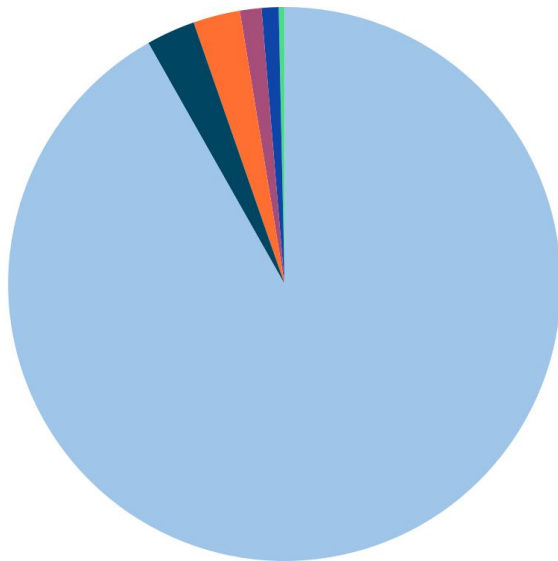
State Contribution  
55%



Local Contribution Cap  
(6.62 Mill Rate)  
45%

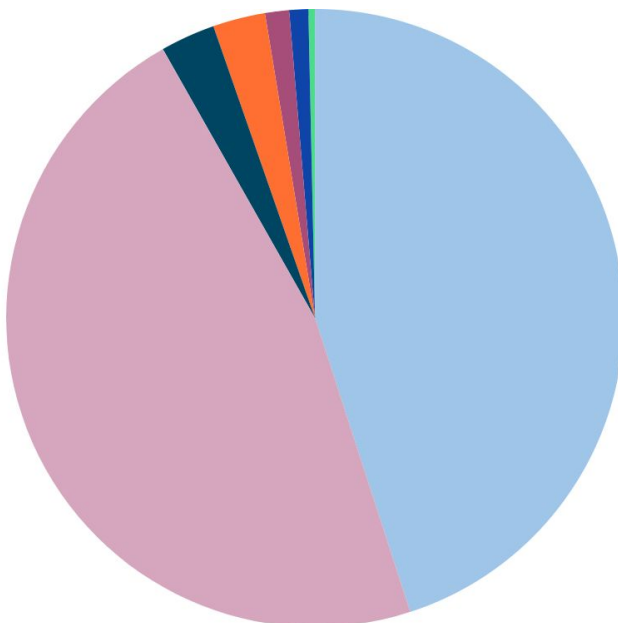
FY 25 State Appropriation for Education = \$1,442,068,445  
FY 25 Local Required Contribution = \$1,179,874,182

## Total Cost of Education



- Total of EPS 279 allocations (\$2.4 B)
- CTE (\$75 M)
- Targeted ed programs (\$72 M)
- Charters (\$33 M)
- Minimum Adjs (\$26 M)
- Other SAU adjs (\$9 M)

## State / Local Breakdown of EPS



- EPS Local Share (\$1.18 B)
- EPS State Share (\$1.22 B)
- CTE (\$75 M)
- Targeted ed programs (\$72 M)
- Charters (\$33 M)
- Minimum Adjs (\$26 M)
- Other SAU adjs (\$9 M)

## EPS Estimates vs. Total Spending

FY2025 PK-12 Education Funding	
State (EPS Share)	\$ 1,227 M
State (Other GPA items)	\$ 215 M
Local (required by EPS)	\$ 1,180 M
Local (above EPS)	~ \$ 600 M
Federal (all sources)	~ \$ 300 M
<b>Total Spending</b>	<b>~ \$3.5 B</b>

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## Local Sources of Funding

### Property taxes

- Residential
  - Homesteads
  - Long-term rentals
  - Vacation units (Maine and out of state owners)
- Commercial

### Municipal revenue sharing

- \$260 M total in FY25

### All other

- Program fees, excise taxes, licenses & permits, etc.

## Maine's High Reliance on Property Taxes\*

- **Property tax as a percent of local revenue:**  
Maine: 56%      National: 30%
- #1 for property tax as percentage of personal income (5.3% vs 3.1% nationally)
- #3 for property tax as source of state and local revenue (23.4% vs. 15.5% nationally)
- #7 in per capita property tax (\$2,835 in 2021)

\*Source: Lincoln Institute, 2024

[https://app.lincolninst.edu/sites/default/files/me\\_march\\_2024.pdf](https://app.lincolninst.edu/sites/default/files/me_march_2024.pdf)

## Maine Constitution: Potential Constraints

- “All taxes upon real and personal estate [...] shall be apportioned and assessed equally according to the just value thereof”
- Sec 8.3 “The Legislature shall have power to provide that taxes, which it may authorize a School Administrative District or a community school district to levy, may be assessed on real, personal and intangible property in accordance with any cost-sharing formula which it may authorize.”

## Equity Challenge 1: Uneven Expectations

➡ Not all towns are required to raise the statewide expected mil rate.

**Ex.** High property value + low # of students → statewide mil rate applied to town's property value raises more than town's EPS allocation (cost estimate).

- Towns are not required to raise more than their EPS allocation.

Therefore...

- Some towns can have a lower mil rate expectation.

## Who are Maine's "Minimum Contributors"?

104 of Maine's 252 school districts have one or more towns that raise less than the state mil rate toward EPS.

- 45 have fewer than 100 students
  - 32 do not operate schools
- 34 are RSUs or CSDs, where only some towns have a local mil rate below the statewide rate
- 25 are municipal SAUs; most have substantial vacation or commercial property

## Implications of Minimum Contributors

### Missing revenue

- All towns raising the same 6.10 mils → + \$160 M.

### Higher mil rates

- Some towns contributing less AND
- Minimum contributor towns receiving ~\$26M in state aid

→ inflates the statewide mil rate expectation for everyone.

## Example 1

<b>FY2020 (8.28 mil)</b>	<b>Cushing</b>	<b>Rangeley</b>
Students	187	135
Total EPS cost estimate	\$2.4 M	\$1.9M
Median income	55,506	53,603
Median home value	\$294K	\$250K
Median est. education tax bill (EPS share)	\$2,341	\$833
% Income on Property Tax	<b>4.2%</b>	<b>1.6%</b>
Total Property Value	\$298M	\$521M
Mil Rate	<b>7.96</b>	<b>3.64</b>

## Policy Question 1

Should Maine ask all towns to contribute the same tax effort (mil rate) toward public education?

### Policy Options Include:


- Status quo (*implies the current system is fair*)
- One statewide property tax for education
- Regional pooling of education property taxes

## Equity Challenge 2: State-Level Fairness


➡ Property taxes are regressive.

- Uniform property tax is not proportional to income.
- Lower income households pay a greater share of their income in property taxes.

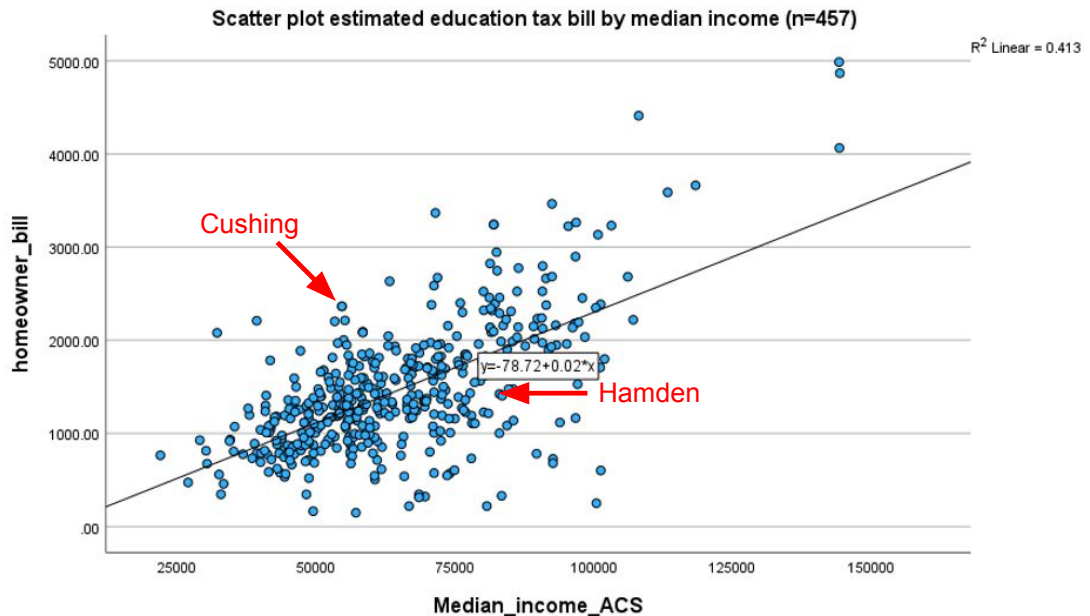
## Example 2

FY2020 (8.28 mil)	<b>Saco</b> <i>(Econ disadv: 27%)</i>	<b>South Portland</b> <i>(Econ disadv: 37%)</i>
Students	2,742	2,991
Total EPS cost estimate	\$ 31.1M	\$38.3 M
Median income	70,916	68,512
Median home value	\$312K	\$315K
Median est. education tax bill (EPS share)	\$2,581	\$2,608
% Income on Prop tax	3.6%	3.8%
Total Property Value 	2.18B	3.81B
State share %	<b>42%</b>	<b>18%</b>

## Example 3

FY2020 (8.28 mil)	<b>Cushing</b>	<b>Hampden</b>
Median income	\$55,006	\$85,777
Median home value	\$294,167	\$221,500
% Unable to afford home	72%	38%
Median est. education tax bill (EPS share) 	\$2,341	\$1,834
% of Income on Property Tax	<b>4.2%</b>	<b>2.1%</b>

## MEPRI Findings: Tax Bills by Income



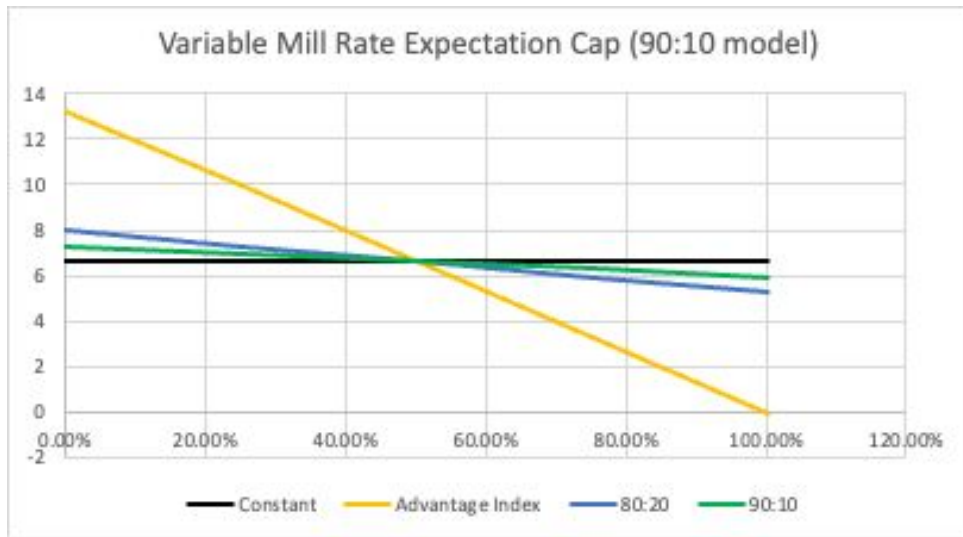
## Policy Question 2

Should all towns contribute the same tax effort (mil rate), or should lower-income towns pay a lower mil rate?

### Policy Solutions Include:

- Status quo (*implies current system is fair*)
- Adjust towns' mil rates by a town wealth measure(s)

## Example of Progressive Property Tax



## Equity Challenge 3: Individual Taxpayer Fairness

➡ Within *any* town some taxpayers cannot afford their property taxes.

- Property taxes have shifted to residential in recent years. (*See MRS handout page 8*)
- Even with a 3-year average, rapid increases in valuation can lead to substantial changes year to year.

# Local Options for Property Tax Relief

- 1. Creating new local revenue streams.**
- 2. Expand mechanisms to reduce, postpone, or eliminate property tax burden on lower income individuals.**
- 3. A combination of the two:** These can be combined to ensure a purposeful balance of taxation burden falling on the spectrum of poor to wealthy residents.

# Local Options for Property Tax Relief

## Revenue streams other than property tax:

- Local sales tax, *can be targeted to / away from specific items* (38 states)
- Effective local income tax (17 states)
- Local unearned income tax (Philadelphia)

## Mechanisms to reduce, postpone, or eliminate property tax burden:

- Local homestead exemption, *can be targeted to reduce school taxes*
  - Not state reimbursed
- Local Property Assessment/Payment Freeze/Caps\* for low-income/seniors /disabled, includes “circuit breakers” in Maine (42 states)
- Local Property Tax Deferral for low-income seniors (24 states)
- Local School Property Tax Exemptions/Rebates for low-income/seniors (6 states)

\*Examples: TX: Local school taxes are frozen on current property when homeowner reaches 65. NY: Local districts can reduce tax payment by up to 50% for low-income seniors.

# Big picture: Implications for Student Equity

**EPS cost model estimates need to keep up for adequacy.**

- 55% of a too low cost estimate ≠ Adequate
- Increasing taxes → Voters limit funding over EPS
  - EPS cost estimates can become a ceiling instead of the floor.
  - Pride in spending no more than EPS can result in inadequate opportunities for students.

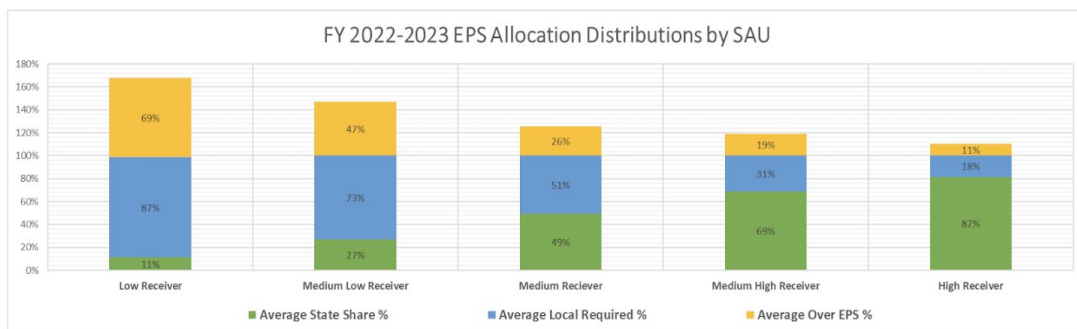
**Student and taxpayer equity are intertwined.**

- Communities, regions, and the state as whole needs strong public education to sustain and thrive economically.

# Town Spending Patterns

## ED 279 Section 4 - State and Local Shares

Many SAUs raise above and beyond what the State requires for the local share – that is referred to as "additional local".



- Low Receiver = 0-19% State Share EPS Funding – has a **higher** ability to contribute locally with property taxes.
- Medium Low Receiver = 20-39% State Share EPS Funding
- Medium Receiver = 40-59% State Share EPS Funding
- Medium High Receiver = 60-79% State Share EPS Funding
- High Receiver = 80-100% State Share EPS Funding – has a **lower** ability to contribute locally with property taxes.

## Big Picture: Taxpayers are the source of revenue

Taxpayers fund all the slices of the pie.

Changing how we determine “town ability to pay” advantages some kinds of taxpayers over others.

### Questions:

- Which taxpayers should be paying how much?
- How do we identify towns that are paying more than their equitable share? Poverty rate, median tax bill?
- What type of towns should get less aid?

## Alternative State-Level Distribution Models

### Taxation Methods

- **Recapture, pools locally-raised funds in excess of “EPS,”** based on statewide mil rate, (TX, WY, VT, KS, MT) Texas: Austin/Portland and NAEP.
- **Regional Pooling of Property Taxes** (MD), by county.
- **Higher Seasonal Home Effective Tax Rates** (CT, MA, NY, FL, MN, NH, *and ME*)
  - Rates are set locally or statewide, collected locally.
  - Increase Homestead Exemption, targeted new/removal of breaks, separate rates
- **Statewide Education Property Tax** separate from locally collected property taxes. Both contribute to fulfilling costs. (VT) Commercial/Industrial only (MN)
  - Homestead tax rate:
    - Lower than rate for all other property.
    - Income sensitive.
  - All other property tax rate: Includes industrial, commercial, and second homes.

# Alternative State-Level Distribution Models

## Non-Taxation Methods

- **Equalization Aid** to supplement local funds raised “above EPS” in less wealthy districts, using a variety of revenue streams (MN, OR, KY)
- **Proportional Reduction in Funding for “Over EPS” Spending**, based on prior year (e.g. 10% over = 5% less), savings diverted to towns below statewide average per pupil tax capacity.
- **Statewide Cap on Raising “Over EPS”** (OR, NV, MI, CA)
  - EPS cost model needs to be updated regularly. Can be tied to inflation in between major adjustments.
  - Local approval process to increase the cap defeats the purpose. (WI, CO)
  - Districts could opt to raise additional local funds for “non-EPS” costs.

# Alternative State-Level Distribution Models

## Taking Multiple Avenues to Increase Equity for Students and Taxpayers

### Maryland’s Example

1. **Local Ability to Pay** = 50% \*Net Taxable Income + 50% District Property Wealth
2. **Economic Disadvantage student weights** as Maine does but higher
3. **Concentration of Poverty Grants** for districts with higher concentrations of economically disadvantaged students.
4. **Countywide Property Tax Pooling for all property types** spreads resources across the effective social and labor communities rather than bounding it within political boundaries.

\*Calculated at September 1 and November 1 and lower of the two is used to offset seasonal shifts in high-tourism areas.

## Examples of Possible Implementation Features

### Given Rapidly Changing Valuation and/or Declining Enrollment:

- **Stable Funding in Environment of Declining Enrollment (KY)**
  - Circuit breaker for precipitous declines (e.g. mill closure)
  - Values small-by-choice schools and rural communities
- **Incentivized Multi-District Resource Sharing (MN)**
  - Regional collaboration

## Analyses to be Included in Final Report

- Additional analysis of current system and town level ability to pay
- Evaluation of other available measures of town wealth: income, poverty, student economic disadvantage.
- Modeling of ways to tweak EPS to make it more equitable in terms of ability to pay
  - while avoiding unintended consequences...

## Implied Policy Questions

- Is PK-12 schooling primarily a local responsibility? Is there social and/or economic value in approaching funding statewide or regionally?
- Which kinds of taxpayers could/should contribute more? Less?
- How much value do we place on sustaining small rural communities through small local schools? To what extent and at what cost?

## Q & A

**Updated Stakeholder Feedback:**

**[mepri.maine.edu/eps-study](https://mepri.maine.edu/eps-study)**

**Questions?**

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