FAYETTE A RETROSPECTIVE ON SCHOOL FUNDING UNDER THE ESSENTIAL PROGRAMS AND SERVICES FUNDING FORMULA

WHERE HAS ALL THE MONEY GONE?

Michael Cormier

January 30, 2017

Historical Retrospective of Essential Programs and Services Funding Formula and

Its Impact on the town of Fayette

When examining a topic, it is often helpful to understand a little of the history behind it.

The goal for creating a new school funding formula is stated in a PowerPoint presentation given by Dr. David Silvernail for the Maine Legislature in 2011:

> The goal of the Essential Programs and Services Funding Model is to provide a fair and equitable funding program which ensures that all schools have the programs and services that are essential if all students are to have equitable educational opportunities to achieve Maine's Learning Results.

In 2013, *An Independent Review of Maine's Essential Programs and Services Funding Act* was conducted Lawrence O. Pincus & Associations for the Maine Legislature. The quote below comes from Part 1 of their report:

> *Overall, we found that the Maine's per pupil expenditures for K-12 education are among the highest in the United States – although they are comparatively low among the six New England States. Moreover, the distribution of revenues to local districts (SAUs) meets accepted levels of equity based on current school finance literature. While expenditures have grown in recent years, student performance has been relatively flat. Test scores compared to the rest of the country are relatively strong but about average in comparison with the other states in New England. The system operates well, but we identified a number of issues the state may want to consider as it moves forward in its efforts to improve learning for all children in its public schools. (p. i)*

The report goes further to provide an assessment of the Overall Funding System, which I have copied an attached to the end of this report.

Essential Programs and Services Program

Two of the key components of determining distribution of State money are town valuation, as determined by the Maine Revenue Service and student enrollment, based upon October 1st and April 1st enrollment reports provided by school systems .

The town of Fayette has had a stable town valuation over the last five years, but has seen a decline in student enrollment. Figure 1, created by Dr. Johanna Prince, gives a graphical representation of the town valuation from 2007-08 to 2016-17 with student enrollment overlaid on it.

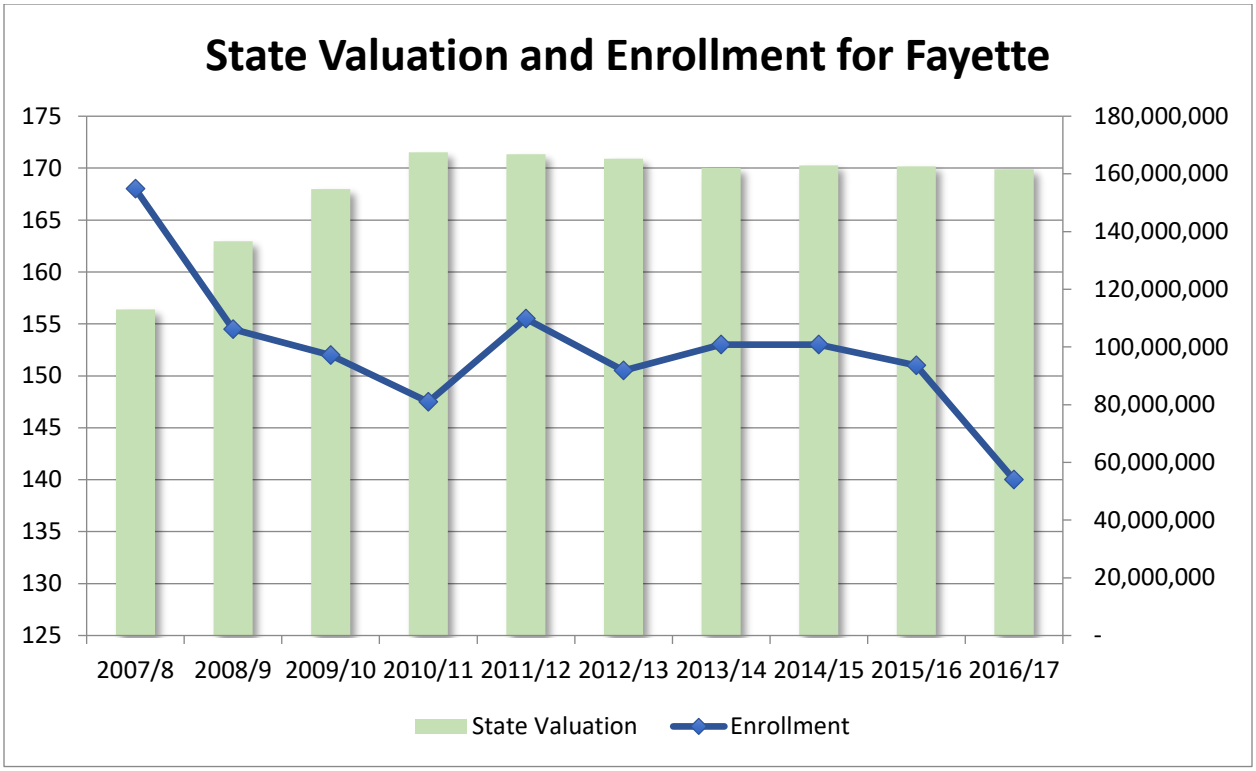


Figure 1

It is very easy to see how valuation increased from 2007-08 through 2010-11 and then had a slight decline. Beginning in 2014-15 the State began averaging valuation over three years to control for major shifts in year-to-year valuations. The student enrollment hit a high of 168 students in 2007-08 and has dropped to 140 for 2016-17, which is a 17% decline.

Both factors together have a significant impact on the amount of State subsidy a town or school system will receive. The amount of subsidy received is determined by student enrollment. The local share is then determined either by student enrollment (minimum subsidy receivers) or a State determined mil rate applied to the Maine Revenue Service established town/system valuation.

So, let's look at what has happened to State subsidy for the town of Fayette over the last ten years.

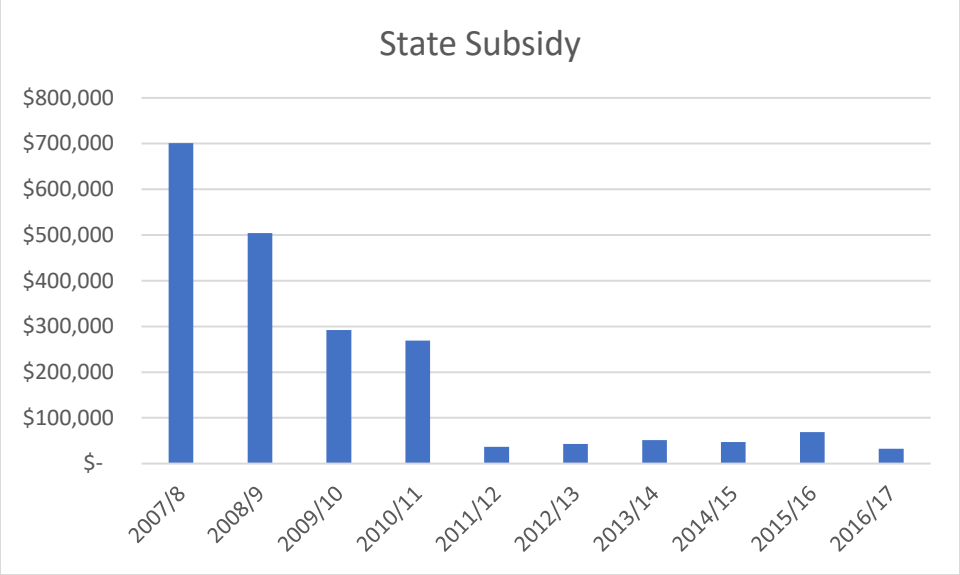


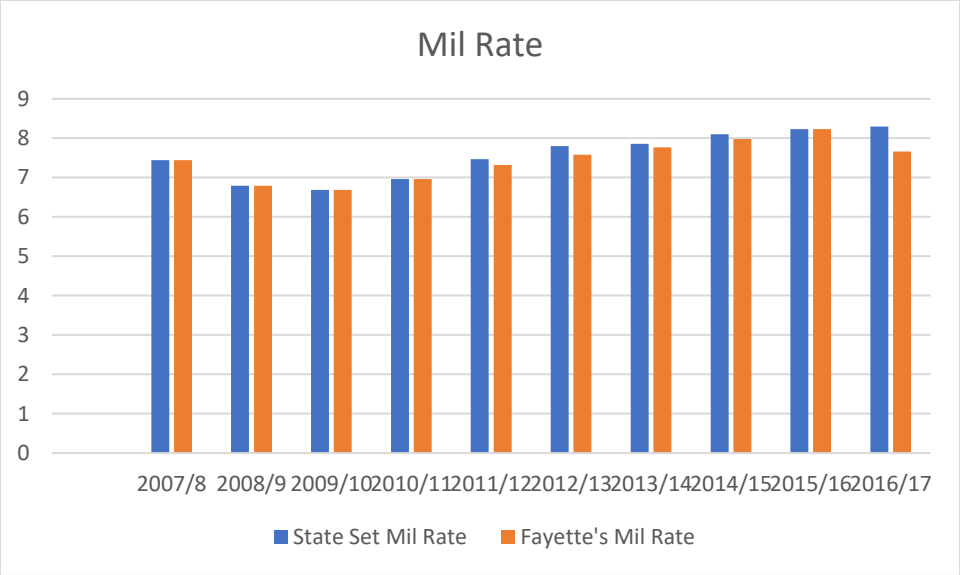
Figure 2

The town has gone from receiving over $700,000 in State subsidyin 2007-08 to becoming a minimum receiver. Some factors that have contributed to this: debt service on the building was paid off in 2010-11, the American Recovery and Reinvestment Funds (ARRA) were added to State subsidy in 2010-11 and then Stabilization Funds were added in 2011-12. All school systems in the State of Maine were faced with what was called the "Cliff," when State funding for schools were projected to drop due to economic changes in the State and Nation. The national economic recession resulted in ARRA funding being pumped into school systems from the National government.

How is State Funding for Education Calculated?

The State of Maine calculates the cost of educating all children in the State using the EPS formula and then looks at the amount of money the legislature is willing to put into supporting education. This then translates into a mil rate that each system/town will be asked to raise against the Maine Revenue valuation for that town/system. Figure 3 shows how that mil rate has increased over the last ten years. Four of the ten years Fayette was a minimum subsidy receiver (2011-12, 12-13, 13-14, 14-15, and 16-17). It should be noted that for each of those years Fayette's mil rate, required to meet the State local share of funding, was less than the State established mil rate.

Figure 3



This is can be seen better in Table 1

Year	State Set Mil Rate	Fayette's Mil Rate
2007/8	7.44	7.44
2008/9	6.79	6.79
2009/10	6.69	6.69
2010/11	6.96	6.96
2011/12	7.47	7.32
2012/13	7.8	7.58
2013/14	7.86	7.77
2014/15	8.1	7.98
2015/16	8.23	8.23
2016/17	8.3	7.66

Table 1

A second way to examine this data is to look at the town valuation with the State established mil rate super imposed upon it.

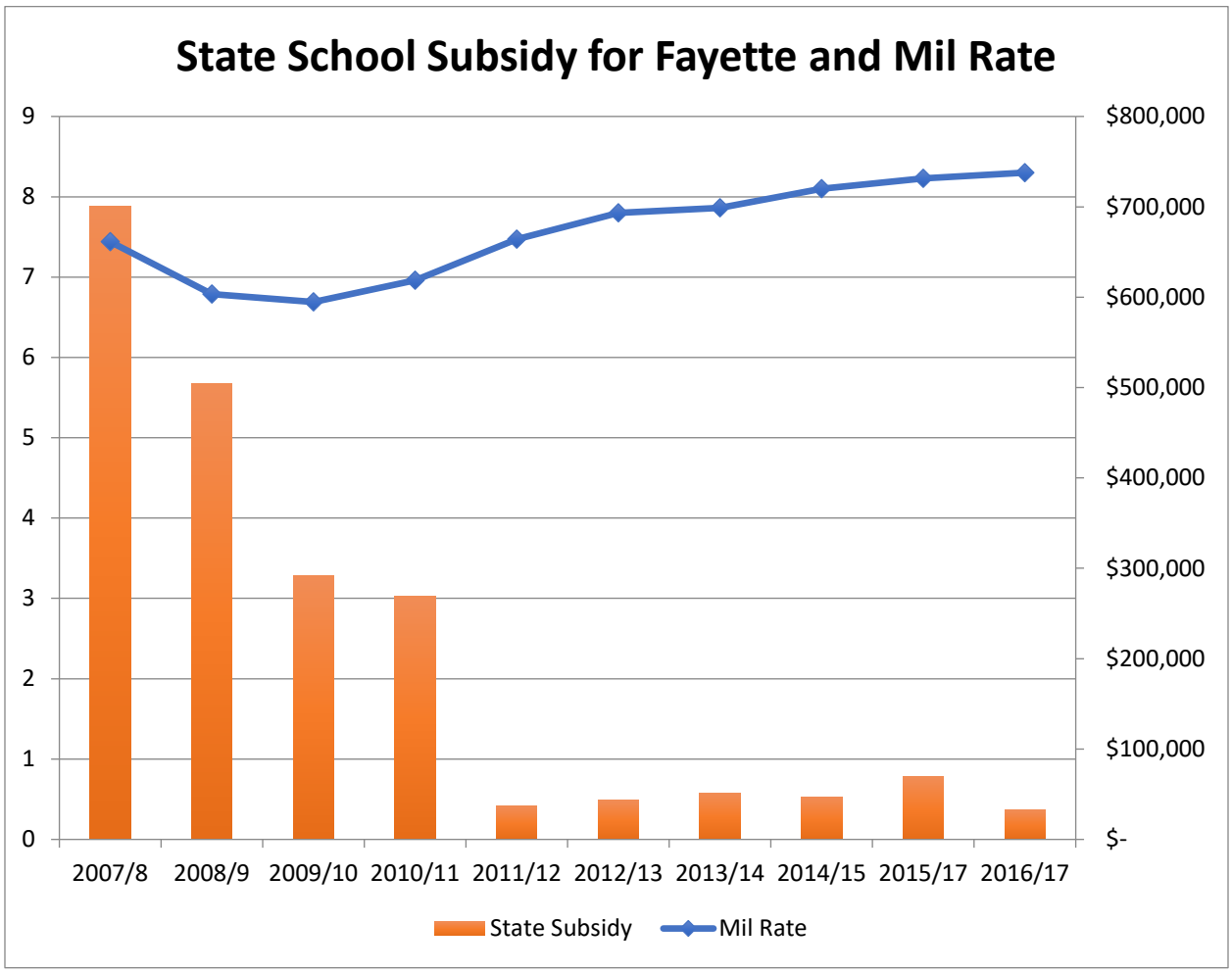


Figure 4 (Dr. Johanna Prince)

There exists an inverse relationship between the two.

A third way to look at the impact of valuation on State funding of school systems is to examine the amount of valuation behind each pupil. As stated in an e-mail from Joanne Allen, from the Division of School Finance and Operations, in the Maine Department of Education: "Another data point of interest would be the per pupil valuation – if you take the valuation and divide it by the pupils, you will see that it increased rapidly in the early years of your analysis and is now starting to increase again due to the decline in pupils. That plays a big part in how the formula determines "wealth" – losing students faster than losing valuation (or, with increasing valuation) will mathematically determine that Fayette has the ability to pay a higher local share."

Figure 5 shows what has happened over the ten-year period.

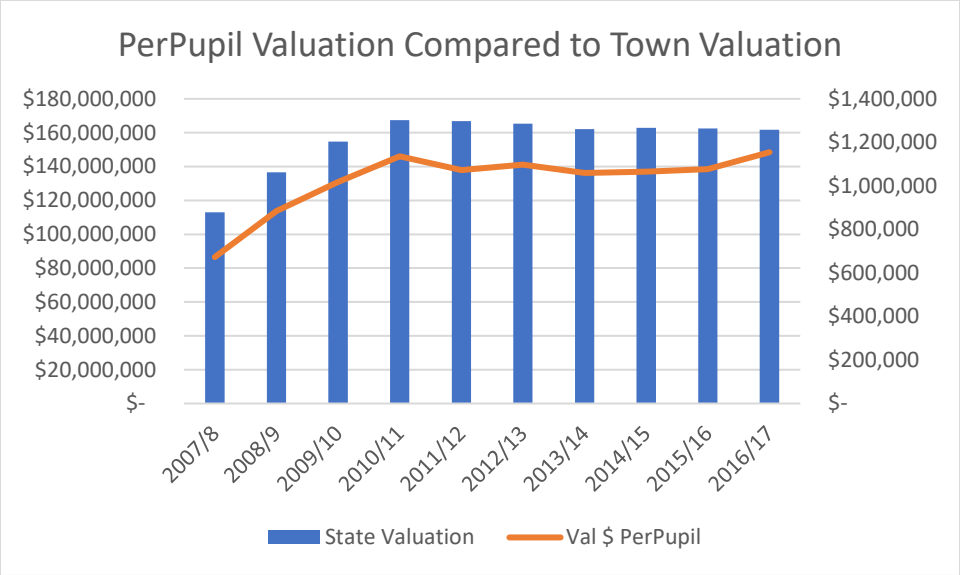


Figure 5

Table 2 shows what would happen to Fayette's local share of school subsidy for 2016-17 if the established State mil rate decreased.

Simulation Changing State Mil Rate for 2017

ED 279 State/Fay	1,270,533	
Val 17 Ave	161,650,000	Mil Rate
Local Share	1341695	8.3
Local Share	1212375	7.5
Local Share	1131550	7
Local Share	1050725	6.5
Local Share	969900	6

Table 2

Figure 6 shows the ten-year history of State and Local subsidy under EPS.

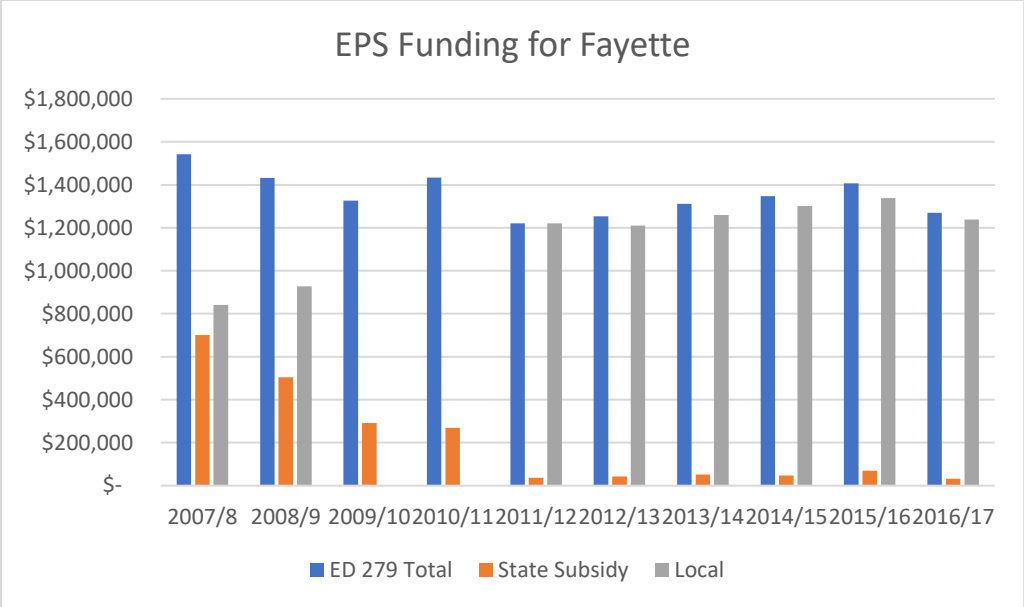


Figure 6

So, what are some options available:

1. Lobby the State to meet its 55% obligation to funding Maine Schools. This increase in funding will automatically lower the mil rate and may remove Fayette from the minimum subsidy receiver category. (See comment in J. Allen e-mail dated 1/24/17)
2. Remove the regional cost adjustment from the funding formula. This resulted in a reduction in State subsidy to Fayette by $17,224.
3. Establish a minimum subsidy amount for small school system for whom the current formula doesn't seem to work.
4. Request that tuition payments become reimbursements instead of running through the formula, although I am not sure how much that will help. See table 3 on the next page. (See comment in J. Allen e-mail dated 1/24/17)
5. Create some additional component for the formula that increase's Fayette's subsidy. (Whenever the formula is adjusted there are always winners and losers. When the losers are from the most densely populated areas of the State, it is very difficult to effect a change.)
6. Add an addition to the school and keep students in grades 6-8 in Fayette, thus reducing your tuition payments to neighboring systems.
7. *An Independent Review of Maine's Essential Programs and Services Funding Act: Part 1* suggested moving to an Evidence Based Model (EBM) to fund Maine Schools. The EBM model carried a steep price tag of over $300 million. The report does address the question: "What is the appropriate measure of School Administrative Unit (SAU) fiscal capacity? There is a two-page summary of their findings in Part 1 of their study at the end of this report: Overall Funding System.
8. There are also conclusions from Part 2 of the study related to communities with High Property Wealth and Low Household Incomes. Parts 1 and 2 of the Study are available on the Maine Department of Education website.

In relation to suggestion #4, I did some work on looking at what the town receives for subsidy for secondary students under EPS versus a straight reimbursement approach. The town is spending around $2,500 more per student than gets entered in the formula. A similar pattern and amount occurs for students in grades 6-8 for RSU #38 and #73, except for Winthrop where the difference is only around $300.

Table 3

EPS Per Pupil Rate		Number Students		Total
$ 6,810		45	$	306,450
Disadvantage		34.91%	$	16,037.55
Assessment	$	47	$	2,115.00
Technology	$	313	$	14,085
			$	338,688
Rate Per Pupil			$	7,526.39

Table 4

Tuition Paid in 2015-16

RSU 38	$	10,131.00
RSU 73	$	10,131.00
Winthrop	$	9,818.99

Additional Information

Attached to this report are a series of tables that I created to help me see a "historical" view of school funding for Fayette.

ED 279 History

Year	ED 279 Total	State Subsidy	Local	%age Local	%age State
2007/8	$ 1,542,247	$ 701,155	$ 841,092	54.54%	45.46%
2008/9	$ 1,432,146	$ 504,293	$ 927,854	64.79%	35.21%
2009/10	$ 1,326,759	$ 291,816	1,034,943*	78.01%	21.99%
2010/11	$ 1,434,225	$ 268,772	1,165,452#	81.26%	18.74%
2011/12	$ 1,221,096	$ 36,599	$ 1,221,096	99.07%	0.93%
2012/13	$ 1,253,606	$ 43,177	$ 1,210,429	100.00%	0.00%
2013/14	$ 1,311,003	$ 51,663	$ 1,259,340	100.00%	0.00%
2014/15	$ 1,347,934	$ 47,247	$ 1,300,687	97.90%	2.10%
2015/16	$ 1,406,940	$ 69,154	$ 1,337,787	95.08%	4.92%
2016/17	$ 1,270,531	$ 32,694	$ 1,237,838	100.00%	0.00%

* American Recovery & Reinvestment Act
\# Stablization Funds

ED 279 Calculation for Fayette

Year	ED 279 Total		
2007/8	$ 1,542,247		
2008/9	$ 1,432,146	$ (110,101)	
2009/10	$ 1,326,759	$ (105,387)	**American Recovery & Reinvestment Act**
2010/11	$ 1,434,225	$ 107,466	**Stabilization Funds**
2011/12	$ 1,221,096	$ (213,129)	**School Paid Off**
2012/13	$ 1,253,606	$ 32,510	
2013/14	$ 1,311,003	$ 57,397	
2014/15	$ 1,347,934	$ 36,931	
2015/16	$ 1,406,940	$ 59,006	
2016/17	$ 1,270,531	$ (136,409)	

ED 279 State Subsidy for Fayette

Year	State Subsidy	Difference	
2007/8	$ 701,155		
2008/9	$ 504,293	$ (196,862)	
			American Recovery & Reinvestment
2009/10	$ 291,816	$ (212,477)	**Act**
2010/11	$ 268,772	$ (23,044)	**Stabilization Funds**
2011/12	$ 36,599	$ (232,173)	**School Paid Off**
2012/13	$ 43,177	$ 6,578	
2013/14	$ 51,663	$ 8,486	
2014/15	$ 47,247	$ (4,416)	
2015/16	$ 69,154	$ 21,907	
2016/17	$ 32,694	$ (36,460)	

ED 279 Local Subsidy for Fayette

Year	Local	Difference	
2007/8	$ 841,092		
2008/9	$ 927,854	$ 86,762	
			American Recovery & Reinvestment
2009/10	$ 1,034,943	$ 107,089	**Act**
2010/11	$ 1,165,452	$ 130,509	**Stabilization Funds**
2011/12	$ 1,221,096	$ 55,644	**School Paid Off**
2012/13	$ 1,210,429	$ (10,667)	
2013/14	$ 1,259,340	$ 48,911	
2014/15	$ 1,300,687	$ 41,347	
2015/16	$ 1,337,787	$ 37,100	
2016/17	$ 1,237,838	$ (99,949)	

Enrollment History from ED 279

Enrollment History				
Year	**PreK-5**	**6-8**	**9-12**	**Total**
2007/8	72	37.5	58.5	168
2008/9	70	29.5	55	154.5
2009/10	72.5	28.5	51	152
2010/11	71	25	51.5	147.5
2011/12	73.5	29	53	155.5
2012/13	68	33	49.5	150.5
2013/14	72	34.5	46.5	153
2014/15	71.5	36.5	45	153
2015/17	82	23.5	45.5	151
2016/17	77	18	45	140

ED 279 Established Mil Rates

Year	**State Set Mil Rate**	**Fayette's Mil Rate**	**Difference**		**Special Ed %age**
2007/8	7.44	7.44			
2008/9	6.79	6.79	-0.65		
2009/10	6.69	6.69	-0.1		
2010/11	6.96	6.96	0.27		
2011/12	7.47	7.32	0.36	Min Receiver	30%
2012/13	7.8	7.58	0.26	Min Receiver	30%
2013/14	7.86	7.77	0.19	Min Receiver	35%
2014/15	8.1	7.98	0.21	Min Receiver	30%
2015/16	8.23	8.23	0.13		
2016/17	8.3	7.66	-0.57	Min Receiver	30%

ED 279 Debt Figures

Year	Debt Subsidy	
		Building and Insured
2007/8	$ 157,780	Value
2008/9	$ 145,198	
2009/10	$ 142,096	
2010/11	$ 137,005	
2011/12	$ 2,616	Insured Value Factor
2012/13	$ 3,164	
2013/14	$ 3,092	
2014/15	$ 3,262	
2015/16	$ 1,381	
2016/17	$ 1,171	

ED 279 Per Pupil Subsidy Calculation

Per Pupil Subsidy		
Year	**Pre K - 8**	**Grades 9-12**
2007/8	$ 5,054	$ 6,162
2008/9	$ 5,100	$ 6,221
2009/10	$ 5,236	$ 6,234
2010/11	$ 5,572	$ 6,336
2011/12	$ 5,548	$ 6,501
2012/13	$ 5,782	$ 6,635
2013/14	$ 6,002	$ 6,758
2014/15	$ 6,216	$ 6,802
2015/16	$ 6,334	$ 6,885
2016/17	$ 5,826	$ 6,810

Impact of Adjusting Mil Rate on Town Subsidy

Simulation Changing State Mil Rate for 2017

ED 279 State	$1,270,533			
Val. 17 Ave.	16,165,0000	Mil Rate	$1,270,533	
	$1,341,695	8.3	-$71,162	State Subsidy without Spec Ed Minimum
	$1,212,375	7.5	$58,158	State Subsidy no Spec Ed Minimum
	$1,131,550	7	$138,983	State Subsidy no Spec Ed Minimum
	$1,050,725	6.5	$219,808	State Subsidy no Spec Ed Minimum
	$969,900	6	$300,633	State Subsidy no Spec Ed Minimum

Town Valuation and Student Enrollment

Year	State Valuation	Enrollment	Val $ Per Pupil
2007/8	113,050,000.00	168	672,917
2008/9	136,650,000.00	154.5	884,466
2009/10	154,700,000.00	152	1,017,763
2010/11	167,450,000.00	147.5	1,135,254
2011/12	166,800,000.00	155.5	1,072,669
2012/13	165,300,000.00	150.5	1,098,339
2013/14	162,050,000.00	153	1,059,150
2014/15	162,925,000.00	153	1,064,869
2015/16	162,550,000.00	151	1,076,490
2016/17	161,650,000.00	140	1,154,643

An Independent Review of Maine's Essential Programs and Services Funding Act: Part 1 (pp. ii – iii)

OVERALL FUNDING SYSTEM

Maine's Essential Programs and Services Funding Act (EPS) controls the way school districts receive their revenues. The program is based on an adequacy model – that is one that identifies the resources needed to provide educational services that will enable students to meet Maine's educational proficiency standards (the Learning Results), and then through a combination of state and local tax sources provides revenue to purchase those resources. School districts are able to raise additional funds through property tax levies. The EPS has been used to distribute revenues to school districts since the 2005-06 fiscal year. Details regarding the operation of the EPS are provided in chapter 2 of this report.

As part of our study, we identified the following issues of concern to state policy makers and education stakeholders:

• Is the EPS Adequate and Accurate? Perhaps the primary question addressed by this study is whether the EPS computations accurately estimate adequate funding levels to provide a comprehensive education system in Maine, and do the Learning Results meet the requirements of such a comprehensive system.

• Are the adjustments to the EPS computations fair? These include: the complexity of the special education adjustment; the regional cost adjustment and the reduction of Federal Title I receipts in computing each School Administrative Unit's (SAU)2 total allocation. In addition, several individuals indicated that there are concerns with the adjustments for small schools in the model.

• Do SAUs rely too heavily on local property taxes for revenues above the EPS funding level? A concern frequently expressed was the amount of total K-12 education expenditures that are outside of the EPS system and currently funded completely through local property taxes.

• Should the state fully fund its share of 55% of the EPS, and what is the appropriate split between state and local revenue sources in Maine? A voter-approved initiative requires the state to fund 55% of the costs of the EPS system. To date, state funding has not reached that goal, and to some extent the state share has declined in recent years. Regardless of whether the state share is fully funded, the relative share of state (generally sales and income tax funded) and local (generally property tax funded) contributions to education funding is of utmost importance. The question includes both the policy issue of appropriate shares, as well as the relative distribution – and hence funding equity – across individual SAUs. The analyses in Chapters 3 and 4 of this report provide national

2 School Administrative Units (SAUs) are the district level unit of analysis in this document. Maine has six categories of school districts, the organization of which has much to do with the location and historical development of each district. However, for the purposes of funding the EPS, all can be identified into SAUs, so we have used that designation for the district level of analysis throughout this report.

and New England based comparisons showing how other states address this issue along

with an analysis of the school finance equity of the current system.

• What is the appropriate measure of SAU fiscal capacity? A common concern across the state has been about areas of the state that are property wealthy but have low per capita incomes creating high property taxes for year-round residents of these areas. To assess this issue we measure the fiscal neutrality and equity of the funding system through a school finance lens and consider alternative measures of fiscal capacity to address this issue.

An Independent Review of Maine's Essential Programs and Services Funding Act: Part 2 (p. 20)

This section includes recommendations for communities with High Property Wealth (HPW) and Low Household Incomes (LHI).

CONCLUSION

As stated earlier in this paper there are several policy options available to Maine to mitigate the issues facing HPW/LHI districts. These options fall generally into two categories, assistance to school districts, and assistance to individuals. With this in mind we have two separate recommendations:

Assistance to School Districts:

If Maine would like to use the school funding system to provide more aid to HPW/LHI districts, we recommend the state use a multiplicative income factor in the formula for measuring a district's relative wealth. The factor would be the ratio of the district's income measure to the state average of that measure. The "property fiscal capacity of the municipality" figure curently used in the school aid formula (§15688 (3-A)(B)) would then be multiplied by this ratio. The result would be that HPW/LHI districts would have a lower fiscal capacity measure, and qualify for more state aid. This factor would reduce aid for districts with median household incomes above the state average, regardless of their relative property wealth. There is a substantial body of research showing that, all things equal, districts with lower (higher) median household incomes have lower (greater) preferences for education and consequently spend below (above)average levels. A multiplicative income factor helps ameliorate these tendencies making access to education services more equitable across all districts.

Assistance to Individual Taxpayers:

If Maine chooses to resolve the problems of HPW/LHI districts through the use of individually targeted approach to taxpayers, we would recommend that the state expand its current circuit breaker to provide a larger amount of property tax relief. An expanded program could establish tiered levels of assistance, and include limits such as a maximum household income to quality or restricting the assistance to some maximum property value, or possibly some maximum net worth. To fully protect lower income families from excessive property tax burdens, the relief could be pegged to insuring that school property (or total property) taxes do not exceed a certain percentage of family/household income. This later approach is used in Vermont. Appendix III

Email from Joanne Allen, School Finance and Operations, at the Department of Education

Hi Mike,

Another data point of interest would be the per pupil valuation – if you take the valuation and divide it by the pupils, you will see that it increased rapidly in the early years of your analysis and is now starting to increase again due to the decline in pupils. That plays a big part in how the formula determines "wealth" – losing students faster than losing valuation (or, with increasing valuation) will mathematically determine that Fayette has the ability to pay a higher local share.

(Suggestion #4) As you indicate below, another consideration for Fayette is the difference in what they actually pay in middle school and secondary tuition versus what is recognized via the per pupil rate. Even if Fayette becomes a "regular" receiver, as opposed to a minimum subsidy receiver, they would still bear a large local share for that difference. Recognizing local tuition agreements within the funding formula would increase the total cost of education and, unless there were additional state appropriation, the mill rate would increase, which would not help Fayette.

I've attached Fayette's FY ED 279 on a spreadsheet so that you can model "what ifs". For example, under the current formula variables, in order for Fayette to turn into a "regular" receiver of state subsidy, as opposed to 30% of special education, Fayette would need over $100,000 in total allocation to turn that corner. Or, the mill expectation would need to drop by .65 or, Fayette's state valuation would need to decline by $13,000,000.

(Suggestion #1) While 55% statewide share of the cost of education would yield more funds through the formula a drop the mill expectation, over $100,000,000 is needed to achieve that in the biennium and I don't see that money come to Education without difficult choices being made in other areas of state government spending. There are some changes to the funding formula proposed in the Governor's budget - for example, phasing out the transition percentage from 97% in FY 2018 to recognize 100% in FY 2021 - that will yield more total allocation. There is an Education Committee briefing on those changes later this week, currently scheduled for Thursday afternoon, should any one wish to attend or listen.

Some things that the school department should be doing is ensuring that their data is accurate - 1) staff salary data (for example, I see a decline in teacher salary from FY 2016 in the amount of $47,000 - it's likely a more senior teacher left and as the formula allocates more funds for senior teachers, that loss impacts total allocation), 2) staff data in general - for example, are the ed techs properly classified as regular ed vs special ed 3) disadvantaged student data (that percentage has been declining for Fayette and while it's good that fewer students are in that category, it also means reduced allocation in the formula) 4) special education student counts and spending data - as Fayette is currently a minimum special ed receiver, these data points directly impact the state allocation and 5) making sure Gifted and Talented budgets include all expenditures anticipated because, as you know, funding is based on the lesser of the approved budget or actual spending and for the FY 2017 allocation, it would appear that any payroll withholding/benefits for the teacher were not included in the budget - this is a small amount but many small amounts can add up and make a difference. To piggyback on that, I see an expenditure for what appears to be a bus lease but no approval on the ED 279 - it may be that the Transportation team at MDOE did not approve the purchase but it's worth checking to make sure an approval was sought.

(Suggestion #4) Finally, I took a look at the actual expenditure data for 2015 versus the ED 279 for 2017 allocation; 100% EPS is $1,302,632 and total expenditures are $1,650,950; that difference is $348,318 of

which $260,000+ represents the difference between actual tuition expenditures and the allocation on the ED 279 so again, we see that this plays a big part.

No easy answers here for sure, but I hope the thoughts and spreadsheet help a bit with your analysis and discussions.

Joanne