

## THE BUDGET PROCESS – AN EVER-CHANGING LANDSCAPE

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### A Historical Perspective

For the last several years the State of Maine subsidy has historically accounted for approximately one-half of the revenue for the District. The budget has had to react to many changes in State support as it occurred. For example, in fiscal years 2003, 2004, and 2005, the District saw almost no increase in State support. In the 2003-2004 budget the District had to reduce expenditures by \$500,000. This was accomplished by reducing teaching and administrative positions and expenditures from every aspect of the system in order to absorb inflationary costs. In fiscal year 2005 the District Finance Committee prepared a budget that anticipated a State subsidy increase of \$244,662. Only after the budget was prepared for referendum did the District discover the State amount was reduced by one-half. Again, the District found itself cutting programs and positions to present a budget that lived within its fiscal means. At the same time, the District used \$300,000 of its fund balance as revenue<sup>1</sup> to offset potential increases to the local contribution.

A new State funding formula which was inaugurated for the 2005-2006 budget year brought an increase of State subsidy to the District. This enabled the District to prepare a budget that could address needs that had been deferred from the previous three fiscal years. With this increase in State support, the District was able to limit the increase in local contribution to only 1.5%. In 2006-2007 the District saw a subsidy increase of over \$1 million, again limiting the local contribution increase to 1.4%. These small increases in local contribution over the last two fiscal years were a direct result of voter approval of LD 1 and the Legislature's passing of LD 1924. This legislation required the State to meet its 1984 promise to fund 55% of statewide education costs.

For the 2007-2008 budget year the State subsidy was level due to a decrease in the District student

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<sup>1</sup> Fund Balance as Revenue - "Fund Balance" is an accounting term that represents the accumulation of budget surpluses and deficits over the years. In the private sector it would represent a profit or a loss. The fund balance provides funding for extreme emergencies and reduces the cost of borrowing money to pay bills if needed. Each year the School Board asks the voters of M.S.A.D. No. 75 to include at least \$400,000 to reduce the amount that has to be raised from local taxes.

population and increases in valuation in our four towns. This, coupled with the State deferring the increase in General Purpose Aid to 55%, resulted in a 1% increase in State support (\$168,707). This accounted for the District's request for additional local contribution of a 4.5% increase to meet a 2.66% overall budget increase.

### Consolidation

In 2007, the State of Maine announced plans to begin an aggressive reconfiguration of school administration in the State and initiated a process to consolidate school systems Statewide. The process, originally designed to eliminate duplication of effort in the administrative functions across school districts, was projected to begin July 1, 2009. M.S.A.D. No. 75 spoke with several of our neighboring school systems before agreeing to explore consolidation with the Lisbon School System. Since September 2007 the Regional Planning Committee (RPC), consisting of representatives from M.S.A.D. No. 75 and Lisbon as well as local community members, met regularly to explore and discuss the pros and cons of consolidation. The Committee completed its work and produced a plan that was presented in public hearings in Lisbon and Topsham on March 15, 2008.

On March 17, the Lisbon School Committee voted to submit the Plan to the Commissioner of Education for her approval. However, on March 20, the M.S.A.D. No. 75 School Board voted that it could not submit the Plan, largely due to the fiscal impact that consolidation would have on the 2008-2009 proposed budget. The District's proposed budget was faced with dealing with a major loss of State funding, loss of Medicaid funding and contractual obligations. If the consolidation were to continue, the District would be unable to access some of its fund balance to offset the impact of these losses as well as fund the transitional costs of the consolidation. Based on all of these factors, the M.S.A.D. No. 75 School Board of Directors felt it could not proceed with consolidation at this time.

### State Funding this Fiscal Year

The State of Maine has announced on two separate occasions, due to various reasons, that it is faced with severe revenue shortfalls in this year and the upcoming fiscal year. The first proposal, announced with the school consolidation legislation, reduced

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funding prior to consolidation as a component of the consolidation legislation. That legislation has the State reducing its subsidy in 2008-2009 in the following areas:

- 50% reduction in administration
- 5 % reduction in special education
- 5% reduction in transportation
- 5% reduction in facilities

Originally, the State expected districts to consolidate by July 1, 2008. It assumed that with compliance, it would be able to absorb the above-listed reductions. It soon realized that July 1, 2008 was unrealistic and set a new date for one year later. It did not, however, change the dates for the subsidy reductions. In effect, school systems must absorb the loss of State subsidy that was to be possible through consolidation, without being able to consolidate.

Most recently, the State needed to find an additional \$96 million to balance its budget. To do so, it has reduced General Purpose Aid to K-12 education by another \$36 million. This reduction along with the first reduction brings an anticipated subsidy loss from the State of \$636,672 from the current year.

The District is also facing the loss of \$305,000 in Medicaid reimbursement due to changes in federal regulations. These dollars flowed into the District as general revenue, and, therefore, have the same impact as a loss of State subsidy. Consequently, the School District must craft a budget that will receive \$941,672 less in revenue.

### **The Budget Process**

Beginning November 2007, the Finance Committee of M.S.A.D. No. 75 began meeting to prepare a budget for 2008-2009. A Maintenance-of-Effort budget was prepared by District administration and presented to the Finance Committee. Quite simply, a maintenance-of-effort budget is a budget that will maintain current programming in the new year. Accommodations are made to account for necessary increases in spending in such areas as heating and diesel fuel costs and negotiated contractual obligations.

The Maintenance-of-Effort budget recognizes the following expenditure increases:

- Negotiated contract increases with teachers, support staff, principals and District Office (\$720,833)
- Health insurance increase (\$256,566)
- Fuel and electricity increases and other miscellaneous expenses (\$416,946)

It also recognized reduced spending of \$362,182 from:

- Fewer out-of-District students (\$74,000)
- Less construction interest (\$84,355)
- Fewer substitute costs (\$75,000)
- Miscellaneous line adjustments

This work resulted in a projected increase in financial need of \$1,161,217, or an increase of 3.19% over last fiscal year. While this percentage is proportionately small as it relates to the overall budget, the reduction in subsidy from the State of Maine coupled with the loss of MaineCare (Medicaid) funding shifts the burden to pay for educational services from the State to the local taxpayer.

Following receipt of the State's subsidy amount on March 11, 2008, the Finance Committee of the School Board met and discussed several options to reduce the District budget so as to reduce the financial impact on the local towns. After three separate meetings at which the Committee heard from the school principals and program leaders, the Finance Committee earmarked potential additional reduction in spending of \$1,744,053, while approving \$80,000 in additional spending. This amount, while impacting several areas of the educational experience here at the schools of M.S.A.D. No. 75, results in an overall reduction in spending of \$1,660,053.

### **The Budget Validation Process**

The State of Maine passed legislation last year in conjunction with the school reorganization law mandating a change in the overall process of the review and validation of the school budget. Unlike previous years, M.S.A.D. No. 75 is required by Law to follow a new two-step process for budget validation. The new process involves a new budget format describing proposed school spending in 11 categories with detailed language informing voters of any budget amount that exceeds educational funding as determined by the Essential Programs and Services (EPS) model. This model sets school

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district funding allocations through a formula that sets dollar amount per student in different budget categories deemed sufficient by the state to provide a program.

- Step One

Once a budget is developed and recommended by the M.S.A.D. No. 75 School Board, the budget must be presented to the citizens at a District Budget Meeting. The School Board will issue a warrant to call the District Budget Meeting. At this meeting voters are afforded the opportunity to ask questions, make recommendations as to the 11 categories of spending, and vote on each area as a separate article. Voters will also vote to raise the funds requested for local contribution to school funding. At the conclusion of the budget meeting a summary vote is taken as final approval of the school budget.

- Step Two

Once a budget has been approved, a Budget Validation Referendum must occur within ten days after the budget meeting and cannot be held on a Saturday, Sunday or a holiday. At this budget validation referendum voters are called upon to vote (by written ballot) for the approval or rejection of the total amount of spending for education for M.S.A.D. No. 75. The voters must agree to spend the locally-raised funds for Essential Programs and Services as well as funds that exceed the required State local contribution. If the budget as proposed is accepted, the process is completed. If the referendum question fails, M.S.A.D. No. 75 must hold another budget meeting at least ten days after the referendum vote on another budget approved by the School Board. This process is repeated until a budget is approved at a budget meeting and is validated at a referendum.

### Local Dollars

To fund this budget, each town is assessed a local contribution for Essential Programs and Services (EPS) as well as funding those items that exceed the State's requirement. The local contribution is derived based on a combination of the Town's assessed property value and a percentage of total pupils. The Town's percentage of students determines the percent of the total EPS budget allocation for which each town is responsible. Once the percentage of the allocation is determined, a predetermined mill rate is applied to the Town's

valuation to determine the degree to which that mill rate can generate the dollars for which the Town is responsible. If it cannot generate enough money, then the State makes up the difference in subsidy. If it can generate the money with that mill rate, the budget percentage is paid with local funds. This is called the "required local contribution."

If the District budget exceeds the State allocation, the additional amount needs to be raised by local communities with the local cost-sharing formula, based on an average of 50% students and 50% valuation. This is called the "Local Only" contribution and is a result of the State not including some programs in the State allocation or because the District is spending above the EPS amount in certain areas.

Locally-funded programs not covered by the Essential Programs and Services allocation include local debt, adult education and adult vocational education. This year, the additional local contribution will include the money necessary to overcome the reduction in State aid, loss of MaineCare revenues, contractual obligations, and fuel increases.

While the overall decrease in the total budget is only 1.10%, the additional local contribution by each town has increased due to the reductions as stated above, as well as the increase in each town's property assessment. Bowdoinham's property assessment increased by 22.7% over last year, followed by Harpswell at 15.6%, Bowdoin at 10.9% and Topsham at 7.1%. The increases in property assessment in each town has equated to the increase in local contribution to fund the school budget.

### In Summary

The \$35,977,132 proposed school budget will be less than a maintenance-of-effort budget developed with several spending cuts to offset the loss of State aid and MaineCare dollars, as well as obligated spending (contracts/benefits) and increases in fuel and utilities. The reductions in income have shifted the funding of education from the State to the local towns resulting in increases in local contribution. The District Administration and M.S.A.D. No. 75 School Board have spent considerable time and effort to cushion the financial impact to the taxpayers of the District while at the same time insuring that the educational needs of our children are being met.