

Understanding the Potential Impact of TABOR on MSAD 51

Board of Directors

9/25/06

On November 7th voters will go to the polls to decide whether to adopt the referendum referred to as the “Taxpayer Bills of Rights” or **TABOR**. **TABOR** imposes statutory revenue and expenditure restrictions on the state, municipalities and school administrative units which cannot be exceeded unless approval is obtained through the **TABOR** extra-governmental override procedures.

- **Expenditure Limits.** **TABOR** limits the annual percentage change in any fiscal year from the prior year’s expenditures to the annual change in the Consumer Price Index (CPI) *as adjusted* by the percentage change (decrease or increase) in student enrollment.
 - The CPI does not take into account the District’s health insurance costs, changes in voter approved debt, and federally mandated special education costs, all of which must fit within the TABOR limitation.
 - A relatively small change in enrollment from one year to the next, *i.e.*, 24 students, which would normally be addressed by eliminating or shifting staff, would result in a 1% increase or decrease in the District’s budget under the **TABOR** spending limit (1% is \$238,532 in 2006).
 - The spending cap results in significant variations from year to year.
- **Revenue Limits.** The revenue limitation is not adjusted for inflation, student enrollment or population growth. Any school budget approved by the school board which results in a net gain in revenues or increases the rate of a *tax or fee* is subject to the override procedures. In addition, the revenue limit as applied to the State precludes any law that increases State revenue and enacts a new tax or fee, increases the rate or expands the base of an existing tax or fee, repeals or reduces any tax exemption, credit or refund, or extends an expiring tax or fee unless approved by 2/3’s vote of *all* the members of the Legislature and then approved by the voters at a general or special State-wide election.
 - If the State expenditure limit (CPI as adjusted by the change in population) and revenue limit goes into effect, the State may be required to abandon its commitment to increase its share of local education costs to 55%. Even if MSAD 51’s expenditures are within the **TABOR** expenditure limit, a reduction in state subsidy is likely to increase the local share, invoking the override procedures. Because the SAD assesses the local share of its budget against the property tax base, the override provisions apply if there is *any* increase in the SAD assessment measured as an increase to the district-wide mill rate.
- **Changes to Budget Process: The TABOR Override Procedures as applied to School Administrative Districts.**
 - Overriding the **TABOR** expenditure or revenue limitation would continue to require a “town meeting” public budget vote, but require a 2/3’s vote in favor at the public budget meeting AND approval by a majority of the voters at the polls. The vote at the polls can only occur at least 45 days after written public comment has been received by the “election officer” (each Registrar of Voters for Cumberland and North Yarmouth) and 30 days after written notice including two summaries – one in support of, and one in opposition to, the budget, four years of financial information, ballot title and text, and other required information, has been prepared, printed, and mailed to all voters.

- **Penalties.** Failure to comply with **TABOR** permits plaintiff class actions, four years of refunds, 10% interest payment, attorneys' fees and court costs.

Cumulative Impact of *TABOR* on MSAD 51 Budget (assuming no overrides)*

Year	Enrollment	Enrollment % Change	Inflation % Change	TABOR Limit %	TABOR Limit \$	Budget TABOR	Budget Actual Operating/Debt % change	TABOR Impact
01	2,344						\$17,010,934	
02	2,370	1.11%	2.85%	3.96%	\$673,499	\$17,684,433	\$18,797,326 11.50/-1.00%**	-\$1,112,850
03	2,342	-1.18%	1.58%	0.40%	\$70,484	\$17,754,917	\$20,381,832 6.88/ 1.55%	-\$2,626,915
04	2,336	-0.26%	2.28%	2.02%	\$412,489	\$18,167,407	\$21,351,893 3.17/ 1.59%	-\$3,184,486
05	2,338	0.09%	2.66%	2.75%	\$586,241	\$18,753,648	\$22,472,867 4.13/ 1.12%	-\$3,719,219
06	2,303	-1.50%	3.39%	1.89%	\$425,410	\$19,179,058	\$23,853,245 3.14/ 2.99%	-\$4,674,187

*Reflects the cumulative impact on the MSAD 51 budget if *TABOR* had been implemented in 2002 (assuming no overrides).

** The increase in FY 2002 brought the District's per pupil spending, \$6599, in line with the State wide average per pupil spending, \$6,540.

Unknowns. The questions and complexities regarding **TABOR** are numerous and include:

- Would the **TABOR** expenditure limitation require a decrease in expenditures from the prior year? While the statutory formula (based upon the inflation factor plus the increase or decrease in enrollment) can be negative, **TABOR** proponents contend that it would hold the budget amount flat while legal opinions provided to the Maine Municipal Association and the City of Portland have concluded otherwise.
- How do school districts comply with the expenditure limit since the number will be unknown at the time of budget adoption as the base year for calculating this limit will not be over?
- Are user fees (e.g. pay to play) and fees charged by school-related groups to reimburse District costs limited by **TABOR**?
- What happens if the override fails? Is the District required to adopt a budget within the expenditure and revenue limits or last year's budget?
- How much time needs to be added to the budget process in order to meet the **TABOR** statutory requirements?
- What are the additional costs associated with the required override provisions for preparing, printing and mailing the budget notice and holding a special election to approve a school budget?

Implementation of Expenditure Limitations. If MSAD 51’s expenditures were limited by **TABOR**, consideration would be given to eliminating or reducing the following aspects of the educational program, although it is important to note that changes in circumstances, *e.g.*, enrollment, between now and when any such decisions are made, and the actual dollar reduction will impact this list. *The table below uses the cumulative figure from the previous table (\$4,674,187) and distributes it among the major cost centers of the budget as an example of how reductions in expenditures might impact District programs.*

Cost Area	Amount	Potential Impact
Transportation	\$ 311,329	Eliminate transportation for students in grades 9-12; Eliminate late bus service, field trips and transportation to and from athletic and co-curricular activities; Reconfigure K-8 transportation
Athletics and Co-curricular Activities	\$567,488	Eliminate all athletic and after school co-curricular opportunities for students K-12
Supplies, Equipment, Textbooks, Dues and Staff Development	\$1,704,527	Eliminate extended academic support for students not meeting standards, including before and after school and summer programs; Eliminate professional development for instructional improvement; Eliminate purchase of supplies and equipment including updated textbooks; Eliminate staff time to align curriculum, instruction and assessment with the Maine Learning Results and No Child Left Behind Act
Support Positions	\$938,311	Eliminate capital improvements; Reduce maintenance of school facilities and grounds; Eliminate support for administrative and instructional computer use; Reduce ability to meet student medical needs; Extend turn around time for public information requests
Administrative and Instructional Positions	\$1,152,532	Increase class size K-12; Reduce drop-out prevention services and other psychological supports for students; Reduce high school electives; Increase number of students who will not receive high school diplomas; Reduce instructional support from ed techs, literacy specialists and guidance; Entire elimination of certain academic programs

District Criteria. The criteria to be used in determining which programs will be retained are:

- maintaining a safe environment for students and staff;
- meeting state and Federal requirements; and,
- maintaining the core academic areas identified in the No Child Left Behind Act. The core subject areas include: Language Arts (reading and writing), Mathematics, Science, Foreign Language, Civics, History, Geography, Economics and Arts.