Of all Maine’s economic development strategies, education has the greatest return on investment. Investment in education creates lifelong learners, opens pathways to promising careers, and grows the economy. It also produces civically engaged citizens who build vibrant communities.

For the past four years, Educate Maine has published *Education Indicators for Maine*, a snapshot of Maine’s education system presented through indicators that measure access, participation, and performance.

In addition to *Education Indicators for Maine*, Educate Maine has also published a series of policy briefs exploring specific issues related to educational achievement in depth, and making recommendations for strategic progress.

This primer provides an overview of how public education is funded in Maine. Effective funding systems can promote student success, create greater equity of opportunity, and help to grow the economy. The challenge is that funding systems can also be so complicated that few people understand them.

Unlike other briefs in this series, this primer contains no recommendations. Its purpose is simply explanatory. It is designed particularly for key education decision makers (school board members, state legislators, etc.) but should also be of interest to all Maine people.

This is not an exhaustive review of the entire public education funding system. It covers major aspects of the system for the purpose of providing a simple tool to support better policy decision-making.

The policy brief series is brought to you through a partnership between Educate Maine and the Maine State Chamber of Commerce, and through the generous support of the John T. Gorman and Nellie Mae Education Foundations. The production of the report was made possible by the contributions of Lisa Plimpton (research), Frank O’Hara (writing), and Pica (design and layout).
“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.” (Dow and Townsend)

From the very founding of the state in 1820, Maine's Constitution has required all towns to make public education available to their youth. Very early on, in 1828, the State provided revenues to help towns with financing this obligation. The first state school aid came from revenues from public land sales, and it was distributed to municipalities based on a per-pupil formula. In 1833, a banking tax was instituted to provide a more regular source of funds to support education. In 1872, Maine created a School Mill Fund, which collected a one-mill property tax from all towns, and redistributed money back to the towns on a per-pupil basis; this is the first instance of Maine government redistributing resources across towns in order to equalize student opportunity.

After many refinements and changes over the years, in 1974 Maine passed the State Uniform Property Tax. In this system, the state collected a specified mill rate from all towns, matched the money with state funds, and distributed the funds to the schools. Some towns with high property tax bases ended up paying in more than they got back. This proved to be unpopular, and the Uniform Property Tax was repealed by referendum in 1977.

After the referendum, Maine reconstructed its school aid program in a way that retained the general structure of giving more aid to poorer towns, but did so without the state collecting or disbursing local property tax funds. The state instead allocated revenues from income and sales tax funds to provide its share. In 2004, Maine voters passed a referendum directing state government to pay 55% of local school costs.

In 2005, the Legislature implemented the Essential Programs and Services (EPS) funding model. Prior to this law, state education funding levels had been set based upon what the schools had spent in the prior year. The EPS model directs the Maine Department of Education to set the spending level for school aid based on independent research into best practices that support student success. This is intended to ensure that state aid only goes to support what is needed for all students to meet state learning standards (Maine Learning Results) and not to all budget items that local school boards might adopt. Local districts maintain the right to spend local funds above and beyond EPS levels and many do.

In 2016, voters approved a 3% surcharge on the income tax for Maine households over $200,000; the Legislature and Governor repealed the tax, but increased school funding by $162 million.

And this is where we are today.
Approximately $2.7 billion was spent on Pre-K to 12 education in Maine during FY 2015 (most recent data). The majority of revenue for public elementary and secondary education—53%—is provided by municipal property taxes.

Forty percent of total education funding - both EPS and additional funds above EPS provided by local governments - comes from the state (not to be confused with the state’s obligation to pay 55% of EPS). The state raises this revenue through state income and sales taxes.

How does this break down by student and how does Maine compare to other states? Per student spending, it should be clarified, includes all operations and debt expenditures, but does not include teacher retirement.

Per student spending varies widely among Maine school districts. Though the state average is $12,939, 14 of Maine’s 240 districts spend less than $10,000 per student, and 18 districts spend more than $20,000 per student [Maine DOE Data Warehouse]. This difference is a reflection of local control and highly variable resources and capacity from district to district.

Maine’s 2015 per student elementary and secondary spending ranked 16th among the 50 states [Census School System Finances Survey].

However, all of the other New England states spend more per student than Maine [Census].

Adjusted for inflation, per student education spending in Maine has increased by about 20% on average since 2003-04, as shown below.

### Sources of Public Elementary & Secondary Education Funding in Maine, FY 2015

<table>
<thead>
<tr>
<th>Source</th>
<th>Municipal</th>
<th>State</th>
<th>Federal</th>
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<tbody>
<tr>
<td>Mostly From</td>
<td>1.426 billion</td>
<td>1.061 billion</td>
<td>184 million</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>53%</td>
<td>40%</td>
<td>7%</td>
</tr>
<tr>
<td>Mostly From</td>
<td>Sales and Income Taxes</td>
<td>Income and Payroll Taxes</td>
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### Per Student Elementary and Secondary Education Spending: Maine Average

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<tbody>
<tr>
<td>Dollars</td>
<td>$10,678</td>
<td>$11,150</td>
<td>$12,110</td>
<td>$12,107</td>
<td>$11,714</td>
<td>$12,198</td>
<td>$12,939</td>
</tr>
</tbody>
</table>

**Source:** Maine Department of Education Data Warehouse
PRE-K TO 12: WHAT SHARE OF LOCAL AND STATE SPENDING IS DEDICATED TO EDUCATION?

The figures in the previous section showed the levels and sources of all funding for Pre-K to 12 public schools in Maine. This page is about effort—how much of the state budget, and how much of local budgets, are dedicated to Pre-K to 12 public schools?

At the state level, public education expenditures as a whole comprise 45% of the state general fund budget. Of this total amount, 9% is for higher education. This leaves 29% for local schools, 5% for teacher retirement, and 2% for early childhood and other education programs.

At the local level, Pre-K to 12 education expends about half (48%) of municipal spending in Maine.

**EDUCATION FUNDING AS A PERCENTAGE OF ALL EXPENDITURES: STATE GENERAL FUND EXPENDITURES, FY 2016**

- General Purpose Aid for Local Schools: 29%
- Higher education: 9%
- Teacher retirement: 5%
- Early childhood education: 1%
- Other education programs: 1%
- Medicaid/MaineCare: 24%
- Personal Services: 14%
- Debt Service: 3%
- Other: 15%

**EDUCATION FUNDING AS A PERCENTAGE OF ALL EXPENDITURES: MAINE MUNICIPAL EXPENDITURES, FY 2015**

- K-12 Education: 48%
- Public Works: 15%
- Public Safety: 10%
- Municipal & School Debt: 5%
- Economic Development: 2%
- Parks, Rec & Libraries: 3%
- Code Enforcement: 1%
- Administrative Offices: 5%
- Employee Benefits: 5%
- County Assessment: 5%
- Employee Benefits: 5%
- County Assessment: 5%

**All State Education Expenditures: 45%**

**All Municipal Education Expenditures: 48%**

SOURCE: State Budget Overview 2016, Maine Legislature Office of Fiscal and Program Review

SOURCE: 2015 Fiscal Survey Report, Maine Municipal Association
The state must determine two things when considering education funding. The first is the determination of how much state and local money needs to be spent. The second is the determination of how to distribute state funds equitably to widely varying districts.

The question of how much needs to be spent is controlled by the procedures set up by the 2004 Essential Programs & Services (EPS) Act. The EPS formula was first implemented in fiscal year 2006.

Prior to the EPS, educating funding levels were based upon what was spent in the immediate prior year. This is an “expenditure-driven” formula, based on what schools have spent historically. EPS is a “cost-driven” approach. It estimates what local school districts, individually and collectively, should be paying for quality educational services needed for Maine students to meet state education standards (Maine Learning Results), and sets the total state commitment and individual school commitments based on this budget.

Some of the components of the EPS formula are shown in the following table. The Maine Department of Education looks at the experience of Maine schools, national literature, and expert testimony to determine the levels of spending needed to meet each of these functions on a per-student basis in Maine. The figures are then adjusted for differences in cost-of-living in each part of the state.

The second step in the process is to create a formula to distribute the state funds among the local districts. This involves the state calculating the EPS expected costs for each district, then calculating a minimum property tax effort for the district. The state share is what remains—the total need less the affordable property tax contribution. For high property tax districts, the state contribution is minimal. For low property tax districts, the state contribution is high.
PRE-K TO 12: WHY DOES MY TOWN GET LESS STATE AID THAN THE NEXT TOWN?

How does all of this play out at the local level?

Here’s an example of two rural school districts with comparable demographics alongside a more affluent district in Southern Maine. The rural districts appear similar—both have 450-500 students; both have around 70% of students in a low-income category; and both have 15%-20% of enrollment in special education students. The Cumberland County district has more than three times as many students, but much lower proportions of low-income and special education students.

After all EPS adjustments, District C gets the highest state allocation (see Chart 1). Why? The main differences are:

- **Local ability to pay.** High property values and a strong local tax base in the Cumberland County district means it pays a much higher proportion of its total allocation than the two rural districts.

- **Local cost-of-living.** Cumberland County (District C) costs of living are considerably higher than the state average, and Aroostook County (District A) has a slightly higher cost of living than Washington County (District B). The EPS adjusts for different salary costs for teachers and school staff.

- **Special education cost variations.** Although they are almost the same size, District A has a much larger allocation for Special Education than District B (nearly $1 million compared with $320,000). District A has several special education students that require high cost services.

- **Buses.** District A serves six towns in a rural area; District C busses all its students to one central school campus; and District B serves one small town.

The Transportation allocation for District A is over $500,000, compared with about $120,000 in District B, and over $600,000 for District C.

EPS figures do not fully account for local ability and willingness to pay for education. Municipalities are free to spend more than their local EPS share, and some towns have historically spent less than their EPS share. All three example districts spent more than their EPS allocation (see Chart 1), with differences ranging from 6% more in District B to 33% more in District C.

Chart 2 shows per-pupil spending in each example district compared with state average. These examples reinforce differences driven by local ability to pay.
Public higher education in Maine includes the seven campuses of the Maine Community College System (MCCS) and the seven University of Maine System (UMS) campuses and Maine Maritime Academy.

State funding for higher education makes up 9% of total General Fund expenditures, about a third as much as PreK-12 (see chart on page 5). Tuition and fees now exceed state funding as the major source of public college and university revenue.

State funding for per full-time equivalent (FTE) college student is $8,496, 17% lower than in 2000 (adjusted for inflation). See chart below.

While total state funding per full-time equivalent (FTE) college student in Maine is just below the national average, funding per $1,000 in personal income is $4.44, well below the national average of $5.28 (College Board).

HIGHER EDUCATION CAMPUS IN MAINE

- UNIVERSITY OF MAINE SYSTEM (UMS) CAMPUSES
- MAINE COMMUNITY COLLEGE SYSTEM (MCCS) CAMPUSES
- MCCS OFF-CAMPUS CENTERS

STATE HIGHER EDUCATION EXPENDITURES PER FULL-TIME EQUIVALENT (FTE) STUDENT SINCE 2000

<table>
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<tr>
<th>FTE ENROLLMENT</th>
<th>SPENDING PER FTE STUDENT</th>
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<tr>
<td>33,311</td>
<td>33,991</td>
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<tr>
<td>34,671</td>
<td>34,485</td>
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<tr>
<td>35,088</td>
<td>37,447</td>
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<td>36,351</td>
<td>35,109</td>
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<td>34,150</td>
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<tr>
<td>10,288</td>
<td>8,976</td>
<td>8,644</td>
<td>8,378</td>
<td>8,729</td>
<td>7,521</td>
<td>7,636</td>
<td>7,799</td>
<td>8,496</td>
</tr>
</tbody>
</table>

SOURCES: University of Maine System, Maine Community College System, Maine Legislature (spending); National Center for Education Statistics (enrollment)
Beyond direct public college funding, Maine also invests about $15.7 million per year in grants to college students with financial need through the Maine State Grant Program (LD 390/Chapter 284). As a point of comparison, federal Pell grants for low-income Maine college students totaled $97.9 million in 2015-16 (US Department of Education).

Tuition and fees at Maine’s community colleges and public universities have remained stable over the past five years, while most states have seen significant increases, averaging around 10% [College Board]. But Mainers pay more for college as a proportion of per-capita income than their counterparts around New England, 39% vs 36% [Educate Maine Indicators 2017]. The UMaine system proposed its first tuition increase in five years for 2018-19.

Four University of Maine System campuses recently announced a new program for students eligible for Pell Grants beginning in 2018. “Under this new program, campus financial aid departments will build a financial aid and grant package for each student to cover the gap between their Pell grant and total cost of tuition and fees through each of their four years at school” (Bangor Daily News). In return, students must take at least 30 credits (about 10 courses) per year and maintain a 2.0 grade point average. Tuition and fees at the four campuses is about $7,500 a year. A Pell grant covers up to $5,775 a year in costs.

Even with this aid, the world has changed in the past 30 years. Once it was possible to get a college degree and graduate with little debt. Today there is a “new normal” that is described by the State Higher Education Executive Officers Association (SHEEO):

“The new normal expects students and their families to make increasingly greater financial sacrifices in order to complete a postsecondary education, and expects schools and colleges to find ways to increase productivity and absorb budget cuts, while increasing degree production without compromising quality. At the same time, most states have adopted ambitious completion and attainment goals tied to expected workforce needs. These can be met only by better serving those students who have typically been underserved—first generation, low-income, adult, and minority students—students who may be less likely to understand how to navigate a complex higher education environment and who may require additional services and supports to succeed. To do so with reduced resources from appropriations will be challenging.”

State appropriations for higher ed primarily fund personnel costs, fuel and electricity, interest, and depreciation, but for many years they have not been adequate to cover the costs of new buildings or needed maintenance. The University of Maine System currently covers about 74% of its depreciation costs annually (UMS 2016). Maine and other states issue bonds, borrowing to fund higher education building projects, but these funds are limited by statute. Higher ed requests must compete for bond funding with other public needs like roads and bridges. “Public universities have and will continue to turn to the debt market to fund capital projects, driving debt for public universities higher for the foreseeable future.” (Inside Higher Ed)
EARLY CHILDHOOD: HOW DOES THE STATE SUPPORT EDUCATION FOR THE YOUNGEST?

Only 1% of Maine state expenditures go to early childhood education, compared with 45% for elementary and secondary education, 9% for higher education, and 5% for teacher retirement (see chart on page 5).

About one in ten three-year olds, and over half of four-year olds, are in a preschool or Head Start program (NIEER, *State of Preschool 2016*).

In 2007, the state instituted the Public Preschool Program, and funds preschool programs in public schools through the EPS funding formula. In 2015-2016, the state spent $17.4 million on public preschool programs.

Head Start is a federal child development program aimed at promoting the health, cognitive, and social-emotional development of at-risk children. Head Start serves three- to five-year-olds, and Early Head Start serves infants, toddlers and pregnant mothers. These programs serve children living below the federal poverty level, those receiving public assistance, and children in foster care. Virtually all funding for Maine’s Early Head Start and Head Start comes from federal grants directly to 16 provider agencies around the state. “Not all eligible children in Maine receive Head Start or Early Head Start services, and slots exist for less than a quarter of poor children. Limited funding is a major barrier to serving all eligible families” (Gorman/UNH). The latest Maine Kids Count data show that 3,838 children enrolled in Maine Head Start programs in 2016, only about one-third of those who were eligible to participate.

States have the option to fund additional Head Start slots. According to the National Institute for Early Education Research, Maine spent $3 million on Head Start in 2016 and supported 161 participants. A recent estimate suggests that it would cost $58 million to serve 50% of Maine’s low-income three- and four-year-olds in Head Start programs. Current federal funding in Maine is about $23.5 million (NIEER, *State(s) of Head Start*).

In general, Maine’s investment in Pre-K education is low. Maine ranks 37th among the 50 states and District of Columbia in terms of its financial commitment per child in preschool (NIEER, *State of Preschool 2016*).

An earlier report in this series has documented the importance of early childhood education, and the high return on investment for public spending in this area (see the Educate Maine brief, “Early Childhood Education: A Strong Foundation for Maine,” 2016). There is a strong contrast between the importance of Pre-K education for future success, and the low level of state support for and participation in Pre-K education in Maine.
Budget negotiations in 2017 resulted in a number of changes to education funding. The final budget repealed a 3% income tax surcharge in exchange for an additional $162 million for elementary and secondary education ($48 million for 2018 and $114 million for 2019). The budget also made some substantive changes to the EPS funding formula:

1. Projected Pre-K (four-year-old program) enrollment was added to the funding formula. Districts can now get state funding for Pre-K students up front, rather than having to pay for new and expanded programs with 100% local funds for the first year.

2. The definition of kindergarten was expanded to include four-year-old programs, ensuring that districts will receive the state funding share for these students.

3. Title I money will no longer supplant state funding but will supplement those funds, providing greater support for schools with higher shares of economically disadvantaged students.

4. More funding was added for economically disadvantaged students: an additional funding weight of 0.15 for each economically disadvantaged student, and extended learning programs for economically disadvantaged students receive an extra additional weight of 0.05.

5. The funding weight for special education students was increased.

The 2018-2019 state budget also includes $5 million per year for one-time funding for consolidation of school administrative districts, to encourage efficient delivery of educational services.

The state budget provided an increase in funding to Maine colleges and universities, although not as much as requested by the systems.
2017 STATE BUDGET CHANGES

- U.S. Census Annual Survey of School System Finances Tables: https://www.census.gov/programs-surveys/school-finances/data/tables.html
- Maine Association for the Education of Young Children/Maine Children’s Alliance analysis: https://maineayc.org/2017/07/11/legislative-and-state-budget-update/

SOURCES

- Dow, Patrick and Ralph Townsend (1998), “Reforming Maine’s Education Funding Process,” Maine Policy Review. Our historical summary is indebted to this article.
- U.S. Census Annual Survey of School System Finances Tables: https://www.census.gov/programs-surveys/school-finances/data/tables.html
- Maine Association for the Education of Young Children/Maine Children’s Alliance analysis: https://maineayc.org/2017/07/11/legislative-and-state-budget-update/

HIGHER EDUCATION

- UMaine System (UMS) FY2017-2019 budget figures are at the end of: http://staticweb.maine.edu/wp-content/uploads/2017/05/May-BOT-Powerpoint.pdf?2c9c5a
- Maine Community College System early college programs https://www.mcco.edu/our-programs/programs-for-high-school-students/early-college/

EARLY CHILDHOOD EDUCATION


PROMISING PRACTICES AND SUGGESTIONS

- Center for American Progress, A Fresh Look at School Funding: 5 New Ideas for ESEA Reauthorization. https://www.americanprogress.org/issues/education/reports/2015/05/18/113397/a-fresh-look-at-school-funding/