SUMMARY OF MAJOR STATE FUNDING
DISBURSED TO MUNICIPALITIES AND COUNTIES

This report summarizes the major state funding disbursed to municipalities and counties. These disbursements represent a substantial portion of the State's budget and significantly affect local government budgets as well. The State's support of municipal and county functions through these disbursements has a major impact on the amount of local property taxes assessed on Maine taxpayers to support municipal and county government.

This report captures state funds, including bond proceeds, paid directly to municipalities and counties or paid on their behalf for a local governmental purpose. All major direct-disbursement programs/items are reflected, such as General Purpose Aid for Local Schools and State-Municipal Revenue Sharing (SMRS), as well as certain indirect expenditures, most notably, Teachers' Retirement, which is paid by the State for the "employer share" of teacher retirement costs. The amounts in this report do <u>not</u> include federal funds that pass through state agencies to local units of government and do not reflect any benefit that local units might receive from the sales tax and fuel tax exemptions for local governmental purchases. The exclusion of federal funds is particularly noteworthy during the period from the fiscal year ending June 30, 2009 (FY 2009) through FY 2011 because a significant amount of the American Recovery and Reinvestment Act of 2009 federal stimulus funds passed through to local school units to mitigate the impact of cuts in state funding. The summary data in this report also do not include amounts the State pays to individuals and businesses as reimbursement for local property taxes. Appendix A summarizes those expenditures separately.

The extent of the State's financial support of local governments is best illustrated when the data are expressed as a percentage of state revenue (see the graph on page 3). For FY 2013 disbursements to municipalities and counties from the General Fund represented 35.4% of total General Fund revenue, a reduction from FY 2012. If SMRS expenditures are included as General Fund expenditures and the revenue set aside for revenue sharing is added back to General Fund revenue, the percentage of these disbursements would increase to 37.4%. Due to reductions in several categories in FY 2013, the most significant being education funding, this percentage declined from the FY 2012 level of 39.1%. When all state disbursements to municipalities and counties, excluding bond expenditures, are compared to total state operating revenue (which for the purposes of this analysis excludes all federal funds, enterprise funds, internal services funds, trust funds and bond funds), the State disbursed 28.2% of its operating revenue back to municipalities and counties, down from 29.5% in FY 2012.

State funding disbursed to municipalities peaked in FY 2008 and declined steadily each year through FY 2013. FY 2014 is budgeted to see the first substantial increase since the peak, although still well below that higher amount. Much of the increase will be in education funding, which will more than offset a big decline in the SMRS program in FY 2014. FY 2015 is budgeted to drop back from FY 2014 primarily from further cuts to SMRS, unless the Tax Expenditure Review Task Force can find $40,000,000 in alternative savings. Overall the average annual percent increase in all disbursements has been 2.4% over the 20-year period from FY 1996 to FY 2015. On an inflation-adjusted basis that upward trend was a relatively small 0.1% annually.

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