

## **Massachusetts School Finance 2004: Coming Out of the Recession?**

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On January 28th, Governor Romney released a proposed FY05 state budget. The total budget for K-12 education is anticipated to grow by over \$100 million, with a modest increase proposed in local aid (<http://budget.mass.gov/budget/govmsg05/>). The total estimated spending in FY05 is \$22.979 billion versus \$21.886 billion this fiscal year with half the budget growing at 7% while the remainder will stay relatively flat, yielding a 5% average budget increase. Some areas, like Medicaid and debt service (a program that provides aid through Chapter 70 for construction to districts with higher than usual debt cost), will increase more than others. This spending mix, more health, debt and education costs, but less of everything else, underscores the Governor's desire to shift revenue support from the state to the local level to address an anticipated revenue shortfall of \$1.5 billion for FY05 (house Ways and Means Committee). The Massachusetts Taxpayer Association estimates the deficit to be \$1.1 billion and the Governor estimates the deficit to be \$1 billion (Report on Progress in Jeopardy, 2004). The budget includes a \$69.6 million or 2.2 percent increase in Chapter 70 aid for K-12 school districts. This amount is less than half of the \$148 million cut from Chapter 70 in FY04 (Massachusetts Teachers Association, 2004). The total Chapter 70 appropriation is \$3.18 billion for FY05.

Essential programs recognized as being important in past budgets, such as class size reduction, early childhood education, racial imbalance grants, and comprehensive health education, were not restored in the FY05 budget. In the Governor's Legacy of Learning initiative to improve public education in Massachusetts, eight major goals were outlined; 1) to target resources to the bottom tenth of Massachusetts' school districts, 2) to give Massachusetts top-performing MCAS scorers free tuition at in-state public colleges and universities, 3) increase the number and quality of math and science teachers, 4) expand the number of full-day kindergartens, 5) introduce disciplinary school grants to help manage disruptive youth, 6) improve parent participation in their children's education through intensive orientation opportunities, 7) encourage Charter

school expansion to beef up the competition, and 8) to build more schools to replace deteriorating buildings.

In the present climate, many districts have or will request over-ride referendums to avoid draconian budget cuts that will lead to massive teacher lay-offs. Even with the passage of these referendums, the poorest to wealthiest school districts anticipate teacher lay-offs for FY05. This suggests a continued over-reliance on revenue generation at the local level to support schools.

### **What is Different for Schools in FY05?**

The Governor's Budget provides a \$72 million increase over FY04 in direct "Chapter 70" local aid to schools. In addition, all school districts will be level funded. Overall, local aid increases 1.7%. Additional local aid information based on the Governor's Budget, for individual cities and towns, is available at (<http://www.mass.gov/dls/CHERRY/>).

All school districts will be level funded at the FY04 "foundation budget." The foundation budget is an estimate of the minimum funding level needed to provide an adequate educational program. A new methodology allocates communities' total required contributions among the school districts to which they belong. The net school spending requirement (required local effort (RLE) plus Chapter 70 aid must be equal to the foundation budget determined for each district) remains in effect, as does the requirement that districts expend at least half of their combined regular and extraordinary maintenance foundation budget amounts upon those functions. There is no spending requirement for professional development. The "excess debt" provision is eliminated. The goal is to equalize the contribution as a percentage of foundation budget for each city and town's local and regional districts. This change would be phased in over a four year period. Each operating district is guaranteed at least the same amount of aid it received in FY04. Its FY05 required local effort is raised by the school share of the increase in local revenue capacity under Proposition 2 ½. If the new required local effort (RLE) plus last year's aid is insufficient to reach the foundation budget, a district receives enough additional aid to fill the gap. One hundred thirteen of the state's 328 operating school districts receive Chapter 70 increases; the remaining 215 are level-funded. For nineteen non-operating districts (towns that are fully regionalized or that rely upon tuitioning to educate their pupils) Chapter 70 is capped at the districts' foundation budgets. The average state per pupil foundation level for FY 04 is \$7,330.

Description	FY04 Projected Spending	FY05 H1A	% Change
Chapter 70 Education Aid	3,108,140,588	3,180,748,022	2.3%
Legacy of Learning & all other, *excluding SBA program	388,208,018	430,620,018	10.9%
<b>Total Department of Education</b>	<b>\$3,496,348,606</b>	<b>\$3,611,368,040</b>	<b>3.3%</b>

Foundation budgets rise by an average of 3.0 percent. They reflect an annual inflation adjustment of 2.83 percent. Statewide foundation enrollment decreased from 963,771 to 959,762, a decline of 0.4 percent ([http://finance1.doe.mass.edu/chapter70/chapter\\_05.html](http://finance1.doe.mass.edu/chapter70/chapter_05.html)).

### Legacy of Learning

Although the budget outlook is bleak for many districts, the Governor has introduced a new initiative. Legacy of Learning is a collection of new initiatives which forms the cornerstone of the Governor's budget and eliminates some important existing programs (class size reduction, early literacy, early education, transportation, attracting excellence to teaching (a student loan program), and the school breakfast pilot program) this year. Administered by the Department of Education (DOE), this new investment of \$44 million is intended to boost the overall DOE spending by 3.3%, as shown below.

### Focus on Under-Performing Districts

Under-performing districts need technical assistance and management support to turn their schools around. The Governor's Budget includes \$2 million for leadership and management training, performance management assistance, and curriculum review. The lowest scoring districts and schools include 24 municipal districts, 5 charter schools, and 13 vocational technical high schools. In the meantime, the class size reduction aid package totalling to \$18 million was eliminated from the budget.

These districts exhibit an unacceptable achievement gap: only 45% of first-try students pass the MCAS, compared with 77% statewide. Furthermore, while they represent less than a third of total enrollment, these districts struggle with the majority of performance issues, including:

- ? 54% of all tenth graders who fail the 2003 MCAS.
- ? 90% of students statewide who are not proficient in English.

MCAS remediation was reduced from \$50 million to \$20 million to be set aside to provide 60 hours of individual or small group instruction by qualified teachers after school and during the summer for children in 4th through 8th grade, and similar assistance to 9th and 10th graders during regular school hours. The teachers participating in this initiative would have to do so outside of their contracts. This assistance is in addition to the \$10 million for MCAS tutoring already appropriated in FY04.

### *John and Abigail Adams Scholarship*

A new John and Abigail Adams Scholarship Program awards the top 25% of Commonwealth high school seniors (measured by statewide MCAS scores taken by the end of junior year) with free tuition to the University of Massachusetts, or to any state or community college. At the same time, Attracting Excellence to Teaching (teacher student loan reimbursement program) was eliminated for a loss of \$817,000. In addition, the top 10% receive a \$2,000 bonus to help cover additional campus expenses. This merit-based program requires full-time study (up to four years) and is contingent upon maintaining at least a 3.0 grade point average. Parochial and private school students who take the MCAS exam at their own expense are also eligible to participate. While lower socio-economic status students would have an opportunity to benefit from this scholarship, in reality, the students from more affluent families dominate the upper 25% and often choose to attend private colleges and universities.

### *Math and Science Teachers*

In some districts, over 50% of students are failing MCAS math. The Governor's Budget includes \$3 million for a number of initiatives aimed at improving students' math achievement by improving the math skills of current teachers, and retaining and recruiting new teachers.

The proposals include:

- ? \$1.46 million to expand the federally-funded Math and Science Partnership Program for teacher math and science skills.
- ? \$600,000 to fund a \$3,000 incentive for math and science teachers, with an enrollment goal of 200.
- ? \$500,000 for online self-diagnostic tools for math skills to help teachers assess their professional development needs.
- ? \$440,000 to fully fund third-year bonuses to 110 teachers in the Massachusetts Institute for New Teachers Program.

### *Full-day Kindergarten*

The governor noted that seven low scoring districts do not offer full-day kindergarten to all students. The Governor's Budget expands full-day kindergarten in these districts with \$9.9 million in new funding for teacher salaries, appropriate furnishings and equipment, and if needed, portable classroom space. This appropriation is in addition to the \$23 million appropriated in FY04 for kindergarten development grants. Early literacy was reduced from \$18.3 million to \$3.9 million, a 78% cut, and early childhood education was reduced from \$94.7 million to \$74.6 million, representing a 21% cut.

### *Disciplinary School Grants*

Five million dollars in new grants will help districts handle difficult student behavioral issues.

### *Parent Orientation and School Participation*

The Governor's Budget also provides \$2 million in grants for 29 low-scoring districts to boost parental participation through teacher/parent conferences, open houses, family nights, volunteer opportunities, and family outreach.

All parents of children enrolled in state-subsidized child care are already required to meet with an intake counselor every six months. For parents in these programs with children under five, \$1.7 million will provide individual parenting orientation sessions as an integral part of this mandatory process. Counselors trained in child development will be hired to guide parents. A guidebook will be developed by the Department of Education, the Office for Child Care Services and other organizations, to help parents better understand what they can do to help their child. The Governor's Budget includes \$300,000 to publish this guide in five languages for the parents of over 60,000 children.

### *Charter School Expansion*

The Charter school reimbursement is funded at the FY04 level of \$13 million which is one-third less than what is mandated under the law. The Governor's Budget removes restrictions on 152 school districts that are virtually

prohibited from adding new charter schools under the current law. In addition, the Governor's Budget also establishes charter school management organizations for multiple campus administration. Current law mandates that each charter school hold an individual license with separate boards and management making the sharing of resources difficult (<http://budget.mass.gov/budget/execsumm05>).

### *School Building Assistance Reform*

Funding for School Building Assistance has been moved from the operating to the capital budget; as a result, the previous appropriation under the Department of Education has been replaced with a debt service appropriation under the Executive Office for Administration and Finance. A state and local government partnership, called the School Building Assistance program, now reimburses the construction or rehabilitation of over 750 buildings. Demand outweighs supply resulting in a wait list of 420 projects valued at \$4 billion. The Commonwealth relies on annual legislative allocations to reimburse districts at a rate of 71% of the costs. In essence, municipalities borrow on behalf of the Commonwealth and the Commonwealth reimburses its portion of the municipality's debt service.

To counteract reliance on the legislature to make timely allocations and to clear the wait list by FY09 Fiscal constraints, the Governor's current proposal involves taking advantage of low interest rates to refinance its share of reimbursement payments to cities and towns and extending borrowing period from 20 years to 40 years. Newly issued state debt will retire all remaining local obligations (determined by the present value of all remaining payments). Under the new plan the state will deposit its share into a local escrow account relieving municipalities of the uncertainty of future appropriations. In addition, the Governor is requesting a single bond issuance intended to save the Commonwealth at least \$150 million in FY05 to accelerate wait list clearance to as early as FY09 if proposed construction reforms are simultaneously adopted.

The Governor is encouraging the legislature to adopt construction reform that would include the involvement of an independent commission as part of the financial restructuring with the intention of lowering project costs and improving project quality. The proposed commission, comprised of members from the executive and legislative branches, and local officials, will need to address long-term sustainability of the program.

### *Related Cuts*

The school breakfast pilot program was reduced from \$5.4 million to \$2 million, a 62% cut, and transportation aid of \$51.8 million for non-regionalized school districts was eliminated. Regional transportation was reduced from \$41.7 to \$26.4 million (a 37% cut).

### **The Special Education Circuit Breaker**

In 2000, the circuit breaker program was enacted by the Legislature [St. 2000 c.159 §.171] as part of a series of amendments to the state's special education law. The program's goal was to provide additional state financial assistance to school districts for high-cost special education placements. The program was initially scheduled to begin in fiscal year 2003, but this was delayed until fiscal year 2004. The statutory requirements for the program are codified at MGL c.71B s.5A, with implementing regulations at 603 CMR 10.07. The 50/50 program was treated as an entitlement program, unlike the circuit breaker, which is subject to appropriation. In implementing and funding the circuit breaker in FY04, the Legislature and the Governor added more than \$50 million from the \$70.6 million that was appropriated for the 50/50 program in FY03 to \$121.6 million for FY05.

The circuit breaker program replaced a long-standing special education reimbursement program known as the "50/50" program. State financial assistance under the 50/50 program was only provided for special education students who were placed in residential schools, either in-state or out-of-state, for educational reasons. The distinguishing feature of the circuit breaker is state assistance is provided for all high-cost special education students, regardless of their type of placement within certain parameters.

The circuit breaker threshold (four times the statewide average foundation budget per pupil) is \$29,320 for FY04. A preliminary reimbursement rate of 35% was established in the fall for the purpose of calculating the initial payments which fall well below the legislated 75%. State reimbursement for each student is determined by applying the reimbursement rate to the eligible costs that exceed the threshold.

Assuming the final eligible costs for FY04 will range somewhere between \$269 million and \$296 million, and assuming an inflationary increase between 1% and 4%, we estimate the total eligible costs in FY05 will range between \$272 million and \$308 million. Full funding at the 75% statutory rate would in turn require an appropriation level of between \$213 million and \$241 million (including set-asides) (<http://www.doe.mass.edu/sped/2004/news/0227circuitbreaker.html>).

The circuit breaker statute provides for four quarterly payments, coinciding with the end-of-quarter local aid distributions. In future years, the September payment will be based on fifty percent of the estimated reimbursement for the year; the December payment will represent sixty-five percent; the March payment eighty percent; and the June payment one hundred percent. This payment schedule was modified for this initial year because of the difficulty in making accurate projections. The first two payments were made in November and January and the last two payments will be made in May and August, with each payment representing approximately twenty-five percent of the estimated reimbursement for the year.

*Summary and Analysis of Initial Claims*

As shown in the following chart, districts submitted claims for more than 10,000 students in the initial data collection cycle this past fall:

	Students Net claim	Eligible costs	Less cost/sharing	Less 4X foundation
In-district	3,491	158,785,452	128,047	102,356,120
				56,301,285
Private day	3,445	159,926,178	3,921,261	101,007,400
				54,997,517
Collaborative	1,821	73,024,657	30,419	53,391,720
				19,602,518
Residential	1,876	229,726,091	36,861,964	55,004,320
				137,859,807
<b>SUBTOTAL</b>	<b>10,633</b>	<b>621,462,378</b>	<b>40,941,691</b>	<b>311,759,560</b>

					268,761, 127
Contingency		27,000,000			
TOTAL	10,633	621,462,378	40,941,691	311,759,560	295,761, 127

Instructional costs for in-district students were reported in the following categories (dollar amounts in millions):

Special education teaching & related services	\$54.3
Services by non professional staff	\$41.9
Specialized services by non professional staff	\$23.1
General education services	\$21.1
Other services by professional staff	\$ 8.2
Specialty consultation services	\$ 5.0
Specialized health care services	\$ 4.3
Supervisory services	\$ 0.6
Specialized equipment	\$ 0.3

The FY04 appropriation for the circuit breaker program is \$121.6 million. After deducting set-asides for the Executive Office of Health and Human Services (EOHHS) pilot programs, the audiobook textbook program, payment of final FY03 50/50 claims, and program administration, \$104.6 million is available for payment of FY04 circuit breaker claims.

According to the Governor's office there are several reasons why the preliminary rate is significantly below the statutory 75% rate:

- ? Claims for high-cost students in in-district settings were significantly higher than expected. Prior to the implementation of the circuit breaker, detailed cost information was not regularly collected from districts on this group of students.
- ? In the FY04 general appropriations act, the reimbursement formula was changed, with the rates for out-of-district placements increased and the rates for in-district placements decreased. Because out-of-district placements (day schools and residential schools) tend to be more expensive than in-district placements, this added to the overall cost.

- ? The underfunding of the 50/50 program in FY03 and prior years left an accumulated deficit. This deficit was funded through a combination of grant funds and, with legislative approval, funds from the FY04 circuit breaker appropriation. To date \$6.3 million in prior year 50/50 claims has been paid from the circuit breaker appropriation and an additional \$1.06 million in claims that are still being verified.
  
- ? A ten percent contingency for additional circuit breaker claims and for extra payments required for state wards and abandoned children has been included in this portion of the budget.

*Funding Summary (\$ millions)*

Total appropriation 121,600,262

Less set-asides:

EOHHS pilot projects	8,750,000
Audiotape textbooks	400,000
FY03 50/50 claims paid	6,300,000
FY03 50/50 claims pending	1,060,000
Program administration	500,000
Net available for circuit breaker claims	104,590,262
Eligible claims submitted to date	268,761,127
Contingency	27,000,000
Total estimated claims	295,761,127
Projected payments at preliminary 35% rate	103,516,394

The 35% reimbursement rate is well below the 75% rated mandated by state legislation. Even with most districts expected to receive more funding in FY04 under the circuit breaker than they did in FY03 under 50/50 many are still left with enormous budget deficits (<http://finance1.doe.mass.edu/seduction/>).

*Payment Procedures*

Claims for the circuit breaker are to be collected at three points during the year: September, March, and July (for the year just ended). Initial claims are submitted in September, and the March and July filings will include updates and corrections. Districts will be provided with updated payment estimates after each data collection cycle.

The Board of Education has promulgated regulations defining eligible instructional costs [603 CMR 10.07]. In general, eligible costs for private school placements are equal to the approved tuition rates. For in-district costs, the regulations define various categories of service and authorize the Commissioner to annually establish standard rates for each category. Districts report the level of services provided to each student in each category, and the standard rates are applied to these service levels.

The Legislature enacted a tuition rate freeze for approved private school programs for FY04 [St. 2002 c.26 §.646], and the Governor has proposed extending this freeze into FY05 [House No. 1A, §.380]. These provisions do permit rate increases if needed to provide extraordinary relief. No detailed analysis has been done yet on the actual impact of this freeze.

One significant change is under payments to private schools for residential placements. The circuit breaker statute assumed these payments would continue to be made directly to the private schools by the state, as was done under the 50/50 program. A pilot program has been initiated by the Governor in which residential tuition payments are made by the responsible school district, with subsequent reimbursement by the state, placing districts in the position of being the state's banker and increasing a districts deficit. The logic behind this revised payment procedure has to do with the potential to ensure more timely payments for the schools as well as reduced paperwork for both the schools and the districts. School districts see it as a way for the state to even further delay tuition payments while further taxing local school districts.

### *Summary*

What the circuit breaker will really do is force school districts to develop more of their own programs, leaving parents to fight with social service agencies for the additional care their children might need when not in school.

### **Is Massachusetts Coming Out of the Recession?**

While Massachusetts may be coming out of a recession, there remains a significant deficit. It will take longer to make up shortages due to the past economic downturn. With an estimated \$3.7 billion removed from the budget, it has been difficult for the state and local communities to maintain essential services. More than \$265 million has been cut from the education budget over the past two years. In FY04 dollars this translates to a 10.8% cut (\$473 million).

While the state has not increased taxes per se, it has introduced increased fees, used one-time revenues, and made severe cuts to public education and other services to balance the budget. In the past, 42% of funding for the state's public schools has come from the state, with district variations.

According to a December 2003 report, entitled *The Impact of State Government Fiscal Crises on Local Governments and Schools* (Reschovsky), the reduction in state education aid was greatest for Massachusetts than any other state, declining by 14.3%. Reschovsky (2003) reported the average drop to be 4%. This does not bode well for one of the wealthiest per capita states in the Union. The current mix for revenue sources (excluding capital spending) includes: 54% from the local government, 41% from the state government, and 5% from the federal government (Massachusetts Budget and Policy Center, Public School Funding in Massachusetts). This condition places Massachusetts 42<sup>nd</sup> among states in state contributions to public education (Reschovsky, 2003).

Many communities will be placed in a position of placing a value on education. Some communities will choose to highly value education and pass the necessary over-rides to maintain the present quality of education offered by the local schools. Other communities will choose to allow their schools to slip into decline and decay. Because the Governor will not raise taxes, the state legislature is placed in the unenviable position to place a value on the education of the citizens of the Commonwealth by choosing whether to over-ride any of the Governor's vetoes.