*****Massachusetts Department of***

***Elementary and Secondary Education***

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| Jeffrey C. Riley*Commissioner* |  |

# MEMORANDUM

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| **To:** | Members of the Board of Elementary and Secondary Education |
| **From:**  | Jeffrey C. Riley, Commissioner  |
| **Date:**  | January 27, 2020 |
| **Subject:** | Governor’s FY21 House 2 Budget Proposal  |

On January 22nd, Governor Baker filed House 2, containing the Administration’s FY21 state spending recommendations for the upcoming fiscal year. The Governor recommends total state spending of $44.6 billion (excluding transfers to the Medical Assistance Trust Fund), representing a 2.3% increase over FY20 spending. The Governor has prioritized spending increases for key areas, including education, transportation, workforce development, substance misuse services and treatment, and local communities.

The Department’s recommended appropriations total $6.25 billion, which represents an increase of $296.9 million (4.98%), over FY20 spending and supplemental budget. The Governor’s request fully funds the first year of the Student Opportunity Act, adding a total of $355 million in new spending for initiatives laid out in this comprehensive education legislation. The FY21 budget proposal includes $10 million for the new Twenty-First Century Education Fund which will supplement the 7061-9408 Targeted Assistance account to close achievement gaps in low-performing schools.

The following summarizes the Governor’s education recommendations by program area.

1. **Education Local Aid & Reimbursements**

Chapter 70 aid (7061-0008), is increased by $303.5M (5.86%) over FY20 to $5.479B. The FY21 Chapter 70 program reflects the passage in November 2019 of An Act Relative to Educational Opportunity for Students—commonly known as the Student Opportunity Act (the Act). The Act makes significant changes to the Chapter 70 formula, based in large part on the recommendations of the Foundation Budget Review Commission (FBRC). The updated formula is also codified in Chapter 70 of the general laws.

The Act establishes new, higher foundation budget rates in five areas: benefits and fixed charges, guidance and psychological services, special education out-of-district tuition, English learners, and low-income students, all to be phased in over a seven-year period. For the first four categories, the rates have been increased by 1/7 of the gap between the FY20 rates and the final target rates. Because of the significant increase in foundation budgets associated with low-income enrollment in FY21 (discussed below), and the directive in Section 30 of the Act to implement foundation and increment amounts in "an equitable and consistent manner," the low-income increment rate increases are set at 4/100 of the gap. The number of tiers for the low-income increment rates is increased from ten to twelve; districts with higher concentrations of low-income students benefit from higher rates.

In addition to these targeted rate increases, all foundation budget categories have been adjusted upward to account for inflation. A new employee benefits inflation rate is applied to the employee benefits and fixed charges category. This is based on the enrollment-weighted, three-year average premium increase for all Group Insurance Commission plans; for FY21 the increase is 2.34%. An inflation increase of 1.99% has been applied to all other foundation budget rates, based on the U.S. Department of Commerce's state and local government price deflator.

The Act also adds a new minimum aid adjustment to the formula. This provides "hold harmless" aid to 25 districts that otherwise would have lost aid due to the new foundation budget factors.

The Act reinstates the definition of low-income enrollment used prior to FY17, based on 185% of the federal poverty level. It replaces the "economically disadvantaged" designation (based on 133% of the federal poverty level) used from FY17 through FY20. For FY21, a district's low-income enrollment is the higher of: (a) the number of students matched through the Department's current direct certification process (which identifies students whose families have been approved for various federal and state benefit programs); or (b) the district's FY16 low-income percentage multiplied by its current foundation enrollment. Statewide low-income enrollment for FY21 is 389,380, compared to 342,575 identified as economically disadvantaged in FY20.

For FY22 and subsequent years, the Act directs the Department to recommend a new methodology for identifying low-income students. We are working with stakeholders to develop a new methodology for submittal to the Legislature.

The Act increases the assumed in-district special education enrollment to 5% for vocational students and 4% for non-vocational students. This is also being phased in over 7 years, so the factors used in FY21 are 4.82% and 3.82%, respectively.

The Governor has also proposed an increase of $18.2M over the FY20 GAA (including supplemental budget of $5M) for Charter School Tuition Reimbursements (7061-9010) to $138.2M total. This appropriation level is expected to meet or exceed the 75% requirement when tuition assessments are updated to reflect actual enrollments and district spending levels.

Foundation tuition rates for Commonwealth charter schools are based on the same foundation budget rates used in Chapter 70. The foundation budget rate increases being implemented in FY21 have been incorporated into our projected FY21 tuition rates. In addition, charter school low-income enrollment for FY21 has been calculated in a manner consistent with the methodology used for districts. The facilities component of the tuition rate is held constant at FY20 levels, at $938 per pupil, with this cost fully reimbursed by the state as in prior years.

The reimbursement formula for transitional aid to districts remains unchanged from the change enacted by Section 38 of the FY20 budget, with an entitlement of 100% of any tuition increase in the first year, 60% in the second year, and 40% in the third year. Funding for first year reimbursements is prioritized first, followed by funding for second year reimbursements. The Act requires 75% of the total state obligation to be funded in FY21, 90% in FY22, and 100% in FY23 and subsequent years.

Special Education Circuit Breaker reimbursement (7061-0012) is increased by $15.3M over the FY20 level (including supplemental budget of $2M) to $362.4M, to reimburse up to 25% of out-of-district special education transportation costs, a provision of the Student Opportunity Act.

The FY21 House 2 budget has level funded all other district reimbursement accounts at FY20 GAA spending levels including Regional School Transportation (7035-0006), Non-Resident Vocational Student Transportation (7035-0007), and Homeless Transportation (7035-0008). The METCO Program (7010-0012) is also level funded at $24.18M less earmarks. Proposed House 2 funding for Rural School Aid (7061-9813) has been reduced to $1.5M for FY21. Low-Income Student Supports (7061-0016) is not funded in the FY21 House 2 proposal (a cut of $10.5M).

1. **New Twenty-First Century Education Trust Funding**

The Student Opportunity Act established a new Twenty-First Century Education Trust Fund for the purpose of addressing persistent disparities in achievement among student subgroups, improving educational opportunities for all students, sharing best practices for improving classroom learning, and supporting efficiencies within and across school districts. The Governor has requested $10M for this new trust fund in the FY20 supplemental budget proposal currently under consideration by the House Ways and Means Committee as well as a $10M budget in the FY21 House 1 proposal.

1. **Consolidation of Literacy Account and English Language Acquisition**

The Governor’s House 2 budget consolidates the following line items into the newly renamed English Acquisition and Literacy Programs (7010-0033) account with a combined funding level of $4.3 million, same as the FY20 budget less some earmarks.

* 7010-0033 Literacy Programs ($1M of earmarks removed)
* 7027-1004 English Language Acquisition ($1M earmark removed and a $250K reduction from the FY20 level)
1. **Administrative Resources to Implement Student Opportunity Act**

Because the Student Opportunity Act assigned additional responsibilities to the Department, the Governor’s House 2 proposal adds more administrative funding to carry out these duties.

* 7061-9200 Education Data Services is increased by $500K over the FY20 GAA
1. **Program Changes**

The Governor has not proposed any FY21 funding for these four new initiatives: 1595-0115 Civics Project Trust Fund, 7061-0010 Mental Health and Substance Abuse Grants, 7061-9650 Supporting Healthy Alliances Reinforcing Education Grant Program, and 7061-9815 Grants for Hate Crime and Bias Prevention. However, it is likely that some FY20 funding for those line items will continue into FY21 through a PAC (prior appropriation continued) provision.

The FY21 House 2 does not have any direct funding for Digital Literacy Now Grant (7010-1202) but has directed a transfer of remaining funds from the Massachusetts Tech Collaboratives to this account in Outside Section 106.

House 2 eliminates spending for five other accounts previously funded in FY20:

* 7010-1192 Educational Improvement Project Grants ($2.7M reduction)
* 7010-1193 Civics Education Programs ($1M reduction)
* 7010-1194 Financial Literacy Education ($250K reduction)
* 7061-9401 Assessment Consortium ($550K reduction)
* 7061-9406 College and Career Readiness account ($700K reduction)

For 7027-0019 Connecting Activities, House 2 recommends funding of $5M, $460k less than the FY20 GAA, but with the removal of $960K in earmarks, more funding can be used to support Career Pathways districts.

The Governor’s House 2 budget level funds Adult Basic Education (7035-0002) less earmarks totaling $445K.

The FY21 House 2 proposes an increase of $500K for Career and Technical Education Program (7035-0001) to $1.5M to cover After Dark programs.

FY21 House 2 adds $1.2M to Student Assessment (7061-9400) over FY20 GAA to support summative and innovative assessment needs.

7061-9412 Expanded Learning Time Grants is reduced by $10M in the FY21 House 2 which is offset by the increase in Chapter 70 aid.

In the FY21 House 2 proposal, the Recovery High School Program (7061-9607) is funded at $2.6M, $500K less than FY20.

The Governor has also proposed a cut of $5.9M (of which $2.4M was earmark spending) to After-School Grant Programs (7061-9611) to $2.57M in FY21.

The Department’s other accounts are level funded in the Governor’s House 2 proposal with either the removal of legislative earmarks and/or changes in FY21 payroll costs.

The attached chart summarizes the Governor’s FY21 budget recommendations in comparison to our current and prior year’s appropriation history and identifies variances.

The Governor’s House 2 budget recommendations begin the FY21 budget development process that will culminate in late June when the Legislature approves the FY21 budget and forwards it to the Governor for his final review and approval.

Please let us know if you have any questions or concerns. A discussion of the Governor’s budget proposal and school finance bill will be on the agenda at the Board meeting on January 28, 2020.

Attachment