

FY15 Chapter 70 Aid

July 2014

MASSACHUSETTS DEPARTMENT OF
ELEMENTARY AND SECONDARY
EDUCATION



Highlights

- FY15 Chapter 70 aid is \$4.40B, a 2.3% increase from FY14.
- This year marks a big step forward in implementing the equity component of Chapter 70 for communities required to contribute more than their targets. Those communities will have the gap between their required and target local contributions reduced by half.
- All eligible regular education pre-kindergarten pupils now count in the foundation budget.
- All districts receive at least \$25 per pupil in additional aid over the prior year.



Chapter 70 is the Commonwealth's school funding statute

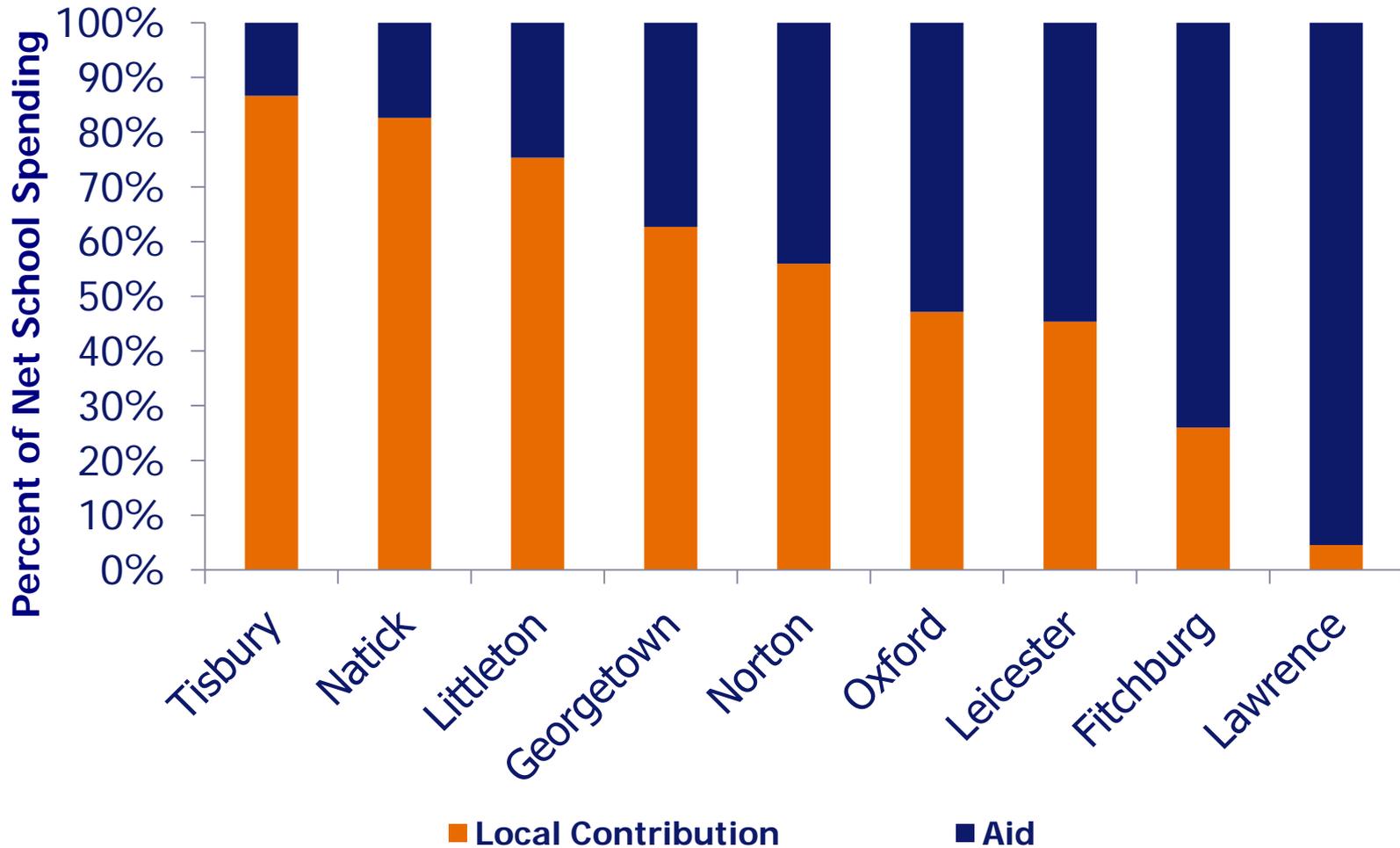
A district's Chapter 70 aid is determined in three basic steps:

1. It defines and calculates a **foundation budget**, an adequate funding level for each district, given the specific grades, programs, and demographic characteristics of its students.
2. It then determines an equitable **local contribution**, how much of that "foundation budget" should be paid for by each city and town's property tax, based upon the relative wealth of the community.
3. The remainder is funded by Chapter 70 (c70) **state aid**.

Local Contribution + State Aid = a district's Net School Spending (NSS) requirement. This is the minimum amount that a district must spend to comply with state law.



Districts receive different levels of Chapter 70 aid, because their community's ability to pay differs



Key Factors in School Funding Formula

Foundation Budget

- Enrollment
- Wage Adjustment Factor
- Inflation

Local Contribution

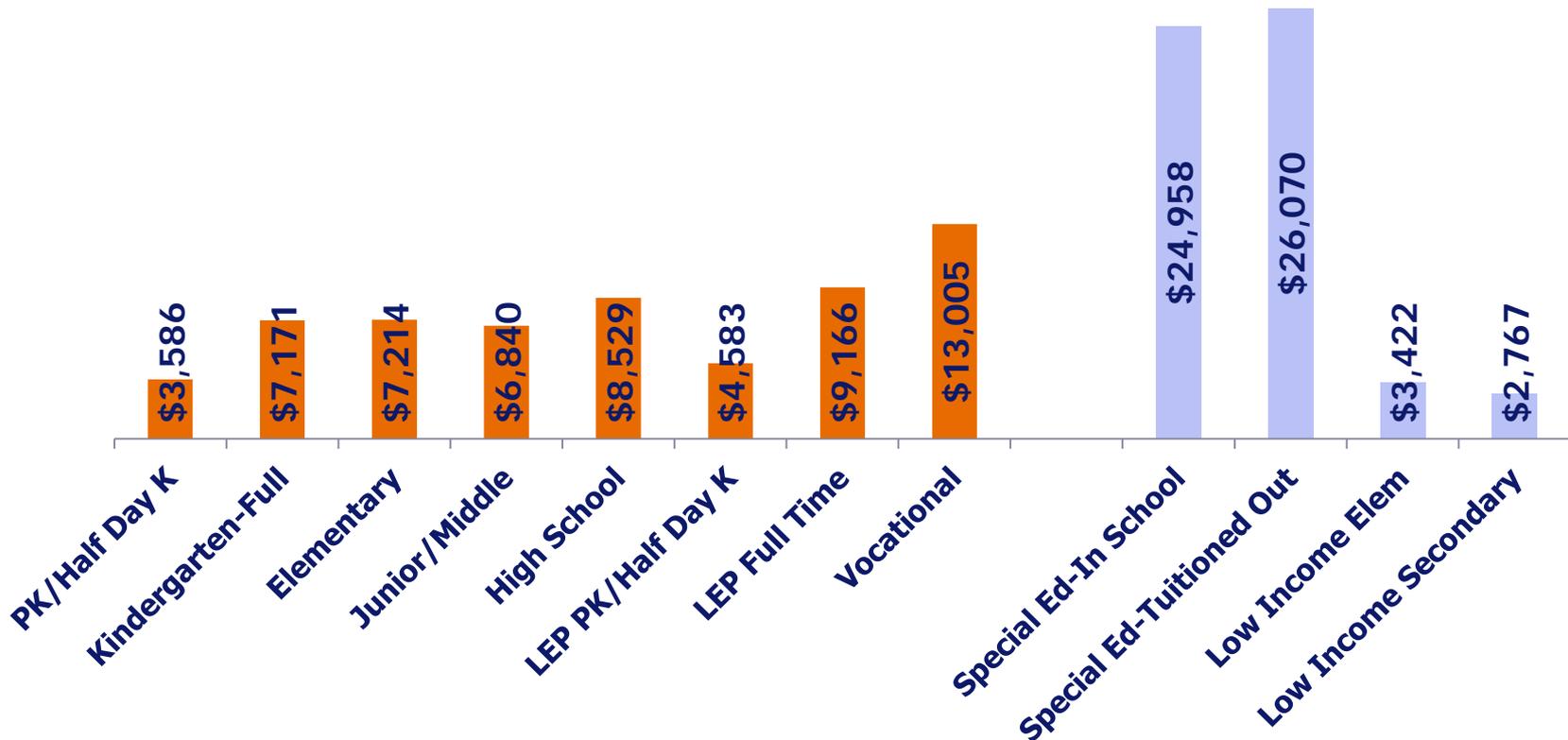
- Property value
- Income
- Municipal Revenue Growth Factor

These six factors work together to determine a district's c70 aid.



Foundation Budget

FY15 Foundation Rates per Pupil

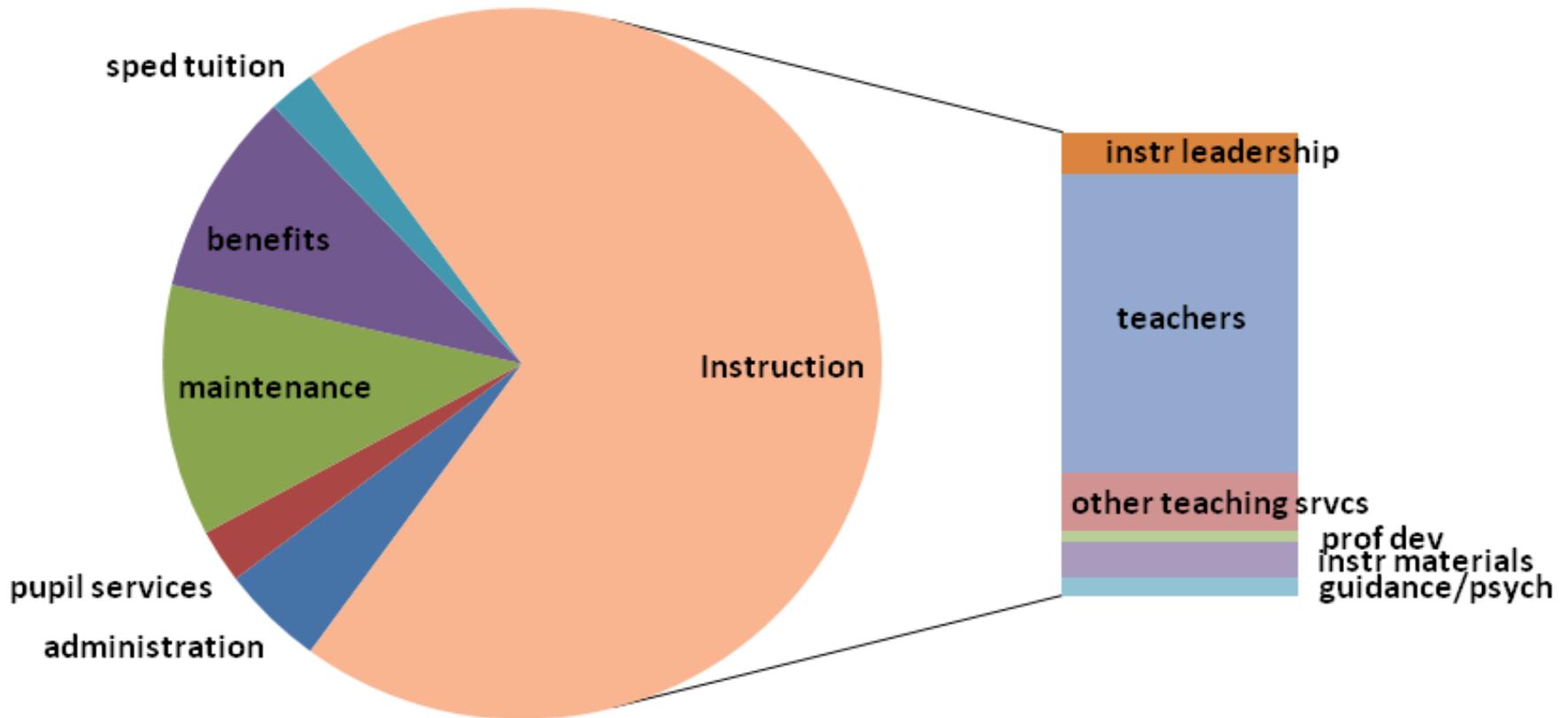


Average Foundation Rate is \$10,486 per pupil.



Foundation Budget

FY15 Statewide Foundation Budget by Spending Category



70 percent of statewide foundation is instructional in nature.



Local Contribution

Establishing local ability to pay

- The foundation budget is a shared municipal-state responsibility.
- Each community has a different **target local share**, or ability to pay, based on its property values and residents' incomes.
- Prior to this policy, required local contributions had become less linked to ability to pay. A process was established in 2007 to move each community from its 2006 baseline to its new target.



Determining each community's target local share starts with the local share of statewide foundation.

Calculate **statewide** foundation budget.

Statewide Foundation Budget
\$9,866,011,313

Determine local share of **statewide** foundation.

59% Local Contribution \$5,820,946,669	41% State Aid* \$4,045,064,344
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Statewide, determine percentages that yield ½ from property and ½ from income.

Property Effort .3624% \$3,536,333,601	Income Effort 1.5113% \$3,536,333,601
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Property and income percentages are applied uniformly across all cities and towns to determine the **combined effort yield** from property and income.

*This reflects the statewide target aid share. The state currently distributes more than this in Chapter 70 aid.



Individual communities' target local shares are based on local property values and income, and foundation budget.

- To determine local effort, first apply this year's property percentage (0.3624%) to the town's 2012 total equalized property valuation
- Then apply this year's income percentage (1.5113%) to the town's 2011 total residential income

Local Property Effort

+ Local Income Effort

= Combined Effort Yield (CEY)

- Target Local Share = CEY/Foundation budget
 - Capped at 82.5% of foundation
 - In FY15, 131 of 351 communities are capped.



Getting Closer To the Target Contribution

Determining the Upcoming Year's Local Contribution

Preliminary Contribution

- Increase last year's required local contribution by the municipality's Municipal Revenue Growth Factor (MRGF)
 - Calculated annually by the Department of Revenue
 - Quantifies the most recent annual percentage change in each community's local revenues, such as the annual increase in the Proposition 2½ levy limit, that should be available for schools

Required Contribution

- If the preliminary contribution is **above** the target, reduce by the effort reduction percent (50% in FY15).
- If the preliminary contribution is **below by less than 2.5%**, the preliminary contribution becomes the new requirement.
- If the preliminary contribution is **below by more than 7.5%**, an additional 2% is added to the preliminary contribution. For those **below by between 2.5 and 7.5%**, 1% is added.



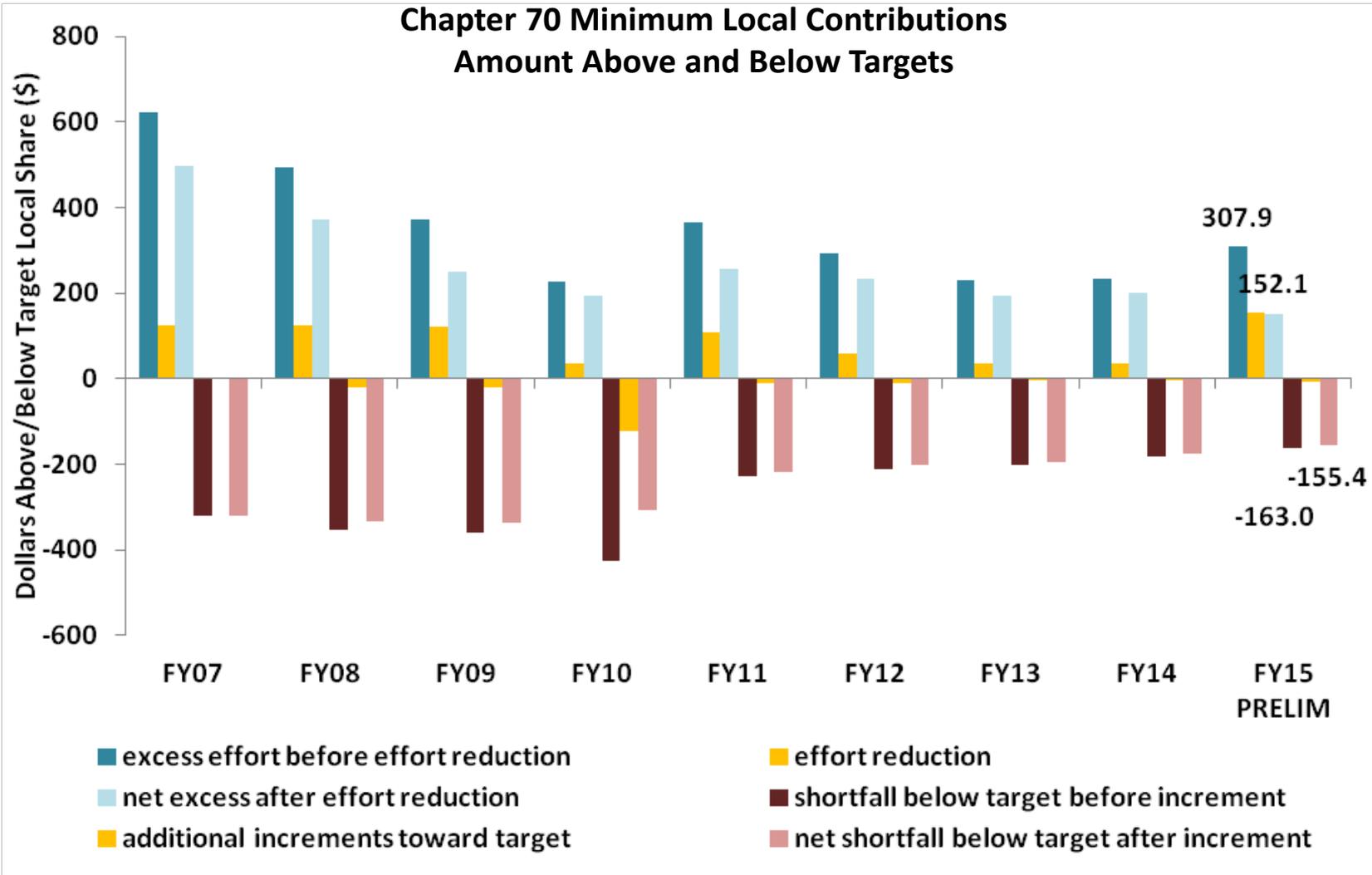
Reaching the Targets Over Time

Local contribution and aid targets were first defined in FY07, with a projected five-year phase-in. Phase-in was slowed by the state revenue crisis.

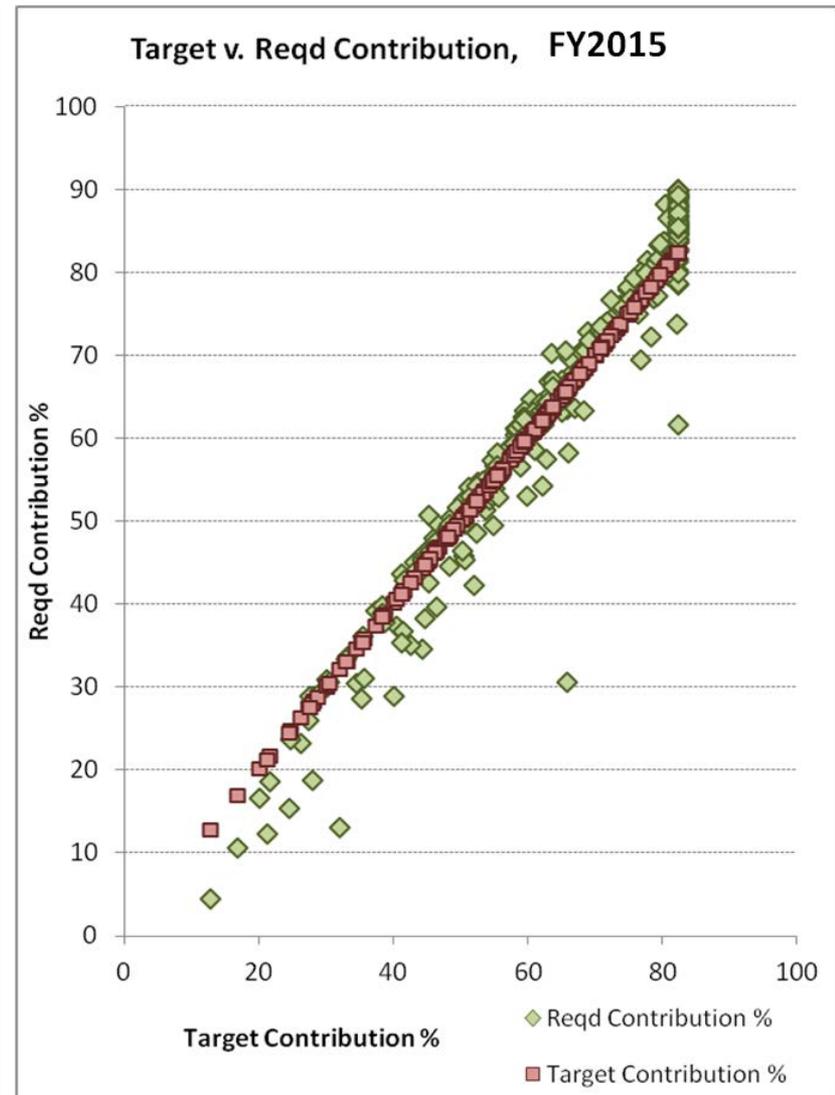
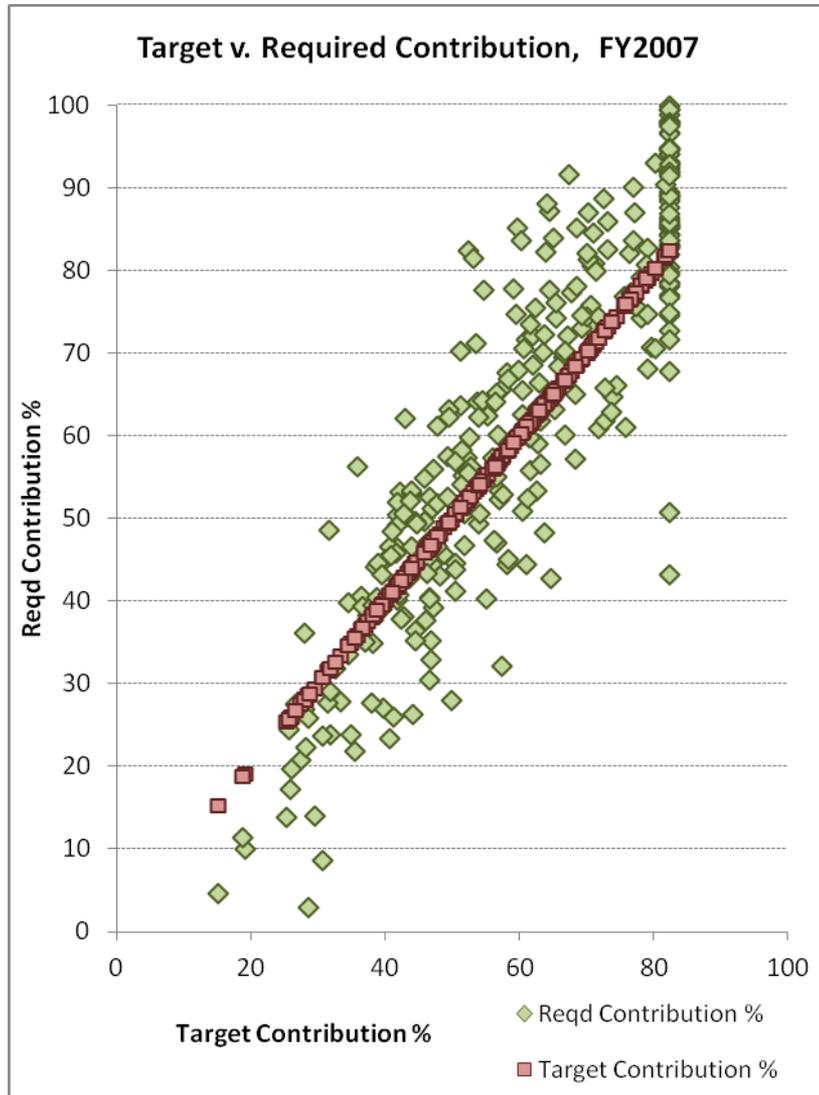
- Chapter 70 (FY15) continues the transition towards the local contribution and aid targets.
- **279** communities with required excess effort are reduced by **50%** of that excess, amounting to **\$154** million in lower required contributions.
- **72** communities have required contributions below their targets, and are moved closer by their MRGFs, plus:
 - an additional 1% if below by 2.5 to 7.5% (n=**31**), or
 - an additional 2% if below by more than 7.5% (n=**16**).
 - Additional contributions total **\$7.6** million.



Progress Toward Target Contributions



Progress Toward Target Contributions



1/22/2014

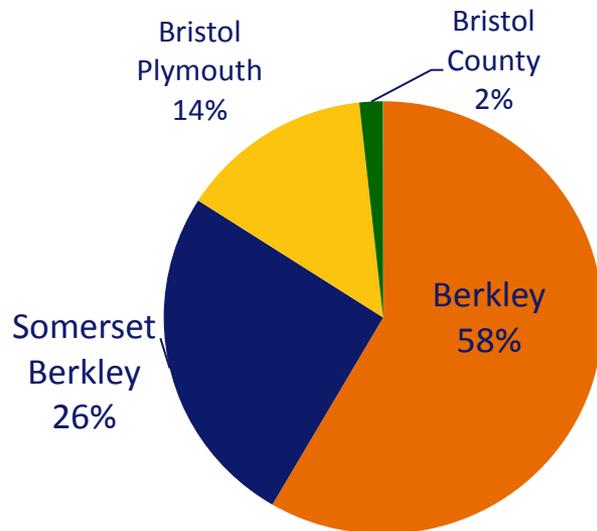


Regional Allocation

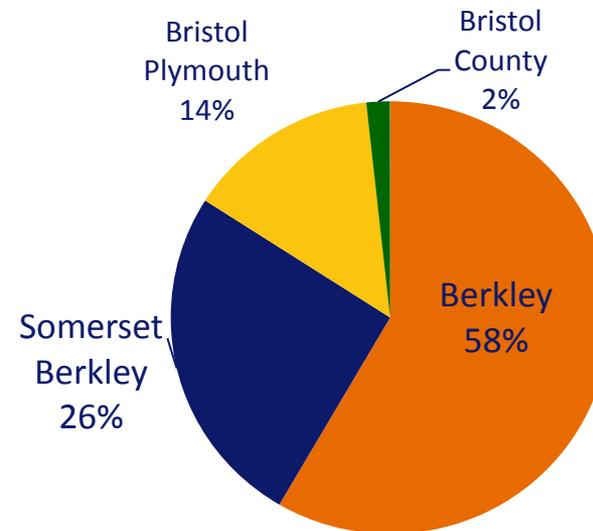
Example: Berkley

Town of Berkley

Foundation Budget = \$11.3M



Required Local Contribution = \$5.5M



- The city or town's required local contribution is allocated among the districts in which it is a member.
- This is based upon the share of it's total foundation budget.



Calculating Chapter 70 Aid

- Start with prior year's aid
 - FY14 c70 (statewide: \$4.3B)
- Add together the prior year's aid and the required local contribution (Row 1 and 3). If the combined amount is minus than foundation budget:
 - Foundation aid** provides additional funding for districts to spend at foundation levels (Row 4). 59 operating districts
- Calculate the district's foundation aid with local effort fully reduced to target. Provide 35% of that amount if its larger than the foundation aid increase. 94 operating districts
- If it is greater than foundation budget:
 - Chapter 70 aid** is held harmless at the prior year's level.
 - District receives at least \$25 per pupil in additional aid over FY14 (201 operating districts).

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Aid Calculation FY15

Prior Year Aid

1 Chapter 70 FY14	34,079,799
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Foundation Aid

2 Foundation budget FY15	66,876,305
3 Required district contribution FY15	32,678,917
4 Foundation aid (2 -3)	34,197,388
5 Increase over FY14 (4 - 1)	117,589

Downpayment Aid

6 Target aid %	51.50%
7 Foundation aid with fully reduced effort	34,441,297
8 Increase over FY14 to reach 35% phase-in	126,524
9 Downpayment aid	8,935

Minimum Aid

10 Minimum \$25 per pupil increase	29,151
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Non-Operating District Reduction to Foundation

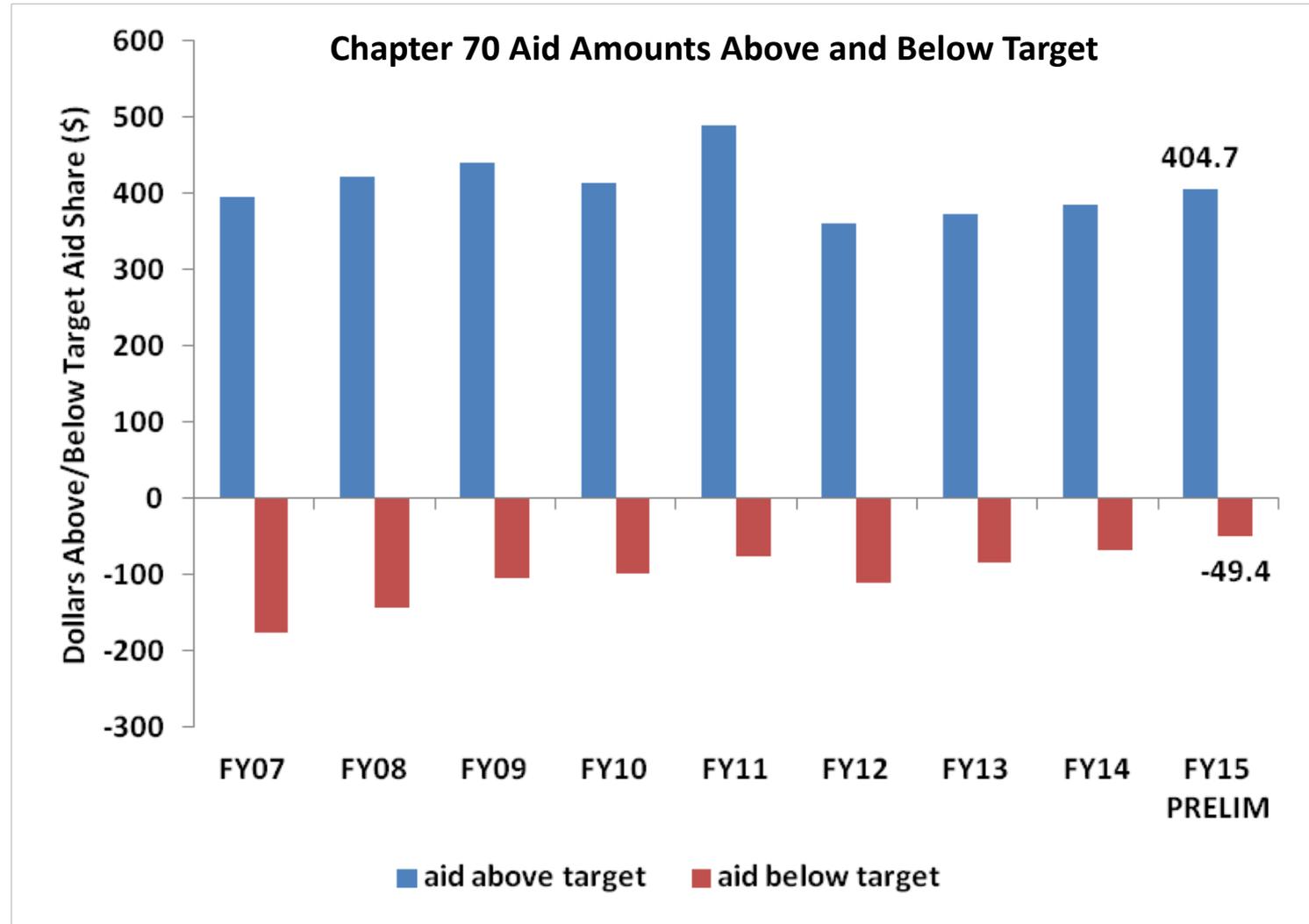
11 Reduction to foundation	0
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FY15 Preliminary Chapter 70 Aid

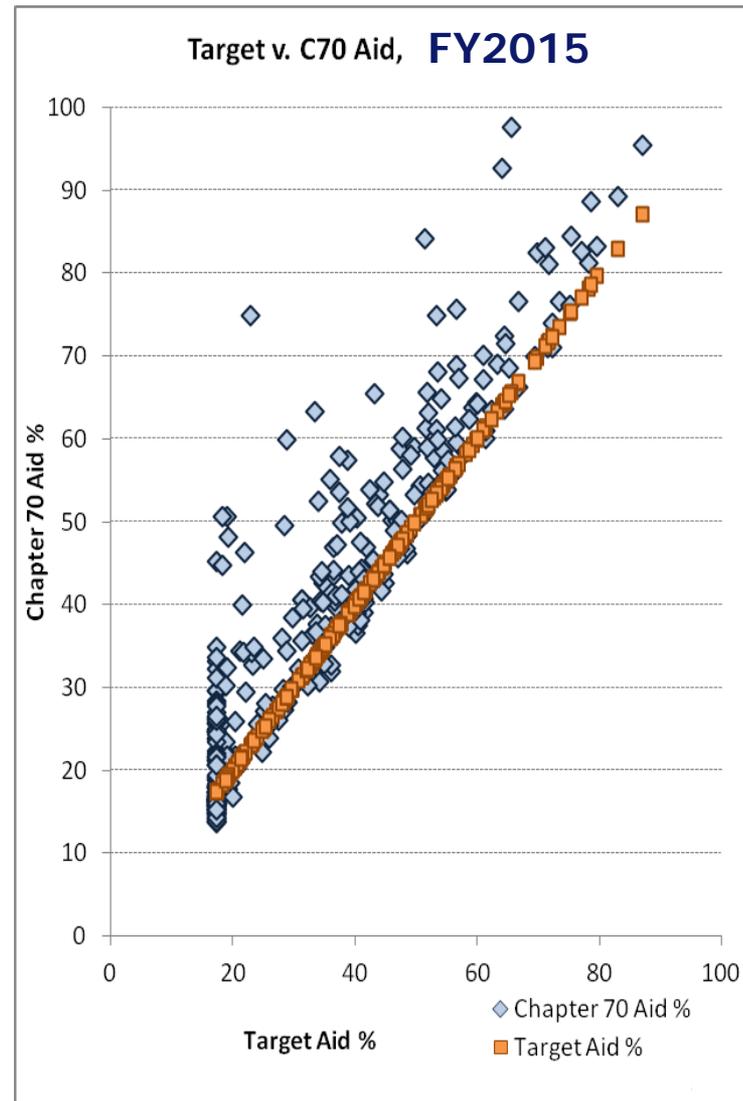
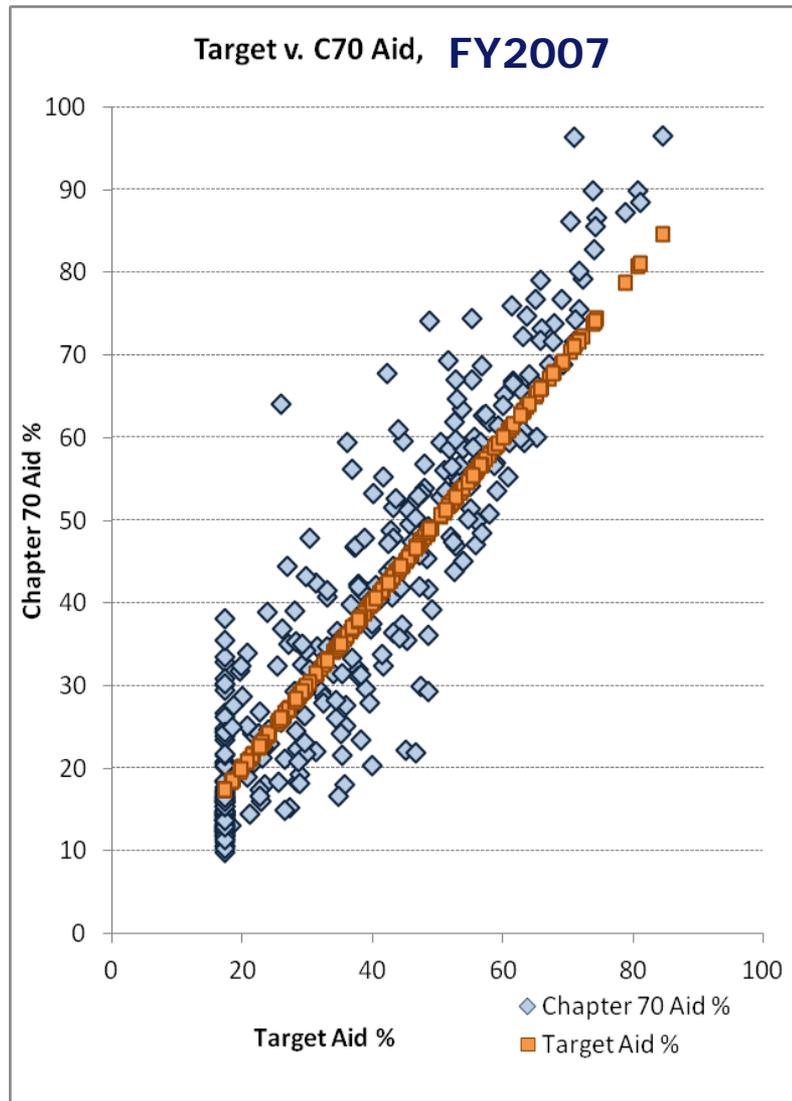
12 sum of line 1, 5, 9 and 10 minus 11	34,235,474
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Progress Toward Target Aid Share



Progress Toward Target Aid Share



Net School Spending v. Actual NSS

Net School Spending (NSS)

- Chapter 70 Aid
- + Required Local Contribution
District's NSS Requirement
- NSS requirement is legal funding obligation for each district.
 - Remains fully in effect and will be enforced
 - Aid penalties result from non-compliance

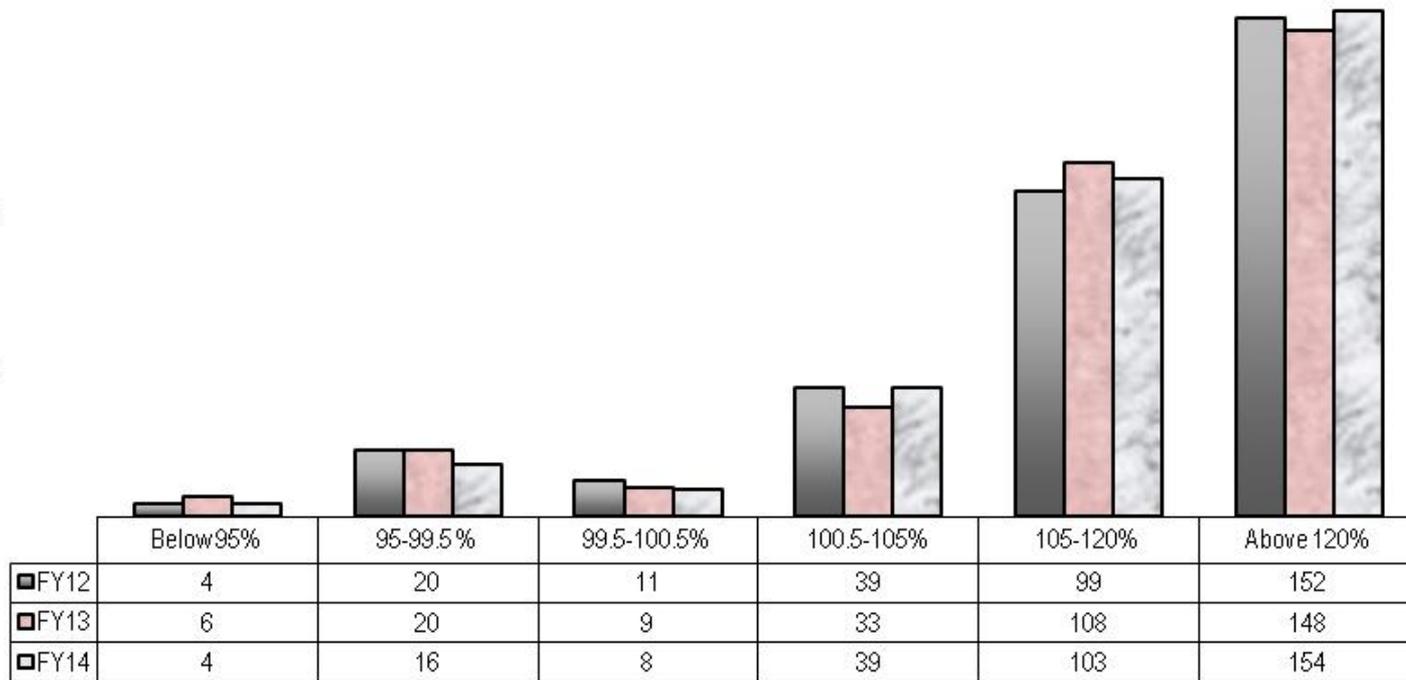
"Actual" NSS

- Computed each year from each district's End of Year Financial Report
 - Includes operating expenditures
 - Includes municipal indirect costs such as insurance, maintenance and administration
 - Excludes non-appropriated funds such as grants and revolving funds
 - Excludes capital spending



Most Districts Spend in Excess of Their Net School Spending Requirement

N of Operating Districts



Chapter 70 Website

<http://www.doe.mass.edu/finance/chapter70/>



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