*****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:** | February 1, 2021 |
| **Subject:** | Governor’s FY22 House 1 Budget Proposal |

On January 27th, Governor Baker filed House 1, containing the Administration’s FY22 state spending recommendations for the upcoming fiscal year. The Governor recommends total state spending of $45.6 billion (excluding transfers to the Medical Assistance Trust Fund), representing a 0.7% decrease over FY21 spending. The Governor has prioritized spending increases for key areas, including education, economic development, workforce development, substance misuse services and treatment, and local communities.

The Department’s recommended appropriations total $6.26 billion, which represents an increase of $150.3 million (2.46%), over FY21 spending. The Governor’s request fully funds the first year of the Student Opportunity Act, adding a total of $246.3 million in new spending for initiatives laid out in this comprehensive education legislation. This includes an increase of $197.7 million in Chapter 70 funding, $26.14 million more for district reimbursement for charter school tuition payments, and $22.5 million for special education circuit breaker reimbursement. Additionally, the Administration is proposing to allow municipalities to count a percentage of federal Elementary and Secondary Schools Emergency Relief (ESSER) grant funds towards their Chapter 70 required local contribution increases.

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

1. **Education Local Aid & Reimbursements**

Chapter 70 aid (7061-0008) is increased by $197.7M (3.74%) to $5.481B. The FY22 Chapter 70 program reflects the passage in November 2019 of [An Act Relative to Educational Opportunity for Students](about:blank), 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.

*Statutory parameters*

The updated formula includes three parameters to be specified in each year’s General Appropriations Act (GAA). In House 1, these are specified as follows:

* Total state target local contribution: 59%
* Effort reduction: 100%
* Minimum aid: $30 per pupil

*Foundation budget changes*

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. The rates have been increased by one-seventh of the gap between the FY21 rates and the final target rates. 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, foundation budget categories have been increased 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 FY22 the increase is 2.78%. An inflation increase of 1.41% 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 combination of inflation, rate increases dictated by the Act, and the low-income enrollment expansion increased statewide foundation budgets by $257 million or 2.21%, despite the impact of a statewide enrollment decline of 3.26%, due in part to the ongoing pandemic. Overall foundation enrollment decreased from 938,085 in FY21 to 907,506 in FY22, a decrease of 30,579 students. Foundation budgets declined for 153 operating districts, including 29 districts with declines of more than 5 percent.

The Act also adds a new minimum aid adjustment to the formula. This provides hold harmless aid to 20 school districts that would otherwise have higher aid levels if the Act were not implemented.

Finally, the formula’s minimum aid provision guarantees all operating districts receive at least the same amount of aid in FY22 as they did in FY21 plus at least $30 per pupil. Therefore, the enrollment changes and any associated foundation budget decreases did not yield less aid than in FY21.

*Low income and special education enrollment*

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 FY21. For FY22, 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 FY22 is 382,088, including students matched through direct certification and estimated student counts based on FY16, compared to 351,970 identified as economically disadvantaged in FY21, which only includes students who were directly certified.

The Act also increases the assumed in-district special education enrollment to 5% for vocational students and 4% for non-vocational students. In FY22, these assumed rates have been increased by one-seventh of the gap to 4.82% and 3.82%, respectively.

*Required local contributions*

The aggregate wealth model that has been used to determine local contribution requirements since FY07 remains in place.

Also, in FY22, municipalities may deem an amount up to 75% of the total grant awarded to its local school district through the Elementary and Secondary Education Emergency Relief (ESSER) program enacted by the federal Coronavirus Response and Relief supplemental appropriations act on December 27, 2020 (also known as ESSER II) to fund any *increase* in its local contribution requirement under Chapter 70, but not more than the increase in required local contribution in FY22 relative to FY21. In the case of a municipality’s increased required contribution as a member of a regional school district, a municipality may deem a proportional share of 75% of the regional district’s total ESSER II grant award, equal to the municipality’s share of the district’s total required contribution, to satisfy the increase in its required contribution.

This provision will allow districts, if they choose, to use up to $114 million of [ESSER II funding](https://www.doe.mass.edu/federalgrants/esser/) to satisfy net school spending increases, which represents about 17% of the total ESSER II grants available for school districts. It is important to note that these funds can only be used to meet FY22 spending requirements and will not count toward meeting spending requirements carried forward from prior fiscal years. Of the 225 (out of 318) school districts with increased required local contributions in FY22, 147 or 65% are receiving sufficient ESSER II funding to offset 100% of the increase, using between 1% and 75% of their total ESSER II awards.

Finally, pursuant to its codification in the Act, a provision introduced in the FY20 budget specifying a minimum required local contribution of 82.5% of foundation for any city or town with a combined effort yield greater than 175% of foundation is continued in FY22.

*Charter school tuition*

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 FY22 have been incorporated into our projected FY22 tuition rates. In addition, charter school low-income enrollment for FY22 has been calculated in a manner consistent with the methodology used for districts. The facilities component of the tuition rate is held constant at FY21 levels, at $938 per pupil, with this cost fully reimbursed by the state as in prior years.

The Governor has also proposed an increase of $26.1M over the FY21 GAA for Charter School Tuition Reimbursements (7061-9010) to $143.5M. The reimbursement formula for transitional aid to districts reflects the change enacted by Section 38 of the FY20 budget, under which districts receive state reimbursement for 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 the first year, 90% in the second, and 100% in subsequent years. The Governor has recommended a $143.5 million appropriation for these reimbursements. 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. The projected assessments and reimbursements for charter tuition payments at this point in the year can be useful for budget planning but should not be viewed as final numbers.

In calculating reimbursement to districts for charter school tuition payments, the Department is excluding the per pupil amount of required local contribution that may be supported by each sending school district’s ESSER II award, consistent with the fact that federal funds cannot be transferred to charter schools in district tuition payments. This exclusion results in a reduction in tuition payments to charter schools of $7.5 million. Like districts, charter schools will be able to access their own ESSER II funding to make up for this tuition reduction. However, in cases where charter schools would otherwise need to use more than 75% of their ESSER II funding to offset the tuition reduction, the state will direct additional state payments to these schools totaling $385,058 to make up the difference. In total, charters will be able to use $7.1 million of their available ESSER II funding to offset for lost tuition revenue, which represents 11% of their total available ESSER II awards.

Special Education Circuit Breaker reimbursement (7061-0012) is increased by $22.5M over the FY21 level to $367.7M, to reimburse up to 25% of out-of-district special education transportation costs, as directed by a provision of the Student Opportunity Act.

The FY22 House 1 budget proposes a reduction of $6.3 million for Regional School Transportation (7035-0006) and another $2.35 million reduction for Homeless Transportation (7035-0008). House 1 has level funded other district reimbursement accounts at FY21 GAA spending levels including Non-Resident Vocational Student Transportation (7035-0007), and METCO Program (7010-0012). Proposed House 1 funding for Rural School Aid (7061-9813) has been reduced to $1.5M for FY22

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

The Governor’s House 1 budget consolidates the following line items into the renamed English Acquisition and Literacy Programs (7010-0033) account with a combined funding level of $4.3 million, $2.69 million less than the combined FY21 GAA levels.

* 7010-0033 Literacy Programs ($700K reduction)
* 7027-1004 English Language Acquisition ($1.99M reduction from the FY21 GAA)

1. **Administrative Resources to Implement Student Opportunity Act**

Because the Student Opportunity Act assigned additional responsibilities to the Department, the Governor’s House 1 proposal adds more administrative funding to carry out these duties.

* 7061-9200 Education Data Services is increased by $500K over the FY21 GAA to $1.08 million.

1. **Program Changes**

FY22 House 1 eliminates spending for five accounts previously funded in FY21:

* 7010-1193 Civics Education Programs ($1M reduction)
* 7010-1194 Financial Literacy Education ($250K reduction)
* 7010-1202 Digital Literacy Now Grant ($1M reduction)
* 7061-9401 Assessment Consortium ($200K reduction)
* 7061-9406 College and Career Readiness account ($875K reduction)

FY22 House 1 also proposes reductions in these accounts:

* reduces the Department’s Main Administration account (7010-0005) by $940K ($915K was due to FY21 earmarks)
* Special Education in Institutional Settings (7028-0031) is funded at $456K less than the FY21 GAA at $7.97M
* reduces Adult Basic Education (7035-0002) by $5.78 million to $40.6M
* funds AP Math and Science (7035-0035) at $2.89M, a $400K reduction
* cuts $91K to School and District Accountability Reviews (7061-0029) at $925K
* reduces Targeted Assistance (7061-9408) by $1.52M to $12.56M
* Expanded Learning Time Grants (7061-9412) is reduced by $5.3M to $3.99M
* the Recovery High School Program (7061-9607) is funded at $2.6M, $100K less than in FY21
* cuts $8.67M ($665K of which was earmark spending) from After-School Grant Programs (7061-9611), funded at $2.58M in FY22
* reduces YouthBuild Programs by $600K to $2.4M
* Summer Learning Grants (7061-9814) is funded at $500K, a reduction of $500K.

The Governor has not proposed any FY22 funding for 7061-9650, the Supporting Healthy Alliances Reinforcing Education Grant Program. However, it is likely that some FY21 funding for this account will continue into FY22 through a PAC (prior appropriation continued) provision.

DESE’s other accounts are level funded in the Governor’s House 1 proposal with either the removal of legislative earmarks and/or changes in FY22 payroll costs.

The attached chart summarizes the Governor’s FY22 budget recommendations in comparison to our current and prior year’s appropriation history and identifies variances.

The Governor’s House 1 budget recommendations begin the FY22 budget development process that will culminate in late June 2021 when the Legislature approves the FY22 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 February 23, 2021.

Attachment