*****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 8, 2022 |
| **Subject:** | Governor’s FY23 House 2 Budget Proposal  |

On January 26th, Governor Baker filed House 2, containing the Administration’s FY23 state spending recommendations for the upcoming fiscal year. The Governor recommends total state spending of $48.5 billion (excluding transfers to the Medical Assistance Trust Fund), representing a 0.5% increase above FY22 spending.

The Department’s recommended appropriations total $6.94 billion, which represents an increase of $518.36 million (8%), over FY22 spending. The Governor’s request funds the Student Opportunity Act on pace to fully implement the law by FY27 as required, adding a total of $594.3 million in new spending for initiatives laid out in this comprehensive education legislation. This includes an increase of $485.3 million in Chapter 70 funding, $67.7 million more for district reimbursement for charter school tuition, and $41.3 million for special education circuit breaker reimbursement.

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

1. **Education Local Aid & Reimbursements**

Chapter 70 aid (7061-0008) is increased by $485.3M (8.8%) to $5.989B. The FY23 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.

*Statutory parameters*

The updated formula includes three parameters to be specified in each year’s general appropriations act. In House 2, 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 by FY27. For FY23, the rates have been increased by two-sixths of the gap between the rates in FY21 - the base year used in the calculations - and the final target rates. The Act also increased the number of tiers used for the low-income increment rates 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 are also 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 FY23 the increase is 4.51%. An inflation rate of 4.50% is applied to all other foundation budget rates, based on the U.S. Department of Commerce’s state and local government price deflator and capped at the 4.50% maximum set in the Act. The Act does not set a maximum for the employee benefits inflation rate.

Statewide, foundation enrollment decreased from 907,506 in FY22 to 903,751 in FY23, a decrease of 3,755 or 0.4%. Foundation enrollment decreased for 153 districts, while 27 districts experienced enrollment increases of greater than five percent.[[1]](#footnote-2)

Finally, the formula’s minimum aid provision guarantees all districts receive at least the same amount of aid in FY23 as they did in FY22 plus at least $30 per pupil.

*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 FY22. For FY23, a district’s low-income enrollment is based on three eligibility categories:

* Students identified as participating in state public assistance programs, including the Supplemental Nutrition Assistance Program (SNAP), Transitional Aid to Families with Dependent Children (TAFDC), MassHealth, and foster care; or
* Students certified as low income through the new supplemental data collection process; or
* Students reported by a district as homeless through the McKinney-Vento Homeless Education Assistance program application.

Statewide, low-income enrollment for FY23 is 407,501, compared to 382,088 in FY22, which included students matched through direct certification or an estimated student count based on FY16 low-income enrollment.[[2]](#footnote-3)

The Act also increases the assumed in-district special education enrollment to 5% for vocational students and 4% for non-vocational students. In FY23, these assumed rates have been increased by two-sixths of the gap to 4.86% and 3.86% respectively.

*Required local contributions*

The aggregate wealth model that has been used to determine local contribution requirements since FY07 and that is now codified in the Act remains in place. For municipalities with required contributions above their targets, the equity component of the formula sets their contributions at target.

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 FY23.

*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 FY23 have been incorporated into our projected FY23 tuition rates. In addition, charter school low-income enrollment for FY23 has been identified using the same eligibility criteria used for districts. The facilities component of the tuition rate is $1,088 per pupil, up from $938 per pupil in FY22, with this cost fully reimbursed by the state as in prior years.

The reimbursement formula for transitional aid to districts reflects 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 the first year, 90% in the second, and 100% in subsequent years. The Governor has recommended a $219.4 million appropriation for these reimbursements. This appropriation level is expected to meet or exceed the 90% 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 time can be useful for budget planning but should not be viewed as final numbers.

Special Education Circuit Breaker reimbursement (7061-0012) is increased by $41.3M over the FY22 level to $414.6M and continues the phase-in of a provision of the Student Opportunity Act to reimburse up to 50% of out-of-district special education transportation costs.

The FY23 House 2 budget proposes a reduction of $4.37 million for Regional School Transportation (7035-0006) and increases reimbursement for Homeless Transportation (7035-0008) over FY22 level by $8.53M. House 2 has level funded other district reimbursement accounts at FY22 GAA spending levels including Non-Resident Vocational Student Transportation (7035-0007), and the METCO Program (7010-0012).  Proposed House 2 funding for Rural School Aid (7061-9813) has been level funded at $4M.

1. **Program Changes**

FY23 House 2 eliminates spending for ten accounts previously funded in FY22:

* 7010-1192 Educational Improvement Projects ($7.2M reduction)
* 7010-1193 Civics Education Programs ($1.5M reduction)
* 7010-1194 Financial Literacy Education ($250K reduction)
* 7061-0011 Foundation Reserve ($40M reduction)
* 7061-0027 COVID and Student Support Grants ($15M reduction)
* 7061-0028 Social Emotional Learning Grants ($6M reduction)
* 7061-9401 Assessment Consortium ($550K reduction)
* 7061-9406 College and Career Readiness account ($875K reduction)
* 7061-9412 Expanded Learning Time Grants ($6.2M reduction)
* 7061-9809 School District Regionalization Grants ($500K reduction)

The Governor’s House 2 has increased Innovation Pathways (7027-0020) by $4.23 million to $4.83M.

In the FY23 House 2 proposal, Targeted Assistance (7061-9408) is reduced by $4.62M to $10.37M.

FY23 House 2 has reduced YouthBuild Programs (7061-9626) by $600K to $2.4M.

DESE’s other accounts are level funded in the Governor’s House 2 proposal with either the removal of legislative earmarks and/or changes in FY23 payroll costs.

The attached chart summarizes the Governor’s FY23 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 FY23 budget development process that will culminate in late June when the Legislature approves the FY23 budget and forwards it to the Governor for his final review and approval.

Please let me 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 15, 2022.

Attachment: Massachusetts Department of Elementary & Secondary Education FY23

Governor's House 2 Budget Summary

1. Foundation enrollment for any given fiscal year is based on October 1 enrollment from the prior year, so FY23 foundation enrollment is based on October 2021 SIMS data. [↑](#footnote-ref-2)
2. Low-income enrollment relies on a 4-period match, including data matches run against October 2020 SIMS, March 2021 SIMS, end-of-year 2021 SIMS, and October 2021 SIMS. A student identified as low-income in any of those matching periods is included in the low-income calculation for FY23 budget development. [↑](#footnote-ref-3)