*****Massachusetts Department of***

***Elementary and Secondary Education***

### 135 Santilli Highway, Everett, Massachusetts 02149-1962 Telephone: (781) 338-3000 TTY: N.E.T. Relay 1-800-439-2370

|  |  |
| --- | --- |
| Jeffrey C. Riley*Commissioner* |  |

# MEMORANDUM

|  |  |
| --- | --- |
| **To:** | Members of the Board of Elementary and Secondary Education |
| **From:**  | Jeffrey C. Riley, Commissioner |
| **Date:**  | February 21, 2024 |
| **Subject:** | Governor’s FY25 House 2 Budget Proposal |

On January 24th, Governor Healey filed House 2, containing the Administration’s FY25state spending recommendations for the upcoming fiscal year. The Governor recommends total state spending of $56.1 billion, representing a 2.9% increase above FY24 spending.

The recommended appropriations for the Department of Elementary and Secondary Education (DESE) total $8.11 billion, which represents an increase of $154.1 million (1.9%), over FY24 spending (post-“9c” budget reduction). The Governor’s request fully funds the fourth-year phase-in of the Student Opportunity Act, adding a total of $263.4 million in new spending for Chapter 70 funding. Governor Healey has also proposed $5 million for a new account (1596-2436) for Mental Health Systems and Wraparounds.

The FY25 House 2 budget also includes a new $30 million line-item for the Literacy Launch program to improve early literacy rates in young learners under the Executive Office of Education (1596-2437) to be spent over three fiscal years.

The following summarizes the Governor’s recommendations for education funding under DESE’s purview, by program area.

1. **Education Local Aid & Reimbursements**

**Chapter 70 aid (7061-0008)** is increased by $263.4M (4.0%) to $6.86B. The FY25 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 (SOA). The SOA 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 SOA 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, which are all expected to be phased in by FY27. For FY25, the rates have been increased by 4/6ths of the gap between the rates in FY21—the base year used in the calculations—and the final target rates. The SOA 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 FY25 the increase is 5.03%. An inflation rate of 1.35% is applied to all other foundation budget rates, based on the U.S. Department of Commerce's state and local government price deflator.

Statewide, foundation enrollment increased from 905,106 in FY24 to 905,331 in FY25, an increase of 225 students. Foundation enrollment decreased for 165 districts, while 148 districts experienced enrollment increases.

Finally, the formula's minimum aid provision guarantees all districts receive at least the same amount of aid in FY25 as they did in FY24 plus a $30 per pupil increase.

*Low-income and special education enrollment*

The SOA 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 FY25, 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 verified as low income through a supplemental data collection process first used for Chapter 70 in FY23; or
* Students reported by a district as homeless through the McKinney-Vento Homeless Education Assistance program application.
* Statewide, low-income enrollment for FY25 is 414,590, compared to 421,305 in FY24.

The SOA also provides for a phase-in of increases to the assumed in-district special education enrollment to 5% for vocational students and 4% for non-vocational students. In FY25, these assumed rates have been increased by 4/6ths of the gap to 4.93% and 3.93%, respectively.

*Required local contributions*

The aggregate wealth model that has been used to determine target local contribution requirements since FY07 is now codified in Chapter 70 by the SOA. For municipalities with preliminary required contributions above their targets, the effort reduction component of the formula closes 100% of the gap between their preliminary contribution and their contribution target. For municipalities with preliminary required contributions significantly below their targets, the formula continues to apply an additional increment to their required contribution to close a portion of the gap to their contribution target.

Finally, pursuant to its codification in Chapter 70 by the SOA, 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 FY25.

*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 FY25 have been incorporated into our projected FY25 tuition rates. In addition, charter school low-income enrollment for FY25 has been identified using the same eligibility criteria used for districts. The facilities component of the tuition rate is $1,188 per pupil, 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, which provided for a reimbursement 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 SOA required 75% of the total state obligation to be funded in the first year (FY22), 90% in the second (FY23), and 100% in subsequent years (FY24 and beyond). The Governor has recommended a $199.0 million appropriation for these reimbursements. This appropriation level is expected to meet the 100% requirement in FY25. The projected assessments and reimbursements for charter tuition payments at this point can be useful for budget planning but should not be viewed as final numbers, given normal fluctuations in both projected and actual enrollments which occur over the course of the fiscal year.

**Special Education Circuit Breaker reimbursement (7061-0012)** is decreased by $6.7M to $492.2M. When combined with the $75M Ch.766 reserve fund made available for reimbursement of current year expenses of districts in FY24 (thereby offsetting FY25 reimbursement needs) or otherwise to be available in FY25 to supplement funding in this item (for reimbursement of expenses not reimbursed in FY24 from the reserve) and a lower need projected for traditional Extraordinary Relief in FY25 (returning to the traditional set-aside level of $5M from a one-time need level of $20M in FY24), this funding level is projected to reimburse 100% of the entitlements and traditional earmarks provided for under the Circuit Breaker program.

* This 100% reimbursement projection includes the new, out-of-district transportation costs made eligible under a provision of the Student Opportunity Act (SOA).

The FY25 House 2 budget also proposes a $2.38M increase for Regional School Transportation (7035-0006) to $99.46M projected to reimburse regions at 80% of the projected entitlement.

1. **Program Changes**

FY25 House 2 eliminates spending for nine accounts previously funded in FY24:

* 1596-2424 Green School Works ($50M appropriated in FY24 will be issued as grants on a multi-year basis in FY25 and beyond in partnership with the MA Clean Energy Center)
* 7010-1194 Financial Literacy Education ($250K reduction)
* 7010-1196 Smart from the Start ($375K reduction)
* 7061-0009 Minimum Pupil Aid ($7.86M reduction)
* 7061-9406 College and Career Readiness ($875K reduction)
* 7061-9412 Expanded Learning Time Grants ($134K reduction)
* 7061-9650 Supporting Healthy Alliances Reinforcing Education Grants ($664K reduction)

Other changes in the FY25 House 2 education budget proposal include:

* 21st Century Education Trust Fund is reduced by $2M to $1M but this trust account will have a carryover balance from FY24 to support SOA grants in FY25
* Civics Project Trust Fund (1595-0115) is reduced by $1M to $1.5M but this trust account will have a carryover balance from FY24 to support programming in FY25
* Universal School Meals (1596-2422) is funded at $170M, a reduction of $1.5M from the FY24 combined funding (1596-2422 and 7053-1925)
* $5M for the new Mental Health Systems and Wraparounds account (1596-2436)
* Innovation Pathways (7027-0020) is reduced by $360K to $5.39M
* Career and Technical Education (7035-0001) is reduced by $543K to $2.5M
* Adult Basic Education (7035-0002) is reduced by $1M to $59.4M
* AP Math and Science Programs (7035-0035) is reduced by $1.3M to $2M
* $110M of free school meals earmark is moved from School Breakfast Program (7053-1925) to 1595-2422 Universal School Meals
* School & District Accountability Reviews (7061-0029) is increased by $207K to $1.59M to fund payroll increases and the costs of annual reviews
* Public School Military Mitigation (7061-0033) is reduced to $725K in FY25
* After-School Grant Program (7061-9611) is reduced by $2.5M to $8.45M
* YouthBuild Programs (7061-9626) is reduced by $1.25M to $1.75M
* Mentoring Matching Grants is reduced by $300K to $1.5M

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 FY25 payroll costs.

The attached chart summarizes the Governor’s FY25 budget recommendations in comparison to our current year’s and prior year’s appropriation history and identifies variances.

The Governor’s House 2 budget recommendations begin the FY25 budget development process that will culminate in late June/early July when the Legislature approves the FY25 budget and forwards it to the Governor for her final review and approval.

Please let me know if you have any questions or concerns. A discussion of the Governor’s education budget proposal for FY25 will be on the agenda at the Board meeting on February 27, 2024.

Attachment