# MEMORANDUM

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| **To:** | Members of the Board of Elementary and Secondary Education |
| **From:**  | Russell D. Johnston, Acting Commissioner  |
| **Date:**  | January 24, 2025 |
| **Subject:** | Governor’s FY26 House 1 Budget Proposal |

On January 22nd, Governor Healey filed House 1, containing the Administration’s FY26state spending recommendations for the upcoming fiscal year. The Governor recommends

a $61.5 billion budget proposal for Fiscal Year 2026, including $1.95 billion in surtax spending. Non-surtax spending totals $59.577 billion, a 2.6 percent increase over the current Fiscal Year 2025 spending estimate.

The recommended appropriations for the Department of Elementary and Secondary Education (DESE) total $8.6 billion, which represents an increase of $428.5 million (5.2%), over FY25 spending.

The FY26 House 1 budget also includes $25 million for Year 2 of 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. In addition to this Fair Share funded initiative, the Governor has filed a companion FY25 supplemental budget request for the following education program areas.

* $150M for Special Education Circuit Breaker
* $30M for Adult Basic Education/English as Second Language
* $25M for High Dosage Tutoring
* $32.5M for Reimagining High School under the Executive Office of Education

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 and 1596-2450)** is increased by $420.2 million to $7.322 billion. The FY2026 Chapter 70 program continues to implement the Student Opportunity Act (SOA) (An Act Relative to Educational Opportunity for Students). 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 1, these are specified as follows:

• Total state target local contribution: 59%

• Effort reduction: 100%

• Minimum aid: $75 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 FY26, the rates have been increased by 5/6ths 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 FY26 the increase is 6.13%. An inflation rate of 1.93% 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 decreased from 905,572 in FY25 to 905,254 in FY26, a decrease of 318 students. Foundation enrollment decreased for 196 districts, while 118 districts experienced enrollment increases.

Finally, the formula’s minimum aid provision guarantees all districts receive at least the same amount of aid in FY26 as they did in FY25 plus a $75 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 FY26, 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 FY26 is 419,861, compared to 415,821 in FY25.

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 FY26, these assumed rates have been increased by 5/6ths of the gap to 4.97% and 3.97%, 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 FY26.

**Charter school tuition reimbursement (7061-9010):** Foundation tuition rates for Commonwealth charter schools are based on the same foundation budget rates used in Chapter 70. The foundation budget rate increases implemented in FY26 are incorporated into the projected FY26 charter tuition rates. In addition, charter school low-income enrollment for FY26 has been identified using the same eligibility criteria used for school districts. Finally, 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 governor recommended a $179.1 million appropriation for these reimbursements. 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)**

This account was funded by multiple accounts in FY24 and FY25. Along with the typical budget funding ($498.9M in FY24 and $493.2 in FY25) an additional reserve of $75M was passed in FY24. In FY24, $18.7M was expended from the reserve, leaving $56.3M available for FY25 reimbursements. So combined, in FY24 $517.6M was available and in FY25 $549.4M was available. In FY26, House 1 will fund the program at $532M.  In addition, the Governor has filed a supplemental request to add another $150M of Fair Share funding.  This funding level is projected to reimburse 100% of the entitlements and traditional earmarks provided for under the Circuit Breaker program.

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

The FY26 House 1 budget also proposes a $27.3M decrease for Regional School Transportation (7035-0006) to $72.1M and eliminates $1M funding for the Non-Resident Vocational Transportation but has added a new Fair Share School Transportation account (1596-2451) for $50M to offset these reductions and projected to reimburse regional school transportation at 95% of the projected entitlement.

1. **Program Changes**
* FY26 House 1 eliminates spending for the1596-2424 Green School Works ($10M appropriated in FY25 will be issued as grants on a multi-year basis in FY26 and beyond in partnership with the MA Clean Energy Center).
* Tomorrow’s Teachers Program (7061-9805) is transferred to the Department of Higher Education under the 7066-9805 account.

Other changes in the FY26 House 1 education budget proposal include:

* Connecting Activities (7007-0019) is reduced by $1.6M (including $825K of earmarks) to $5.28M.
* Career Technical Partnership Grants is reduced by $578K to $4.8M.
* Career and Technical Education (7035-0001) is reduced by $381K to $3.1M.
* Adult Basic Education (7035-0002) is reduced by $930K (including $445K of earmarks) to $58.9M
* School Breakfast Program (7053-1925) is reduced by $549K to $4.47M.
* Social Emotional Learning Grants (7061-0028) is reduced by $37K to $5.96M.
* Public School Military Mitigation (7061-0033) is reduced by $164K (including $150K earmark).
* Student Assessment (7061-9400) is reduced by $298K to $41.1M.
* Recovery High Schools (7061-9607) is reduced by $19K to $2.9M.
* After-School Grant Program (7061-9611) is reduced by $1.35M (including $1.32M of earmarks) to $7.27M.
* YouthBuild Programs (7061-9626) is reduced by $1.25M to $1.75M.
* Summer Learning Grants is reduced by $30K to $2.97M.
1. 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 FY25 payroll costs.

The attached chart summarizes the Governor’s FY26 budget recommendations in comparison to our current year’s and prior year’s appropriation history and identifies variances.

The Governor’s House 1 budget recommendations begin the FY26 budget development process that will culminate in late June/early July when the Legislature approves the FY26 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 FY26 will be on the agenda at the Board meeting on January 28, 2025.

Attachment