Reconstituting the Foundation Budget

FY07 foundation budgets reflect the first significant structural modifications since the original definitions of adequate spending levels were first developed in FY94. Although the original definitions remain in statute, FY07 state budget language authorizes changes to a number of categories. An explanation of why and how the changes were made appears below.

Problems with statutory categories

- There are too many categories (18), and many of them represent relatively small expenditure levels.

Many of these categories do not conform to the way districts record and report their expenditures. This prevents good comparisons between the foundation spending targets and actual district expenditures.

- The statutory categories contain both expenditure “functions” (such as central office) and spending “objects” (such as clerical salaries). This creates a disjointed and misleading view of what needs to be spent.
How the new categories were constructed

- Eleven major functional categories have been chosen, directly following the DOE chart of accounts.

- Twelve of the original 18 categories do match current accounting definitions and are retained, along with the existing assumptions about salary levels and number of staff. Some are simply added together to form a new function. Seven of the new categories, therefore, continue to rely upon the statutory foundation budget assumptions.

<table>
<thead>
<tr>
<th>Original Category</th>
<th>New Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching + Expanded Programs</td>
<td>Teaching¹</td>
</tr>
<tr>
<td>Custodial + Maintenance +</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Extraordinary Maintenance</td>
<td></td>
</tr>
<tr>
<td>Health Care + Athletics +</td>
<td>Pupil Services</td>
</tr>
<tr>
<td>Extracurricular</td>
<td></td>
</tr>
<tr>
<td>Books and Equipment</td>
<td>Instructional Materials, Technology and Equipment</td>
</tr>
<tr>
<td>Benefits</td>
<td>Employee Benefits and Fixed Charges</td>
</tr>
<tr>
<td>Professional Development</td>
<td>Professional Development</td>
</tr>
<tr>
<td>Special Education Tuition</td>
<td>Special Education Tuition</td>
</tr>
</tbody>
</table>

- Six of the original 18 categories do not match current accounting definitions and have been eliminated.

  Support                      Clerical
  Assistants                  Central Office
  Principals                  Miscellaneous

- Four new categories have been set at 81.7 percent of the state average per pupil expenditure for those functions². That level was chosen in order to arrive at the same statewide foundation

¹ Teaching is increased from its statutory definition by $50 for each English language learner and $25 for each low income pupil.
² In other teaching services, rates were set at 125 percent of the 81.7 percent factor for elementary pupils, 90 percent for junior high, and 75 percent for high school. In guidance/psychological, the ratios were 75, 100, and 125 percent respectively.
budget in FY07 as would have been generated using the statutory method—the change to fewer categories is fiscally neutral in total.

New categories

- administration
- other teaching services (medical/therapeutic, substitutes, aides, librarians)
- instructional leadership (principals, curriculum coordinators, dept. heads)
- guidance and psychological

- Shifts in grade level rates: the impact of removing six old categories and adding four new ones is to change the per pupil rates for junior high/middle and senior high.

<table>
<thead>
<tr>
<th>Grade Level</th>
<th>Old Rate</th>
<th>New Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary</td>
<td>$6,042</td>
<td>$6,019</td>
</tr>
<tr>
<td>Junior High/Middle</td>
<td>$6,337</td>
<td>$5,706</td>
</tr>
<tr>
<td>Senior High</td>
<td>$6,610</td>
<td>$7,115</td>
</tr>
</tbody>
</table>

The new senior high differential to elementary provides a better match to actual spending patterns. The junior high/middle ratio is lower than existing patterns, but is a direct result of the underlying class size assumption of 25 pupils per teacher, as opposed to 22 for elementary and 17 for high school.

**Fiscal neutrality of consolidating the categories**

The new categories were intentionally designed so that on a statewide basis, the changes would not make the foundation budget any higher or lower than it would have been without any changes. Prior to the policy decision to raise the per pupil rates for ELL and low income pupils, the new foundation budget comes within $856 thousand or .01 percent of the $8.004 million that would have resulted without any category changes.

**Advantages of Reconstituting the Categories**

- The new categories conform to current chart of accounts definitions, which were developed in 2002 after extensive input and discussion with school officials. The changes will allow for accurate, understandable comparisons between actual expenditures and foundation amounts. The following chart shows spending in the new categories in FY04.
• Actual spending by school districts can now be presented to include all grants, revolving funds, and private funding. Previous comparisons were limited to general fund only because data in many of the foundation categories were not separately reported for the other funds. Other funds represent 13 percent of operating expenditures statewide—now the entire picture can be shown.

• Expenditures in each of the eleven major functions can be further broken into sub-functions for further examination of how money is being spent.3 There are 67 such sub-functions in all.

• Finally, showing actual spending compared to foundation categories will provide a quantifiable basis for future decisions about further refinements to the foundation budget.

**Increasing the Rates for English Language Learners and Low Income Pupils**

The FY07 teaching rate was increased by $50 for each English language learner and $25 for each low income pupil. These changes increased the statewide total foundation budget by $9.4 million.

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3 For example, “administration” is the sum of the following functions: school committee stipends and meeting costs; superintendent’s office; assistant superintendent(s); other district-wide administration; business and finance, human resources and benefits administration; legal services; legal settlements and district-wide information management.
FY07 Rates

FY07 is the first time that the inflation factor used to increase foundation rates has exceeded the statutory cap of 4.5 percent. Language in the state budget overrides the cap and allows the factor to be set at the full inflation rate of 5.86 percent.

As has been the case in the past, the underlying staffing levels, salaries and costs associated with each function are normally translated into per pupil rates.