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MTF Session Preview: Education Finance

In the upcoming session, Governor Healey and the Legislature will be responsible for continuing to implement a multi-billion dollar overhaul of the state’s Chapter 70 school aid formula. These changes will occur while many districts are awash in federal COVID recovery aid and other districts are beginning to advocate for new reforms to rationalize local funding contributions or address the unique needs of rural school districts.

This K-12 school finance preview provides a brief background on the issue, summarizes key legislative activities from last session, outlines the larger policy environment, and poses several questions policymakers will need to answer in the upcoming legislative session.

Background

In Massachusetts, every public school district receives state aid through a formula-based program known as Chapter 70. Totalling \$5.998 billion in FY 2023, Chapter 70 is the largest appropriation in the state budget. Public school financing in Massachusetts is built on the promise of a state and local partnership and this funding supports the state’s share of K-12 education costs.

Chapter 70 state education aid begins with the calculation of the Foundation Budget, which determines the total amount of funding necessary to provide all students with an adequate and equitable education. The Foundation Budget is calculated at the individual district and state level by multiplying student enrollment by per-pupil cost estimates across a range of educational spending categories and demographic factors.

Once the Foundation Budget is calculated, the next step is to determine how that cost will be shared between local municipalities and the state. The local cost, known as the Required Local Contribution, is based on municipal property and income factors, which aim to estimate a community’s ability to contribute towards the cost of educating its students. After establishing the Required Local Contribution for every city and town, the Chapter 70 formula calculates state aid. State aid is the greater of the gap between a district’s Foundation Budget and Required Local Contribution or the district’s prior year state aid plus a minimum amount of new aid for each student. In FY 2023, the minimum aid amount was \$60 per pupil.

In 2019, the state enacted the Student Opportunity Act (SOA), overhauling the calculation of the Foundation Budget to more accurately reflect educational costs. The bill significantly increased cost assumptions for low-income students and updated spending estimates for employee health insurance, English learner students, and mental health services. In addition, the bill established a

more inclusive process for counting low-income students and increased cost and assumed enrollment factors related to special education.

The SOA did not adjust how local education costs are calculated, but it did create several study groups directed to make recommendations to improve the fairness and sustainability of local education costs and assess the unique cost burdens of rural school districts. The calculation to determine the required local share of K-12 costs was last reformed in 2006.

In addition to the Chapter 70 state aid funding formula, there are several other major local education reimbursement programs in the state budget:

Special Education Circuit-Breaker – The state reimburses school districts for 75 percent of special education costs that exceed a statutory threshold. The SOA expanded the circuit breaker program to include out-of-district special education transportation costs, which had previously been excluded.

Sending District Charter School Reimbursements – The state reimburses traditional public school districts for facilities fees and tuition costs when students leave to attend public charter schools. Districts are reimbursed for 100 percent of charter school facility fees, which are paid on a per-pupil basis. Districts also receive three years of tuition reimbursement when a student leaves to attend a charter school. In the first year a student attends a charter school, the sending district is reimbursed for 100 percent of the increased tuition cost, in the second year the district receives 60 percent reimbursement, and 40 percent reimbursement in the third year. Beginning in FY 2015, the state began to significantly underfund its tuition reimbursement obligation. The SOA put the state on a three-year schedule to fully fund charter reimbursement by FY 2023. The FY 2023 budget is projected to meet the full funding obligation.

Regional School Transportation Reimbursements – Under state statute, regional school districts are eligible to be reimbursed for 100 percent of student transportation costs. Historically, the state budget has not met the full funding obligation, but the FY 2023 appropriation is anticipated to cover approximately 85 percent of eligible costs.

Reimbursements for Homeless Student Transportation – The state reimburses all school districts for the costs of transporting non-resident homeless students to school. Districts are eligible to be reimbursed for all homeless student transportation costs and the FY 2023 budget fully funded these reimbursements for the first time in a number of years.

Key Policy Actions, 2021-22

Student Opportunity Act implementation – The SOA made major changes to the state education funding formula to be phased-in fully by FY 2027; and the FY 2022 and FY 2023 budgets implemented the first two years of those changes. In total, \$714.6 million in new state aid has been distributed through the Chapter 70 formula, with hundreds of millions targeted to districts with the largest share of low-income students. At the same time, the state has followed through on commitments made in the SOA to expand the state’s special education reimbursement program and fully fund charter school reimbursements.

Universal school meals funding – The FY 2023 budget includes \$110 million in new state funding to continue universal free school meals in Massachusetts. During the pandemic, the federal government allowed all schools to provide universal free meals at no additional cost to the state. With the federal waiver expiring at the start of the current school year, the Legislature used state funds to maintain the program for an additional year. In a supplemental budget filed by Governor Healey on January 30, 2023, an additional \$65 million was included to ensure the program remained funded through the end of the fiscal year.

Federal COVID relief dollars – During the course of the pandemic, Congress authorized three rounds of Elementary and Secondary School Emergency Relief (ESSER) funding, with the first tranche provided in March of 2020 and the final round in April of 2021. In Massachusetts, ESSER has provided more than \$2.5 billion in direct aid to districts. Like the SOA, these funds are heavily weighted towards districts with large shares of low-income students. Unlike state education dollars, ESSER funds can be spent over multiple school years. Each round of ESSER has a deadline for expenditure and the final deadline is September of 2024.

Policy Context

The state begins the new session midway through implementation of the SOA. As the state continues on the path towards full funding of the SOA, enrollment trends, increasing pressures on local finances, and the continued availability of federal funds will add to the larger school finance context.

Declining Enrollment

K-12 school enrollment in Massachusetts has dropped by more than 30,000 students since the start of the pandemic. Contrary to some initial expectations, enrollment did not rebound as schools transitioned from remote to in-person learning; but, instead, continued to fall. The causes for the sustained drop in enrollment are not well understood, but if the trend continues it will have major implications for the distribution of Chapter 70 state aid (which is an enrollment-based formula) as well as the state’s long-term demographic outlook.

Growing Local Pressures

The SOA focused on the adequacy side of the school aid formula and created studies to examine emerging school finance issues related to rural school districts and the calculation of local contributions. Rural school districts – typically regional districts – have experienced declining enrollment over an extended period of time. Because the state aid formula is enrollment based, these districts have had limited increases in state aid over time. Last year, a commission convened to study financial difficulties faced by rural schools and put forward several recommendations to provide targeted assistance. The FY 2024 budget will be the first opportunity for policymakers to consider those funding recommendations.

The SOA significantly increases foundation budgets, especially for districts with large concentrations of low-income students. Much of this increase will be covered by new state aid, but it will also result in increased local contribution requirements. In fact, because of the way state and local cost shares are determined, many districts that will not benefit from significant new SOA

aid will still be required to contribute more in local funds. At the time the SOA was passed, lawmakers acknowledged this reality and the need to address this challenge in the future, but no steps have been taken.

Remaining Federal Resources

Districts receiving the largest amounts of new state aid have also received the largest share of federal ESSER funds. This confluence of aid has created a challenge for some districts to spend available resources before federal funds expire and have to be returned.

Last year, Governor Baker proposed relaxing a state law that requires education aid to be expended in the year it is received to enable districts to focus on spending down federal funds before they expire. Governor Baker’s proposal was not adopted, but the challenge will persist over the next two years; as of late last year, less than half of local ESSER funds have been claimed by school districts:

Status of Federal ESSER Funds

Round	ESSER Available	Claimed	Remaining
ESSER 1	\$194	\$194	\$0
ESSER 2	\$739	\$479	\$260
ESSER 3	\$1,659	\$341	\$1,317
Total	\$2,592	\$1,015	\$1,577

Key Questions for the Upcoming Session

How will the state begin to track the impact of additional SOA and federal funds?

State education formula aid has increased by \$714.6 million over the past two years with nearly 60 percent (\$411 million) going to 20 school districts. Similarly, districts have received 2.6 billion in ESSER funds, with 62 percent (\$1.4 billion) going to 20 districts. It is essential that the state effectively assess how funds are translating to closing achievement gaps and improving school outcomes. The SOA required districts to submit detailed plans to identify how additional dollars will be used to boost student success, but the quality of those plans has varied greatly and there has yet to be an initial assessment connecting new investments to results.

Does it make sense to give districts more time to spend new dollars?

As noted above, there is pressure on policymakers to allow districts added time to spend new state dollars. Such flexibility makes a great deal of sense: the state can control its own timelines, but must abide by federal timelines for ESSER, making it smart to prioritize those funds. However,

flexibility should be coupled with state requirements regarding how much can be set aside and how those funds can be spent.

Is it time to revisit other elements of the school aid formula?

The SOA was an historic overhaul of how the aid formula estimates the actual cost of educating students. However, those changes also have significant effects on the state and local share of the costs. As targeted school aid increases continue, more and more districts will experience increased local spending requirements that do not correlate with local ability to pay. At the same time, rural school districts face unique fiscal challenges. Policymakers need to better understand these challenges and how the funding formula can be adjusted to make local contributions more equitable.