

## Fiscal Year 2012 Chapter 70 Education Aid Preview

(NOTE: This paper was updated on January 11, 2011 to add information on across-the-board cuts greater than 4 percent.)

### OVERVIEW

While projecting Chapter 70 state education aid ahead of the formal budget process is always an inexact science, the precarious economic recovery and the termination of most federal recovery aid make predicting the Fiscal Year (FY) 2012 budget particularly challenging. Of the \$4.07 billion in Chapter 70 aid distributed in FY 2011 \$221 million is federal recovery money – \$21 million from the State Fiscal Stabilization Fund and \$200 million from the Education Jobs Fund<sup>1</sup> – none of which will be available for FY 2012. In addition to this uncertain revenue picture, a set of other variables further complicates projecting Chapter 70 funding, leading us to run a few separate projections, outlined in four sections of this paper:

- 1) Maintenance Budget Projections
- 2) Across-The-Board Cuts Projections with FY 2010 Inflation Correction
- 3) Across-The-Board Cuts Projections without FY 2010 Inflation Correction
- 4) Cuts Projections Deleting Federal Recovery Money from FY 2011 Base

Each of the projections scenarios described in this paper makes assumptions based upon our best judgment, given the fact that none of the following variables can yet be determined. Variables that to date are uncertain include district level enrollment counts, calculations of each city and town's municipal revenue growth factor, and final decisions regarding the continued phase-in of the FY 2007 reform plan.

### ENROLLMENT

District foundation budgets are calculated by multiplying the number of students at each grade level and demographic group (e.g., low-income and limited English proficiency students) by a set of education spending categories (e.g., teacher compensation, professional development, building maintenance), and then adding together those total dollar amounts. Due to the timing of the state budget process, the FY 2012 budget will use the student headcounts as of October 1, 2010.

The Department of Elementary and Secondary Education (DESE) will make public the October 1 headcounts in late January 2011, before the release of the Governor's budget. For these projections we assume a continued slight decline in enrollment statewide. Since certain types of students have higher associated costs, the specific demographic mix within these totals will have an effect on the overall foundation budget amount but the range of difference is likely to be somewhat small.

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<sup>1</sup> While the Education Jobs Fund was designed as a one-time recovery effort to help create and preserve education jobs during FY 2011, federal rules allow districts to spend their allotments through September 30, 2012. Because this money is being distributed to districts through the Chapter 70 formula during FY 2011, however, we do not consider it a potential source of Chapter 70 revenue for FY 2012. We do, however, treat this federal stimulus money as part of the FY 2011 spending base. If one were to delete this from the base, maintenance amounts for FY 2012 would decrease.

### **MUNICIPAL REVENUE GROWTH FACTOR**

In its most basic form, the Chapter 70 formula calculates state education aid by filling the gap between a district's foundation budget and its ability to contribute local tax revenue towards this foundation amount. Therefore, changes in local ability to contribute affect the amount of state aid received.<sup>2</sup> Each year, communities have their required local contribution increased based in part on their Municipal Revenue Growth Factor (MRGF), a measure of revenue growth in a municipality. Contributors to MRGF include the property tax levy limit, unrestricted general government state aid, and other local revenue sources. Since it uses a mix of measures from the recent past as well as current budgeted amounts, such as FY 2012 unrestricted general government aid, final MRGF cannot be determined in isolation from the rest of the state budget. For this reason, there is a direct interplay between unrestricted local aid and Chapter 70 aid; if the state cuts unrestricted local aid, a community's MRGF decreases, leading to a greater need for Chapter 70 aid in order to meet a given foundation level. The above projections use up-to-date local revenue data where available and assume level funding of unrestricted local aid. Because the state is projecting a budget gap for FY 2012, it is likely that unrestricted local aid will be cut, triggering somewhat greater Chapter 70 aid. If local aid were cut 5 percent, for instance, Chapter 70 aid would then increase by just over \$4 million under our low-end maintenance scenario.

### **CONTINUED PHASE-IN OF FY 2007 REFORMS**

The FY 2007 budget ushered in a series of reforms to the Chapter 70 formula designed to address concerns about fairness in how the state determined local contributions and state aid and to increase the total amount of aid distributed.<sup>3</sup> These reforms began in FY 2007 and were planned to be implemented over a five-year period, with FY 2011 slated to be the first year in which these reforms would be fully phased-in. Due to the fiscal crisis, however, and the fact that the reform plan was never written into law, both the FY 2010 and FY 2011 budgets reduced state education aid in part by slowing this phase-in process.

As has been the case over the last couple of years, the Legislature will have a set of policy decisions to make about whether to further phase-in any of these reforms. When the state received a one-time federal Education Jobs Fund grant during FY 2011, for example, it chose to distribute \$200 million of this money in part through a minimum aid increase of \$25 per pupil, which is half of the \$50 per pupil guaranteed increase planned in FY 2007. In FY 2010 and FY 2011, the Legislature also partially phased in the reduction of required contributions for high contributing districts. Our baseline maintenance projection assumes no further phase-in of the FY 2007 reforms, whereas the high end projection assumes a full phase-in.

### **MAINTENANCE BUDGET PROJECTIONS<sup>4</sup>**

Each year, the foundation budget is adjusted for inflation.<sup>5</sup> Due to the timing of budget deliberations in the winter and spring preceding a given fiscal year, the Chapter 70 statute instructs the Legislature to look backwards at inflation over the last quarter of 2009 through the third quarter of 2010. According to this calculation, a 1.83 percent inflation factor would be used for FY 2012.

<sup>2</sup> For more detail on how the state education funding system works, please see *MassBudget's* recent paper *Demystifying the Chapter 70 Formula: How the Massachusetts Education Funding System Works* available online at: <http://massbudget.org/doc/762>

<sup>3</sup> For more information on the FY 2007 reforms, see: [www.massbudget.org/file\\_storage/documents/Public\\_School\\_Funding-Where\\_We\\_Are\\_What\\_Has\\_Changed\\_-\\_FINAL.pdf](http://www.massbudget.org/file_storage/documents/Public_School_Funding-Where_We_Are_What_Has_Changed_-_FINAL.pdf)

<sup>4</sup> A maintenance budget estimates the cost of providing the same level of services from one year to the next and of fulfilling obligations articulated by existing law.

<sup>5</sup> The Chapter 70 statute identifies the implicit price deflator for state and local government, an inflation measure calculated by the federal Bureau of Economic Analysis, as the specific measure for best capturing changes in the cost of providing public education.

Two years ago, the Legislature used an inflation factor that was lower than the factor required by statute, calculating the FY 2010 foundation budget by ignoring inflation that occurred between September 30 and December 30, 2007, a high-inflation quarter. This policy was adopted as part of an overall strategy for addressing the \$5 billion deficit faced by the state that year. Unless, however, the inflation calculation is corrected at some point to reflect inflation experienced by Massachusetts's cities and town during the fourth quarter of 2007, the state's foundation budget will continue to lag as a realistic measure of the costs of providing adequate and equitable education.<sup>6</sup>

Although the Legislature has not yet corrected for this ignored inflation quarter, a fully funded FY 2011 maintenance budget should make this adjustment, using the 6.75 percent inflation factor identified by Chapter 70 law for FY 2010, instead of the 3.04 percent actually used. For each of the following maintenance projections, we make a conservative correction assuming a 4.5 percent inflation factor for FY 2010, which is the statutory cap allowed by the original Chapter 70 legislation, even though several times in the past when inflation was above 4.5 percent the Legislature has waived this cap and used the full amount. Correcting up to the full 6.75 percent inflation factor, instead of to the 4.5 percent statutory cap, would bring the low-end maintenance budget amount up to \$4.21 billion.

Each of the following maintenance scenarios assumes that the FY 2012 budget corrects for a missed quarter of high inflation that should have been factored into the FY 2010 budget.

***LOW-END MAINTENANCE: \$58 MILLION INCREASE FROM FY 2011<sup>7</sup>***

This projection assumes level funding of Chapter 70 aid for most districts, while providing increases for those that require additional aid to meet new FY 2012 foundation budget amounts. Low-end maintenance also freezes further phase-in of reforms planned in 2007. This results in a total allocation of \$4.13 billion, a 1.4 percent increase from FY 2011.

***HIGH-END MAINTENANCE: \$214 MILLION INCREASE***

This projection assumes the same provisional level funding of Chapter 70 aid as the low-end maintenance scenario, but it also fully phases in the 2007 reforms, resulting in a total allocation of \$4.29 billion, a 5.3 percent increase from FY 2011.

## **ACROSS-THE-BOARD CUTS PROJECTIONS WITH FY 2010 INFLATION CORRECTION**

***4 PERCENT CUT TO MOST DISTRICTS: \$24 MILLION DECREASE***

The Legislature has at times cut Chapter 70 aid across-the-board for districts above foundation. In the original FY 2011 budget, for example, the Legislature implemented an across-the-board 4 percent cut to Chapter 70 aid, but levied lesser cuts on those districts that would have been pushed below foundation (later in the year, federal Education Jobs Fund money was used to reverse all of these cuts in FY 2011). This 4 percent cut scenario for FY 2012 cuts Chapter 70 aid by 4 percent, similar to the initial FY 2011 approach, and holds harmless those districts that would have been brought below foundation. This scenario results in a total allocation of \$4.05 billion, a 0.6 percent decrease from FY 2011.

<sup>6</sup> For more information on the impact of this missed high-inflation quarter, please see the MassBudget publication *Budget Brief: Chapter 70 Funding Options for K-12 Education* available online at: <http://massbudget.org/doc/613>

For information on other issues with changing education costs over time, see *School Funding Reality: A Bargain Not Kept*, prepared by Ed Moscovitch for The Boston Foundation, available online at: <http://www.tbf.org/UtilityNavigation/MultimediaLibrary/ReportsDetail.aspx?id=16282>

<sup>7</sup> Federal stimulus money is included in all of the FY 2011 base amounts.

### **ACROSS-THE-BOARD CUTS OF GREATER THAN 4 PERCENT: ROUGHLY \$13 MILLION DECREASE PER ADDITIONAL PERCENTAGE POINT CUT**

Across-the-board cuts of greater than 4 percent would reduce statewide Chapter 70 funding by roughly \$13 million for each additional percentage point cut. The precise amount varies, decreasing for each additional percentage point cut as more and more districts are pushed down to their baseline foundation budget amounts. Going from a 4 percent across-the-board cut to 5 percent, for example, would cut Chapter 70 by an additional \$15 million, whereas going from a 9 percent across-the-board cut to 10 percent, however, would cut Chapter 70 by \$11 million. Please see the table below for scenarios up to a 15% cut across the board.

#### **Fiscal Year 2012 Chapter 70 Projections (with inflation corrections)**

<b>Assumptions for Funding Chapter 70 Aid (each scenario corrects FY10 inflation to 4.5% cap)</b>	<b>FY 2012 Projected</b>	<b>FY 2011</b>	<b>Change</b>	<b>Percent Change</b>
Low-end maintenance	\$4,130,109,605	\$4,072,032,852	\$58,076,753	1.4%
1% cut to most districts	\$4,106,100,214		\$34,067,362	0.8%
2% cut	\$4,084,351,365		\$12,318,513	0.3%
3% cut	\$4,065,012,229		-\$7,020,623	-0.2%
4% cut	\$4,047,863,017		-\$24,169,835	-0.6%
5% cut	\$4,032,464,355		-\$39,568,497	-1.0%
10% cut	\$3,970,988,370		-\$101,044,482	-2.5%
15% cut	\$3,923,253,526		-\$148,779,326	-3.7%

#### **ACROSS-THE-BOARD CUTS PROJECTIONS WITHOUT FY 2010 INFLATION CORRECTION**

A separate, less transparent cut option would be to continue using an artificially low inflation factor based upon the missed inflation quarter used in determining the FY 2010 budget. This strategy would disproportionately affect lower-income districts that receive larger amounts of foundation aid. When FY 2010 inflation is not corrected up to the statutory cap of 4.5%, low-end maintenance for FY 2012 is reduced by \$29 million. The table below projects different across-the-board cuts scenarios, similar to the above cuts scenario table, except that these do not correct for the missed inflation quarter.

#### **Fiscal Year 2012 Chapter 70 Projections (without inflation corrections)**

<b>Assumptions for Funding Chapter 70 Aid (scenarios do not correct FY10 inflation)</b>	<b>FY 2012 Projected</b>	<b>FY 2011</b>	<b>Change</b>	<b>Percent Change</b>
Low-end maintenance	\$4,100,745,681	\$4,072,032,852	\$28,712,829	0.7%
1% cut to most districts	\$4,070,665,709		-\$1,367,143	0.0%
2% cut	\$4,042,938,229		-\$29,094,623	-0.7%
3% cut	\$4,017,789,963		-\$54,242,889	-1.3%
4% cut	\$3,995,690,634		-\$76,342,218	-1.9%
5% cut	\$3,975,509,064		-\$96,523,788	-2.4%
10% cut	\$3,898,397,842		-\$173,635,010	-4.3%
15% cut	\$3,840,202,393		-\$231,830,459	-5.7%

## CUTS PROJECTIONS DELETING FEDERAL STIMULUS MONEY FROM FY 2011 BASE

The Legislature could also cut Chapter 70 aid by deleting some portion of the \$221 million in federal recovery money used in FY 2011 from the base used for calculating FY 2012 amounts. While all federal dollars used to help districts meet foundation budgets should be counted towards their FY 2011 base, dollars above this amount could conceivably be considered outside of the state's regular contribution.

In FY 2011, about \$24 million of the Education Jobs Fund money was used to fund a guaranteed \$25 per pupil increase in Chapter 70 aid. If this amount were deleted from the base used for calculating FY 2012 aid under a low-end maintenance scenario, total FY 2012 Chapter 70 aid would decrease by between \$16 million when correcting for the missed inflation quarter in FY 2010 and \$20 million when not making this correction. Since this strategy would still have to keep districts at foundation budget levels, its ultimate impact would be quite similar to that of the across-the-board cut strategy discussed above. Deleting \$24 million from the FY 2011 base results in a somewhat smaller cut for FY 2012 because district-level foundation budgets will mostly increase somewhat for FY 2012, requiring additional state aid for some districts to meet foundation.

Alternatively, if all \$144 million of the Education Jobs Fund money that went to K-12 education were deleted from the FY 2011 base under a low-end maintenance scenario, total FY 2012 Chapter 70 aid would decrease by \$36 million when correcting for the missed inflation quarter in FY 2010 and \$90 million when not making this correction.