

FY 2021 BUDGET PREVIEW: Delivering on the K-12 Education Funding Overhaul & the Student Opportunity Act (SOA)

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Note: This is part of a MassBudget series looking ahead at some major stories to watch for in the Fiscal Year (FY) 2021 budget debate. Check back for additional briefs and for a summary.

What to watch for in the Fiscal Year (FY) 2021 budget debate:

Now that the state has revamped its education funding formula, how will lawmakers fund these changes in this first year of implementation?

Introduction

Investments in education are a critical way to support children in Massachusetts, while strengthening our knowledge-driven economy. One of the key priorities in the FY 2021 budget will be increasing investment in state aid to school districts across Massachusetts. This is largely due to the passage of a landmark education funding bill in late 2019 which will start taking effect in the FY 2021 budget.

This education funding law, the Student Opportunity Act (SOA), is the most significant education funding increase for our state since the Education Reform Act of 1993. This brief discusses what the SOA means for the FY 2021 budget process.

(Throughout this brief, you will see words in bold. These terms are defined in a glossary at the end of the report.)



What Will the SOA Cost?

According to the Joint Committee on Education, the SOA will provide \$1.5 billion in new state aid (current dollars) when fully implemented in seven years. This funding breaks down into three categories:

- **\$1.4 billion** for **Chapter 70 aid**, distributed progressively through our school funding formula, focused primarily on increasing support for low-income and English Language Learner (ELL) students, and modernizing how the formula accounts for special education and health care costs.
- **\$90 million** for increased circuit breaker grants (special education) to cover the transportation of students with significant special needs.
- **\$10 million** for an innovation grant to support pilot programs aimed at promoting achievement or improving practice.

How will the new funding be phased in?

To keep the SOA on track, various components would need to be funded in FY 2021, consistent with the first year of the implementation plan. There are some elements of the SOA, such as specific grant programs, that have timelines of less than seven years.

On Chapter 70 aid specifically, one-seventh of the new funding from the SOA reforms would have to be added to the typical annual increases. Combining this new funding with the typical increases, the Baker Administration expects \$303 million per year in increased Chapter 70 aid from FY 2020 to FY 2027. This is only a rough estimate from several months ago that will be updated in the FY 2021 budget and beyond as economic conditions, student enrollment, demographics, and other factors shift.

The SOA aims to add transportation costs to the circuit breaker over four years. The education committee estimated this would cost \$90 million. This suggests \$22.5 million in dedicated spending in this line item in FY 2021, in addition to typical funding growth for special education.

The SOA also sets a goal of fully funding the charter school reimbursement program within three years. Fully funding charter reimbursements would cost roughly \$75 million in FY 2020 according to current projections. This total will likely rise with the higher foundation budget as the SOA is implemented over time. This suggests addressing gap would cost \$29.4 million in FY 2021 if the charter program continues at current levels and the SOA funding schedule is followed.

The process for determining charter school reimbursements and circuit breaker amounts is simpler than allocating aid through the Chapter 70 formula. These grants support all districts across the state who send students to out-of-district special education and charter schools. Increasing their funding would elevate payments for affected districts. This differs from Chapter 70 aid, which depends more directly on the income and wealth of specific communities. Circuit breaker and charter school reimbursements are likely to be particularly important for districts with declining enrollment and wealthy districts which are less likely to see increases in Chapter 70 aid from the reforms.

Estimated FY 2021 Budget Increases From SOA

Chapter 70 Aid (including baseline aid)	\$303,000,000
Charter School Reimbursements	\$29,400,000
Special Education Circuit Breaker	\$22,500,000
TOTAL	\$354,900,000

How Do We Pay for This?

Fully implementing the SOA on time depends on adequate and growing state revenues, accounting for future economic conditions and other issues that may come to the forefront in the state budget over the next decade. The next seven years will not necessarily be like FY 2019 and FY 2020 during which the state has enjoyed strong economic conditions, favorable revenue collections, and few other major priorities competing for funding.



If available revenue falls short of the goals of the SOA, there could be a variety of challenges. This includes watering down the commitment to fully fund grants or stretching the reforms beyond the planned seven years. This could have significant negative effects on funding and support for students. Only adequate, growing, and progressive revenue can help ensure the state can fully implement the SOA in the time outlined.

How Does the SOA Increase Chapter 70 Aid?

The total increased Chapter 70 aid expected in FY 2021 is driven by the specific details of the reforms in the SOA. For FY 2021, we expect at least one-seventh of the increased funding outlined in the SOA, primarily in four areas:

- **Low-income students** – The SOA provides additional funding based on the percentage of students from low-income households. When fully implemented, districts with the highest poverty levels will receive up to \$8,800 per student (in 2020 dollars) – which will double the funding provided for disadvantaged students compared to higher-income peers. This is a significant increase from the current rate for low-income students, which goes up to \$4,600 per student. As in the current system, districts with fewer students facing poverty have lower increments for low-income students. Under the SOA, the definition of poverty is returned to 185 percent of the **federal poverty level (FPL)**, up from current threshold of 133 percent FPL.
 - Only districts with 80 percent or more students in low-income families would get the highest rate of \$8,800. Very few districts currently have that many low-income students. Currently, Gateway Cities districts would be in line for low-income increments of \$5,500 and the maximum of \$8,800, depending on their percentage of low-income students.

Only Brockton, Chelsea, Holyoke, Lawrence, Lynn, and Springfield would get the maximum amount of low-income funding.

- Getting an accurate picture of how many students are facing poverty in each school [depends on the counting process](#). The SOA sets a timeline for schools to get an accurate count. In FY 2021, schools will use both the current and former systems to count low-income students and the district will use the higher number. By FY 2022, the Department of Education must determine a single method to count kids up to 185 percent FPL for the statewide low-income count. It is unclear what low-income amounts districts will receive in FY 2022 because the process is undetermined.
- **English Language Learner (ELL) students** – When fully implemented, the SOA will increase per-student support for ELL students to \$2,500-\$3,300 (currently \$1,900-\$2,400) with greater support for middle and high school ELLs.
- **Special education students** – The SOA increases the assumed percentage of in-district special education kids to 4 percent (currently 3.75 percent) and increases the out-of-district special education rate (the amount districts pay to specialized schools to educate students with severe special needs) to \$36,300 (now \$29,500).
- **Health benefits** – The SOA increases employee health care rates in the **foundation budget** to match the state **group insurance commission (GIC) employer contribution**. The SOA also creates a health-specific inflation factor based on GIC cost growth to be used in future years to prevent a recurrence of under-accounting for health costs.

Glossary

- **Chapter 70 aid:** Massachusetts’ primary program for distributing state funding to K-12 public schools. The distribution occurs through a formula set by Chapter 70. It is called “Chapter 70” because the law that determines how much funding each school district receives is Chapter 70 of the Massachusetts General Laws.
- **Federal poverty level:** The federal poverty level (FPL) is a measure of poverty, based on a household’s income, determined annually by the federal government. In 2019, the FPL for a family of four was \$25,750. FPL is often used by government agencies to determine eligibility for programs and benefits in areas such as health care, food assistance, housing assistance, and educational enrichment. FPL and programs that use FPL (particularly the national school lunch program) are also connected to many education funds for students, including at the state level.
- **Foundation budget:** The foundation budget calculates the amount needed to provide an adequate education to Massachusetts students. The foundation budget for each school district is determined based on factors like the number of students at each grade level, the percentage of students in low-income households, and English proficiency. Chapter 70 sets the formula to calculate this foundation budget.
- **Group insurance commission (GIC) employer contribution:** The GIC provides health insurance to state employees and retirees, as well as their dependents and survivors. As with a typical health plan, GIC premium costs are split between employees and the employer — in this case the Commonwealth of Massachusetts or local government. Cities and regional school districts also have the option, if approved by local stakeholders, to enroll public school teachers

in the GIC health plan. This has the potential to bring down health care costs, an increasing problem in the education system because health care costs have greatly exceeded overall inflation in recent decades. The Student Opportunity Act, following a recommendation from the 2015 Foundation Budget Review Commission, uses the state/employer contribution into the GIC as a reasonable basis for employee health care costs as part of the overall foundation budget.