The Massachusetts Taxpayers Foundation (MTF) appreciates the opportunity to comment on the Foundation Budget Review Commission's proposals on health care and special education costs. There is clear agreement that the growth in health care costs since 1993 rapidly outpaced the growth in inflation and, as a result, health care costs are cannibalizing funding for other critical educational needs. However, acknowledging the problems of health care cost growth in the past should not lead to acceptance of similar growth in the future.

The MTF believes that the growth in health care costs must be controlled across the board, and municipalities and school districts will play a key role in that effort. This includes better education for employees on plan and provider choices and the costs of services, as well as making efforts to improve health and reduce utilization. The MTF recognizes that these steps may be outside the scope of this Commission but believes it is important to recognize that the cost of health care – and its impact on funding education – will be a critical issue for the state's fiscal health in the coming years.

As such, the MTF's comments on the Commission's proposals focus largely on those affecting the health care portion of the Foundation Budget.

1. Use the GIC plan with the highest employee enrollment to determine the new health insurance per pupil rate. Proposal A adjusts the employee health insurance rate based on the average Group Insurance Commission (GIC) rate across all plans. MTF recommends basing the rate on the one GIC plan with the highest level of active employee enrollment.

There are several benefits to this approach. First, the GIC is one of the state's leaders in health care cost control by implementing limited networks, risk-based provider contracting, and more. These changes impact not only premiums but also the overall health care market. As the GIC continues its efforts to design plans with good benefits that also encourage value purchasing, the highest enrollment plan would directly reflect that movement.

Second, linking the per pupil rate to the highest enrolled GIC plan will help to ensure that the state is funding benefits equivalent to those that the majority of its employees receive. If a local government would like to provide enhanced benefits, that municipality/school district should fund the enhancement.

Third, the municipal health reform law uses the GIC plan with the highest employee enrollment as the benchmark plan against which municipalities may design their own plans. This benchmark was selected because the GIC effectively balances cost and quality. Using the same plan to determine the state's Foundation Budget rate for health insurance is straightforward, more predictable, and should be easier to administer and analyze for both the GIC and local governments.

2. The health care factor should apply to the health care portion of the per pupil rate only, not the entire Employee Benefits and Fixed Charges category. Health care costs are accounted for under the broader category of "Employee Benefits and Fixed Charges." Other subcategories within this group, which account for almost 25 percent of the per pupil rate, are debt service, crossing guard salaries, equipment rentals, accrued leave for separated employees, and others.

Health insurance is the only category demonstrated to grow at a rate faster than inflation, therefore, the separate inflation factor should apply only to health insurance. The other items in this budget category should keep pace with normal inflation and do not need an enhanced inflation factor. The MTF recognizes this may require creating a separate category for health insurance in the Foundation Budget, and it supports such a change.

3. Require periodic reviews of the health care inflation factor. The MTF suggests that the Commission include in its proposal a required review of the health care inflation factor at regular intervals, such as every other year. This will help to identify and address disparities in a timely fashion rather than allowing them to compound for several years.

4. Retiree health care costs. The key premise of the Foundation Budget is to define the cost to provide an adequate education for today's students, and retiree health care costs represent spending on yesterday's students. The MTF opposes creating a new category for retiree health care costs.

The MTF also recommends reversing the 2015 legislation that allows local governments to include retiree health care costs in net school spending. Accounting for retiree costs accrued in prior years is not the intention of the Foundation Budget. These costs should be accounted for outside of net school spending.

By including retiree health care in the net school spending calculation, we distort how much funding is dedicated to educating today's students. And this is not an insignificant impact – based on Proposal A, retiree health care costs account for approximately $170 million, or 25 percent, of the total cost.

At a minimum, the only contributions towards retiree health insurance that should be included in the Foundation Budget and count towards net school spending are the amounts that school districts and municipalities set aside to fund the future retiree health care benefits for current teachers. These are part of the accurate accounting for full costs of compensation—much like setting aside the costs for pensions—and should be recognized as such.

The MTF also strongly opposes the state providing any additional funding for retiree health care costs without serious, substantive reforms. As demonstrated by the state's 2012 Other Post-Employment Benefits (OPEB) Commission, in its current form, retiree health care is simply an unaffordable benefit with eligibility standards that are far too broad. If the state begins funding this benefit through the Foundation Budget, we risk repeating the past in which benefit costs crowd out other critical classroom needs. The state may consider the OPEB Commission's recommendations as a starting point for discussing reforms.

5. Recommend a phase-in period for proposed changes. The MTF suggests that the Commission include a defined and viable phase-in period for implementing any proposals. The discrepancy in funding compounded over several years, and the gap cannot be closed in a single year.

6. Track how Foundation Budget funding is spent. Excessive health care cost growth did not allow school districts the flexibility to appropriate resources to other areas that are important for educating students. Taxpayers must be assured that the substantial increase in Chapter 70 aid will be directed towards those areas which were under-funded because of health insurance costs.

7. Support for proposals to remove extraordinary SPED cases from the Foundation Budget. The MTF supports the comments from Massachusetts Business Alliance for Education (MBAE) regarding SPED. These comments emphasize that the best way to address excessive SPED costs is through early education programs and additional support for low-income and limited English students. With limited state resources, the MTF believes investing in these areas to lower long term SPED costs is preferable to increasing the SPED allotment from both the student and taxpayer perspective. The MTF also supports comments from MBAE suggesting that extraordinary SPED cases be addressed separately from the Foundation Budget.