

# Foundation Budget Review Commission

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*Preliminary Report*

**June 30, 2015**

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# Foundation Budget Review Commission Membership

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## Commission Chairs

**Senator Sonia Chang-Díaz**, *Senate Chair of the Joint Committee on Education*

**Representative Alice H. Peisch**, *House Chair of the Joint Committee on Education*

## Commission Members

**Tom Moreau**, *Secretary of Education Designee*

**Commissioner Mitchell D. Chester**, *Department of Elementary & Secondary Education*

**Commissioner Tom Weber**, *Department of Early Education & Care*

**Representative Michael Moran**, *Speaker of the House Designee*

**Senator Patricia Jehlen**, *Senate President Designee*

**Representative Kim Ferguson**, *House Minority Leader Designee*

**Edward Moscovitch**, *Senate Minority Leader Designee*

**Paul Reville**, *Governor Designee*

**Evan Ross**, *House Ways & Means Chair Designee*

**Senator Sal DiDomenico**, *Senate Ways & Means Chair Designee*

**Mayor Kevin Dumas**, *Massachusetts Municipal Association Appointee*

**Joe Esposito**, *Massachusetts Business Alliance for Education Appointee*

**Patrick Francomano**, *Massachusetts Association of School Committees Appointee*

**Mary Bourque**, *Massachusetts Association of School Superintendents Appointee*

**Barbara Madeloni**, *Massachusetts Teachers Association Appointee*

**John Coleman Walsh**, *American Federation of Teachers Massachusetts Appointee*

**John Lafleche**, *Massachusetts Association of Vocational Administrators Appointee*

**Michael Wood**, *Massachusetts Association of Regional Schools Appointee*

**David Verdolino**, *Massachusetts Association of School Business Officials Appointee*

## Advisory Members (non-voting)

**Mary Frantz**, *League of Women Voters of Massachusetts Appointee*

**Luc Schuster**, *Massachusetts Budget and Policy Center Appointee*

**JD Chesloff**, *Massachusetts Business Roundtable Appointee*

**Jennifer Francioso**, *Massachusetts Parent Teacher Association Appointee*

**Carolyn Ryan**, *Massachusetts Taxpayers Foundation Appointee*

**Jason Williams**, *Stand for Children Massachusetts Appointee*

**Chris Martes**, *Strategies for Children Appointee*

## Commission Staff

**Jennie Williamson**, *Research Director of the Joint Committee on Education*

**Nathanael Shea**, *Chief of Staff in the Office of Senator Sonia Chang-Díaz*

# Chapter 165 of the Acts of 2014

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**SECTION 124.** Chapter 70 of the General Laws is hereby amended by striking out section 4, as so appearing, and inserting in place thereof the following section:-

Section 4. Upon action of the general court, there shall periodically be a foundation budget review commission to review the way foundation budgets are calculated and to make recommendations for potential changes in those calculations as the commission deems appropriate. In conducting such review, the commission shall seek to determine the educational programs and services necessary to achieve the commonwealth's educational goals and to prepare students to achieve passing scores on the Massachusetts Comprehensive Assessment System examinations. The review shall include, but not be limited to, those components of the foundation budget created pursuant to section 3 of chapter 70 and subsequent changes made to the foundation budget by law. In addition, the commission shall seek to determine and recommend measures to promote the adoption of ways in which resources can be most effectively utilized and consider various models of efficient and effective resource allocation. In carrying out the review, the commissioner of elementary and secondary education shall provide to the commission any data and information the commissioner considers relevant to the commission's charge.

The commission shall include the house and senate chairs of the joint committee on education, who shall serve as co-chairs, the secretary of education, the commissioner of elementary and secondary education, the commissioner of early education and care, the speaker of the house of representatives or a designee, the president of the senate or a designee, the minority leader of the house of representatives or a designee, the minority leader of the senate or a designee, the governor or a designee, the chair of the house committee on ways and means or a designee, the chair of the senate committee on ways and means or a designee and 1 member to be appointed by each of the following organizations: the Massachusetts Municipal Association, Inc., the Massachusetts Business Alliance for Education, Inc., the Massachusetts Association of School Committees, Inc., the Massachusetts Association of School Superintendents, Inc., the Massachusetts Teachers Association, the American Federation of Teachers Massachusetts, the Massachusetts Association of Vocational Administrators, Inc., the Massachusetts Association of Regional Schools, Inc. and the Massachusetts Association of School Business Officials. Members shall not receive compensation for their services but may receive reimbursement for the reasonable expenses incurred in carrying out their responsibilities as members of the commission. The commissioner of elementary and secondary education shall furnish reasonable staff and other support for the work of the commission. Prior to issuing its recommendations, the commission shall conduct not fewer than 4 public hearings across regions of the commonwealth. It shall not constitute a violation of chapter 268A for a person employed by a school district to serve on the commission or to participate in commission deliberations that may have a financial impact on the district employing that person or on the rate at which that person may be compensated. The commission may establish procedures to ensure that no such person participates in commission deliberations that may directly affect the school districts employing those persons or that may directly affect the rate at which those persons are compensated.

**SECTION 278.** (a) The foundation budget review commission established in section 4 of chapter 70 of the General Laws shall file its report on or before June 30, 2015. A copy of the report and recommendations shall be made publicly available on the website of the department of elementary and secondary education and submitted to the joint committee on education.

(b) In addition to the membership listed in section 4 of chapter 70 of the General Laws and for the purposes of this review, there shall be 1 advisory nonvoting member of the foundation budget review commission from each the following organizations: the League of Women Voters of Massachusetts, the Massachusetts Budget and Policy Center, the Massachusetts Business Roundtable, the Massachusetts Parent Teacher Association, the Massachusetts Taxpayers Foundation, Stand for Children and Strategies for Children. Advisory members shall be informed in advance of any public hearings or meetings scheduled by the commission and may be provided with written or electronic materials deemed appropriate by the commission's co-chairs. Before finalizing its recommendations, the foundation budget commission established in said section 4 of said chapter 70 shall solicit input from advisory members who may offer comments or further recommendations for the commission's consideration.

# Executive Summary

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Sections 124 and 278 of the FY15 State Budget established the Foundation Budget Review Commission (Commission) to “review the way foundation budgets are calculated and to make recommendations for potential changes in those calculations as the commission deems appropriate.” In conducting such review, the Commission was charged with determining “the educational programs and services necessary to achieve the commonwealth’s educational goals and to prepare students to achieve passing scores on the Massachusetts Comprehensive Assessment System examinations.” The statute also directed the Commission to review “those components of the foundation budget created pursuant to section 3 of chapter 70 and subsequent changes made to the foundation budget by law,” and to “determine and recommend measures to promote the adoption of ways in which resources can be most effectively utilized and consider various models of efficient and effective resource allocation.”

To inform its deliberations, the Commission conducted six public hearings across the Commonwealth to solicit testimony from members of the public (*refer to Appendix A for a summary of public hearing comments*). The Commission also held seven meetings between October 2014 and June 2015, during which members examined relevant research and considered information and data presented by various stakeholders (*refer to Appendix B for a summary of the Commission meetings and a list of documents reviewed at each meeting*).

This document summarizes the findings and recommendations developed by the Commission as of June 30, 2015. The Commission has sought a legislative extension to continue its deliberations through November 1, 2015, during which time the Commission plans to consider the remaining issues and prepare and file a final report.

This preliminary report contains two parts: Part A and Part B. Part A contains the Commission’s recommendations for certain adjustments to the Health Insurance and Special Education components of the foundation budget formula. These recommendations were finalized and approved unanimously by the Commission on June 9<sup>th</sup>, 2015. Part B contains a summary of the other topics that the Commission plans to review during its extended deliberations and aims to address in the final report.

# Findings & Recommendations

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## - PART A -

The Education Reform Act of 1993 established the foundation budget to ensure adequate funding for all students in Massachusetts. Since then, some of the assumptions contained in the formula for calculating the foundation budget have become outdated. In particular, the actual costs of health insurance and special education have far surpassed the assumptions built into the formula for calculating the foundation budget.<sup>1</sup> As a result, those costs have significantly reduced the resources available to support other key investments.

### I. Health Insurance

#### Findings

Actual spending on employee health insurance far exceeds the current foundation budget allotment for such costs, as noted in several recent studies.<sup>2</sup> Statewide, district spending on “Employee Benefits & Fixed Charges” exceeds the foundation budget allotment by more than 140%.<sup>3</sup> This is primarily due to the dramatic growth in health insurance costs nationwide and the fact that such costs have increased at a significantly higher rate than the rate of inflation used to adjust the foundation budget. In addition, the “Employee Benefits & Fixed Charges” component of the foundation budget does not include retiree health insurance, even though districts or communities incur such costs.

In developing the below recommendations, the Commission leveraged the collective expertise of its members to engage in discussions about how to address the discrepancy between the foundation budget and actual spending on health insurance. To inform such discussions, the Commission reviewed the factors encompassed in the “Employee Benefits & Fixed Charges” component of the formula, examined data on municipal health insurance trends, and reviewed information regarding the participation of school district employees in the state’s Group Insurance Commission (GIC) health plans.

#### Recommendations

1. Adjust the employee health insurance rate captured in the “Employee Benefits/Fixed Charges” component of the formula to reflect the average<sup>4</sup> Group Insurance Commission (GIC) rate\*;
2. Add a new category for “Retired Employee Health Insurance” to the foundation budget; and
3. Establish a separate health care cost inflation adjustor for the employee health insurance portion of the “Employee Benefits/Fixed Charges” component of the formula, based on the change in the GIC rates.

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<sup>1</sup> Recent studies have estimated the gap between foundation and actual spending in these categories to be as high as \$2.1 billion combined (*Massachusetts Budget & Policy Center, “Cutting Class: Underfunding the Foundation Budget’s Core Education Program,” 2011; Massachusetts Business Alliance for Education, “School Funding Reality: A Bargain Not Kept,” 2010; Massachusetts Department of Elementary & Secondary Education, “Report on the Status of the Public Education Financing System in Massachusetts,” 2013*).

<sup>2</sup> Ibid.

<sup>3</sup> Melissa King & Roger Hatch, DESE. “Massachusetts Foundation Budget: Focus on Special Education and Health Insurance.” March 2015. Powerpoint presentation.

<sup>4</sup> While the Commission recommends using the average rate, it acknowledges that there may be other benchmarks that the Legislature may find more appropriate.

\* The increment representing the other parts of the “Employee Benefits/Fixed Charges” component would remain the same.

## II. Special Education

### Findings

Foundation enrollment accounts for the additional costs of providing special education services through an assumed rate of district enrollment, rather than an actual count of students. A district's foundation enrollment is multiplied by 3.75% to add additional special education resources to the foundation budget. This translates to an assumption that 15% of students receive in-district special education services 25% of the time.<sup>5</sup> In actuality, around 16% of students receive some level of in-district special education services statewide<sup>6</sup>, which suggests that the foundation budget understates the number of in-district special education students. Out-of-district special education enrollment is assumed at 1% of foundation enrollment, which mirrors the rate of out-of-district special education placements statewide. However, districts spend far more on special education tuition for out-of-district placements than what is allocated through the foundation budget. In FY13, actual costs were 59% higher than the foundation budget rate of \$25,454.<sup>7</sup> To address the fact that the foundation budget understates the number of in-district special education students and the cost of out-of-district special education, the Commission has developed the below recommendations.

### Recommendations

1. Increase the assumed in-district special education enrollment rate from 3.75% to 4.00% (for non-vocational students) and 4.75% to 5.00% (for vocational students)
  - *Current assumption (3.75%) = 15% of students receiving SPED services 25% of the time*
  - *Proposed change (4.00%) = 16% of students receiving SPED services 25% of the time*
2. Increase the out-of-district special education cost rate to capture the total costs that districts bear before circuit breaker reimbursement is triggered. One example of how this might be done is to increase the out-of-district special education cost rate by an amount equal to the following:

$$[4 \times \text{statewide foundation budget per-pupil amount}] - [\text{statewide foundation budget per-pupil amount}^{**} + \text{out-of-district special education cost rate}]^{***}$$

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<sup>5</sup> 15% x 25% = 3.75%

<sup>6</sup> Melissa King & Roger Hatch, DESE. "Massachusetts Foundation Budget: Focus on Special Education and Health Insurance." March 2015. Powerpoint presentation.

<sup>7</sup> Melissa King & Roger Hatch, DESE. "Massachusetts Foundation Budget: Focus on Special Education and Health Insurance." March 2015. Powerpoint presentation.

\*\* Not including assumed SPED costs.

\*\*\* This would be a one-time adjustment, with the resulting rate increased by inflation each year thereafter.

### III. Impact Summary

The below charts illustrate the estimated impact of the Commission’s recommended adjustments to the foundation budget. **The estimates are based on FY14 foundation budget figures and assume full implementation of the combined changes in a single year.** Should the recommendations be implemented, the actual numbers used would be based on the foundation budget figures from the most recent fiscal year and would likely be implemented over a multiple-year period. The below charts are provided for illustrative purposes only.

<b>Proposal</b>	<b>Increase to FY14 Foundation Budget</b>
<b>Health Care Benefits</b>	\$684M*
<b>Out-of-District SPED Tuition</b>	\$57M
<b>In-District SPED Costs</b>	\$58M

← *\*Figure calculated using the existing foundation budget inflation index in FY14 (i.e. does not include a separate inflation adjustor for Health Care Benefits)*

	<b>FY14 GAA</b>	<b>FY14 GAA w/ Proposed Changes</b>	<b>Difference</b>
<b>Foundation Budget</b>	9,711,217,585	10,511,553,184	800,335,600
<b>Required Local Contribution</b>	5,748,475,145	5,794,650,748	46,175,603
<b>C70 Aid</b>	4,300,854,366	4,796,206,342	495,351,975

## - PART B -

The Commission has sought a legislative extension to continue working through November 1, 2015. If granted, the Commission intends to review the following topics:

- In-District SPED cost rate
- Low-income increment
- ELL increment
- Mental Health/Wraparound services
- PD/Common Planning Time/Instructional coaches
- Extended learning time
- Technology
- Full Day Preschool
- K-3 pupil:teacher ratios
- Operations & maintenance
- Inflation adjustment

In addition to conducting an analysis of the above topics, the Commission plans to use the extended time to determine and recommend measures to promote the adoption of ways in which resources can be most effectively utilized and consider various models of efficient and effective resource allocation, as directed by the authorizing language. To date, the Commission has engaged in preliminary discussions about potential recommendations for accountability measures that would be tied to increases in Chapter 70 funding resulting from the Commission's proposed adjustments to the foundation budget formula. Proposals that the Commission has considered to date include the following:

- Limit the use of new funding to investments in the following initiatives to be described in a publicly accountable benchmarked school improvement plan. The parameters of those individually crafted plans would invest from the following priorities: (1) Provide greater support for low-income and ELL students; (2) Expanded teacher professional development; (3) Hiring staff at levels that support improved student performance; (4) Purchase and implementation of technology and instructional materials; (5) Expanded learning time (day / year / venue); (6) Add instructional coaches; (7) Provide wrap-around services that engage the entire community and families in strengthening the social emotional support system for students; (8) Provide common planning time for instructional teams;
- Designate an investment component of the Foundation Budget and require that funds allocated to the investment accounts be spent on those investment items. Underscore the importance of these investments by requiring each district to report annually on how it intends to spend its investment funds, how it intends to measure its success, and (after the first year) whether it succeeded in reaching its goal;
- Establish a better data collection system that allows for greater access to school-level expenditures and data;
- Ensure that additional funds attributable to low-income and ELL students are spent on programs and services that support the needs of those particular students; and
- Establish an innovation fund distributed competitively to meet specific goals.

# Appendix A

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The Commission held six public hearings across the state to solicit testimony from members of the public. A summary of the recurring themes and issues that were raised during the public hearings are listed below. This list reflects the testimony heard at the public hearings only and is not meant to convey the Commission's formal findings or recommendations.

## **Public Hearings Summary**

- Actual spending on Special Education and Health Insurance far exceeds the foundation budget assumptions. As a result, foundation spending is consumed by these under-funded fixed charges, leaving less funding available to support other educational programs.
- Need to increase funding for at-risk students – especially low income and ELL students.
- The foundation budget does not provide sufficient resources to address the mental health needs of today's students.
- The foundation budget should provide greater support for wraparound services.
- The Commission should examine district allocation practices and efforts to remove barriers to efficient and adaptive uses of funds.
- Technology should be included in the foundation budget as such costs were not envisioned in the original foundation budget.
- The Commission should propose changes to simplify and clarify the foundation budget to make it easier for citizens to understand how funds are spent and whether these are bringing about results.
- Money should follow the student.
- Reconsider the use of October 1<sup>st</sup> enrollment data to calculate foundation budgets, which is especially problematic for districts that experience significant fluctuations in student enrollment throughout the year.
- The current method of funding charter schools is creating significant and growing financial difficulty for municipalities and school districts.
- The Commission should consider whether there is sufficient funding in the foundation budget for building maintenance.
- The foundation budget formula does not account for the cost of unfunded mandates.
- Need a better enforcement mechanism and/or greater clarity regarding a municipality's obligation to appropriate sufficient funds to meet the required local contribution.
- Transportation should be included and funded in the foundation budget.
- Need to address "equity" issues – the Commission should review and adjust the local contribution and school aid calculation factors in the Chapter 70 formula.
- The Commission should address concerns surrounding vocational education – i.e. how vocational education students are recruited and accepted, how tuition is calculated, and the high cost of student transportation.
- The foundation budget should include funding for school libraries.
- The foundation budget should account for the differences in costs among smaller, rural districts.

# Appendix B

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## **Summary of Commission Meetings & Materials**

### **Meeting # 1: October 9, 2014**

Commission members reviewed the charges set forth in the authorizing legislation (*Sections 124 & 278 of Chapter 165 of the Acts of 2014*), viewed a presentation on the foundation budget formula entitled “Measuring Adequacy – the Massachusetts Foundation Budget” prepared by Melissa King and Roger Hatch from the Department of Elementary & Secondary Education (DESE), and discussed the public hearing schedule. Commission members received the following materials: A copy of the authorizing legislation (*Section 124 & 278 of Chapter 165 of the Acts of 2014*), a summary of the authorizing legislation, and a copy of the power point presentation entitled “Measuring Adequacy – the Massachusetts Foundation Budget”.

### **Meeting #2: March 10, 2015**

Commission members viewed a presentation on special education and health insurance entitled “Massachusetts Foundation Budget: Focus on Special Education and Health Insurance” prepared by Melissa King and Roger Hatch from DESE, viewed a presentation on municipal health insurance trends prepared by Carolyn Ryan from the Massachusetts Taxpayers Foundation, and reviewed the Commission’s meeting schedule and timeline. Commission members received the following materials: a copy of the power point presentation entitled “the Massachusetts Foundation Budget: Focus on Special Education and Health Insurance”, a copy of the power point presentation entitled “Municipal Health Insurance Trends”, and a copy of the Commission’s meeting schedule.

### **Meeting #3: March 27, 2015**

Commission members viewed a presentation on the other foundation budget categories and differences in spending among districts entitled “Further Analysis of the Foundation Budget” prepared by Melissa King from DESE, viewed a presentation on the wage adjustment factor prepared by Melissa King from DESE, and considered information provided by DESE Commissioner Mitchell Chester on the relationship between spending and student outcomes. Commission members received the following materials: a copy of the power point presentation entitled “Further Analysis of the Foundation Budget”, a copy of the power point presentation entitled “Wage Adjustment Factor”, and a list of school districts by wealth and low-income quintile.

### **Meeting #4: April 14, 2015**

Commission members viewed a presentation on evidence-based strategies for improving student outcomes entitled “Building a Foundation for Success” prepared by Chad d'Entremont and Luc Schuster from the Rennie Center and MassBudget and Policy Center, considered information provided by Dr. Paul Dakin (Superintendent of Revere Public Schools) regarding the various investments and programs that have yielded positive outcomes in Revere, and discussed the process for reviewing and voting on recommendations that would be included in the Commission’s final report. Commission members received the following materials: a copy of the power point presentation entitled “Building a Foundation for Success”, and a handout on Revere Public Schools provided by Dr. Paul Dakin.

### **Meeting #5: May 5, 2015**

Commission members viewed a presentation on effective resource allocation entitled “Effective & Efficient Resource Allocation: A Framework to Consider” prepared by Dr. Karla Baehr, discussed and approved changes to the Commission’s timeline and work plan, and reviewed a draft proposal containing recommendations for

health care and SPED adjustments. Commission members received the following materials: a copy of the power point entitled “Effective & Efficient Resource Allocation: A Framework to Consider”, a copy of the work plan proposed by Senator Chang-Díaz, and a copy of the draft recommendations for health care and SPED adjustments.

**Meeting #6: June 9, 2015**

Commission members reviewed and approved final recommendations for Health Care and SPED adjustments, considered proposals relative to full-day preschool and accountability, and discussed the other topics to be considered by the Commission during its extended deliberations. Commission members received the following materials: a copy of the final recommendations for health care and SPED adjustments, a document containing draft proposals relative to full-day preschool and accountability, and a copy of the Commission’s updated work plan.

**Meeting #7: June 23, 2015**

Commission members reviewed and approved edits to the preliminary report, discussed the process and methodology for analyzing the other topics to be considered during the Commission’s extended deliberations, and reviewed information presented by Roger Hatch from DESE on school-based data collection. Commission members received the following materials: a draft of the preliminary report, a document explaining the foundation budget comparison tool developed by Commission member Ed Moscovitch, and a document on school-level finance data.