



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Local Financial Impact Review – Issued October 13, 2022

Fulfilling the Promise of Local Aid by Strengthening State-Local Partnerships





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October 13, 2022

His Excellency, Charles D. Baker, Governor
The Honorable Karyn E. Polito, Lieutenant Governor
The Honorable Karen E. Spilka, President of the Senate
The Honorable Ronald J. Mariano, Speaker of the House
The Honorable Michael J. Rodrigues, Senate Chair of the Joint Committee on Ways & Means
The Honorable Aaron Michlewitz, House Chair of the Joint Committee on Ways & Means
Honorable Members of the General Court

Dear Colleagues:

In the last decade, the Division of Local Mandates (DLM) exercised its authority under Massachusetts General Law Section 6B of Chapter 11 to offer analysis and recommendations regarding the impact of state policy on municipal finance and operations. These reports have uncovered the obstacles and estimated the costs for our municipalities to collect local revenues and deliver critical services such as education, public safety, and infrastructure. My office has been pleased at the practical outcomes from this work, including increased funding for services and greater clarity in legal statutes and regulations. Yet there is more to be done to improve the fiscal relationship between our municipalities and state government.

This report reviews various categories of state aid and reimbursement programs, estimates the potential for increased funding, and suggests priorities for a stronger partnership between the Commonwealth and its municipalities and school districts. Our work is the result of an analysis of data from state agencies, with significant input from stakeholders. Please note that this report does not discuss all state aid programs, grants, reimbursements, and general appropriations because there are some programs that do meet state commitments due to dedicated funding or are discretionary.



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DLM's report also makes note of the significant surpluses generated by the state in recent years. The needs identified in the report offer an avenue for use of funds to enhance the quality of life of our residents and businesses that depend on local government for so many critical services.

Copies of the report are available on the Office of the State Auditor's website, www.mass.gov/auditor, or by calling DLM at (617) 727-0025. Please do not hesitate to reach out to my office with any questions or comments. As always, thank you for your continued support of our shared effort to improve the success, accountability, transparency, and efficiency of the Massachusetts state government.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne M. Bump".

Suzanne M. Bump

Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

COVID-19	2019 coronavirus
CPA	Community Preservation Act
DCF	Department of Children and Families
DESE	Department of Elementary and Secondary Education
DLM	Division of Local Mandates
EOHHS	Executive Office of Health and Human Services
ESSA	Every Student Succeeds Act
FY	fiscal year
IEP	Individualized Education Program
MARS	Massachusetts Association of Regional Schools
MBAE	Massachusetts Business Alliance for Education
M.G.L.	Massachusetts General Laws
MMA	Massachusetts Municipal Association
OOD	out-of-district
PILOT	payments in lieu of taxes
RSD	regional school district
SOA	Student Opportunity Act
UGGA	Unrestricted General Government Aid

ABOUT THE DIVISION OF LOCAL MANDATES

The Division of Local Mandates (DLM) was established by Proposition 2½, an initiative to limit property tax increases, in order to determine the financial impacts of proposed or existing state laws, regulations, and rules on cities and towns. Proposition 2½ limits a city or town’s authority to raise real estate and personal property taxes.

The Local Mandate Law, c. 29, § 27C of the Massachusetts General Laws (M.G.L.), generally provides that post-1980 laws, regulations, or rules that impose new service or cost obligations on cities, towns, regional school districts, or educational collaboratives and meet certain thresholds shall be effective only if locally accepted or fully funded by the Commonwealth. Any protected party aggrieved by such a law, regulation, or rule may petition DLM for a determination of whether the law, regulation, or rule constitutes a mandate and to make a cost determination of the state funding necessary to sustain a mandate. That determination is shared with the Executive and Legislative branches of the government for their consideration.

In 1984, the Massachusetts General Court expanded DLM’s powers of review by authorizing DLM to examine any state law or regulation that has a significant local cost impact, regardless of whether it satisfies the more technical standards under the Local Mandate Law. This statute is codified as M.G.L. c. 11, § 6B. As a result of this law, DLM releases reports known as “municipal impact studies” or “6B reports,” which examine various aspects of state law that may impact municipalities.

Through these functions, DLM works to ensure that state policy is sensitive to local fiscal realities so that cities and towns can maintain autonomy in setting municipal budget priorities.

EXECUTIVE SUMMARY

State assistance is a critical lifeblood for municipal finance in Massachusetts. Funds for education, general aid, and reimbursements support over one-fifth of budgets of local communities. For some communities, state aid is the largest category of revenue, but overall it is the second biggest following the property tax levy. Additional assistance comes from a variety of grant programs, typically discretionary, whereby the state helps communities invest in schools, water and sewer systems, libraries, and other municipal services.

Even with the volume of assistance available, there are commitments and authorizations under state law that are not fully kept by the Commonwealth. For example, school transportation monies for most programs are promised but fall short, some by design and some by formulae that require local participation. A few programs are fully funded, such as the school transportation mandate for students in families suffering homelessness. Some formulae for reimbursement are capped at arbitrary reimbursement levels that vary widely. Other categories of reimbursements are not explicitly visible to municipalities and school districts but are instead included in larger, broader funding formulae, such as the Chapter 70 education formula.

There is a continued need for state investment for these programs as municipal finance is constrained by the property tax limits of Proposition 2 ½ ; despite these limits, municipal tax levies have increased faster than state aid. However, the ability of municipalities to raise the tax levy heavily depends on “new growth” revenue that flows from new housing and non-residential construction. Among the concerns mentioned in this report is the uncertainty of the economy in the next few years, as well as rising interest rates and a slowdown in the growth of residential real estate.

Given the strong current fiscal position of the state, the Division of Local Mandates feels that this moment offers an opportunity to discuss many of the major programs that provide financial support to municipalities and school districts and make funding recommendations. This report reviews the major categories of state aid and various reimbursement programs offered to municipalities in the Commonwealth and details the revenue that flows from these categories. We indicate where a program’s appropriation or formula falls short of the amount required to fully reimburse communities, or, alternatively, where the state meets its obligation. Our findings and recommendations build on the work

of state agencies, municipal advocates, and legislative commissions and highlight the need for equitable funding and a continued partnership between the Commonwealth and its cities and towns.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 42	Municipal budgets are heavily dependent on state aid, but outdated legislation, slowly growing state appropriations, and level funding in some categories force an increased reliance on property taxes.
Finding 2 Page 43	Reimbursements for various school transportation programs are varied and confusing.
Finding 3 Page 46	Pandemic relief, federal funds, and surges of economic activity in state and local government have had a large impact on revenue growth.
Finding 4 Page 48	There is considerable uncertainty facing municipal budgets due to inflation and rising interest rates.
Recommendation Page 49	1. Continue to meet financial commitments through the Student Opportunity Act.
Recommendation Page 50	2. Dedicate full funding to overlooked categories of school transportation.
Recommendation Page 51	3. Increase Unrestricted General Government Aid by the level of actual state revenues, as opposed to projected estimates.
Recommendation Page 52	4. Strengthen other local aid programs to guarantee full funding for lower-income communities.
Recommendation Page 53	5. Recognize the financial investment needed to fund other outstanding expenses.

BACKGROUND

Each year, the Commonwealth provides financial resources, often referred to as local aid, to municipalities and regional school districts (RSDs) through a series of formulae. While some types of aid are explicitly discretionary or subject to appropriation, others are required by state law to be provided. Communities can view their allocation of local aid through the state’s “Cherry Sheet,” an official notification by the Department of Revenue that breaks down estimated allocations for large programs such as Chapter 70 education aid and Unrestricted General Government Aid (UGGA) as well as smaller programs such as municipal reimbursements for veterans’ benefits.¹ Other local aid categories appear as legislative appropriations in line items in the state budget.

However, full funding of the state’s commitments to municipalities has been a historical exception to the rule, since the Legislature annually determines how much will be allocated to specific programs, if anything at all. Insufficient allocations of local aid have resulted in shortfalls, which need to be supplemented by municipal revenues, thus increasing upward pressure on the local tax levy. In addition, there are countervailing assessments on municipal and regional local aid (such as payments for regional transit authorities and sending tuition for charter schools) that reduce the impact of these aid programs. Approximately \$7.7 billion in local aid is allocated in fiscal year (FY) 2023, but the net sum after assessments is \$6.4 billion.² The two statistics tend to track each other: over the past five years, the amount of money appropriated to local aid programs has risen by 26%, nearly mirroring the 24% increase in the amount net of assessments (see Figure 1).³

¹ Note: The Commissioner of Revenue is required to estimate funding of state programs each year under M.G.L. c. 58, § 25A.

² Department of Revenue, Division of Local Services. (2022, July 28). Municipal Cherry Sheet Estimates. <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.CSbyProgMunis.MuniBudgFinal>; Department of Revenue, Division of Local Services (2022, July 28). Regional School Cherry Sheet Estimates. <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.CSbyProgMunis.RegSchBudgFinal>

³ Department of Revenue, Division of Local Services. (2022, July 28). Cherry Sheet Detail by Program. https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main

Figure 1—Summary of Cherry Sheet Aid, FY 2018 through FY 2023⁴

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Municipal Aid	\$5,348,557,594	\$5,522,912,841	\$5,834,748,825	\$5,941,740,963	\$6,217,384,113	\$6,818,691,015
Regional School District Aid	\$793,819,486	\$818,850,099	\$845,040,930	\$848,105,349	\$874,303,253	\$925,911,013
Aid Subtotal	\$6,142,377,080	\$6,341,762,940	\$6,679,789,755	\$6,789,846,312	\$7,091,687,366	\$7,744,602,028
Municipal Assessments	\$949,996,446	\$1,027,899,146	\$1,103,046,875	\$1,126,908,704	\$1,231,723,666	\$1,323,611,702
Regional School District Assessments	\$49,891,088	\$51,529,606	\$52,726,534	\$54,482,879	\$58,493,602	\$61,264,915
Assessments Subtotal	\$999,887,534	\$1,079,428,752	\$1,155,773,409	\$1,181,391,583	\$1,290,217,268	\$1,384,876,616
Total Net Aid (Aid minus Assessments)	\$5,142,489,546	\$5,262,334,188	\$5,524,016,346	\$5,608,454,729	\$5,801,470,098	\$6,359,725,412

Recent developments, however, have been very encouraging. The Legislature’s FY 2023 budget, which was signed by the Governor on July 28, 2022, represents a big step toward a closer partnership between the Commonwealth and its municipalities and school districts. The budget provides significantly higher funding in many of the categories of concern for this report, most notably a \$500 million increase in Chapter 70 school aid due to the phase-in of the provisions of the Student Opportunity Act (SOA) of 2019. Other categories seeing increases include UGGA (\$63 million), the Special Education Circuit Breaker program (\$67 million), and payments in lieu of taxes (PILOT) for state-owned land (\$10 million).⁵ Nonetheless, these increases only go part of the way to reducing local burdens and closing shortfalls in state commitments to local spending (see Figure 4).

As DLM has noted in previous municipal impact reports, municipalities are increasingly reliant on higher property tax levies, as aid from the state fails to grow at the same rate as school and municipal expenses.⁶

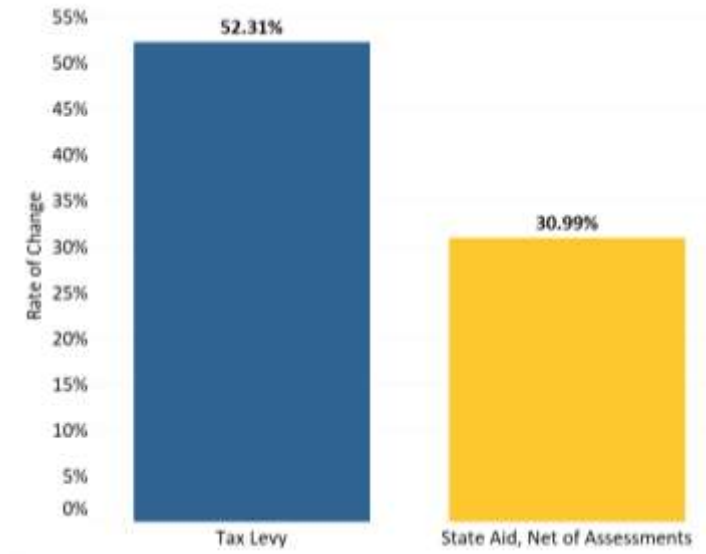
⁴ Department of Revenue, Division of Local Services. (2022, July 28). Municipal Cherry Sheet Estimates. <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.CSbyProgMunis.MuniBudgFinal>; Department of Revenue, Division of Local Services (2022, July 28). Regional School Cherry Sheet Estimates. <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.CSbyProgMunis.RegSchBudgFinal>

⁵ Massachusetts Municipal Association. (2022, July 18). “Legislature OK’s FY23 budget with key investments in municipal and school aid.” <https://www.mma.org/legislature-oks-fy23-budget-with-key-investments-in-municipal-and-school-aid/>

⁶ Massachusetts Office of the State Auditor, Division of Local Mandates. (2022, March 23.) *Five-year statutory fiscal impact report: calendar years 2016 through 2020*. <https://www.mass.gov/doc/five-year-statutory-review-fiscal-impact-report/download>

Between FY 2012 and FY 2022, the growth in the major categories of state aid trailed that of property tax collections, as seen in Figure 2.

Figure 2—Changes in Tax Levy and State Aid Revenue Growth, FY 2012 through FY 2022⁷



Tax levy growth for the most recent six-year period demonstrates a similar trend. Between FY 2017 and FY 2022, communities increased their tax levy by over 24.8%, far outpacing net state revenue, which grew at 14.7%.⁸ According to Figure 3, local aid (net of assessments) represented almost 32% of the statewide property tax levy in FY 2017 but shrank to 29% by FY 2022.⁹

⁷ Department of Revenue, Division of Local Services. (2022, July 28). Municipal Cherry Sheet Estimates. <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.CSbyProgMunis.MuniBudgFinal>; Department of Revenue, Division of Local Services (2022, July 28). Regional School Cherry Sheet Estimates. <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.CSbyProgMunis.RegSchBudgFinal>; Department of Revenue, Division of Local Services. (2022, August 15). Tax Levy by Class. <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Dashboard.TrendAnalysisReports.TaxLevyByClass>

⁸ *Id.*

⁹ *Id.*

Figure 3—Proportion of State Aid to Property Tax Levies of Massachusetts Cities and Towns, FY 2017 through FY 2022¹⁰

Fiscal Year	Total Statewide Property Tax Levy	Total State Aid, ¹¹ Net of Assessments	Aid as a % of Property Tax Levy
2017	\$15,831,403,554	\$5,057,944,139	31.95%
2018	\$16,540,459,920	\$5,142,489,546	31.09%
2019	\$17,322,397,292	\$5,262,334,188	30.38%
2020	\$18,132,234,149	\$5,524,016,346	30.47%
2021	\$18,930,971,308	\$5,608,454,729	29.63%
2022	\$19,757,812,298	\$5,801,470,098	29.36%

This report will review various categories of state aid and reimbursement programs, estimate the potential for increases, and suggest priorities for a stronger partnership between the Commonwealth and its municipalities and school districts. This report is the result of an analysis of data from state agencies and significant input from stakeholders, who are identified in Appendix A. Because there are some programs that do not fit the framework of unmet state commitments, this report does not include all state aid programs, grants, reimbursements, and general appropriations.

¹⁰ *Id.*

¹¹ This figure includes both municipalities and regional school districts.

SITUATIONAL ANALYSIS

Figure 4—Financial Summary of State Aid and Reimbursement Programs¹²

Category	Item	Reference	Expenses	Reimbursements	Shortfall/Local Share
School Transportation	Regular Day Transportation	M.G.L. c. 71, § 7A	\$157.9 million	\$0	\$157.9 million
	In-District Special Education Transportation	M.G.L. c. 71B, § 8	\$191.4 million	\$0	\$191.4 million
	Out-of-District Special Education Transportation	M.G.L. c. 71B, § 5A	\$100.6 million	\$18.6 million	\$82 million
	Regional School Transportation	M.G.L. c. 71, § 16C	\$91.3 million	\$82.2 million	\$9.1 million
	Out-of-District Vocational Transportation	M.G.L. c. 74, § 8A	\$4.5 million	\$0.3 million	\$4.2 million
	School Transportation for Students Experiencing Homelessness	McKinney-Vento Homeless Assistance Act, Public Law 100-77	\$11.4 million	\$11.5 million	\$0
	Out-of-District Transportation for Students in Foster Care	Every Student Succeeds Act, Public Law 114-95	\$4.3 million	\$0.5 million	\$3.8 million
	Subtotal			\$561.4 million	\$113.1 million
School Aid	Educator Evaluations	M.G.L. c. 71, § 38	> \$10 million	\$0	> \$10 million
	Education of Students in Foster Care	M.G.L. c. 76, § 7	\$78.5 million	\$36.5 million	\$42 million
	Special Education Circuit Breaker	M.G.L. c. 71B, § 5A	\$749.2 million	\$348.6 million	\$400.6 million
	Charter School Sending Tuition Reimbursement	M.G.L. c. 71, § 89	\$437.7 million	\$178.9 million	\$258.8 million
	Subtotal			\$1.275 billion	\$564 million
Municipal Aid	Payment in Lieu of Taxes (PILOT) for State-Owned Land	M.G.L. c. 58, § 13-17	\$49 million	\$45 million	\$4 million
	Community Preservation Act Incentives	M.G.L. c. 44B, § 10	\$179 million	\$88.5 million	\$90.5 million
	Municipal Reimbursements for Veterans' Benefits	M.G.L. c. 115, § 6	\$43.9 million	\$35.1 million	\$8.8 million
	Subtotal			\$271.9 million	\$168.6 million
Grand Total			\$2.108 billion	\$845.7 million	\$1.262 billion

¹² A list of data sources for the following state aid and reimbursement program estimates can be found in Appendix B. It should be noted that while the state has appropriated funds in FY 2023 for some of the programs in the figure, the actual expenses will not be known for some months due to the reporting cycle. As such, Figure 4 shows some data from FY 2022 while the narrative discusses FY 2023 appropriations and estimated reimbursement levels. Please note that rounding may cause some numbers to add incorrectly.

Outside of loans and other grant programs, Massachusetts allocates most state assistance to municipalities and school districts through revenue-sharing programs outlined in the state’s annual Cherry Sheet. Estimates for state assessments are also shown on the Cherry Sheet. Statewide and individual Cherry Sheet estimates are a necessity for municipal and regional school district (RSD) officials to develop annual budgets and determine how much a municipality or district will need to return to the state. Local officials also need program funding estimates to determine what will need to be covered with their own resources.

This section will discuss the requirement for services the state imposes on municipalities and will review the associated reimbursements, if present. Figure 4 displays a summary of these programs, including their expenses and financial shortfalls, as some programs are partially reimbursed and others are not at all. This section will then cover major government aid programs, such as Chapter 70 aid and UGGA.

School Transportation

Regular Day School Transportation (M.G.L. c. 71, § 7A)

Status: No funding

Estimated expenses (FY 2021): \$157,868,348¹³ **FY 2021 Reimbursement:** none

The state treasurer shall annually, on or before November twentieth, pay to the several towns subject to appropriation, the sums required as reimbursement for expenses approved by the commissioner of education, incurred by any town for the transportation of pupils not more than twice daily between any school within the town, or in another town, and the pupil's home, a child care center licensed or approved by the department of early education and care, or a child care facility which is part of a public school system or a private, organized educational system. . . .

No town shall be reimbursed for its transportation expense, in any year, an amount less than the amount of reimbursement for such expense received in the year nineteen hundred and forty-six.¹⁴

Regular day school transportation reimbursement is authorized under M.G.L. c. 71, § 7A. However, the line item in the state budget reimbursing regular day transportation for municipal school districts has not been funded for decades, as it is subject to appropriation. Districts are required to provide transportation for students in grades K through 6 who live more than two miles from their school if their bus stop is more

¹³ Massachusetts Department of Elementary and Secondary Education. (2021). *2020-2021 End of Year Financial Report Workbook* (hereafter “FY2021 Schedule 7 Data”), on file with DLM. Received at DLM via email from DESE on March 20, 2022.

¹⁴ M.G.L. c. 71, § 7A.

than one mile from their home.¹⁵ Data from the Department of Elementary and Secondary Education (DESE) reveals a local burden of over \$157 million for regular day school transportation covered by this section of M.G.L.¹⁶ There are also another \$65 million in additional expenses absorbed by school districts to transport students who live less than 1.5 miles from schools (but this sum is not reimbursable under the law).¹⁷ In total, regular day school transportation, net of regional school transportation, represents nearly a third of the \$700–\$800 million in annual school transportation expenses, yet receives zero reimbursement.

In-District Special Education Transportation (M.G.L. c. 71B, § 8)

Status: No funding

Estimated expenses (FY 2021): \$191,432,025¹⁸ **FY 2021 Reimbursement:** none

If a school age child with a disability attends a school approved by the department within or without the city or town of residence of the parent or guardian, the school committee of the town where the child resides may be required by the department to provide transportation once each day including weekends where applicable to and from such school while the child is in attendance. The city or town providing transportation under this section shall be reimbursed according to the provisions of section fourteen.

Reimbursement of school transportation expenses for in-district special education is authorized under state law via M.G.L. c. 71B, § 8. However, the provision is now confusing because it references another section of M.G.L. that has been repealed by the 2019 SOA.¹⁹ As such, DLM believes that in its absence, M.G.L. c. 71, § 7A authorizes reimbursement for in-district transportation of students, regardless of their status. This category was responsible for over \$191 million in expenses and, along with regular day school transportation, represented over half of school transportation costs in FY 2021.²⁰ Again, communities have not received any reimbursement for this particular category of expenses despite the commitment in state law. Although state regulations require in-district transportation to be supplied to all students with

¹⁵ M.G.L. c. 71, § 68; Massachusetts Department of Elementary and Secondary Education. (1996, August). *Pupil Transportation Guide: A Guide for Massachusetts School Administrators*. <https://www.doe.mass.edu/finance/transportation/guide.html>

¹⁶ FY2021 Schedule 7 Data, on file with DLM.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ M.G.L. c. 71B, § 14, repealed by St. 2019, c. 132, § 20.

²⁰ *Id.*

an Individualized Education Program (IEP) calling for transportation services, reimbursement under law is only limited to those who live more than 1.5 miles from a public school.²¹

Out-of-District Special Education Transportation (M.G.L. c. 71B, § 5A)

Status: Partial funding (per Special Education Circuit Breaker)

Estimated expenses (FY 2021): \$100,564,260²² **FY 2022 Reimbursement:** \$18,573,666²³

Out-of-district (OOD) special education transportation occurs when a student’s needs (as outlined in their IEP) are met through a program outside the school district, such as a special education collaborative or private school. The SOA made a significant change to the calculation of special education “circuit breaker” reimbursements by adding OOD transportation to the expenses that can be claimed for partial reimbursement.²⁴ Eligible OOD expenses match what public and private schools are required to supply under law, including in-house transportation or private, contracted providers.²⁵ Although almost \$18.6 million in transportation reimbursements were distributed to communities through the Special Education Circuit Breaker in FY 2022, this amount represented less than 20% of total OOD expenses from the 2020–2021 school year.²⁶ This reimbursement is a good first step, however, as it will phase in more assistance over four years, ultimately allowing “100 per cent of all required OOD transportation costs eligible for reimbursement [by] fiscal year 2024.”²⁷ The FY 2023 budget speeds the implementation of the OOD special education phase-in, by allowing 75% of expenses to be eligible for reimbursement. However, once fully implemented, circuit breaker transportation reimbursements will continue to be restricted to 75% of expenses for those students whose tuition costs exceed the approved costs threshold.²⁸

²¹ 603 CMR 28.05 (5); M.G.L. c. 71, § 7A.

²² *FY 2021 Schedule 7 Data*, on file with DLM.

²³ Massachusetts of Department of Elementary and Secondary Education. (2022, February 23). *FY2022 Initial Circuit Breaker reimbursement listing*. <https://www.doe.mass.edu/finance/circuitbreaker/fy2022-reimbursement.xlsx>

²⁴ A detailed discussion of the Special Education Circuit Breaker and its other financial shortfalls can be found on page 19. *See also* St. 2019, c. 132, § 17.

²⁵ 603 CMR 28.05 (5); M.G.L. c. 71, § 7A.

²⁶ *FY2021 Schedule 7 Data*, on file with DLM; Massachusetts of Department of Elementary and Secondary Education. (2022, February 23). *FY2022 Initial Circuit Breaker reimbursement listing*. <https://www.doe.mass.edu/finance/circuitbreaker/-fy2022-reimbursement.xlsx>

²⁷ St. 2019, c. 132, § 27.

²⁸ M.G.L. c. 71B, § 5A.

Regional School District Transportation (M.G.L. c. 71, § 16C)

Status: Partial funding

Estimated expenses (FY 2022): \$91,332,607

FY 2022 Reimbursement: \$82,178,611²⁹

The regional school district shall be subject to all laws pertaining to school transportation; and when the agreement provides for the furnishing of transportation by the regional school district, the regional school district shall be obliged to provide transportation for all school children in grades kindergarten through twelve and the commonwealth shall reimburse such district to the full extent of the amounts expended for such transportation, subject to appropriation; provided, however, that no reimbursement for transportation between school and home shall be made on account of any pupil who resides less than one and one-half miles from the school of attendance, measured by a commonly traveled route. . . . The state treasurer shall annually, on or before November twentieth, pay to the regional school districts, subject to appropriation, the sums required for such reimbursement and approved by the commissioner of education.³⁰

Regional school districts are required to transport all students to and from school, regardless of their grade and their distance from the school.³¹ Although reimbursement for regional school transportation has been a commitment under M.G.L. c. 71, § 16C since 1949, funding is restricted to students who live more than 1.5 miles from the school. This program represents the one major state incentive that exists to encourage regionalization of schools. Reimbursements are especially vital for RSDs located in rural parts of the state, as the service area for these districts tend to be large and require longer travel times. RSD transportation reimbursements have been funded at various levels over the last five fiscal years—from as low as 71.31% in FY 2018 to as high as 96.2% in FY 2021.³² According to members of the Legislature, it is anticipated that level funding at \$82 million will result in a reimbursement level of 85% for FY 2023.³³

²⁹ FY2022 Regional School Transportation Reimbursements, on file with DLM.

³⁰ M.G.L. c. 71, § 16C.

³¹ *Id.*

³² FY2022 Regional School Transportation Reimbursements, on file with DLM. Note: The average level of reimbursement for RSD transportation between FY 2017 and FY 2021 was 72.8%.

³³ Wade, C.M. (2022, May 24). "Senators push to expand school transportation funding." *State House News Service*. Retrieved from https://www.salemnews.com/news/senators-push-to-expand-school-transportation-funding/article_7ad67190-dade-11ec-87a1-abca57d6c59e.html

Out-of-District Vocational School Transportation (M.G.L. c. 74, § 8A)

Status: Partial funding

Estimated expenses (FY 2022): \$4,466,576 **FY 2022 Reimbursement:** \$250,000³⁴

*A municipality, wherein a person resides who is admitted to a day school in another municipality under section 7, shall, through its school committee, when necessary, provide for the transportation of such person, and shall, subject to appropriation, be entitled to state reimbursement to the full extent of the amount so expended.*³⁵

Under M.G.L. c. 74, § 8A, the state is required to reimburse school districts that transport students to an out-of-district vocational school. While students have a right (subject to the review of an application) to attend a program at a vocational school in a district different than their own, communities are prohibited from providing transportation if the students live less than 1.5 miles from the school. This transportation reimbursement has been funded at various levels, but an appropriation of \$250,000 per year has been the norm in recent years. OOD vocational school transportation expenses totaled \$4,466,576 in FY 2022, of which a mere 5.6% is reimbursed by the Commonwealth.³⁶ As a result of insufficient funding provided for this category of expenses, the Office of the State Auditor has heard from small communities in rural parts of the state about the financial burden imposed by the lack of full reimbursement.³⁷ The Commission on the Fiscal Health of Rural School Districts has also publicly reiterated concerns from school officials and advocated to the Legislature to fully fund OOD vocational school transportation.³⁸

³⁴ FY2022 Vocational OOD Transportation Reimbursements, on file with DLM.

³⁵ M.G.L. c. 74, § 8A.

³⁶ FY2022 Vocational OOD Transportation Reimbursements, on file with DLM.

³⁷ Correspondence to Massachusetts State Auditor Suzanne Bump from the John F. Sears Education Advisory Committee (December 1, 2021) and Select Board Chair of the Town of Buckland (March 2, 2022), on file with DLM.

³⁸ Commission on the Fiscal Health of Rural School Districts. (2022, July 18). *A Sustainable Future for Rural Schools*. <https://malegislature.gov/Commissions/Detail/510/Documents>

School Transportation for Students Experiencing Homelessness (McKinney-Vento Homeless Assistance Act, Public Law 100-77)

Status: Full funding

Estimated expenses (FY 2022): \$11,396,298³⁹

FY 2022 Reimbursement: \$11,527,248⁴⁰

For any State desiring to receive a grant under this part, the State educational agency shall submit to the Secretary a plan to provide for the education of homeless children and youths within the State. Such plan shall include the following: . . .

(J) Assurances that the following will be carried out: . . .

(iii) The State and the local educational agencies in the State will adopt policies and practices to ensure that transportation is provided, at the request of the parent or guardian (or in the case of an unaccompanied youth, the liaison), to and from the school of origin (as determined under paragraph (3)), in accordance with the following, as applicable:

(I) If the child or youth continues to live in the area served by the local educational agency in which the school of origin is located, the child's or youth's transportation to and from the school of origin shall be provided or arranged by the local educational agency in which the school of origin is located.

(II) If the child's or youth's living arrangements in the area served by the local educational agency of origin terminate and the child or youth, though continuing the child's or youth's education in the school of origin, begins living in an area served by another local educational agency, the local educational agency of origin and the local educational agency in which the child or youth is living shall agree upon a method to apportion the responsibility and costs for providing the child or youth with transportation to and from the school of origin. If the local educational agencies are unable to agree upon such method, the responsibility and costs for transportation shall be shared equally.⁴¹

Transportation for students experiencing homelessness is another category of school transportation expenses that is contingent on state reimbursement. This service to these students is required by federal law in order for the state to receive various categories of federal money. A DLM determination found this service to be an unfunded mandate in 2011 because the Commonwealth had adopted the provisions of

³⁹ Note: Estimated expenses do not include expenses for charter schools, although charter schools received a reimbursement in FY 2022. See also FY 2022 Homeless Transportation Reimbursements, on file with DLM.

⁴⁰ FY2021 Homeless Transportation Reimbursements, on file with DLM.

⁴¹ 42 U.S.C. 1432(g)(1).

the federal McKinney-Vento Homeless Assistance Act.⁴² The state is therefore responsible for full reimbursement to the school district(s) that transport students experiencing homelessness.⁴³

Although the Commonwealth has reimbursed this line item at inconsistent levels since FY 2013, reimbursements in FY 2022 reached full funding for the first time at \$11.5 million and complied with the mandate.⁴⁴ The reimbursement level was raised in FY 2023 to nearly \$23 million, which will likely cover all McKinney-Vento transportation expenses and account for growing costs.⁴⁵

Out-of-District School Transportation for Students in Foster Care (Every Student Succeeds Act, Public Law 114–95)

Status: Federal Funding for small percentage of expenses

Estimated expenses (FY 2021): \$4,334,608⁴⁶

FY 2021 Reimbursement: \$513,060⁴⁷

Each local educational agency plan shall provide assurances that the local educational agency will . . .

(5) collaborate with the State or local child welfare agency to . . .

(B) by not later than 1 year after [the date of enactment of the Every Student Succeeds Act], develop and implement clear written procedures governing how transportation to maintain children in foster care in their school of origin when in their best interest will be provided, arranged, and funded for the duration of the time in foster care, which procedures shall—

(i) ensure that children in foster care needing transportation to the school of origin will promptly receive transportation in a cost-effective manner and in accordance with section 675(4)(A) of [the Social Security Act (42 U.S.C. 675(4)(A))]; and

⁴² Massachusetts Office of the State Auditor. (2011, December 12). *Temporary housing for homeless families and children, education cost impacts for the City of Waltham*. <https://www.mass.gov/doc/temporary-housing-for-homeless-families-and-children-education-cost-impacts-for-the-city-of/download>; Massachusetts Office of the State Auditor. (2012, February 7). *Projected Fiscal 2012 Local Cost for Transportation of Certain Homeless Students*. <https://www.mass.gov/doc/projected-fiscal-2012-local-cost-for-transportation-of-certain-homeless-students/download>

⁴³ Note: Also known as the “school of origin.” See also 42 U.S.C. 1432(g)(1); 603 CMR 10.09 (8).

⁴⁴ Massachusetts Budget and Policy Center. (2022). *Homeless Student Transportation and Related Programs, 7035-0008*. <https://massbudget.org/budget-browser/line-item/?id=7035000500>; Massachusetts Department of Elementary and Secondary Education. (2021, October 27). *Transportation*. <https://www.doe.mass.edu/finance/transportation/>

⁴⁵ The 192nd General Court of the Commonwealth of Massachusetts. (2022). *FY 2023 Final Budget, line 7035-0008*. <https://malegislature.gov/Budget/FinalBudget>

⁴⁶ *FY2021 Schedule 7 Data*, on file with DLM.

⁴⁷ Note: The FY 2020 reimbursement was \$853,853. See also FY 2020 and FY 2021 ESSA Reimbursements to LEAs spreadsheet, on file with DLM.

(ii) ensure that, if there are additional costs incurred in providing transportation to maintain children in foster care in their schools of origin, the local educational agency will provide transportation to the school of origin if—

(I) the local child welfare agency agrees to reimburse the local educational agency for the cost of such transportation;

(II) the local educational agency agrees to pay for the cost of such transportation; or

(III) the local educational agency and the local child welfare agency agree to share the cost of such transportation.⁴⁸

DLM previously investigated state and federal provisions of law covering educational services for children in foster care in a 2019 municipal impact report.⁴⁹ One of the laws highlighted in the report was the federal Every Student Succeeds Act of 2015 (ESSA), which requires DESE to provide, arrange, and fund transportation for students in foster care in conjunction with the Massachusetts Department of Children and Families (DCF).⁵⁰ ESSA also requires school districts⁵¹ to adequately provide transportation to the schools that students previously attended prior to their placement in care, after determination by DESE and DCF that it is in the best interest of the students.⁵² As a result, DESE and DCF were required to determine a cost-sharing mechanism to cover districts' accrued transportation expenses.⁵³ The Commonwealth has never directly funded this provision, although needed funding levels can be easily identified, since DESE collects transportation expense data as well as the number of students in foster care who receive OOD transportation services (915 as of FY 2021).⁵⁴

⁴⁸ 20 U.S.C. 6312, § 1112 (c)(5)(B)(ii).

⁴⁹ See Massachusetts Office of the State Auditor, Division of Local Mandates. (2019, April 23). *Educational services for students in foster care and state care*. <https://www.mass.gov/doc/local-financial-impact-review-educational-services-for-students-in-foster-care-and-state-care/download>. Further expenses for educating students in foster care are discussed on page 18.

⁵⁰ 20 U.S.C. 6312, § 1112 (c)(5)(B)(ii).

⁵¹ *Id.* Note: a school district and a school that is located where a student originally lived prior to foster care placement are called a “district of origin” and a “school of origin,” respectively. See also Commonwealth of Massachusetts. (2018, January 26) *The Massachusetts Department of Elementary and Secondary Education (ESE) and Massachusetts Department of Children and Families (DCF) Guidance for Schools and Districts on Implementing Foster Care Provisions of the Every Student Succeeds Act (ESSA)*. <http://www.doe.mass.edu/sfs/foster/guidance.docx>

⁵² Commonwealth of Massachusetts. (2018, January 26) *The Massachusetts Department of Elementary and Secondary Education (ESE) and Massachusetts Department of Children and Families (DCF) Guidance for Schools and Districts on Implementing Foster Care Provisions of the Every Student Succeeds Act (ESSA)*. <http://www.doe.mass.edu/sfs/-foster/guidance.docx>; Commonwealth of Massachusetts. (2021, January 3). *ESSA Transportation Claiming: Supplemental Cost Report Training*, at 3. <https://www.doe.mass.edu/finance/transportation/reporting-tool-training.pptx>

⁵³ *Id.*

⁵⁴ *FY2021 Schedule 7 Data*, on file with DLM. Note: The number of students in foster care who received OOD transportation services in FY 2020 was 1,316. See *FY2020 Schedule 7 Data*, on file with DLM.

Instead of a state reimbursement, the Executive Office of Health and Human Services (EOHHS), DESE, and DCF coordinated efforts to secure a small federal reimbursement for school districts through Title IV-E of the Social Security Act, which was first distributed in FY 2020.⁵⁵ In FY 2021, transportation expenses for students in foster care totaled \$4,334,608, of which \$513,060 (or 12%) was reimbursed by the federal government.⁵⁶ The remaining balance falls on school districts to fund out of their budgets.

Not all school districts take advantage of the Title IV-E funds, as applying for reimbursement is voluntary.⁵⁷ For the 2019-2020 school year, only 59 out of 115 school districts with students in foster care sought reimbursement.⁵⁸ Likewise, only 56 out of 89 eligible districts sought reimbursement in the 2020–2021 school year.⁵⁹ Among the districts that sought federal reimbursement in FY 2021, only 16.8% was reimbursed out of their total expenses of \$3.1 million.⁶⁰ A combination of a lack of awareness of the program and the required time needed to fill out paperwork for the program may hinder districts' ability or motivation to apply for federal funds, especially when a 100% reimbursement is not guaranteed.

School Aid

Educator Evaluations (M.G.L. c. 71, § 38)

Status: No explicit funding (some funding unofficially allocated in Chapter 70 formula)

Estimated expenses (FY 2021): over \$10,000,000 **FY 2021 Reimbursement:** None

*Each school district shall conduct evaluations of teachers and administrators in accordance with the regulations of the board [of elementary and secondary education] and shall be reimbursed for reasonable costs incurred thereby in accordance with section sixty of chapter fifteen.*⁶¹

M.G.L. c. 71, § 38 sets out a state commitment to reimburse school districts for expenses related to the educator evaluation program. This section identifies teachers, principals, and administrators to be evaluated under standards from the Massachusetts Board of Elementary and Secondary Education. This process was the subject of a 2017 mandate determination by DLM in response to a petition filed by the

⁵⁵ *Educational Services for Students in Foster Care*, at 37; 2021 ESSA Reimbursements to LEAs spreadsheet, on file with DLM.

⁵⁶ Note: The Title IV-E reimbursement for FY 2020 was \$853,853, which covered 15% of expenses related to foster care transportation (\$5,874,096). See also 2020 ESSA Reimbursements to LEAs spreadsheet, on file with DLM; as well as *FY2020 Schedule 7 Data* and *FY2021 Schedule 7 Data*, on file with DLM.

⁵⁷ Commonwealth of Massachusetts. (2021, January 3). *ESSA Transportation Claiming: Supplemental Cost Report Training*, at 3. <https://www.doe.mass.edu/finance/transportation/reporting-tool-training.pptx>

⁵⁸ FY 2020 ESSA Reimbursements to LEAs spreadsheet, on file with DLM; *FY2020 Schedule 7 Data*, on file with DLM.

⁵⁹ FY 2021 ESSA Reimbursements to LEAs spreadsheet, on file with DLM; *FY2021 Schedule 7 Data*, on file with DLM.

⁶⁰ *Id.*

⁶¹ M.G.L. c. 71, § 38.

Framingham School District.⁶² No funds have ever been explicitly appropriated for the reimbursement of these evaluations, nor has there been evidence of guidelines for reimbursement under M.G.L. c. 15, § 60. However, in the past, DESE recommended use of Federal Title II-A funds to support the evaluation program and pointed to a professional development allocation within the Chapter 70 formula.⁶³ While the costs to school districts of the required evaluation process are not known, an estimate of tens of millions of dollars is reasonable, extrapolating from the numbers Framingham provided as part of the mandate determination.

Education of Students in Foster Care (M.G.L. c. 76, § 7)

Status: Partial funding (via Chapter 70 aid)

Estimated foundation budget expenses (FY 2023): \$78,503,552

Estimated Chapter 70 aid (FY 2023): \$36,527,703⁶⁴

*For the tuition in the public schools of any city, town, or regional school district of any school age child placed in foster care or group care elsewhere than in his home town by, or there kept under the control of, the department of children and families, the commonwealth shall fully reimburse said city, town, or regional school district for the child's tuition each day the child is enrolled in a public elementary or secondary school. The amount of said reimbursement shall be based on the average annual per pupil cost of education in the city, town, or regional school district, as determined by the department of education.*⁶⁵

DLM's 2019 report on children in foster care also highlighted a promised reimbursement for educational services of such children who are assigned to schools outside their home district. M.G.L. c. 76, § 7, which details tuition reimbursement for students placed OOD, has never been funded. However, students in the foster care system are automatically categorized as low income and have additional allocations of up to \$6,500 over the foundation base rate per student in the Chapter 70 formula, thus generating more funding

⁶² Massachusetts Office of the State Auditor, Division of Local Mandates. (2017, October 17). *RE: The financial impacts of educator evaluations, M.G.L. c. 71, § 38, on the Framingham Public Schools.* <https://www.mass.gov/files/documents/2017/10/19/DLM-Framingham%20%20Educator%20Evaluation%20letter%20....%20%28002%29.pdf>

⁶³ *Id.*; Massachusetts Department of Elementary and Secondary Education. (2014, July). *Report to the Legislature: Educator Evaluation Training Funding Report.* <https://archives.lib.state.ma.us/bitstream/handle/2452/735472/on1001960047.pdf?sequence=1&isAllowed=y>

⁶⁴ Note: Estimates for expenses and funding based on internal methodology. See also Massachusetts Department of Elementary and Secondary Education. (2022). *FY2023 Chapter 70 Complete Formula Spreadsheet.* <https://www.doe.mass.edu/finance/-chapter70/fy2023/chapter-2023.xlsm>; Email correspondence with Emily Warchol of the Executive Office of Health and Human Services, September 6, 2022, on file with DLM.

⁶⁵ M.G.L. c. 76, § 7.

for the districts.⁶⁶ Accurate statistics are not publicly available, since students in this category tend to move between districts more often than others; furthermore, there is no specific funding line item for the education of students in foster care.⁶⁷ However, EOHS has estimated that there were at least 5,504 students in foster and state care who were enrolled in public schools as of October 2021.⁶⁸

Multiplying the number of students in foster care who attended public schools (5,504) by the average FY 2023 Foundation Budget amount of \$14,263 per pupil, DLM estimates there are over \$78 million per year in expenses to provide educational services for children in foster care.⁶⁹ Because the Commonwealth funds approximately 46.53% of foundation budget expenses, we estimate that approximately \$32 million, or 53.47%, is left to school districts to cover out-of-pocket.⁷⁰ This estimate is conservative, as there are many students in foster and state care attending districts with high concentration of students from families with low incomes, and as a result, have higher foundation budgets. Students in foster care also tend to have a higher need for IEPs than other students across the Commonwealth and therefore require more resources.⁷¹ In addition, there may be higher student counts in upcoming years due to the changing impact of the 2019 coronavirus (COVID-19) pandemic.

⁶⁶ Riley, Jeffrey C. (2022, July 28). *School Finance: Chapter 70 Program*. Massachusetts Department of Elementary and Secondary Education, at 15. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023-whitepaper.docx>

⁶⁷ Massachusetts Office of the State Auditor, Division of Local Mandates. (2019, April 23). *Educational Services for Students in Foster Care and State Care*, at 31. <https://www.mass.gov/doc/local-financial-impact-review-educational-services-for-students-in-foster-care-and-state-care/download>

⁶⁸ Note: Students between the ages of 5 and 17 are included in this estimate. See also Email correspondence with Emily Warchol of the Executive Office of Health and Human Services, September 6, 2022, on file with DLM.

⁶⁹ Email correspondence with Emily Warchol of the Executive Office of Health and Human Services, 9/6/22, on file with DLM. Riley, Jeffrey C. (2022, July 28). *School Finance: Chapter 70 Program*. Massachusetts Department of Elementary and Secondary Education, at 8. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023-whitepaper.docx>

⁷⁰ Discussion with DESE Staff Members, September 1 and 19, 2022. On file with DLM.

⁷¹ See Massachusetts Office of the State Auditor, Division of Local Mandates. (2019, April 23). *Educational services for students in foster care and state care*, at 31. <https://www.mass.gov/doc/local-financial-impact-review-educational-services-for-students-in-foster-care-and-state-care/download>

Special Education Circuit Breaker (M.G.L. c. 71B, § 5A)

Status: Partial funding (per formula)

Estimated expenses, net of Chapter 70 aid (FY 2022): \$749,158,527⁷²

FY 2022 Reimbursement: \$348,615,429⁷³

There shall be, subject to appropriation, a special education reimbursement program. The program shall reimburse municipalities for the eligible instructional costs and for the cost of required out-of-district transportation associated with implementing individual education plans of students receiving special education services pursuant to this chapter. The reimbursements shall be in addition to amounts distributed pursuant to chapter 70 and shall not be included in the calculation of base aid, as defined in said chapter 70, for any subsequent fiscal year. Charter schools shall receive reimbursements under this section in the same manner as districts.

The department shall promulgate regulations to define, consistent with this section, the costs associated with implementing individual education plans for pupils that shall be eligible for reimbursement under the program.⁷⁴

The special education circuit breaker is a cost-sharing program between communities and the state for expenses related to educating the students who have the highest needs for special education services. The formula was modified as a result of the 2019 SOA and now triggers at a threshold amount, beyond which school districts get reimbursed at 75% of allowable expenses.⁷⁵ The amount of reimbursement increased with the SOA, due to a phase-in of OOD transportation costs for students whose expenses exceed the threshold.⁷⁶ In FY 2022, total expenses exceeded \$980 million, with district threshold costs at just under \$500 million.⁷⁷ However, the \$980 million is considered to be gross expenses, of which some of it is partly paid for with Chapter 70 aid.⁷⁸ After subtracting the state's allocation of Chapter 70 aid for students receiving special education services from total expenses, and after excluding OOD transportation

⁷² Note: Estimates for expenses based on internal methodology. See also Massachusetts of Department of Elementary and Secondary Education. (2022, February 23). *FY2022 Circuit Breaker reimbursement listing*. <https://www.doe.mass.edu/finance/circuitbreaker/fy2022-reimbursement.xlsx>

⁷³ *Id.* Note: Includes Special Indicator reimbursements for tuition and instructional costs.

⁷⁴ M.G.L. c. 71B, § 5A.

⁷⁵ The threshold amount was \$45,793 in fiscal 2020; it increases based on the inflation rate each year. See *id.*

⁷⁶ Note: A more detailed discussion of expenses related to out-of-district special education transportation is located at page 10.

⁷⁷ Massachusetts of Department of Elementary and Secondary Education. (2022, February 23). *FY2022 Circuit Breaker reimbursement listing*. <https://www.doe.mass.edu/finance/circuitbreaker/fy2022-reimbursement.xlsx>

⁷⁸ The Commonwealth's state target share of Chapter 70 aid is 46.53% of total foundation budget expenses. See also Discussion with DESE Staff Members, September 1 and 19, 2022. On file with DLM; Riley, Jeffrey C. (2022, July 28). *School Finance: Chapter 70 Program*. Massachusetts Department of Elementary and Secondary Education, at 8. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023-whitepaper.docx>

costs, the net expense for the year was approximately \$749 million. Approximately \$349 million, or 46.53% of net costs, was reimbursed by the special education circuit breaker, leaving approximately \$400 million to be absorbed by the local districts.⁷⁹

Charter School Sending Tuition Reimbursements (M.G.L. c. 71, § 89 (gg))

Status: Partial funding (per formula)

Estimated expenses, net of Chapter 70 aid (FY 2023): \$437,677,373⁸⁰

FY 2023 Reimbursement: \$178,889,248⁸¹

Any district whose total charter school tuition amount is greater than its total charter school tuition amount for the previous year shall be reimbursed by the commonwealth in accordance with this paragraph and subject to appropriation; provided, however, that no funds for said reimbursements shall be deducted from funds distributed pursuant to chapter 70. The district's reimbursement shall be 100 per cent of the increase in the year in which the increase occurs, 60 per cent of the increase in the year following the increase and 40 per cent of the increase in the second year following the increase.⁸²

Whenever students opt to attend charter schools instead of a public, vocational, or regional school, sending districts are charged tuition for these students. These charges are labeled as assessments on the municipal and regional school Cherry Sheets (see Figure 9 for a detailed breakdown of Chapter 70 aid and charter school assessments).⁸³ Charter school tuition expenses are rising quickly, as charter school assessments (net of reimbursement) increased by 33% between FY 2018 and FY 2023.⁸⁴ It should be noted

⁷⁹ Note: Includes Special Indicator reimbursements for tuition and instructional costs. See also Massachusetts of Department of Elementary and Secondary Education. (2022, February 23). *FY2022 Circuit Breaker reimbursement listing*. <https://www.doe.mass.edu/finance/circuitbreaker/fy2022-reimbursement.xlsx>

⁸⁰ Note: Estimates for expenses based on internal methodology. See also Massachusetts Department of Education. (2022, August 10). *Projected FY23 Charter School Tuition Payments and Reimbursements for Sending Districts*. <https://www.doe.mass.edu/charter/finance/tuition/fy2023/projection-distsum.xlsx>; Massachusetts Department of Elementary and Secondary Education. (2022). *FY2023 Chapter 70 Complete Formula Spreadsheet*. <https://www.doe.mass.edu/finance/chapter70-fy2023/chapter-2023.xlsm>

⁸¹ Note: Excludes reimbursements for Facilities as this component is fully funded at 100%. See also Massachusetts Department of Education. (2022, August 10). *Projected FY23 Charter School Tuition Payments and Reimbursements for Sending Districts*. <https://www.doe.mass.edu/charter/finance/tuition/fy2023/projection-distsum.xlsx>

⁸² M.G.L. c. 71, § 89(gg).

⁸³ Department of Revenue, Division of Local Services. (2022, July 28). *Cherry Sheet Detail by Program*. https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main

⁸⁴ *Id.*

that students attending charter schools are included in the student count for the Chapter 70 program, which drives the overall foundation budget, and thus the tuition rates for charter schools.⁸⁵

There is a reimbursement program (line item 7061-9010) with a formula designed to provide support to the sending districts, but this program only partially offsets expenses. Two components—transitional support for tuition and facilities reimbursement—account for the vast majority of reimbursements: the first component helps districts adjust to recent increases in charter school tuition, while the second component helps support capital costs at charter schools.

In FY 2023, gross charter school tuition expenses totaled over \$866 million, some of which is covered with Chapter 70 aid.⁸⁶ We estimate that approximately \$428.3 million in Chapter 70 aid was allocated to students attending charter schools (based on an estimated charter school enrollment of 47,872 and an average Chapter 70 aid amount of \$8,497.17 per student attending a charter school from a sending district).⁸⁷ After subtracting estimated Chapter 70 aid, approximately \$179 million out of \$438 million (or 41%) in charter school tuition expenses will be reimbursed under the program with transition tuition aid.⁸⁸ While this commitment was not fully funded in past years, the SOA promised implementation of the appropriate level of support by phasing in funding over a period of years.⁸⁹

⁸⁵ The Commonwealth's state target share of Chapter 70 aid is 41% of total foundation budget expenses. See also Riley, Jeffrey C. (2022, July 28). *School Finance: Chapter 70 Program*. Massachusetts Department of Elementary and Secondary Education. P. 2–3. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023-whitepaper.docx>

⁸⁶ Note: Excludes facilities expenses. See also Massachusetts Department of Education. (2022, August 10). *Projected FY23 Charter School Tuition Payments and Reimbursements for Sending Districts*. <https://www.doe.mass.edu/charter/finance/tuition/fy2023/projection-distsum.xlsx>

⁸⁷ *Id.* Note: Average Chapter 70 aid per pupil was calculated by dividing Chapter 70 aid and total enrollment estimates for FY 2023. See also Massachusetts Department of Elementary and Secondary Education. (2022). *FY2023 Chapter 70 Complete Formula Spreadsheet*. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023.xlsm>

⁸⁸ *Id.* Note: Excludes reimbursements for Facilities as this component is fully funded at 100%.

⁸⁹ St. 2019, c. 132 § 25.



Kenneth M. Dubuque Memorial State Forest in Hawley, Mass. (staff photo)

Local Government Programs

Payments in Lieu of Taxes for State-Owned Land (M.G.L. c. 58, §§ 13–17)

Status: Partial funding

Estimated full reimbursement (FY 2023): \$48,987,912⁹⁰

FY 2023 Appropriation: \$45,000,000⁹¹

*The treasurer shall annually, reimburse each city and town in which state-owned land is located, an amount in lieu of taxes upon the reimbursement percentages reported to the treasurer by the commissioner under the preceding section, determined by multiplying the percentages by the amount appropriated for such purposes for the fiscal year.*⁹²

The state-owned land payment in lieu of taxes (PILOT) program was the subject of a 2020 report from DLM.⁹³ The report found a significant underfunding of the PILOT program as a result of changes to the

⁹⁰ Department of Revenue, Division of Local Services. *Historic SOL Average Tax Rates*, on file with DLM.

⁹¹ The 192nd General Court of the Commonwealth of Massachusetts. (2022). *FY 2023 Final Budget*. <https://malegislature.gov/Budget/FinalBudget>

⁹² M.G.L. c. 58, § 17.

⁹³ Massachusetts Office of the State Auditor, Division of Local Mandates. (2020, December 10). *The impact of the state-owned land PILOT and solar taxation policies on municipalities*. <https://www.mass.gov/doc/the-impact-of-the-state-owned-land-pilot-and-solar-taxation-policies-on-municipalities-pdf/download>

program’s formula by the Municipal Modernization Act of 2016 (St. 2016, c. 218 § 108).⁹⁴ Under the program’s current structure, municipalities are reimbursed based on multiplying the share of their state-owned land relative to the Commonwealth’s total state-owned land value against a legislative appropriation. Note that for the purposes of this report, DLM calculated an estimate of full funding to the program using the methodology from prior to 2016.

Shortly after DLM’s 2020 report, the Legislature started to make larger investments in the state-owned land PILOT program. The program’s appropriation increased from \$30 million to \$35 million between FY 2020 and FY 2022.⁹⁵ The Legislature allocated an additional \$10 million for the FY 2023 budget, increasing the program’s appropriation to an all-time high of \$45 million.⁹⁶ Full funding levels are currently estimated to be at \$49 million.⁹⁷ Because state-owned land values are revalued biannually, it is important that the Commonwealth consistently increases its financial commitment to the program to keep pace with growing land values.

Community Preservation Act Incentives (M.G.L. c. 44B, § 10)

Status: Partial funding

Net Surcharges Raised (FY 2022): \$178,991,952 **FY 2022 State Match:** \$88,477,404⁹⁸

(a) The commissioner of revenue shall annually on or before November 15 disburse monies from the fund established in section 9 to a city or town that has accepted sections 3 to 7, inclusive, and notified the commissioner of its acceptance. . . .

(b) The commissioner shall multiply the amount remaining in the fund after any disbursements for operating and administrative expenses pursuant to subsection (c) of section 9 by 80 per cent. . . .

(c) The commissioner shall further divide the remaining 20 per cent of the fund in a second round distribution, known as the equity distribution. . . .

(h) When there are monies remaining in the Massachusetts Community Preservation Trust Fund after the first and second round distributions and any necessary administrative expenses have been

⁹⁴ See *id.* at 27–28.

⁹⁵ The 191st General Court of the Commonwealth of Massachusetts. (2019). *FY 2020 Final Budget*. <https://malegislature.gov/Budget/FY2020/FinalBudget>; The 192nd General Court of the Commonwealth of Massachusetts. (2021). *FY 2022 Final Budget*. <https://malegislature.gov/Budget/FY2022/FinalBudget>

⁹⁶ The 192nd General Court of the Commonwealth of Massachusetts. (2022). *FY 2023 Final Budget*. <https://malegislature.gov/Budget/FinalBudget>

⁹⁷ Department of Revenue, Division of Local Services. *Historic SQL Average Tax Rates*, on file with DLM.

⁹⁸ Massachusetts Department of Revenue, Division of Local Services. (2022). *FY2022 CPA Distribution and Ranking*, <https://www.mass.gov/lists/community-preservation-act>

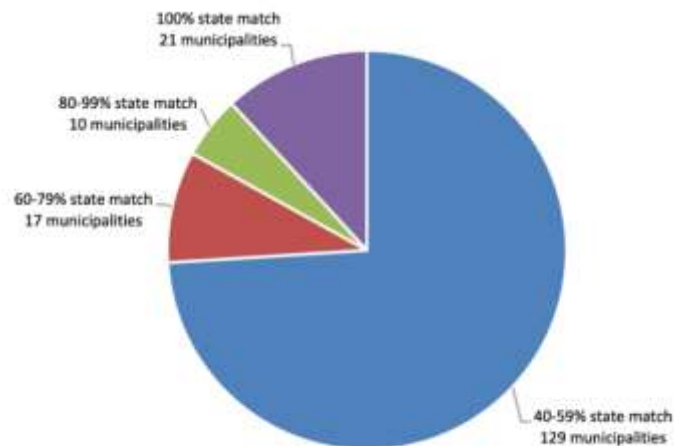
paid in accordance with section 9, the commissioner may conduct a third round surplus distribution.

. . .

(i) The commissioner shall determine each participant's total state grant by adding the amount received in the first round distribution with the amounts received in any later round of distributions, with the exception of a city or town that has already received a grant equal to 100 per cent of the amount the community raised by its surcharge on its real property levy.⁹⁹

The Community Preservation Act (CPA) is an optional program, through which communities can assess a surcharge to property tax bills that can be directed to a fund for historic preservation, open space management, and affordable housing. As of 2021, 177 communities have opted to participate in this program.¹⁰⁰ The state matches local funding at a rate that varies each year, as the distribution of funds is dependent on the amount of collected surcharge revenue and the number of participating communities. There are also some occasional additions to funding: for example, the FY 2023 budget promises a \$20 million infusion of surplus funds into the Community Preservation Trust Fund for that year's CPA incentive reimbursements.¹⁰¹ However, the existing funding regime does not allow many communities to receive the full 100% incentive, as seen in Figure 5.

Figure 5—CPA Communities by Share of State Match, FY 2022¹⁰²



⁹⁹ M.G.L. c. 44B, § 10.

¹⁰⁰ Massachusetts Department of Revenue, Division of Local Services. (2022). *FY2022 CPA Distribution and Ranking*, <https://www.mass.gov/lists/community-preservation-act>

¹⁰¹ The 192nd General Court of the Commonwealth of Massachusetts. (2022). *FY 2023 Final Budget*. <https://malegislature.gov/Budget/FinalBudget>

¹⁰² Massachusetts Department of Revenue, Division of Local Services. (2022). *FY2022 CPA Distribution and Ranking*, <https://www.mass.gov/lists/community-preservation-act>

There is an apparent correlation between a municipality’s wealth and the CPA surcharge percent adopted by a municipality. For example, Figure 6 shows the mean assessed values per capita, by CPA surcharge percent, for Massachusetts municipalities. Communities that implemented the 3% surcharge have a significantly higher mean total assessed value per capita than those that implemented the 2% surcharge, which are higher still than those that implemented the 1.5% surcharge, and so on. In particular, the contrast between municipalities participating in the CPA program with the highest surcharges and non-CPA municipalities (\$421,343 vs. \$189,078 in mean total assessed value per capita in FY 2022) is striking.¹⁰³

Figure 6—Average Total Municipal Assessed Value by CPA Surcharge Percent per Capita, FY 2022¹⁰⁴

Surcharge Percent	Number of Municipalities	Average Total Assessed Value per Capita (FY 2022)
0%	174	\$189,078
1%	42	\$197,067
1.5%	39	\$204,716
2%	17	\$238,212
3%	76	\$421,343

The CPA program includes two “equity” rounds of fund redistribution after the first allocation, with the stated goal of increasing fairness. But, even after redistribution, there is a high correlation between a municipality’s total assessed value per capita and CPA funds per capita (see Figure 6): the higher the mean assessed value, the higher CPA reimbursements tend to be. This is an unintended consequence from the CPA statute, which states that only municipalities that implement the equivalent of a 3% surcharge qualify to enter the “equity” rounds.¹⁰⁵ It is unclear why the equity rounds are restricted to these communities,

¹⁰³ *Id.*; Massachusetts Department of Revenue, Division of Local Services. (2022, August 15). *Assessed Value by Class*. <https://dls.gateway.dor.state.ma.us/reports/-rdPage.aspx?rdReport=PropertyTaxInformation.AssessedValuesbyClass.assessedvaluesbyclass>; US Census Bureau, *Annual Estimates of the Resident Population for Minor Civil Divisions in Massachusetts*, April 1 2020 Estimates Base <https://www2.census.gov/programs-surveys/popest/tables/2020-2021/mcids/totals/SUB-MCD-EST2021-POP-25.xlsx>

¹⁰⁴ *Id.* Three municipalities have adopted unusual CPA percentages and have not been included in this table: Seekonk, at 1.25%, Harvard, at 1.10%, and Northfield, at 0.50%.

¹⁰⁵ “Only those cities and towns that adopt the maximum surcharge pursuant to subsection (b) of section 3 and those cities and towns that adopt the maximum surcharge and additional funds committed from allowable municipal sources such that the total funds are the equivalent of 3 per cent of the real estate tax levy against real property pursuant to subsection (b.5) of

given the large amount of historically significant properties also present in many of the lower-income, deindustrialized communities of the Commonwealth (which tend to participate for the CPA program at a lower rate, when they sign up at all).

Municipal Reimbursements for Veterans' Benefits (M.G.L. c. 115, § 6)

Status: Partial funding

Estimated full reimbursement (FY 2023): \$46,808,078¹⁰⁶

FY 2023 Estimated Cherry Sheet Reimbursement: \$35,106,059¹⁰⁷

*Subject to . . . decision and allowance [by the commissioner of veterans' services as to proper and lawful amounts], seventy-five per cent of the amounts of veterans' benefits paid to applicants by the cities and towns wherein they reside, but none of the expenses attending the payment of such benefits, shall be paid by the commonwealth to the several cities and towns on or before November tenth in the year after such expenditures.*¹⁰⁸

The Massachusetts Department of Veterans' Services reimburses municipalities for 75% of the benefits paid to veterans by the city or town that the Commissioner of Veterans' Services deems proper and lawful. These benefits provide emergency and long-term financial assistance to veterans and their dependents for various categories of living expenses and are need-based with thresholds for income and assets.¹⁰⁹ It should be noted that the eligible veteran population is not equally spread between municipalities, but instead clustered in a small number of mostly lower-income communities. Judging by reimbursement patterns, most veterans eligible for benefits (>51%) live in approximately 10% of the 351 Massachusetts municipalities, notably in the "gateway cities."¹¹⁰ In FY 2023, the four communities with the largest veterans' expenditures were New Bedford, Boston, Fall River, and Worcester, as shown in Figure 7.¹¹¹

said section 3 shall be eligible to receive additional state monies through the equity and surplus distributions." See also M.G.L. c. 44B, § 10(i)(1).

¹⁰⁶ This is the computation of 100% reimbursement, assuming FY 2023 reimbursement at 75% remains at \$35,106,059 (so $(\$35,106,059 \times 100) \div 75 = \$46,808,078$).

¹⁰⁷ Department of Revenue, Division of Local Services. (2022, July 28). Cherry Sheet Detail by Program. https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main

¹⁰⁸ M.G.L. c. 115, § 6.

¹⁰⁹ Legal Services Center of Harvard Law School. (2022). *About Chapter 115 Benefits*. <https://massvetben.org/about-chapter-115-benefits/>

¹¹⁰ Department of Revenue, Division of Local Services. (2022, July 28). Cherry Sheet Detail by Program. https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main

¹¹¹ *Id.*

Proceeding with a full financial commitment would have a positive budgetary impact for some of the most challenged municipalities in the Commonwealth.

Figure 7—Largest Recipients of Veterans’ Benefits Reimbursements, FY 2023¹¹²

Municipality	Amount Reimbursed
New Bedford	\$1,538,050
Boston	\$1,228,230
Fall River	\$1,182,639
Worcester	\$1,127,518
Springfield	\$643,329
Quincy	\$603,158
Pittsfield	\$538,204
Gardner	\$494,590
Chicopee	\$477,800
Brockton	\$477,148

Major Cherry Sheet Programs

As a result of the significant underfunding of the programs discussed above, municipalities and school districts depend heavily on two major “Cherry Sheet” programs for assistance: Chapter 70 education aid and UGGA.

Chapter 70 Education Aid

Overview

The Chapter 70 program, which provides education funding to school districts, is the largest state assistance program in the Commonwealth. The purpose of the program is to define a spending goal for each school district, and then determine how much of that goal should be funded with either state or

¹¹² *Id.*

local resources. Chapter 70 was created with the passage of the Education Reform Act of 1993 and has been amended and refined at various times, most recently with the 2019 SOA.¹¹³ The program, while complex, is based on the Foundation Budget calculation, which tells local communities what their spending requirement is for public education based on enrollment across grades and then apportions that requirement between a local contribution and state aid.

According to the formula, approximately 41% of the required Foundation Budget expenditure statewide is assumed by the Commonwealth through Chapter 70.¹¹⁴ The balance (approximately 59% on average) is the responsibility of the municipality and/or school district through their local contributions, as shown in Figure 8.¹¹⁵ The actual state share varies by year, according to factors such as hold harmless aid, minimum aid, and foundation aid above target. As a result, the state's share for FY 2023 was approximately 46.53% of the total foundation budget expenditure, while the local share was approximately 53.47%.¹¹⁶ In fact, districts generally receive between 17.5% and 82.5% of their Foundation Budgets in state aid—with the variation driven by factors such as municipal property values and income (also known as a combined effort yield).¹¹⁷ Although 82.5% is the maximum contribution for a municipality, the Commonwealth is not limited in its own contributions of aid—in a few specific circumstances, communities may get more than 82.5% from the state.

¹¹³ St. 1993, c. 71; St. 2019, c. 132.

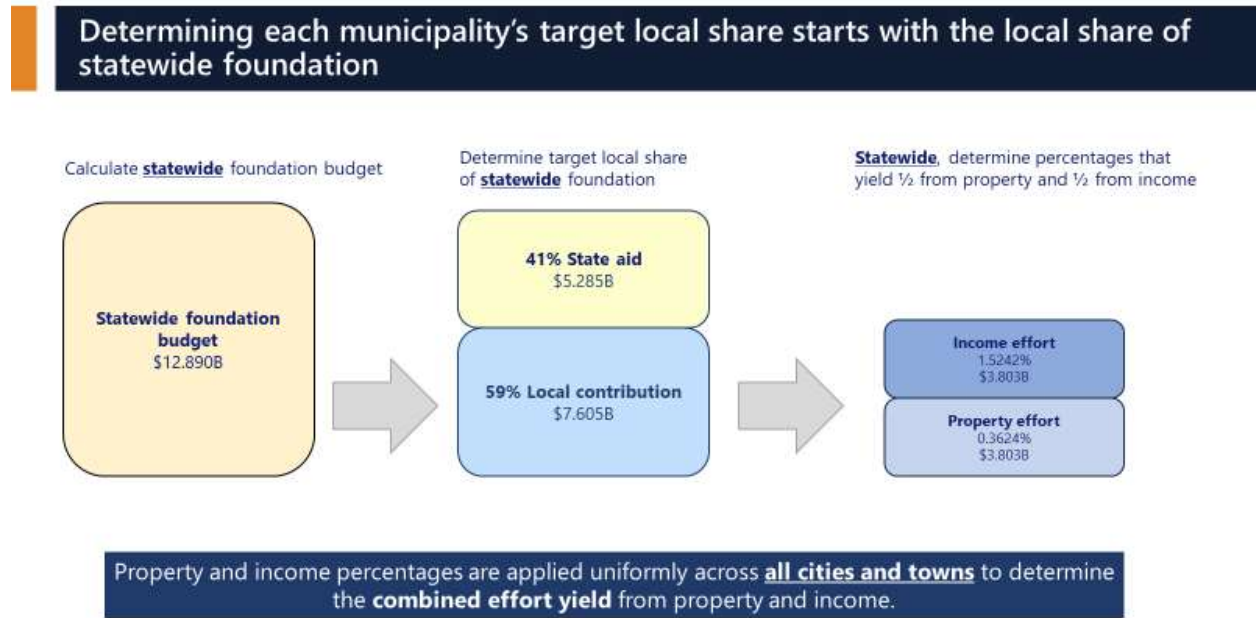
¹¹⁴ Massachusetts Department of Elementary and Secondary Education. (2022, July). School Finance: Chapter 70 Program, at 1. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023-whitepaper.docx>

¹¹⁵ *Id.*

¹¹⁶ Estimate provided by Robert O'Donnell of DESE, in correspondence dated September 27, 2022.

¹¹⁷ *Id.*

Figure 8—DESE Breakdown of Chapter 70 Target Local Shares¹¹⁸



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¹¹⁸ Massachusetts Department of Elementary and Secondary Education. (2022, July 28). *FY23 Chapter 70 aid and Charter reimbursements* [PowerPoint], slide 19. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023.pptx>

Figure 9—Summary of Chapter 70 Aid and Charter School Assessments, FY 2018 through FY 2023¹¹⁹

	FY 2018	FY 2019	FY 2020
Municipal Chapter 70 Aid	\$4,043,777,244	\$4,177,314,546	\$4,435,676,741
Regional School Districts - Chapter 70 Aid	\$702,176,473	\$717,758,775	\$740,325,911
<i>Aid Subtotal</i>	\$4,745,953,717	\$4,895,073,321	\$5,176,002,652
Municipal Assessments to Charter Schools	\$573,651,231	\$639,254,711	\$700,133,014
+ Regional School District Assessments to Charter Schools	\$22,855,262	\$23,976,891	\$25,119,045
- Charter Schools: Municipal Reimbursements	\$77,618,508	\$85,009,201	\$99,157,192
- Charter Schools: Regional School District Reimbursements	\$2,881,496	\$2,457,839	\$2,877,206
<i>Assessments Sub-total</i>	\$516,006,489	\$575,764,562	\$623,217,661
Total Net State Aid (Aid minus Assessments)	\$4,229,947,228	\$4,319,308,759	\$4,552,784,991

	FY 2021	FY 2022	FY 2023
Municipal Chapter 70 Aid	\$4,533,638,522	\$4,735,341,922	\$5,179,209,141
Regional School Districts—Chapter 70 Aid	\$750,013,110	\$767,926,302	\$819,000,745
<i>Aid Subtotal</i>	\$5,283,651,632	\$5,503,268,224	\$5,998,209,886
Municipal Assessments to Charter Schools	\$717,295,564	\$810,160,026	\$889,986,611
+ Regional School District Assessments to Charter Schools	\$26,494,930	\$29,130,335	\$32,474,646
- Charter Schools: Municipal Reimbursements	\$108,749,058	\$143,058,053	\$226,598,535
- Charter Schools: Regional School District Reimbursements	\$4,812,604	\$4,931,958	\$9,379,535
<i>Assessments Sub-total</i>	\$630,228,832	\$691,200,350	\$686,483,187
Total Net State Aid (Aid minus Assessments)	\$4,653,422,800	\$4,812,067,874	\$5,311,726,699

¹¹⁹ Department of Revenue, Division of Local Services. (2022, July 28). Cherry Sheet Detail by Program. https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main

Over the period illustrated in Figure 9 (FY 2018 through FY 2023), there has been an increase in aid of 26.4%, an increase in net aid of 25.6%, and an increase in assessments of 33%.¹²⁰

The total required school spending varies considerably between school districts, based on individual district characteristics such as income and wealth.¹²¹ For example, the City of Brockton is projected to receive over \$212 million in aid for FY 2022, against a required local expenditure of \$261 million.¹²² State aid therefore represents 81% of the total required school spending. At the other end of the spectrum is the Town of Lexington, which is projected to receive \$14.6 million in aid against a required local expenditure of \$81.1 million.¹²³ Lexington's aid only represents 18% of the total required school spending.



Brockton City Hall. (staff photo)

¹²⁰ *Id.*

¹²¹ As stated previously, the Chapter 70 formula includes a minimum local contribution of 17.5%, and a maximum local contribution of 82.5%: in other words, generally, the wealthiest community still receives a minimum of 17.5% of its foundation budget through state aid, while the poorest community still has to assume paying at least 17.5% of its foundation budget. There are still some exceptions where local communities receive more than 82.5% from the state, usually because they serve students that qualify for reimbursements under multiple categories. See also Massachusetts Department of Elementary and Secondary Education. (2022, July). School Finance: Chapter 70 Program, at 1. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023-whitepaper.docx>

¹²² Massachusetts Department of Elementary and Secondary Education. (2021). FY2022 Chapter 70 Complete Formula Spreadsheet. <https://www.doe.mass.edu/finance/chapter70/fy2022/chapter-2022.xlsm>

¹²³ *Id.*

Impacts of the Student Opportunity Act (SOA)

The 2021–2022 school year was the first year of a six-year transition required by the 2019 Student Opportunity Act, which implements the recommendations of the 2015 Foundation Budget Review Commission. Those recommendations recognized that the previous formula had understated the impact of special education services and health insurance benefits on school budgets. The Commission had also recommended changing the foundation budget formula in order to allocate more money to districts with high concentrations of children from families with low incomes or large percentages of English Learners.¹²⁴

To adjust for these changes under the SOA, virtually all districts in the Commonwealth will see an increase in their foundation budgets and thus will be required to increase their required net school spending on public education. The formula tries to remedy this issue with a “minimum aid” component that allocates monies to districts that otherwise would not see an increase in Chapter 70 funds. An analysis of data from DESE shows a total of 246 districts receiving a minimum aid of \$30 per pupil in FY 2022, and a total of 141 districts receiving \$60 per pupil in minimum aid in FY 2023.¹²⁵ Although many districts will receive additional Chapter 70 aid that will entirely offset the foundation budget increases, some districts will be left to spend more without an increase in aid sufficient to cover the requirement. For example, there are 129 school districts that had increased foundation budgets but only saw an increase in minimum aid between FY 2021 and FY 2023.

One of the ways that districts are burdened with higher net school spending is decreased enrollment, because most school districts in the state have faced shrinking student populations in recent years. Within the first two years of the implementation of the SOA, at least 251 out of 318 school districts saw declining enrollment, which was exacerbated by students leaving public schools during the COVID-19 pandemic. These districts had an average enrollment loss of -4.93% between FY 2021 and FY 2023 and consist mostly of public and regional school districts. According to Figure 10, at least 126 districts with shrinking student enrollment had only minimum increases of aid of \$30 to \$60 per pupil between FY 2021 and FY 2023, despite increases of foundation budgets and local contributions that far exceed this amount. The distribution of minimum aid communities touches all parts of the state (as shown in Figure 11, which

¹²⁴ Foundation Budget Review Commission. (2015, October 30). Final Report. <https://archives.lib.state.ma.us/handle/2452/303499>

¹²⁵ Massachusetts Department of Elementary and Secondary Education. (2021). FY2022 Chapter 70 Complete Formula Spreadsheet. <https://www.doe.mass.edu/finance/chapter70/fy2022/chapter-2022.xlsm>; Massachusetts Department of Elementary and Secondary Education. (2022). FY2023 Chapter 70 Complete Formula Spreadsheet. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023.xlsm>

shows those districts receiving \$90 per student across two years). Further analysis may be required of the impacts of minimum aid in future years.¹²⁶

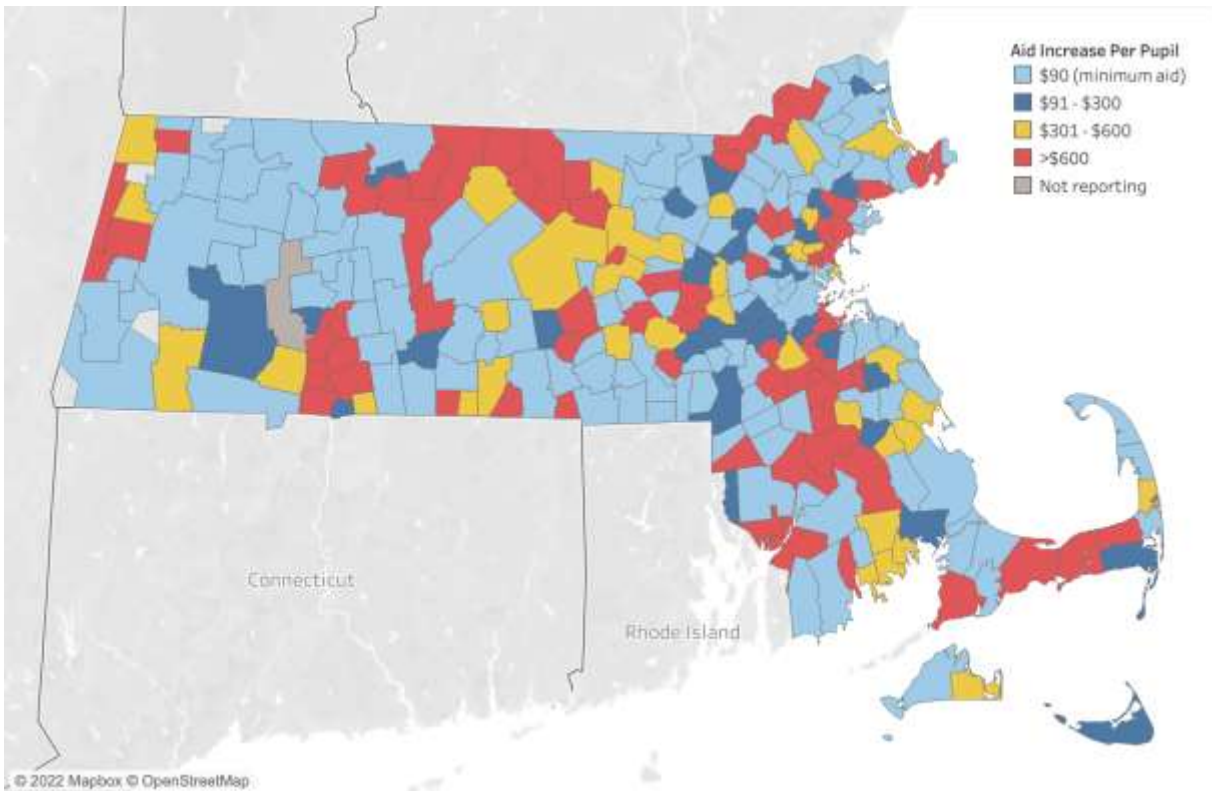
Figure 10—School Districts in Massachusetts with Declining Enrollment, FY 2021 through FY 2023¹²⁷

	Public School Districts	Regional School Districts	Vocational Technical School Districts	Total
Number of districts with declining enrollment, FY 2021–2023	200	47	4	251
Number of districts with declining enrollment <i>and increase in minimum aid only</i>, FY 2021–2023	93	32	1	126

¹²⁶ Commonwealth of Massachusetts. (2022, July 28). “Governor Charlie Baker signs fiscal year 2023 budget.” <https://www.mass.gov/news/governor-charlie-baker-signs-fiscal-year-2023-budget>. Note: half the minimum aid for FY 2023 is in a separate line item (\$30 per pupil), which may not factor into the “hold harmless” base going forward. It is unclear at the time of writing whether or not the Legislature will continue this dual track in future years; if so, yet another funding quirk will have been introduced, with consequences left to be seen.

¹²⁷ Massachusetts Department of Elementary and Secondary Education. (2021). *FY2022 Chapter 70 Complete Formula Spreadsheet*. <https://www.doe.mass.edu/finance/chapter70/fy2022/chapter-2022.xlsm>; Massachusetts Department of Elementary and Secondary Education. (2022). *FY2023 Chapter 70 Complete Formula Spreadsheet*. <https://www.doe.mass.edu/finance/chapter70/fy2023/chapter-2023.xlsm>

Figure 11—Geographical Distribution of Change in Chapter 70 Aid, FY 2021 through FY 2023¹²⁸



For FY 2023, there are 200 districts with higher local contributions that were not fully offset with aid increases. However, at least 100 of these districts have significantly higher net school spending (at least 150% above the foundation budget), meaning that the mandated increase had no real effect on local spending for those districts.¹²⁹

Based on FY 2022 numbers,¹³⁰ the average net school spending that districts actually budget is 145% of their foundation budgets. Figure 12 shows that 35 districts budgeted at least double their required net spending, while 11 districts did not budget the minimum spending required of them.

¹²⁸ *Id.*

¹²⁹ *Id.* Note: This mechanism does not apply to RSDs, as their budget development is determined by Regional Agreements between multiple member towns. Therefore, the increase in foundation budget may be distributed differently among the member communities.

¹³⁰ *Id.* Note: At the time of writing, 290 school districts reported for FY 2022 (out of 318 operating total). See also Massachusetts Department of Elementary and Secondary Education. (2022, March 21). Chapter 70 District Profiles. <https://www.doe.mass.edu/finance/chapter70/profile.xlsx>

Figure 12—Budgeted Net School District Spending as a Percentage of Foundation Budget (FY 2022)¹³¹

Budgeted Amounts as Percent of Foundation Budget	Number of School Districts
Under 100%	11
100% - 124%	72
125% - 149%	85
150% - 174%	51
175% - 199%	36
200% and higher	35
Not reported	28

Based on the first two years of SOA implementation, 141 districts were limited to increases in minimum aid, 105 districts have some combination of minimum aid and increased Chapter 70 aid, and 72 districts had two years of increased Chapter 70 aid.¹³² At the same time, 12 districts saw decreases in their foundation budgets across the two years and 306 saw increases.¹³³ It is important to note that the first two years of the SOA implementation occurred during the COVID-19 pandemic, which brought above-average declines in enrollment in FY 2022 with just a minor loss in FY 2023. This created an unprecedented effect where foundation budgets were reduced in almost half of all school districts in FY 2022, but some districts experienced increases the following year, as seen in Figure 13.

¹³¹ The table only includes school districts that have reported as of March 21, 2022; 28 districts had missing data. See also Massachusetts Department of Elementary and Secondary Education. (2021). *FY2022 Chapter 70 Complete Formula Spreadsheet*. <https://www.doe.mass.edu/finance/chapter70/fy2022/chapter-2022.xlsm>; Massachusetts Department of Elementary and Secondary Education. (2022, March 21). *Chapter 70 District Profiles*. <https://www.doe.mass.edu/finance/chapter70/profile.xlsx>

¹³² *Id.*

¹³³ *Id.*

Figure 13—School District Foundation Budgets—Change from Previous Year¹³⁴

	FY 2022	FY 2023
Number of districts with decreasing foundation budgets	147	0
Number of districts with increasing foundation budgets	171	318
Average foundation budget change	0.66%	9.17%

Other Chapter 70 Concerns

Some advocates from the municipalities and school community, such as the Massachusetts Association of Regional Schools (MARS), argue that the SOA requirement for higher spending by districts will lead to stressed local budgets. Pointing to the communities that are asked to spend more as the state total foundation budget increases, MARS faults the 59/41 split of local responsibility versus state support during a period of increased spending requirements as the SOA is implemented. During the 2021–2022 legislative session, Senators Jason Lewis and Joan Lovely advocated to repair this issue with a bill (S.355), which would have gradually increased the state’s contribution from 41% to 46%.¹³⁵

There have been calls for policy changes from advocacy groups, such as the Massachusetts Business Alliance for Education (MBAE), to make the Chapter 70 formula more sensitive to variations in income and wealth.¹³⁶ The MBAE questions whether the elements of Chapter 70 that provide base-level support for many districts would be better spent on increased funding for the lowest-resourced communities. The group recommended a phased approach to reforming the formula, such as eliminating minimum aid and hold-harmless aid,¹³⁷ as well as increasing required spending by higher-income communities.

The recently-released report from the Commission on the Fiscal Health of Rural School Districts expressed concerns about Chapter 70, noting that the aid amounts allocated to rural school districts do not reflect

¹³⁴ *Id.*

¹³⁵ S. 355. (2019). *An act increasing the Commonwealth’s share of the education foundation budget.* <https://malegislature.gov/Bills/192/S355>. Note: The bill was sent for study in March 2022.

¹³⁶ Massachusetts Business Alliance for Education. (2020, September 14). *Missing the mark: How Chapter 70 education aid distribution benefits wealthier districts and widens equity gaps.* https://www.mbae.org/wp-content/uploads/-2020/11/Missing_The_Mark_Chapter_70_Report.pdf

¹³⁷ Note: Under current law, the Chapter 70 formula includes hold-harmless aid, which prevents communities from receiving less aid than the previous year.

the realities of declining enrollments, above-average costs per pupil, and large transportation expenses attributed to longer distances.¹³⁸ To rectify these concerns, the Commission has proposed increasing the Rural School Aid appropriation, as well as creating a rural school transportation aid program.¹³⁹ Rural School Aid increased from \$4 million to \$5.5 million for FY 2023.¹⁴⁰ Previous work by the Special Commission on Improving Efficiencies Relative to Student Transportation had similar recommendations regarding technical assistance for school districts struggling with transportation costs, loosening of restrictive laws that limit transportation choices and an examination of the unfunded transportation programs.¹⁴¹

Furthermore, the United States has entered a period of high inflation, comparable in magnitude to the period of the 1970s and early 1980s.¹⁴² While actual growth rates for state and local governments' major revenue sources varied widely across different revenue components during that period, municipalities experienced a real revenue decline, unlike state governments. Given the interest rates during that period, municipalities were also unable to borrow for investment in capital facilities and equipment and suffered adverse effects over time.¹⁴³ This history highlights the importance of the state assuming more educational funding commitments in an environment in which municipal revenues are likely to shrink as measured against inflation.

¹³⁸ Commission on the Fiscal Health of Rural School Districts. (2022, July 18). *A Sustainable Future for Rural Schools*. <https://malegislature.gov/Commissions/Detail/510/Documents>

¹³⁹ *Id.*

¹⁴⁰ The 192nd General Court of the Commonwealth of Massachusetts. (2022). *FY 2023 Final Budget*. <https://malegislature.gov/Budget/FinalBudget>

¹⁴¹ Special Commission on Improving Efficiencies Relative to Student Transportation. (2022, December 10). *FINAL REPORT – Pursuant to Section 77 of Chapter 54 of the Acts of 2018*. <https://malegislature.gov/Bills/191/SD3131.pdf>

¹⁴² Lopez, G. (2022, April 13). "Inflation's 40-year high." *The New York Times*. <https://www.nytimes.com/2022/04/13/briefing/inflation-forty-year-high-gas-prices.html>; U.S. Department of Labor, Bureau of Labor Statistics. (2022, June 14). "Consumer prices up 8.6 percent over year ended May 2022." <https://www.bls.gov/opub/ted/2022/consumer-prices-up-8-6-percent-over-year-ended-may-2022.htm>

¹⁴³ Bahl, Roy W. *The Impact of Business Cycles and Inflation on the Finances of State and Local Governments*. No. 94. Metropolitan Studies Program, The Maxwell School of Citizenship and Public Affairs, Syracuse University, 1985.



Lynn City Hall. (staff photo)

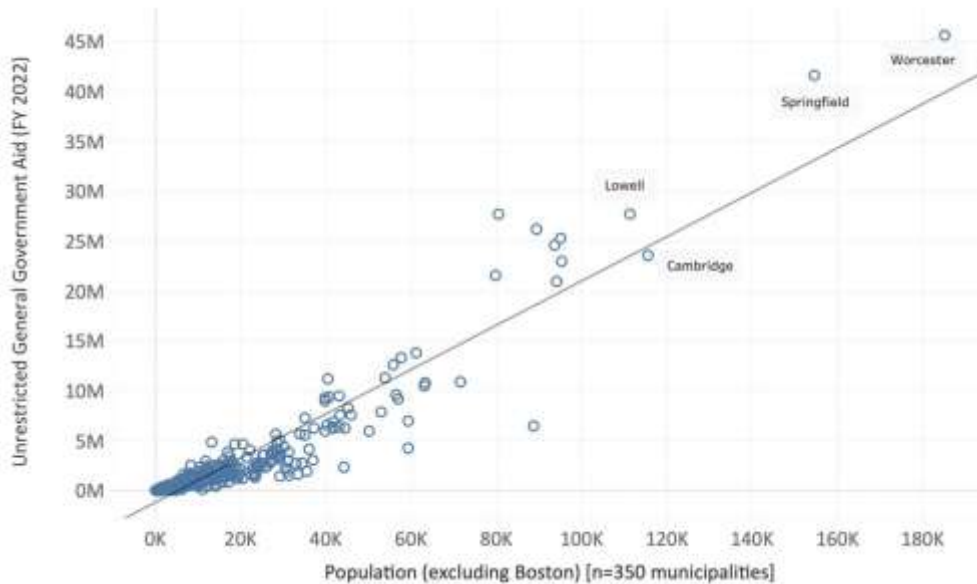
Unrestricted General Government Aid (UGGA)

The second-largest source of aid to municipalities is Unrestricted General Government Aid, which allows cities and towns to use state funds for a wide variety of municipal services, such as public safety and infrastructure. The UGGA program as it stands today was established in FY 2010, after the consolidation of two previous general aid programs, which also cut the amount of aid that was distributed to communities.¹⁴⁴ This program utilizes a formula that involves an increase in total aid spread as an equal percentage across all cities and towns. In FY 2023, UGGA totaled over \$1.2 billion in funds to municipalities—its highest level since FY 2009.¹⁴⁵

¹⁴⁴ Schuster, L. (2012, January 20). *Demystifying General Local Aid in Massachusetts*. https://archive.massbudget.org/-report_window.php?loc=demystifying_general_local_aid.html

¹⁴⁵ Department of Revenue, Division of Local Services. (2022, July 28). Cherry Sheet Detail by Program. https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main; Massachusetts Budget and Policy Center. (2022). *Budget Browser – Unrestricted General Government Aid*. <https://massbudget.org/budget-browser/line-item/?id=1233235000>

Figure 14—Correlation between Population and UGGA, FY 2022¹⁴⁶



Even without adjustments to the UGGA formula, there is a strong correlation between communities' population size and aid, as seen in Figure 14. Despite this correlation, there are significant differences between like-sized communities in aid per capita, as seen in Figure 15. For example, note how Lynn's income per capita is around 1% higher than Brockton's, and yet Lynn's UGGA receipts per capita are around 9% higher.¹⁴⁷

¹⁴⁶ Department of Revenue, Division of Local Services. (2022, July 28). Cherry Sheet Detail by Program. https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main

¹⁴⁷ *Id.*; US Census Bureau, *Annual Estimates of the Resident Population for Minor Civil Divisions in Massachusetts*, April 1 2020 Estimates Base <https://www2.census.gov/programs-surveys/popest/tables/2020-2021/mcde/tables/SUB-MCD-EST2021-POP-25.xlsx>

Figure 15—Comparison of UGGA per Capita for 5 Massachusetts Municipalities at Similar Income Levels, FY 2022¹⁴⁸

Municipality	Income per Capita	UGGA per Capita
Worcester	\$23,987	\$247
Lowell	\$23,331	\$249
Lynn	\$23,099	\$263
Brockton	\$22,876	\$241
Revere	\$27,286	\$209

The Massachusetts Municipal Association (MMA) has raised concerns regarding the basis used to increase UGGA in recent years. Each year, the Governor’s budget recommendation increases UGGA by the consensus estimate of the budget revenue increase.¹⁴⁹ However, by the end of the fiscal year, state receipts have recently been far higher than initially predicted.¹⁵⁰ For the past two fiscal years this situation has meant a budget revenue increase of 3.5% as compared to actual revenue jumps of 22%.¹⁵¹ For example, the MMA asked for an increase of \$85.3 million to UGGA for the FY 2023 budget, instead of the \$31.5 million increase recommended by the Governor.¹⁵² When the Legislature released its final FY 2023 budget to the Governor, the increase came in at \$63.1 million.¹⁵³

Other Local Aid Programs

The intent of this report is to highlight unmet financial commitments to various local aid programs by the Commonwealth, but there are other categories of state aid that have dedicated or discretionary funding and, as a result, do not fit the report’s framework. Therefore, DLM’s analysis of local aid is not a comprehensive discussion of all state programs, grants, reimbursements, and appropriations. Some Cherry Sheet programs that are not covered in this report include public library assistance, tax exemption

¹⁴⁸ *Id.*

¹⁴⁹ Massachusetts Municipal Association. (2022, March 31). “At budget hearing, MMA cites UGGA, Ch. 70 as priorities.” <https://www.mma.org/at-budget-hearing-mma-cites-ugga-ch-70-as-priorities/>

¹⁵⁰ *Id.*

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ The 192nd General Court of the Commonwealth of Massachusetts. (2022). *FY 2023 Final Budget*. <https://malegislature.gov/Budget/FinalBudget>

programs for veterans and the elderly, and local shares of racing taxes. In addition, discretionary grants not discussed in our analysis include the MassWorks Infrastructure Program, the Municipal Small Bridge Program, and the Municipal Vulnerability Preparedness Program, among others. Other reimbursement programs not mentioned in this report include Uniform Polling Hours and Early Voting funding for elections, as they are fully funded by the Legislature after parts of these programs were determined by DLM to be unfunded mandates.

FINDINGS

1. Municipal budgets are heavily dependent on state aid, but outdated legislation, slowly growing state appropriations, and level funding in some categories force an increased reliance on property taxes.

Municipal budgets rely on state aid and state reimbursements to help fund critical services, yet the percentage of local revenue represented by state assistance continues to decline. This trend is alarming, as the growth rate of the aid programs documented in this report falls significantly behind increases in property tax levies, with the exception of an accelerated phase-in of funding under the SOA schedule. (The Commonwealth is one year ahead on its commitment to gradually fund OOD special education transportation - via the Circuit Breaker - as well as charter school tuition reimbursements.) Insufficient state appropriations or allocations have left programs underfunded, and some programs have seen financial obligations completely ignored despite a commitment under law. Of significant concern is the differential effect of partially funded programs on cities and towns as Massachusetts communities vary widely in terms of location, size, and demographic and economic characteristics.

The shortfall in funding raises the importance of the large programs reported on the state's Cherry Sheet—specifically, Chapter 70 aid for education and UGGA. As noted above, both of these programs have been promised additional resources over the coming years.¹⁵⁴ The Chapter 70 aid program is in the process of meeting the commitment of the SOA, which will provide another \$400 million to \$450 million per year in additional funding.¹⁵⁵ As we have seen, there is often a difference between projected and actual state revenues; the Commonwealth needs to be mindful of this difference since the funding of UGGA is based on projected revenues.

Although the SOA will provide a significant infusion of much-needed funding to school districts, an overwhelming majority of unmet state aid obligations is derived from non-Chapter 70 education aid programs. Municipal and regional school districts continue to be constrained by education expenses, and required local contributions do not show a complete picture of what communities have to spend to cover costs outside of Chapter 70 aid.

¹⁵⁴ Massachusetts Municipal Association. (2022, March 31). "At budget hearing, MMA cites UGGA, Ch. 70 as priorities." <https://www.mma.org/at-budget-hearing-mma-cites-ugga-ch-70-as-priorities/>

¹⁵⁵ DLM discussion with Zachary Crowley and Dennis Burke of the Office of Senator Jason Lewis, May 4, 2022. On file with DLM.

One area that particularly strains local budgets is school transportation, which currently faces \$574.4 million in unmet state obligations.¹⁵⁶ Although local officials can, to some degree, mitigate high transportation expenses through careful budgeting, numerous legal requirements prevent officials from cutting costs. An important example is the requirement that municipalities offer students transportation to vocational education programs outside their home district. For some districts, this requirement means that a few students must be transported to an OOD vocational-technical school. However, for some communities, particularly those in Western Massachusetts, there are no in-district programs, so all students opting for this form of education must be transported elsewhere. With a 5.6% reimbursement level, this expense is a painful drain of important resources for these small towns. Furthermore, communities struggle with school transportation vendors to obtain affordable transportation services, and some local officials have noted recent cost increases.¹⁵⁷

Another factor affecting transportation budgets is rising fuel costs. Based on a June 2022 discussion with school business officers, recent increases in school transportation costs ranged from 6.8% to 20% due to fuel costs and lack of competition.¹⁵⁸ Some agreements have come due and require rebids in the midst of the inflation crisis, meaning that new contracts will likely be affected by rising fuel costs. Other contracts have fuel cost escalation provisions, which will increase costs for the next school year.

2. Reimbursements for various school transportation programs are varied and confusing.

School transportation expenses are traditionally recorded under multiple categories and are based on determinants such as a student's origin district, the type of school a student is attending, and a student's individual characteristics. As a result, there are seven reimbursement programs devoted to school transportation with wide variation among the programs' reimbursement levels. Despite a statutory commitment, the extent that the Commonwealth finances school transportation ranges from fully funding transportation for students in families experiencing homelessness to allocating zero funding for regular

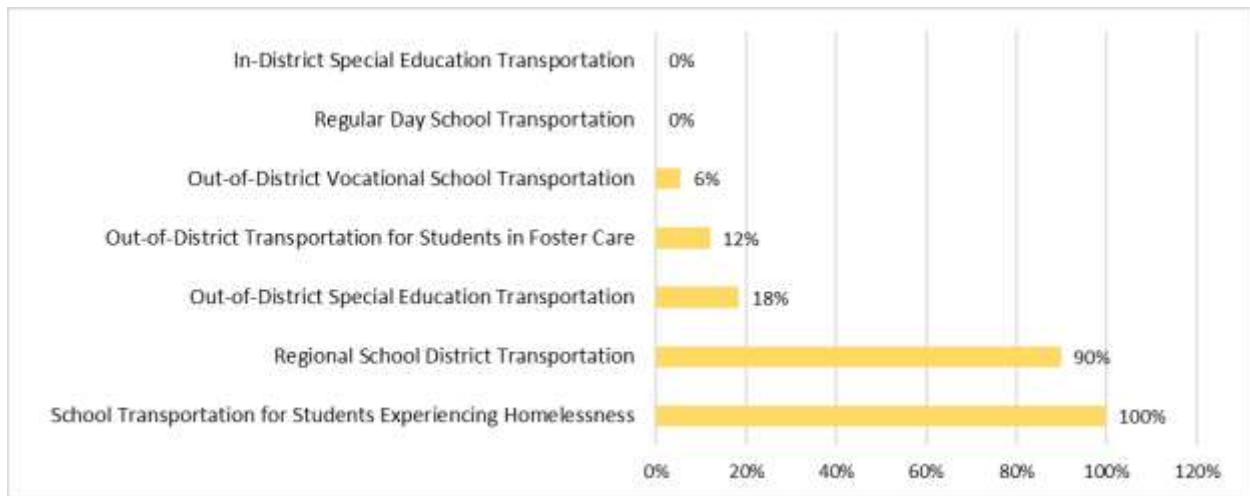
¹⁵⁶ *FY2021 Schedule 7 Data*, on file with DLM; FY2022 Regional School Transportation Reimbursements, on file with DLM; FY2022 Vocational OOD Transportation Reimbursements, on file with DLM; DESE FY2022 Homeless Transportation Reimbursements, on file with DLM; FY 2021 ESSA Reimbursements to LEAs spreadsheet, on file with DLM.

¹⁵⁷ Young, C.A. (2022, May 10). "School transportation costs vexing local budgets, officials tell legislators." *State House News Service*. https://www.berkshireeagle.com/statehouse/state-senate-unrestricted-general-government-aid-school-transportation-costs/article_9da239bc-d0a1-11ec-8066-cfbc22cc3d97.html

¹⁵⁸ DLM discussion with members of the Massachusetts Association of School Business Officials, June 17, 2022. On file with DLM.

day and in-district transportation of students receiving special education services. Figure 16 illustrates the funding disparities among these programs and how they are all not funded at the same level.

Figure 16—Funding Levels of School Transportation Aid Programs¹⁵⁹



Reimbursements for school transportation are contingent on specific requirements, which have led to certain expenses not being covered by the programs. The functions shown in Figure 17 are requirements for districts to provide to students, and the threshold for reimbursement varies based on the program. For example, regional school transportation reimbursement is only for distances greater than 1.5 miles from home, although RSDs must supply transportation to all students, regardless of how far their home is from school. On the other hand, transportation for students experiencing homelessness and students in foster care must meet the requirements of specific definitions connected to federal law.

¹⁵⁹ M.G.L. c. 71, § 7A; M.G.L. c. 71B, § 5A; M.G.L. c. 71, § 16C; M.G.L. c. 74, § 8A; 42 U.S.C. 1432(g)(1); 20 U.S.C. 6312, § 1112 (c)(5)(B)(ii).

Figure 17: Student Populations with Guaranteed School Transportation vs. Student Populations Covered by School Transportation Reimbursement

Transportation Reimbursement Program Name	Student Populations with Guaranteed Transportation (under law)	Student Populations Covered By Reimbursement
Regular Day Transportation in Public School Districts	<u>All</u> students in grades K-6 who live more than 2 miles from the school they are attending and live more than 1 mile from the nearest school bus stop ¹⁶⁰	Students who live more than 1.5 miles from the public school, even if they live in another city/town ¹⁶¹
In-District and OOD Special Education Transportation	<u>All</u> students with an IEP who take regular transportation to in-district and OOD public schools <u>All</u> students with an IEP who require special transportation to in-district and OOD public schools, regardless of distance, and to private schools within the geographic boundaries of the student’s home district ¹⁶²	In-District: Students with an IEP who live more than 1.5 miles from the public school, even if they live in another city/town, regardless of transportation type ¹⁶³ OOD: Students with an IEP who attend OOD programs and use in-house transportation or a contracted transportation provider, regardless of distance ¹⁶⁴
RSD Transportation	<u>All</u> students in grades K-12, regardless of distance ¹⁶⁵	Students who live more than 1.5 miles from the school ¹⁶⁶
OOD Vocational-Technical School Transportation	Students who attend independent vocational technical school districts and students who live outside of a public school district that houses a vocational technical school ¹⁶⁷	Students who attend vocational schools outside of their home district and live more than 1.5 miles from the school ¹⁶⁸
School Transportation for Students Experiencing Homelessness	Students who attend schools at their district of origin that they previously went to prior to becoming homeless, at the request of a parent or guardian, if they live outside of the district’s boundaries ¹⁶⁹	Students who attend schools at their district of origin that they previously went to prior to becoming homeless, at the request of a parent or guardian, if they live outside of the district’s boundaries, and use transportation provided by a school district, parent-provided transportation, or public/private transportation carriers ¹⁷⁰
Foster Care Student Transportation	Students in foster care who attend schools in their district of origin from the district they currently live in, if it is determined it is in the best interest, regardless of distance ¹⁷¹	Students in foster care who attend schools in their district of origin from the district they currently live in, if it is determined it is in their best interest, regardless of distance ¹⁷²

¹⁶⁰ M.G.L. c. 71, § 68; Massachusetts Department of Elementary and Secondary Education. (1996, August). *Pupil Transportation Guide: A Guide for Massachusetts School Administrators*. <https://www.doe.mass.edu/finance/transportation/guide.html>

¹⁶¹ M.G.L. c. 71, § 7A

¹⁶² 603 CMR 28.05 (5)

¹⁶³ M.G.L. c. 71B, § 8; 603 CMR 28.05 (5)

¹⁶⁴ M.G.L. c. 71B, § 5A; Massachusetts Department of Elementary and Secondary Education. (2020, July 9). *Circuit Breaker Transportation FAQ*. <https://www.doe.mass.edu/finance/circuitbreaker/transportation-faq.html?section=eligibility>

¹⁶⁵ M.G.L. c. 71, § 16C; Massachusetts Department of Elementary and Secondary Education. (1996, August). *Pupil Transportation Guide: A Guide for Massachusetts School Administrators*. <https://www.doe.mass.edu/finance/transportation/guide.html>

¹⁶⁶ M.G.L. c. 71, § 16C

¹⁶⁸ *Id.*

In addition, collecting and reporting data required for reimbursement is a complex process due to the multiple reimbursement programs in existence. It is possible that a single vehicle may contain students whose expenses reflect different programs and there will be a need to report on some type of division of costs. Additionally, students who have multiple education characteristics (for example, a student who is receiving special education services but is also experiencing homelessness) are only considered for one type of reimbursement.¹⁷³

Districts continue to raise concerns about the lack of competition for school transportation contracts, as well as a shortage of drivers to meet transportation needs.

3. Pandemic relief, federal funds, and surges of economic activity in state and local government have had a large impact on revenue growth.

Massachusetts and its localities have received a significant infusion of funds from the federal government since the start of the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security Act of 2020 provided immediate, one-time relief for sudden expenses incurred by state agencies, municipalities, and school districts.¹⁷⁴ In 2021, the American Rescue Plan Act provided approximately \$8.7 billion to the Commonwealth and its municipalities, which increased opportunities for state and local governments to expend funds for various projects for a number of years.¹⁷⁵

After ending FY 2020 with a \$693 million budget gap due to the COVID-19 pandemic,¹⁷⁶ the Commonwealth began generating revenue at a rate higher than anticipated at the beginning of FY 2021. By the end of FY 2021, the state had generated an unprecedented \$5 billion in revenue above benchmark,

¹⁶⁸ *Id.*

¹⁶⁹ 42 U.S.C. 1432(g)(1); 603 CMR 10.09 (8)

¹⁷⁰ *Id.*

¹⁷¹ 20 U.S.C. 6312, § 1112 (c)(5)(B)(ii); Commonwealth of Massachusetts. (2018, January 26) *The Massachusetts Department of Elementary and Secondary Education (ESE) and Massachusetts Department of Children and Families (DCF) Guidance for Schools and Districts on Implementing Foster Care Provisions of the Every Student Succeeds Act (ESSA)*. <http://www.doe.mass.edu/sfs/foster/guidance.docx>

¹⁷² *Id.*

¹⁷³ DLM discussion with members of the Massachusetts Association of School Business Officials, June 17, 2022. On file with DLM.

¹⁷⁴ Wagman, N. (2021, March 25). Where's the relief? The distribution of federal funding in Massachusetts. Massachusetts Budget & Policy Center. <https://massbudget.org/2021/03/25/wheres-the-relief-the-distribution-of-federal-funding-in-massachusetts/>

¹⁷⁵ Commonwealth of Massachusetts. (2022). *Coronavirus state and local fiscal recovery funds*. <https://www.mass.gov/coronavirus-state-and-local-fiscal-recovery-funds>.

¹⁷⁶ Schoenberg, S. (2020, September 30). "Massachusetts ends fiscal 2020 with \$700 million budget hole." *Commonwealth Magazine*. <https://commonwealthmagazine.org/state-government/massachusetts-ends-fiscal-2020-with-700-million-budget-hole/>

leaving the state with a significant surplus.¹⁷⁷ FY 2022 will be the second consecutive year with significantly higher tax receipts than anticipated by the consensus estimate, as the state generated \$6.65 billion in revenues above benchmark.¹⁷⁸ Much of this excess will be allocated to categories required by law, such as the state’s stabilization (or “rainy day”) fund to guard against future fluctuations in revenues, and the remaining balance can be used by the Legislature to fund programs and incentives. For example, the state’s \$5 billion surplus in FY 2021 whittled down to approximately \$2 billion after these required transfers and offsets, and the FY 2022 surplus was similarly cut down to \$5.33 billion.¹⁷⁹ In addition, the available FY 2022 surplus will significantly decrease as a result of the Auditor’s Chapter 62F determination that the growth in revenues exceeded wage and salary growth.¹⁸⁰

At the same time, municipal governments in Massachusetts experienced some security from their own surpluses. Free cash data from FY 2021 and FY 2022 reveal that certifications across communities increased by over \$383 million—a 20% increase.¹⁸¹ At least 279 communities increased free cash certifications during this time to help offset future expenditure increases.¹⁸² Given the limited options for local revenue and the constraints on increases in property taxes, however, there is a need for state aid to cover some of the inflationary pressures on local budgets. This report has identified critical commitments, such as the rollout of the SOA and the broad categories of transportation reimbursements.

¹⁷⁷ Massachusetts Department of Revenue. (2021, August 3). “FY21 Revenue Collections Total \$34.137 Billion.” <https://www.mass.gov/news/fy21-revenue-collections-total-34137-billion>.

¹⁷⁸ Stout, M. (2022, August 5). “Massachusetts has a nearly \$5 billion surplus. Now what?” *Boston Globe*. https://www.bostonglobe.com/2022/08/05/metro/massachusetts-has-nearly-5-billion-surplus-now-what/?s_campaign=8315/;

Massachusetts Department of Revenue. (2022, August 4). “Fiscal Year 2022 Revenue Collections Total \$41.105 Billion.” <https://www.mass.gov/news/fiscal-year-2022-revenue-collections-total-41105-billion>; Massachusetts Taxpayers Foundation. (2022, September 29). *MTF Brief – Update on the FY 2022 Fiscal Picture*. <https://www.masstaxpayers.org/sites/default/files/publications/2022-09/MTF%20Bulletin%20FY%202022%20Fiscal%20Picture.pdf>

¹⁷⁹ Massachusetts Taxpayer Foundation. (2021, October 21). *MTF Bulletin – The FY 2021 surplus and fiscal recovery funds*. <https://www.masstaxpayers.org/fy-2021-surplus-and-fiscal-recovery-funds>; Massachusetts Taxpayers Foundation. (2022, September 29). *MTF Brief – Update on the FY 2022 Fiscal Picture*. <https://www.masstaxpayers.org/sites/default/files/publications/2022-09/MTF%20Bulletin%20FY%202022%20Fiscal%20Picture.pdf>

¹⁸⁰ Mohl, B. (2022, July 27). “Long-forgotten tax cap about to be triggered.” *Commonwealth Magazine*. <https://commonwealthmagazine.org/state-government/long-forgotten-tax-cap-about-to-be-triggered/>; Massachusetts Office of the State Auditor. (2022, September 15). *Determination of whether net state tax revenues exceeded allowable state tax revenues*. <https://www.mass.gov/doc/determination-of-whether-net-state-tax-revenues-exceeded-allowable-state-tax-revenues-fiscal-year-2022/download>

¹⁸¹ Massachusetts Department of Revenue, Division of Local Services. (2022, August 15). *Category 1 - Free Cash as a % of Budget*. https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Dashboard.Cat_1_Reports.CertifiedFreeCashBudget351

¹⁸² *Id.*

4. There is considerable uncertainty facing municipal budgets due to inflation and rising interest rates.

Although the Commonwealth and its localities are currently reaping the benefits of increased revenues, the current high rate of inflation poses a budgetary risk for municipalities. Most notably, property tax collections will not increase at the same pace as inflation due to restrictions set by Proposition 2 ½. There is also further uncertainty about municipal spending levels on capital projects, due to rising construction costs and higher interest rates for borrowing.¹⁸³ New growth revenue has helped to bolster some municipal budgets as residential and commercial construction has continued to grow, but the current path of the Federal Reserve on interest rates may lead to a decline of construction and an associated decline in those property tax revenues.

Many of the programs that assist with municipal capital spending, such as Chapter 90 roadway monies, MassWorks infrastructure spending, and the Massachusetts School Building Authority, will require higher funding because of these trends. The financial support provided by these programs is in high demand, but there is no specific promise in state law for a level of spending or reimbursement. This report does not review the details of these programs, but DLM has commented on their funding in other work, most recently in the 2021 report detailing critical infrastructure needs in Western Massachusetts.¹⁸⁴

¹⁸³ At the time of writing, interest rate changes had not yet created effects apparent in published data; but DLM expects that the unusually fast rate of change of 2022 will cause some financial instability.

¹⁸⁴ Massachusetts Office of the State Auditor (2021, October 5). *Public infrastructure in Western Massachusetts: a critical need for regional investment and revitalization*. <https://www.mass.gov/report/public-infrastructure-in-western-massachusetts-a-critical-need-for-regional-investment-and-revitalization>



The Massachusetts State House. (staff photo)

POLICY RECOMMENDATIONS

Given the increased reliance by municipalities on the property tax to fund services at the local level and the growing financial burden of mandated services, it is important that the state provide additional funding to communities. The Legislature’s work on the FY 2023 budget is a major step in this direction, with significant increases in Chapter 70 education aid, UGGA, the Special Education Circuit Breaker, and PILOT for state-owned land. However, the existing commitments still leave substantial opportunities to strengthen the partnership between the state and local governments. DLM therefore recommends that the Commonwealth do the following.

1. Continue to meet financial commitments through the Student Opportunity Act.

The first priority should be to meet the substantial funding commitments made through the SOA. Meeting these funding commitments will result in substantial increases in Chapter 70 education aid and the Special Education Circuit Breaker. Estimates indicate that the Chapter 70 increases will add hundreds of millions

of dollars per year to state aid. The continued phase-in of the component for OOD transportation will result in tens of millions of dollars of additional funding for schools. Continuing to include the hold harmless and minimum aid provisions will help districts that will be most impacted by enrollment declines and increases in expenses, such as RSDs and districts in Western Massachusetts.

Although there is always room for improvement, further extensive analysis must be made before the Chapter 70 formula is modified again by taking actions such as eliminating hold harmless and minimum aid or increasing the state's share of education funding while reducing the target local contribution. It is strongly encouraged that stakeholders and legislators who have proposals to change the formula thoroughly review the impacts to economically disadvantaged districts, RSDs, rural districts, and districts that host students with the highest needs. In particular, attempts to eliminate hold harmless aid and minimum aid have to be judged in light of what they might do to budgetary stability, especially in districts that are more financially fragile. Furthermore, it is important as a principle of public policy for the Commonwealth to engage in cost-sharing and thus be present in all communities, both symbolically and as a lever of institutional influence.

2. Dedicate full funding to overlooked categories of school transportation.

School transportation is a major cost for districts. The stability of school budgets is at risk, given the spiraling cost of fuel and lack of competition for transportation contracts. Actions must be taken to explore how to make this business area more competitive, including having districts themselves provide services regionally or individually.

In addition, full levels of aid should be allocated to subcategories of school transportation that are sometimes overlooked. DLM recognizes that fully funding these categories would require at least \$16.7 million in additional funding, as follows:

- \$9.1 million to regional school transportation to fully fund the program at \$91.3 million;
- \$3.4 million to OOD transportation for students in foster care to fully fund the program at \$4.3 million; and
- \$4.2 million to OOD vocational school transportation to fully fund the program at \$4.5 million.

By fully funding these programs, the Commonwealth would allow school districts to reallocate revenues that would otherwise have covered transportation expenses to other categories. Although funding for OOD transportation for students in foster care comes from the federal government and applying for reimbursement is voluntary, DESE should also encourage and assist all districts with these students to apply for all available monies in order for the funding pool to expand. Alternatively, state funding to reimburse transportation expenses for these students could be made contingent on the federal filing, as there was a significant drop-off in participation between FY 2020 and FY 2021.

One program for which state government has recently committed to provide full funding is school transportation for students experiencing homelessness. All expenses from the program were covered for the first time in FY 2022 under its appropriation, therefore complying with the unfunded mandate determination. This program will receive an additional \$8.5 million in funding for FY 2023. Because transportation costs for students experiencing homelessness continue to grow, it is important that reimbursements also increase in order to comply with the mandate. Furthermore, we suggest that any overage for FY 2023 and subsequent years be used to help offset costs for the transportation of students in foster care.

If more money should prove difficult to find, it should at least be recognized that communities cannot rely on inconsistent reimbursement levels each year because they need to adequately budget their own funds. DLM recommends the provision of consistent annual funding—a set percent—which will ease both the financial burdens and the financial planning difficulty of transporting students receiving services OOD, as well as students in foster care.

3. Increase Unrestricted General Government Aid by the level of actual state revenues, as opposed to projected estimates.

In order to reflect the realities of rapid state revenue growth and inflation, it is crucial that unrestricted aid to municipalities significantly increase compared to recent years. Basing the changes in UGGA on actual state revenue collections will provide more state funds for communities, especially at a time when costs for services are rising at their highest rates in decades. For example, UGGA aid increased by 3.5% (or \$39.5 million) between FY 2021 and FY 2022, consistent with the growth in tax revenues estimated by the Legislature and the Department of Revenue. Meanwhile, actual revenue collections between FY 2021 and

FY 2022 increased by 15.3%.¹⁸⁵ The MMA projected that, if the Legislature used actual state revenue growth to estimate UGGA funding for FY 2023, the program would be allocated \$85.3 million—a 7% increase—instead of the \$63.1 million compromise that was allocated in the budget.¹⁸⁶ Communities would greatly benefit from such an infusion of funds before revenue collection growth goes back to pre-pandemic levels. Further, this source of revenue must be held harmless from state revenue shortfalls in order to protect critical local service delivery.

4. Strengthen other local aid programs to guarantee full funding for lower-income communities.

There are municipal aid programs in addition to UGGA that could benefit from funding boosts if they were not restricted by formula-based parameters. In order to commit to full funding for upcoming years, DLM recommends that appropriations to these programs increase by \$103.3 million in the following categories:

- \$4 million to the state-owned land PILOT program to fully fund the program at \$49 million;
- \$8.8 million to fund municipal reimbursements for veterans' benefits at 100%, or \$43.9 million; and
- \$90.5 million to fully finance CPA incentives, which total \$179 million.¹⁸⁷

The Legislature committed \$88.5 million in funding to CPA incentives in FY 2022 and \$80.1 million to veterans' benefits and state-owned land PILOT reimbursements in FY 2023. Increasing the funding for these programs by \$103.3 million—or by 61%—will greatly strengthen the financial position of communities.

Increasing appropriations to these programs will be most effective if the formulae for these programs are also adjusted under law. Changes advocated to these programs will strengthen the equity of aid

¹⁸⁵ Massachusetts Department of Revenue. (2021, August 3). "FY21 revenue collections total \$31.137 billion." <https://www.mass.gov/news/fy21-revenue-collections-total-34137-billion>

¹⁸⁶ Massachusetts Municipal Association. (2022, March 31). "At budget hearing, MMA cites UGGA, Ch. 70 as priorities." <https://www.mma.org/at-budget-hearing-mma-cites-ugga-ch-70-as-priorities/>; The 192nd General Court of the Commonwealth of Massachusetts. (2022). *FY 2023 Final Budget*. <https://malegislature.gov/Budget/FinalBudget>

¹⁸⁷ Department of Revenue, Division of Local Services. *Historic SOL Average Tax Rates*, on file with DLM; Department of Revenue, Division of Local Services. (2023, July 19). Cherry Sheet Detail by Program. https://dls.gateway.dor.state.ma.us/-reports/rdPage.aspx?rdReport=CherrySheets.cherrysheetdetail_main; FY2022 CPA Distributions Spreadsheet <https://www.mass.gov/lists/community-preservation-act>

distributions. DLM previously advocated¹⁸⁸ in a 2020 report to change the state-owned land PILOT program formula along with an increased appropriation, noting that it would allow communities with lower property values to see higher reimbursements. Likewise, adjusting the veterans' benefits reimbursement program to provide reimbursements at 100% will help lower-income communities, especially Gateway Cities with a larger concentration of veterans in need.

Commitments should also be made to the CPA program, at least to resume a 100% match in incentives when communities initially join the program. Absent that, consideration should be given to eliminating the 3% minimum CPA local surcharge requirement so all participating communities can be considered for funding in the equity rounds. It must be recognized that, over the past two decades, mostly wealthier communities have adopted the 3% surcharge rate, while communities with fewer resources have either not participated in the CPA program at all or adopted a lower rate. Thus, almost all of the funds disbursed in the equity rounds go to those communities with higher income and wealth characteristics. The entire CPA formula may need an overhaul, given the experience in the years since the program was launched. In particular, the ratio of disbursements between rounds (80% for the first round, 20% for rounds 2 and 3) seems arbitrary and results in disbursement outcomes that are not always easy to justify based on any obvious community characteristics.

5. Recognize the financial investment needed to fund other outstanding expenses.

By making full commitments to the SOA, boosting unrestricted aid to municipalities, and increasing formulae for formula-based aid programs, the state will provide a significant infusion of funds to cities and towns. DLM acknowledges that there are other local aid programs that have not seen an infusion of funds in years and are yet to be fully funded, but the shortfalls should be addressed after the previous recommendations are implemented.

Regular day and in-district special education transportation are significant cost drivers for school districts. These two categories comprise approximately half of the total cost for transportation, with very little provided by the state as reimbursement. The state should seriously consider offsetting more of this cost, but must address an equally important issue—the lack of clarity of the legislative language. In previous

¹⁸⁸ Office of the State Auditor, Division of Local Mandates. (2020, December 10). *PILOT Programs Undermined by Lack of Funding and Tax Rulings, Report Finds*.
<https://www.mass.gov/news/pilot-programs-undermined-by-lack-of-funding-and-tax-rulings-report-finds>

decades, in-district special education was reimbursed under M.G.L. c. 71, § 7B and § 14, but the latter provision was eliminated by the SOA. As a result, there is currently no methodology embedded in state law to provide reimbursements for in-district special education.

Note that other states (e.g., Connecticut and New Jersey) have formulae that offer reimbursements based on factors such as district wealth or average miles traveled within simplified categories.¹⁸⁹ If applied in Massachusetts, this model would result in higher reimbursements.

There is also a need to have explicit reimbursement for substantial categories of investment, such as educational services for students in foster care and educator evaluation programs. One significant factor is the lack of available data from DESE detailing these programs' expenses. It is crucial that DESE collaborate with EOHHS to establish a mechanism that tracks all students in foster care attending public schools each year. In order to accurately track the total amount school districts spend on educator evaluations, DESE also should establish an evaluation expense category for school districts' end-of-year financial reports. Having accurate financial information related to these categories will help inform the Legislature about the amounts needed for full reimbursements to communities.

¹⁸⁹ CT Gen Stat § 10-273a; CT Gen Stat § 10-266m; New Jersey School Boards Association. (2022). *School Finance 101 – New Jersey's School Funding Formula 101*. <https://www.njsba.org/news-information/parent-connections/school-finance-101/>; New Jersey Department of Education. (2022). *2023 Educational Adequacy Report*, at 10. <https://www.nj.gov/education/stateaid/2223/EAR2023.pdf>

APPENDIX A—ACKNOWLEDGMENTS

We want to offer our appreciation to the following organizations and individuals who provided data and information, sat for interviews, and shared their views on the challenges and opportunities for increased local aid to Massachusetts communities. These stakeholders, along with their staff members and subject-matter experts, provided significant context and data that we used in this report, although the findings and recommendations contained herein solely reflect the opinions and are the work of the Office of the State Auditor.

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- Jackie Lavender Bird, Senior Legislative Analyst of the Massachusetts Municipal Association
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- Sean Cronin, Senior Deputy Commissioner of the Division of Local Services, Massachusetts Department of Revenue
- Lisa Krzywicki, Deputy Bureau Chief of the Division of Local Services, Massachusetts Department of Revenue
- Dan Bertrand, Director of Administration of the Division of Local Services, Massachusetts Department of Revenue
- Julie Kelley, Research Analyst of the Massachusetts Association of Regional Schools
- Nerissa Wallen, Vice Chairperson of the Triton Regional School Committee
- Connor Read, Town Administrator of the Town of Easton
- Zachary Crowley, Chief of Staff to Massachusetts State Senator Jason Lewis

- Dennis Burke, Legislative Director and General Counsel to Massachusetts State Senator Jason Lewis
- Emily Warchol, Director of Policy of the Office of Federal Finance and Revenue, Massachusetts Executive Office of Health and Human Services
- Robert O'Donnell, Director of School Finance of the Massachusetts Department of Elementary and Secondary Education
- Jay Sullivan, Associate Commissioner of School Finance and District Support Center of the Massachusetts Department of Elementary and Secondary Education
- William Bell, Senior Associate Commissioner of the Massachusetts Department of Elementary and Secondary Education
- Tom Moreau, Assistant Secretary for Policy and Planning of the Massachusetts Executive Office of Education
- Diane Johnson, President of the Massachusetts Association of School Business Officials and Financial Manager of Facilities and Transportation at Cambridge Public Schools
- Margaret Driscoll, Executive Director of the Massachusetts Association of School Business Officials
- Stephanie Fisk, Business and Finance Officer of the Gateway Regional School District
- Tammy Crockett, Human Resources and Business Manager of the Montachusett Regional Vocational Technical School
- Cynthia Mahr, Assistant Superintendent for Finance and Operations at Wellesley Public Schools
- Stephen Presnal, Director of Finance and Operations of the Southwick-Tolland-Granville Regional School District
- Dolores Sharek, Director of Finance and Business Operations of the Keefe Regional Technical School

APPENDIX B—DATA SOURCES

Category	Item	Reference	Data Source ¹⁹⁰
School Transportation	Regular Day Transportation	M.G.L. c. 71, § 7A	DESE Schedule 7 data on file with DLM, FY 2020-2021, line code 4000. Filtered to include public school districts, in-district transportation, and reimbursable expenses.
	In-District Special Education Transportation	M.G.L. c. 71B, § 8	DESE Schedule 7 data on file with DLM, FY 2020-2021. Line codes 4110, 4120, 4130, 4140, 4150. Expenses marked as in-district.
	Out-of-District Special Education Transportation	M.G.L. c. 71B, § 5A	DESE Schedule 7 data on file with DLM, FY 2020-2021. Line codes 4110, 4120, 4130, 4140, 4150. Expenses marked as out-of-district. Also DESE Circuit Breaker data , FY 2022 (initial reimbursement listing, Trans. Reimb. column). Numbers accurate as of Feb. 2022.
	Regional School Transportation	M.G.L. c. 71, § 16C	DESE FY 2022 Transportation Reimbursements, on file with DLM.
	Out-of-District Vocational Transportation	M.G.L. c. 74, § 8A	DESE FY 2022 Transportation Reimbursements, on file with DLM.
	School Transportation for Students Experiencing Homelessness	Every Student Succeeds Act, Public Law 114–95	DESE FY 2022 Transportation Reimbursements, on file with DLM.
	Out-of-District Transportation for Students in Foster Care	M.G.L. c. 76, § 7	DESE Schedule 7 data on file with DLM, FY 2020-2021, line code 4286. Also FY 2020 and FY 2021 “ESSA Reimbursements to LEAs” spreadsheets, on file with DLM.
School Aid	Educator Evaluations	M.G.L. c. 71, § 38	Estimate extrapolated from a DLM mandate determination. ¹⁹¹
	Education of Students in Foster Care	M.G.L. c. 76, § 7	DLM estimate, arrived at by multiplying the number of students in foster care attending public schools in 2021 (5,504) by the average FY 2023 Foundation Budget per pupil (\$14,263). DLM estimates that 46.53% of total Foundation Budget expenses (\$36,527,703 out of \$78,503,552) represents Chapter 70 aid distributed to municipalities to educate students in foster care. Expenses not covered by Chapter 70 represent a shortfall or local share.

¹⁹⁰ Schedule 7 data was e-mailed to DLM by Robert O’Donnell (DESE) on March 20, 2022.

¹⁹¹ Massachusetts Office of the State Auditor, Division of Local Mandates. (2017, October 17). *RE: The financial impacts of DLM educator evaluations, M.G.L. c. 71, § 38, on the Framingham Public Schools.* <https://www.mass.gov/files/documents/2017/10/19/DLM-Framingham%20%20Educator%20Evaluation%20letter%20.....%20%28002%29.pdf>

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	Special Education Circuit Breaker	M.G.L. c. 71B, § 5A	<p>DESE <u>Circuit Breaker</u> data, FY 2022 (initial reimbursement listing, excluding Trans. Reimb.) DLM estimate, arrived at isolating Chapter 70 aid from eligible Circuit Breaker expenses (which represented 46.53% of all eligible expenses). DLM updated total expenses net of Chapter 70 aid (\$749,158,527) and subtracted Circuit Breaker Reimb. for instruction and tuition as well as Special Indicator (\$348,615,429). Estimates verified by Jay Sullivan of DESE and accurate as of Feb. 2022.</p>
	Charter School Sending Tuition Reimbursement	M.G.L. c. 71, § 89	<p>DESE FY 2023 <u>Projected FY 2023 Charter School Sending Tuition Payments and Reimbursements</u>. DLM estimate, arrived at multiplying FY 2023 charter school enrollment (47,872) by a weighted average of FY 2023 Chapter 70 aid per charter pupil (\$8,947.17). Total Chapter 70 aid allocation for students in charter schools (\$428,318,958) was subtracted from total local foundation tuition (\$865,996,331). DLM determined \$437,677,373 in eligible expenses net of Chapter 70 aid and subtracted Charter School Transition Tuition reimb. (\$178,889,248) to calculate the total local share.</p>
Municipal Aid	Payment in Lieu of Taxes PILOT for State-Owned Land	M.G.L. c. 58, § 13-17	<p>DLS Historic State-Owned Land Average Tax Rates, on file with DLM (for expenses); DLS FY 2023 Cherry Sheet Estimates for <u>Municipalities</u> (for reimbursements).</p>
	Community Preservation Act Incentives	M.G.L. c. 44B, § 10	<p><u>DLS FY 2022 CPA Distribution and Ranking</u></p>
	Municipal Reimbursements for Veterans' Benefits	M.G.L. c. 115, § 6	<p>DLS FY 2023 Cherry Sheet Estimates for <u>Municipalities</u></p>

APPENDIX C—CREDITS

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