



## THE STATE OF LOCAL AID: 2008

A BRIEFING FOR MUNICIPAL AND  
SCHOOL DISTRICT LEADERS ON  
FY 2009 STATE BUDGET ISSUES

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The Massachusetts Taxpayers Foundation predicts that tax revenues will grow by only 2.4% or \$500 million in FY09 to a total of \$21.12 billion as compared to last year's increase of 4.5%.

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The Foundation's projections are based on a weakening national economy, though not a recession, caused by the housing and credit crunch and record high oil prices.

Should a national recession occur, tax revenues would show no growth in FY09.

Between 2003 and 2007, tax revenues grew by an average of 7.2%, despite a weak Massachusetts economy.

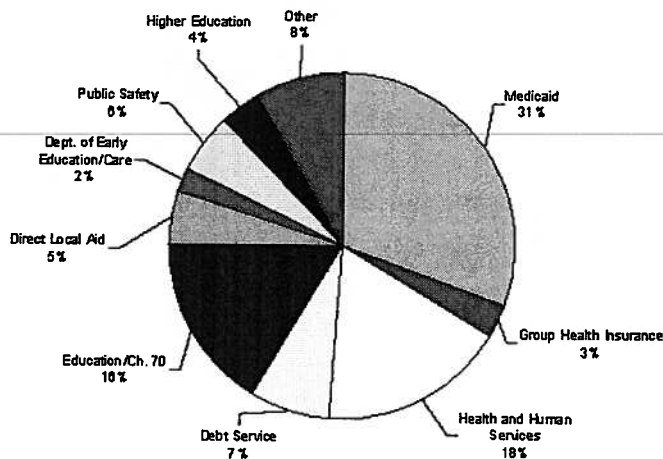
It is forecast that corporate taxes will decline slightly in both FY08 and FY09 while capital gains will rise another 10% in 2008 but drop about 5% in 2009.

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### EXPENSES

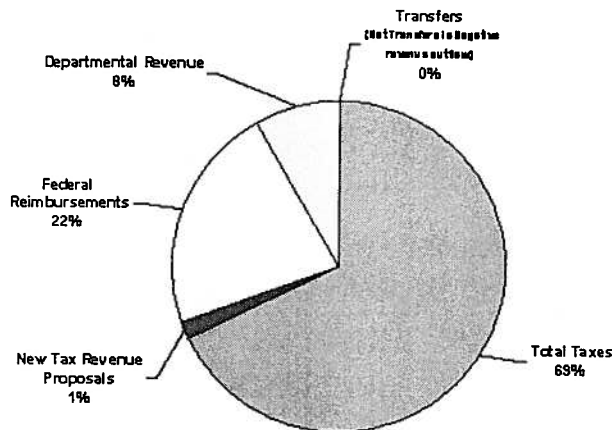


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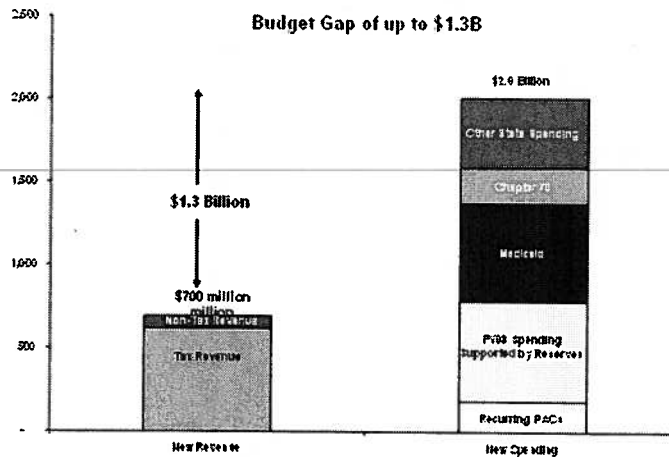
### REVENUES



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## THE STATE OF LOCAL AID: 2008

### CHAPTER 70

- Joint Resolution provides \$3.949 billion; an increase of \$223.2 million, or 5.9%, over FY08.
- Chapter 70 formula revised in FY07 budget.

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- Joint Resolution sticks to Chapter 70 Reform, which was designed to provide additional aid to communities that were paying locally for a high percentage of their foundation budget and to provide additional funding to high-growth communities.
- This change is to be phased in over five fiscal years. FY09 is the third year of the phase-in.

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### INCREASES IN CHAPTER 70

|                         |                      |
|-------------------------|----------------------|
| Baseline Foundation Aid | \$133.5 million      |
| "Effort Reduction Aid"  | \$34 million         |
| Down Payment Aid        | \$20.3 million       |
| Growth Aid              | \$34.5 million       |
| Minimum Aid             | \$1.1 million        |
| <b>TOTAL</b>            | <b>\$223 million</b> |

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### FOUNDATION AID

- Foundation Budget - Amount determined necessary by the state, based on assumptions contained in the 1993 education reform law, to educate each student.
- State sets required local contribution – gap between that and foundation budget is foundation aid, provided by the state.
- Adjusted each year to account for inflation, enrollment changes, and changes in local contribution requirements.

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## THE STATE OF LOCAL AID: 2008

### **"EFFORT REDUCTION AID"**

- FY07 reform sets new targets for the amount that each municipality should spend of its own resources on education.
- Based on local incomes and property values.
- Additional Foundation Aid to allow districts that are spending more than their target amount to close the gap between their then current spending and their target share by 20% per year over 5 years.
- \$34 million to provide aid to cities and towns to offset their local reductions.

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### **DOWN PAYMENT AID**

- Helps communities that would eventually benefit from effort reduction aid but not until later years.
- Additional \$20.3 million

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### **GROWTH AID**

- For districts that are experiencing increases in their foundation budget, mainly due to enrollment increases.
- Provides more of this aid to districts with lower incomes and property values and less to communities with greater fiscal capacity.
- Additional \$34.5 million.

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### **MINIMUM AID**

- All communities receive enough aid to guarantee a \$50 per pupil minimum increase in state aid.
- Additional \$1.1 million.

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### LOTTERY AID

- While \$935 million is being distributed in FY08, it appears that revenue from the Lottery will provide only \$810 million of that total, which is \$124.2 million below the estimate used in FY08.
- FY09 Lottery Aid is level funded at \$935 million.

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## THE STATE OF LOCAL AID: 2008

### Highlights of Governor's H2 Proposal

- Kindergarten expansion grants increased by \$8 million.
- Funding for grants to extend the school day doubles, from \$13 million to \$26 million
- Increased funding by \$4.5 million, or 49.4%, for targeted intervention in schools and districts at risk of being identified as under-performing.
- \$1.5 million for new cabinet level Secretary of Education. Has oversight not only of K-12 education, but Early Childhood Education and Higher Education.

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## THE STATE OF LOCAL AID: 2008

### Highlights of Governor's H2 Proposal

- Fully funds Special Education Circuit Breaker, with an increase of \$14.3 million over FY08, which equaled a 72% reimbursement. This provides relief to cities and towns for special education residential placements. According to statute, Commonwealth is to pay 75% of any district costs that are four times greater than the per pupil foundation level for that district.

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## THE STATE OF LOCAL AID: 2008

### GROUP INSURANCE COMMISSION

- Under Governor's proposal, budget increases by \$67.7 million or 5.8%.
- Legislation enacted in July, several municipalities and public employers have joined. GIC expects to spend \$25.1 million in FY09 up front for the additional health insurance premiums for the new participants.
- State will be reimbursed over the course of the year by the employers.
- Actual increase will be \$25.1 million, or 3.6%, after reimbursements.

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## THE STATE OF LOCAL AID: 2008

### **Senator Moore's FY09 Education/Local Aid Agenda**

Senator Moore realizes that many communities depend on a variety of sources for their local aid, ranging from Pothole funding to specific grants or programs.

Senator Moore is sponsoring or co-sponsoring many initiatives aimed at assisting municipalities with their budgeting process and to help maintain services currently offered.

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## THE STATE OF LOCAL AID: 2008

### *Chapter 70 Aid – Sufficient, Predictable, and Equitable Increases*

#### **State Budget –**

In FY09, the Legislature will continue its firm commitment to public education by increasing Chapter 70 aid by over \$223 million. This marks the third consecutive year of increases over \$200 million and is part of a five year funding scheme to move individual school districts toward their target-aid contribution level. In the first two years, the Legislature increased Ch 70 funds by over \$430 million. Senator Moore supports this commitment to education funding.

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## THE STATE OF LOCAL AID: 2008

### *Chapter 70 Aid – Sufficient, Predictable, and Equitable Increases*

#### **Legislative Initiatives -**

In addition to ensuring sufficient education aid to the Commonwealth's cities and towns, Senator Moore also recognizes the need for equitable and predictable distribution of this aid. If cities and towns are to plan a successful education program, they must have a long term picture of what financial contribution they can expect from the state.

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## THE STATE OF LOCAL AID: 2008

### *Chapter 70 Aid – Sufficient, Predictable, and Equitable Increases*

To bring such reforms, Senator Moore supports legislation that would:

- Create a 6 year schedule of education aid
- Mandate that in a fiscal crisis, education aid will have first claim on available funds
- Create a standing commission to regularly assess the efficacy of the Chapter 70 formula and periodically submit a series of suggest reforms to the Legislature. Though the Legislature made minor reforms to the Chapter 70 formula in the FY07 budget, there is no mechanism to regularly assess the success of this formula and make the periodic changes necessary to ensure that it fairly distributes education aid to all of the Commonwealth's cities and towns.

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## THE STATE OF LOCAL AID: 2008

### *Fully Fund Regional School Transportation*

#### **State Budget –**

In FY08 the Legislature allocated \$57.3 million for regional school transportation. The Department of Education estimates that this will fund between 90% of all regional school transportation costs. The Governor's FY09 budget again funds the regional school transportation line-item at \$58.3 million. While this will not meet 100% of the expected transportation costs, it will hopefully provide a foundation on which the Legislature can build as the budget process unfolds.

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## THE STATE OF LOCAL AID: 2008

### *Fully Fund Regional School Transportation*

#### **Legislative Initiative:**

To ensure that the Commonwealth better meets its agreement with regional school districts, Senator Moore supports legislation that would direct the Board of Education to develop a method to include regional school transportation funds in the Chapter 70 formula, and to file legislation to update Chapter 70 accordingly. Currently, regional school transportation has a separate line item. This line item is subject to drastic cuts when the state faces an economic downturn, and it was cut approximately 50% during the last budget crisis, while Chapter 70 funding was cut by approximately 20%. Regional school districts are required to bus a majority of their students, so funding for transportation cannot be cut. Therefore, these districts are forced to cut spending for teachers and books in order to pay for transporting students to school. Placing regional school transportation in Chapter 70, with other school operating costs, makes sense. *Senator Moore is a co-sponsor of this bill.*

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## THE STATE OF LOCAL AID: 2008

### *Preserve MCAS Remediation Funding*

The Governor's budget increases MCAS remediation funding by \$2 million from the FY08 budget. These funds are essential in ensuring school districts have the resources they need to meet the Department of Education's graduation standards. Adequate and flexible resources should be available for school districts to augment any child's preparation for the MCAS regardless of grade level. In previous years, only those students taking the MCAS test during an academic year qualified for MCAS remediation grants.

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## THE STATE OF LOCAL AID: 2008

### *Preserve Chapter 70 Pothole Funding*

#### **State Budget –**

This funding is important to ensure that school districts can meet the unexpected challenges that inevitably arise during a school year. These challenges range from the impact of changes to the Chapter 70 formula to shifts in student demographics. The Governor's FY09 budget proposal includes \$5.5 million for this program. This is the same appropriation from FY08.

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## THE STATE OF LOCAL AID: 2008

### *Controlling Costs – Giving Municipalities and School Districts the Tools They Need*

#### **Accomplishment –**

- *Creating a Local Option for Municipalities to Join the Group Insurance Commission*

Municipal health insurance costs continue to grow at an exceptional rate, diverting valuable resources that could otherwise be used for education and other local programs. Depending on the town, this initiative can slow the increase in municipal health insurance rates by granting municipalities the option of joining the state's Group Insurance Commission. Senator Moore encourages all towns to consider this option to see if it is right for them.

*Senator Moore was the lead sponsor of this bill.*

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## THE STATE OF LOCAL AID: 2008

### *Controlling Costs – Giving Municipalities and School Districts the Tools They Need*

#### **Accomplishment –**

- *Funding for the School Building Assistance Program*

In 2004, the Legislature made a significant commitment to reform the state's school building assistance program. By committing one of every five pennies collected in state income tax to the program, Massachusetts has been able to meet its commitments to school districts across the state. These reforms have helped the cities and towns more quickly retire school building debt, and, will allow school districts to receive state assistance with their future building projects.

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## THE STATE OF LOCAL AID: 2008

### *Controlling Costs – Giving Municipalities and School Districts the Tools They Need*

#### **Solutions Supported by Senator Moore**

- *Local Option Meal and Hotel Tax*

Senator Moore supports granting municipalities the *option* of implementing a local meal and hotel tax, provided that 25% of such revenues are dispersed equitably across the Commonwealth to all cities and towns that have approved such a tax.

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## THE STATE OF LOCAL AID: 2008

### *Controlling Costs – Giving Municipalities and School Districts the Tools They Need*

#### **Solutions Supported by Senator Moore**

- *Closing the Telecom Property Tax Loophole*

Pending an appeal to the SJC's recent decision, such legislation may not be necessary. However, Senator Moore supports repealing the exemption of certain telecommunications property from local property taxes.

*See attached for a breakdown of potential revenues to each Massachusetts municipality. A schedule of these potential revenues is in each local officials packet.*

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## THE STATE OF LOCAL AID: 2008

### *Controlling Costs – Giving Municipalities and School Districts the Tools They Need*

#### **Solutions Supported by Senator Moore**

- *Flexibility in Financing Local Infrastructure Development*

An Act Relative to the Establishment and Powers of Special Development Districts

This proposal would provide a creative alternative for cities and towns to finance infrastructure developments such as roads, parks, water and sewer facilities. The legislation would establish a new chapter of the Massachusetts General Laws – Chapter 40T. This chapter would give cities and towns the local option to authorize the creation of "special development districts". These districts would be able to issue bonds outside of a municipality's bonding cap to finance infrastructure. The bonds would be repaid by betterment on only those property owners within a "special development district".

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