

# Chapter 70

Required Local Contributions

**MALDEN**

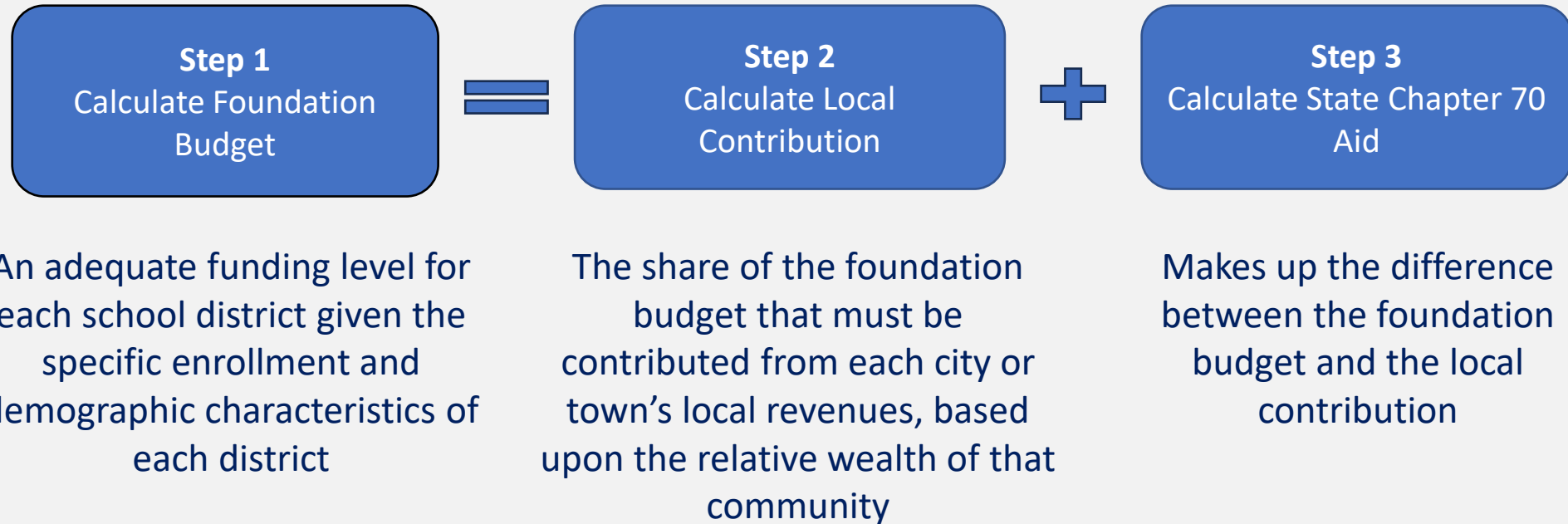


Prepared by the Office of

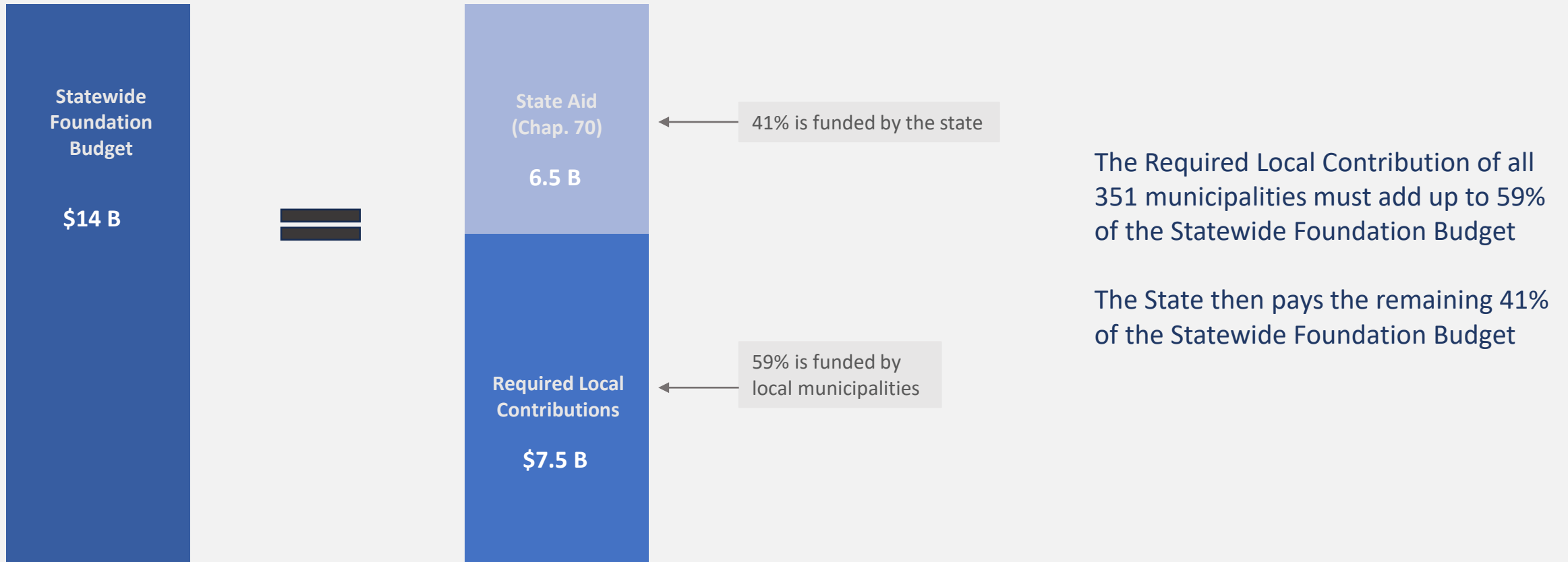
Rep. Steve Ultrino

Contact: [Steven.Ultrino@mahouse.gov](mailto:Steven.Ultrino@mahouse.gov)

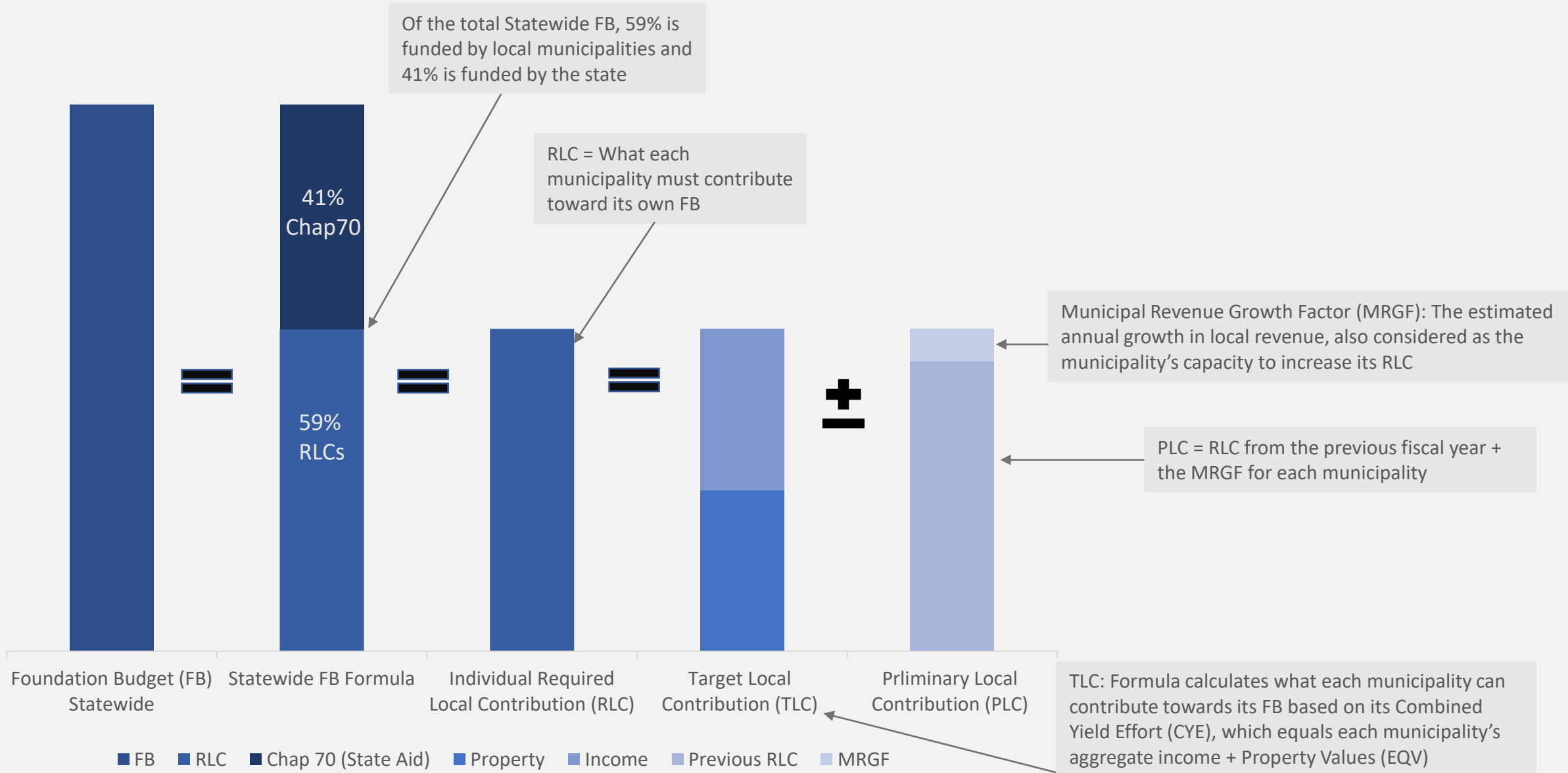
# Simplified State Chapter 70 Formula



# Statewide Foundation Budget Formula



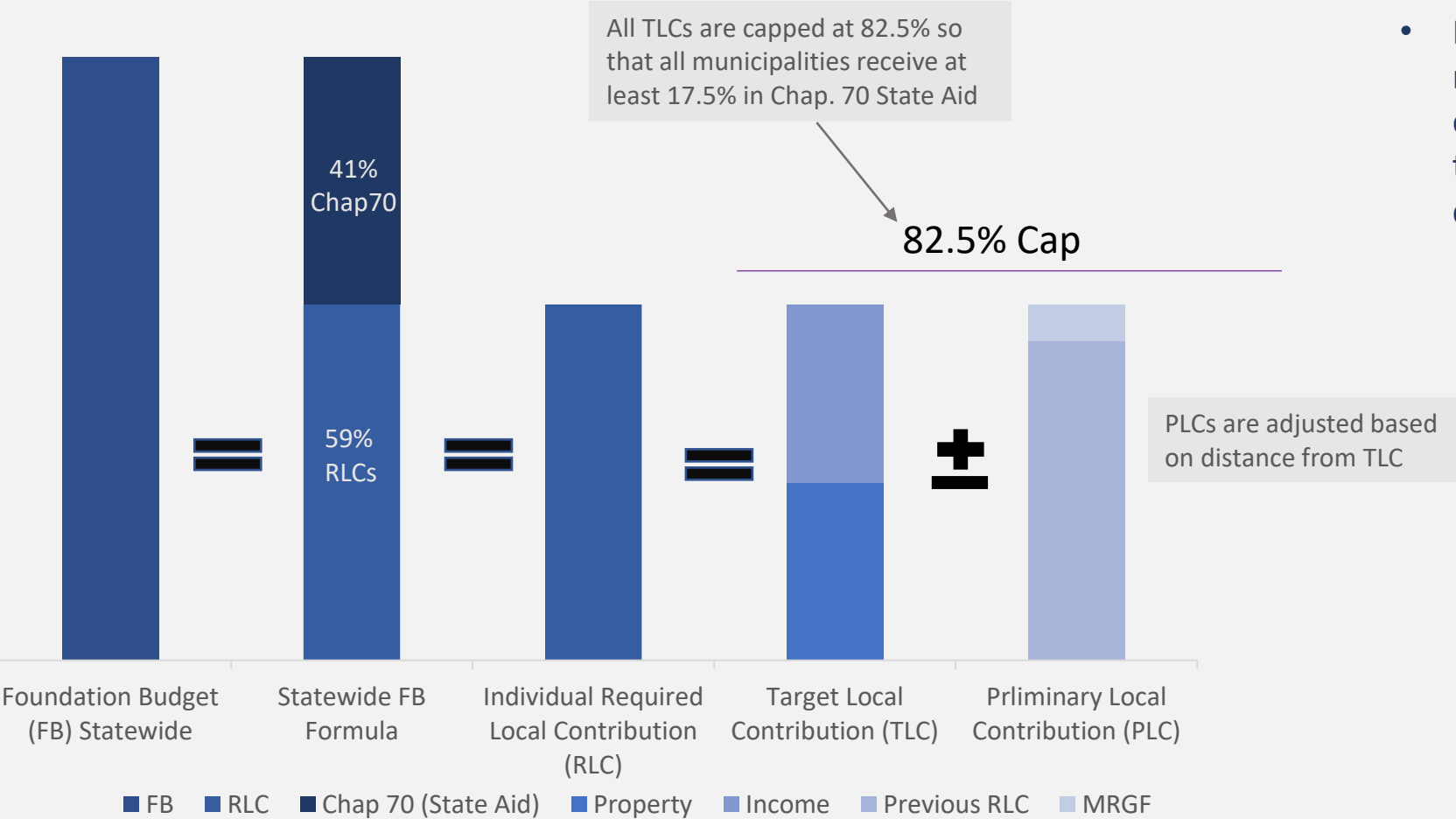
# Statewide Foundation Budget Formula



# Statewide Foundation Budget Formula (Cont.)

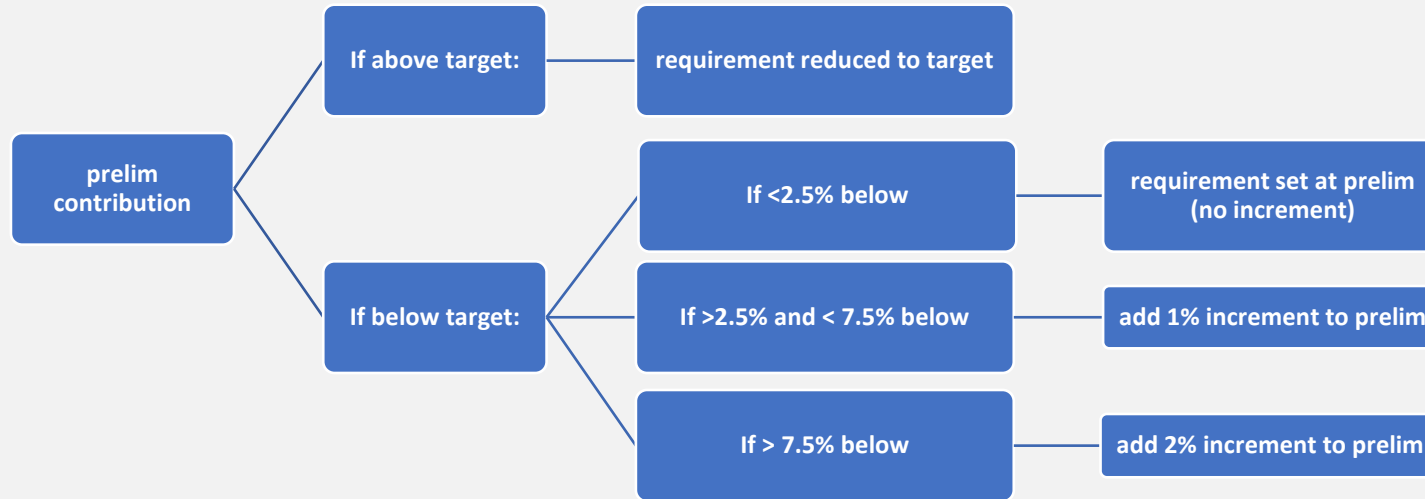
## What's the cap?

- No municipality is required to contribute more than 82.5% of its Foundation Budget even if the Combined Effort Yield indicates that the municipality could afford to contribute a greater amount
- Ensures that even the wealthiest municipalities get at least 17.5% of their foundation budget in Chapter 70 aid
- Adopted in the formula as part of the FY07 reforms
- Upholds the state's constitutional duty to provide an education for all students regardless of wealth through the public schools (McDuffy v. Secretary of the Executive Office of Education)



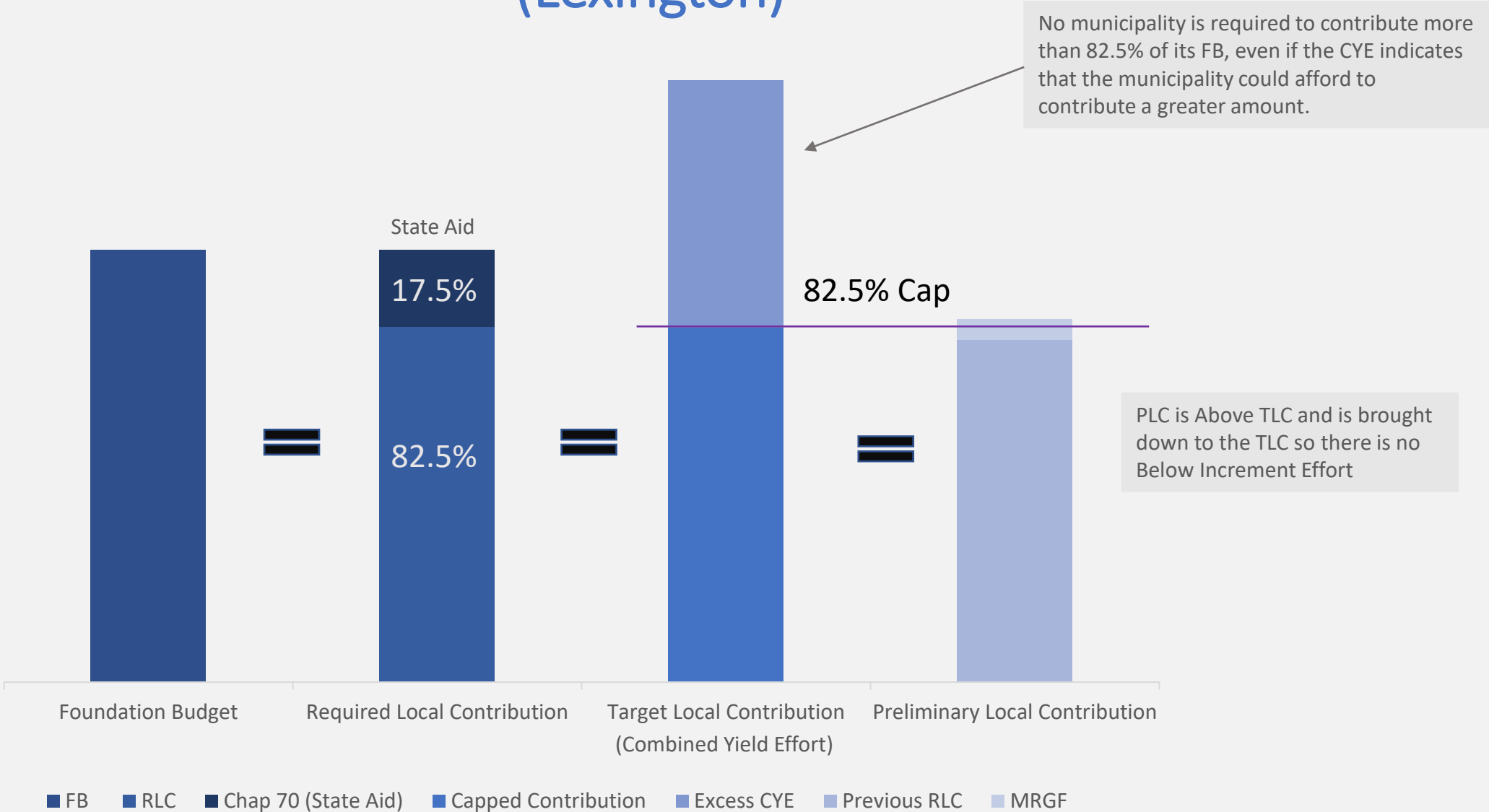
# What's the Below Effort Increment Penalty?

Preliminary Contributions are adjusted based on distance from Target Contributions

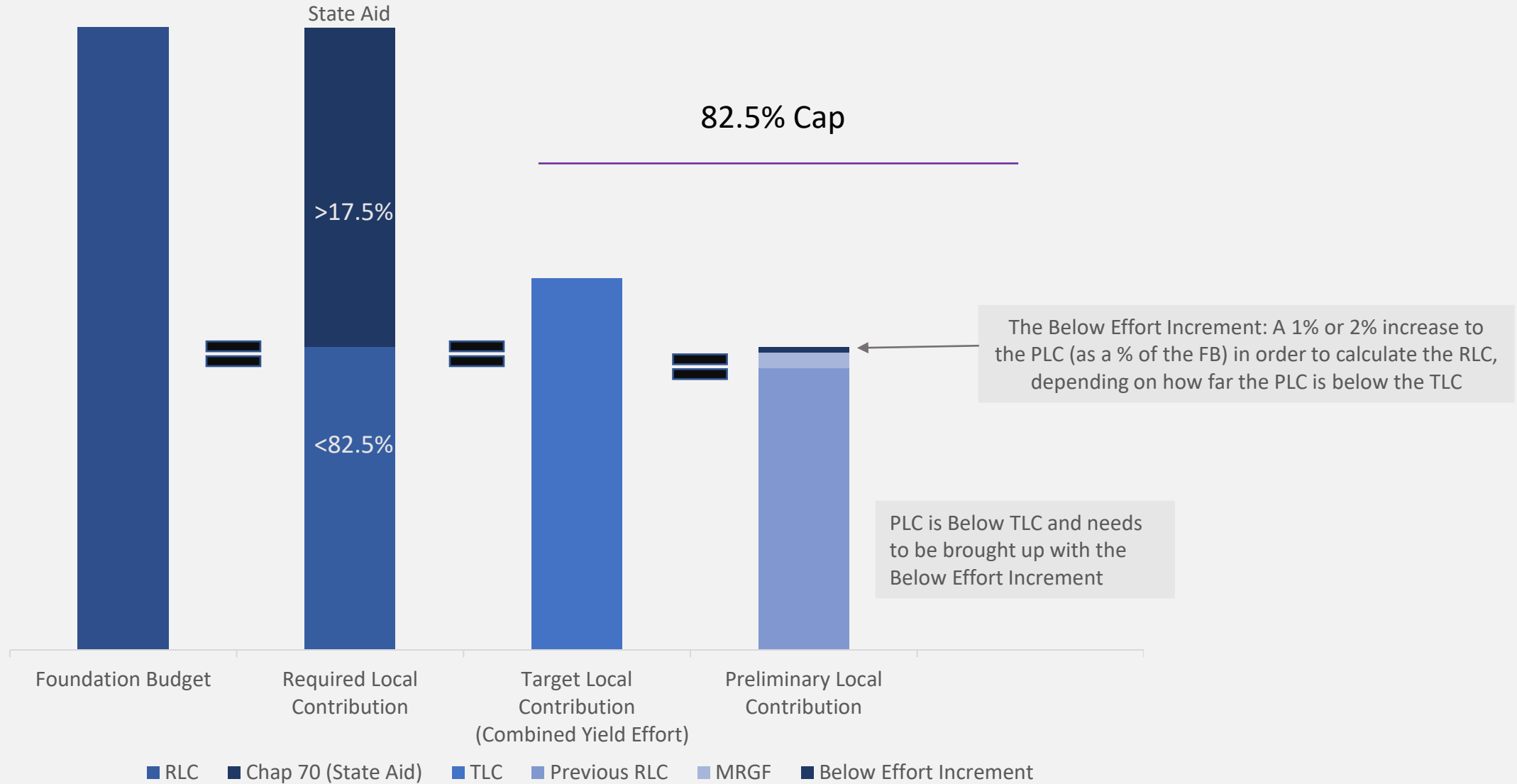


- If the preliminary local contribution is *greater than* the target local contribution, contributions are brought down to target
  - In FY23, this impacts contributions for 27 or 8% of the 351 cities and towns.
- If the preliminary local contribution is *less than* the target local contribution, the formula may add an increment to the preliminary contribution to arrive at the required local contribution
  - **In FY23, 324 cities and towns have preliminary contributions that are below target**
  - Those who fall below by more than 2.5 percent are required to make additional increments to get closer to their effort goals.
    - In FY23, below effort increments totaled \$46.6 million statewide.

# Formula for Municipalities Subject to the Cap (Lexington)



# Formula for Municipalities NOT Subject to the Cap (Malden)





# Key Provisions Of The Student Opportunity Act

- Revised Chapter 70 foundation budget calculations in several areas to ensure more adequate and equitable funding for school districts across the state
  - Reformed the calculations of low-income students, employee and retiree healthcare benefits, special education, English learners, and mental health services
- Provided additional state funding and supports for local school districts
  - Full funding of charter tuition reimbursements
  - Included out-of-district transportation costs in the Special Education Circuit Breaker
  - Lifted the annual cap for the MSBA to increase the number of school building projects that can be accepted into the program each year
- Implemented new policies designed to maximize the impact of funding increases in closing opportunity gaps and improving student outcomes
- Identified policy areas requiring further study and analysis
  - Established a rural schools commission to make recommendations for addressing the unique challenges faced by rural and regional school districts
  - Directed DESE and DOR to analyze and make recommendations for potential changes to the local contribution side of the Chapter 70 formula

# Student Opportunity Impact Statewide

## 1. Increase of Foundation Budgets statewide

1. The statewide foundation budget increased by \$1.3B or 10.87% from FY21 (before SOA implementation) to FY23

## 2. A more accurate calculation of low-income student population

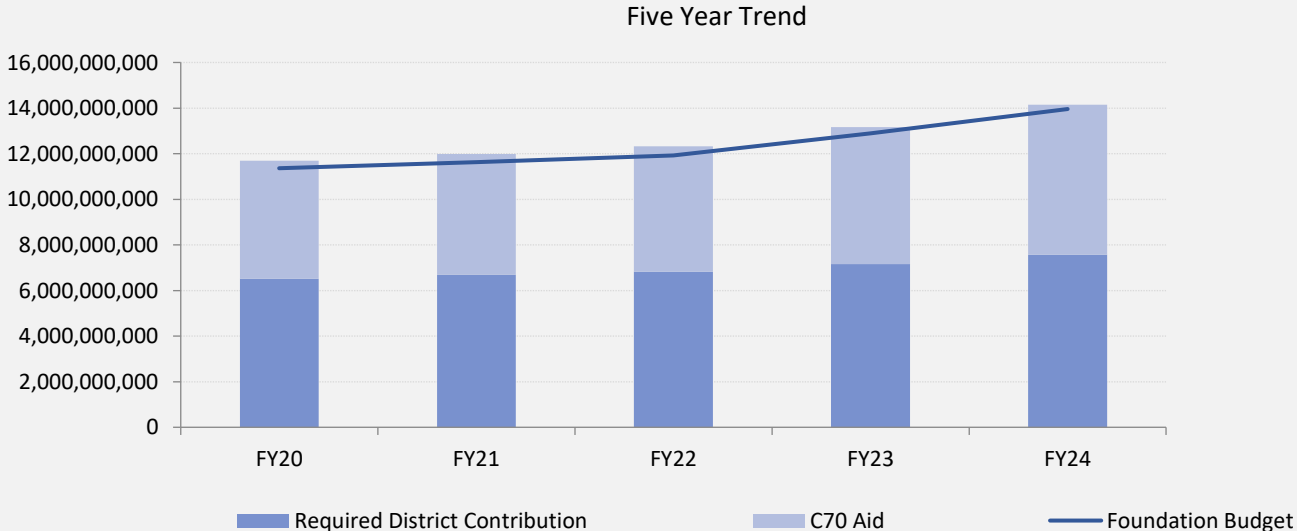
## 3. Increase of Chapter 70 State Aid

1. Chapter 70 state aid increased by roughly \$750M or 12.4% from FY21 to FY23

## 4. Increase of Required Local Contributions

1. Local contributions have increased by \$465M or 6.9% increase from FY21 to FY23

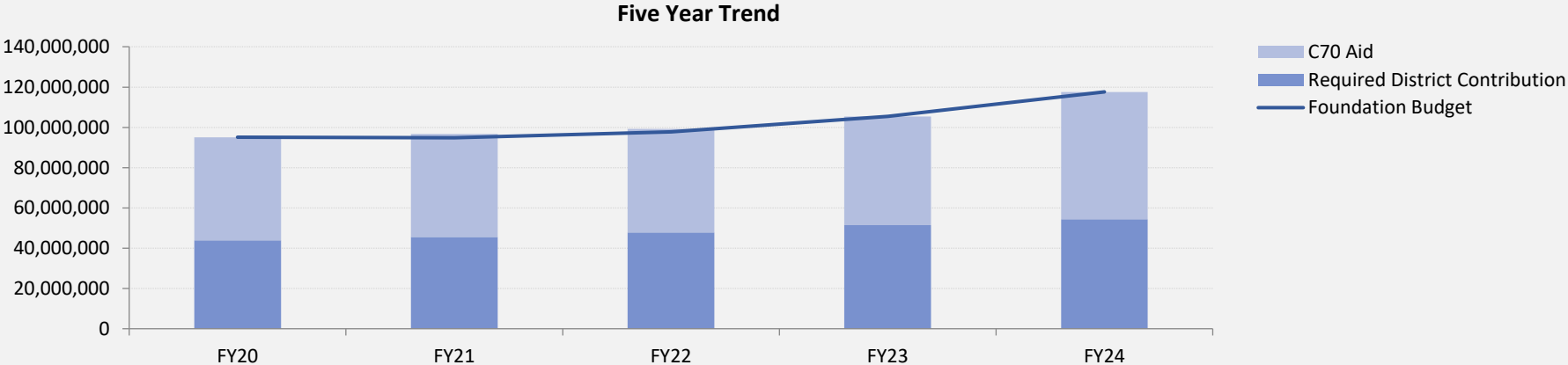
**FY24 is the third year of SOA implementation; expected to be fully implemented by FY27**



\*See Appendix A

# Student Opportunity Impact on Malden

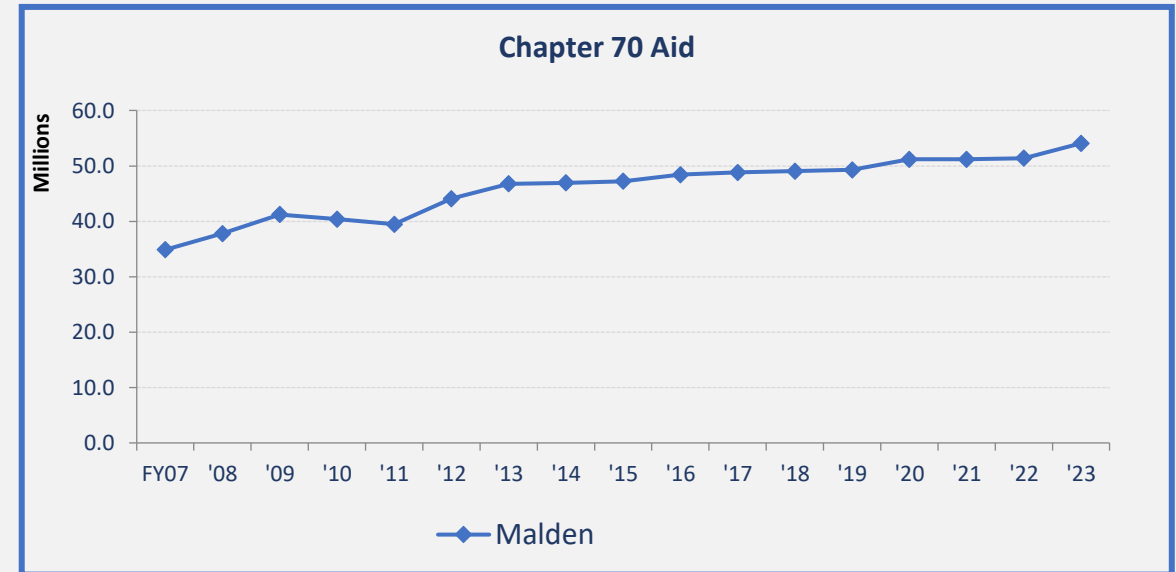
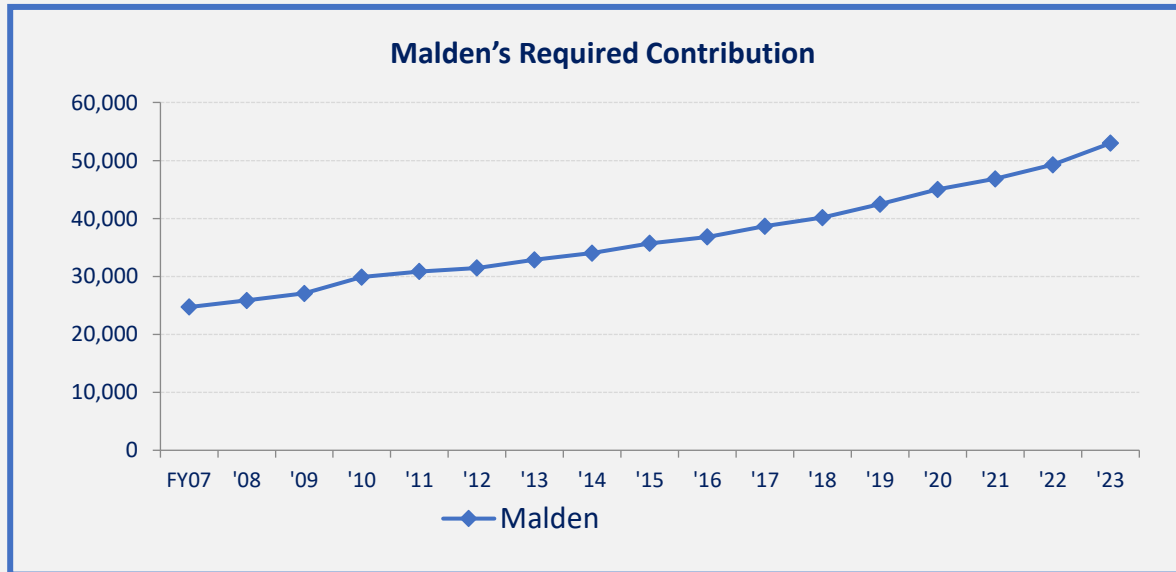
- 1. **FY24 Foundation Budget increased by \$12.2M (+11.5%) for a total amount \$117.6M**
  - Malden experienced an enrollment increase of only 137 students
- 1. **A more accurate calculation of low-income student population**
  - 4,639 low-income students in FY24 (67.8% of the student population), compared to 3,447 in FY17 (43% of the student population)
- 3. **FY24 Chapter 70 State Aid increase of \$9.1M (+16.9%), for a total amount of \$63.2M**
  - This was the largest increase in Chapter 70 (in both dollar amount and percent) since FY12
- 4. **Increase of Required Local Contribution**
  - Malden's Required Local Contribution increased by \$3 million or 5.9% from FY23 to FY24



\*See Appendix A

# A Closer Look At Chapter 70 Formula For Malden

	FY24	FY25	\$ Change	% Change
<b>Enrollment</b>	6.94k	6.86k	-77	-1.11%
<b>Foundation Budget</b>	117.6 M	121.4 M	3.8 M	3.27%
<b>Chapter 70 State Aid</b>	63.2 M	63.8 M	617.6k	0.98%
<b>Required Local Contribution</b>	54.4 M	57.6 M	3.2 M	<b>5.93%</b>



# Why are Required Local Contributions Increasing for Some Municipalities?

- DESE and DOR reported **that local contribution calculations** are likely to generate **increasingly inequitable outcomes for communities** ([Local Contribution Study, page 23](#)).
- The formula is driving up Target Local Contributions for municipalities that are not subject to the cap faster than their actual growth in local wealth
- The growth in target is felt most acutely by municipalities that are not receiving the largest increases in Chapter 70 aid from the SOA
- This problem is caused by the combination of:

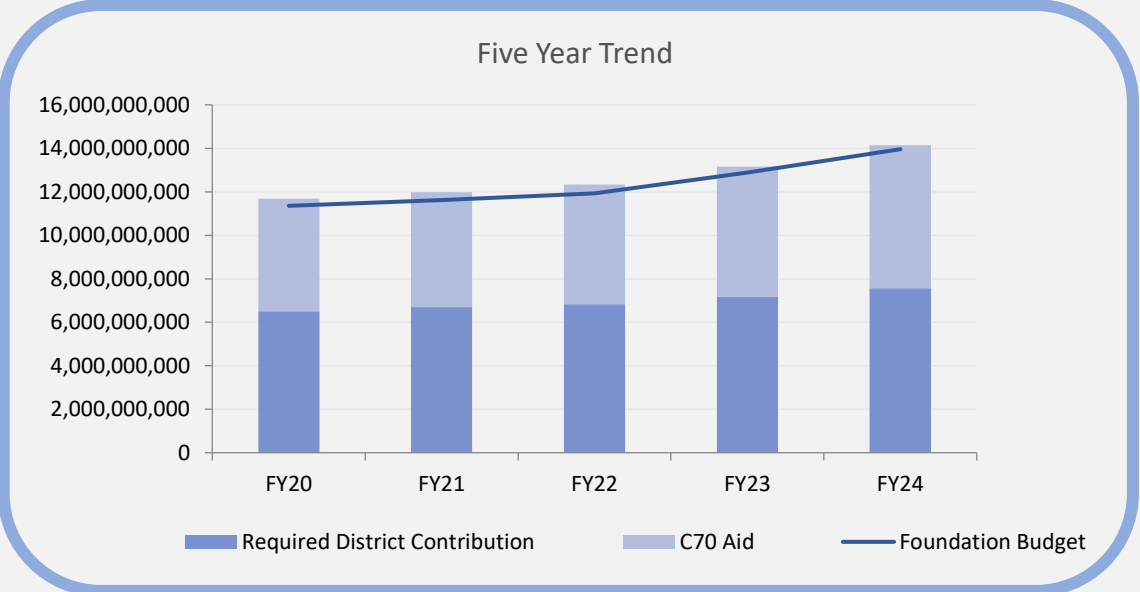
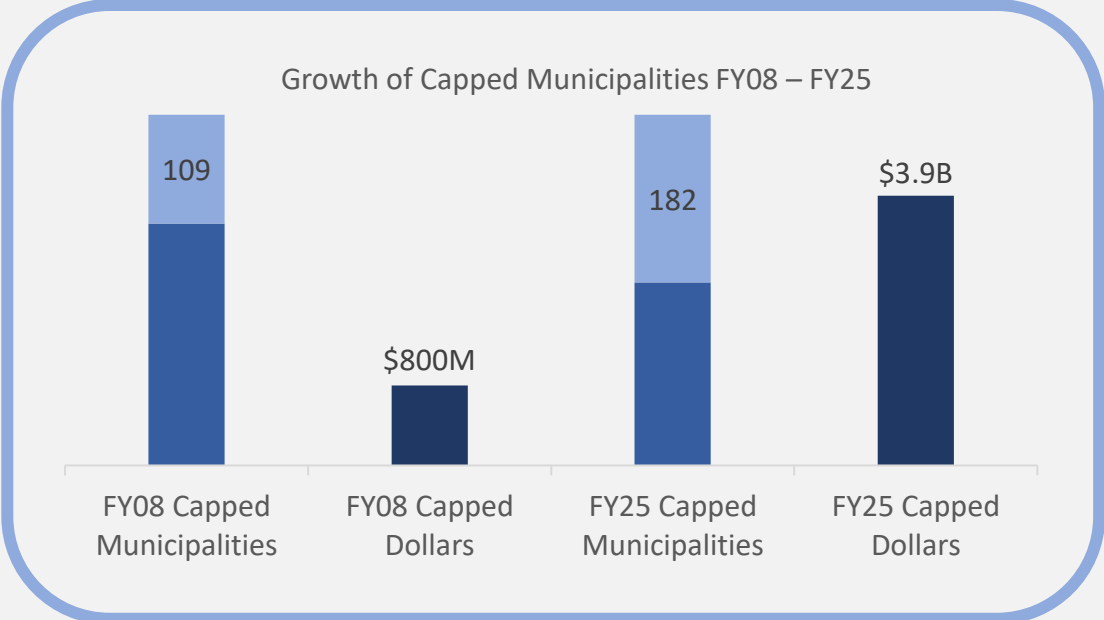
Increasing foundation budgets as the SOA is implemented

Increasing number of municipalities that are subject to the 82.5% cap

The 59% local share of the statewide foundation budget

# Growing Foundation Budgets & Capped Communities

- Once the SOA is fully phased in...
  - Foundation Budgets for school districts across the state are expected to increase total Chapter 70 aid by **\$1.4 billion annually over inflation**
  - And local contributions are expected to increase by **\$900 million annually over inflation**
  - Foundation budgets, the denominator, for every municipality is growing significantly



- At the same time, an increasing number of municipalities are subject to the 82.5% cap
  - Since 2008 the number of municipalities subject to the cap has grown from 109 to 168
  - The amount of “capped dollars” has grown from \$800 million to \$2.7 billion
- So, while an increasing number of municipalities could afford to contribute more towards their Foundation Budgets, they are not required to

# Let's Look at Municipal Wealth vs. What it Contributes to its Foundation Budget

The bars below compare the Target Local Contribution and Required Local Contributions of all 351 municipalities based on the percentage of their target share

Combined Yield Effort is a municipality's property values and aggregate income. Demonstrates what each municipality **can afford to contribute from its own resources** toward its foundation budget

The target local contribution is equal to a municipality's combined effort yield unless its combined effort yield exceeds 82.5% of its foundation budget

Some municipalities have so much wealth, or a small enough student population that can provide at or above the 82.5% cap

When combined effort yield is excessive, dollars over the 82.5% cap do not count towards its target local contribution

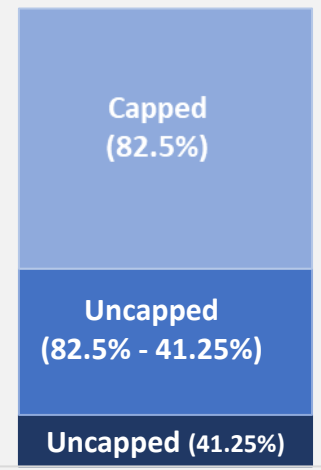
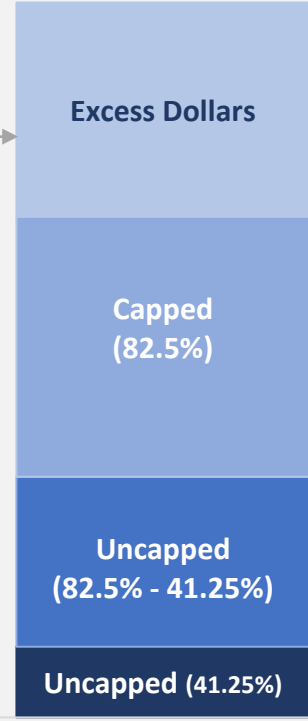
The required local contribution is what **each municipality must contribute** toward its Foundation Budget

Uncapped municipalities have combined yield efforts below 82.5% of their foundation budgets. Here they are broken up into two groups: Municipalities that can contribute between 82.5% and 41.25% and those who can contribute less than 41.25% of their foundation budgets

**Combined Yield Effort for all 351 municipalities**

**Target local contribution broken down by Capped and Excess dollars**

**Required local contribution for all 351 municipalities**



Combined Yield Effort

Target Local Contribution

Required Local Contribution

■ 41.25% ■ 41.25 - 82.50% ■ 82.50% ■ Excess

# The 59% Statewide Share Combined with the Cap are Charging an Implicit Tax on Capped Communities

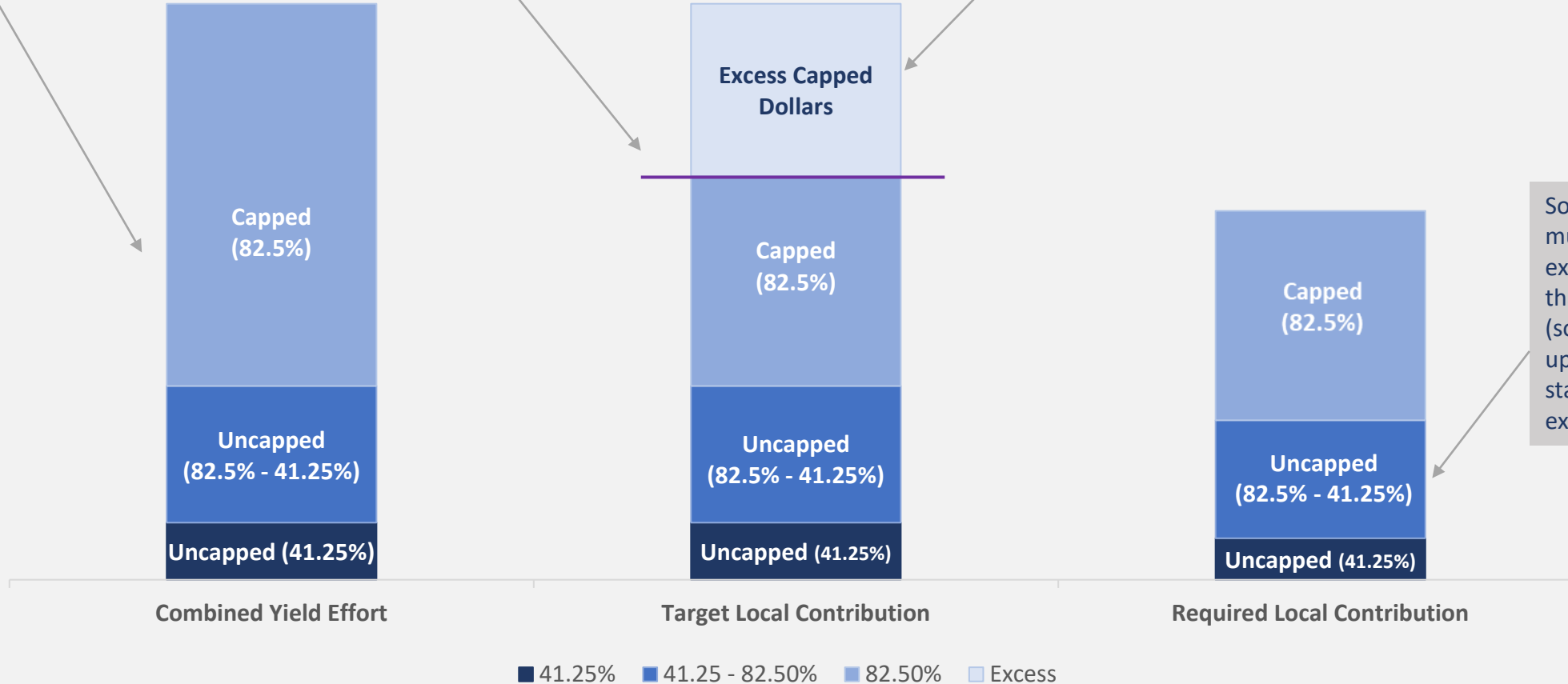
Some wealthy communities are growing (in some cases, MUCH) wealthier

With some municipalities have combined effort yield is over 200% of their foundation budget

But paying the same or less for their schools, while receiving the same or more aid because they are capped

The required local contributions of all 351 municipalities must add up to 59% of the statewide foundation budget and excess dollars do not count towards the required local contributions

So uncapped municipalities are expected to pay more than they can afford (some millions) to make up the contributions the state is losing from excess dollars

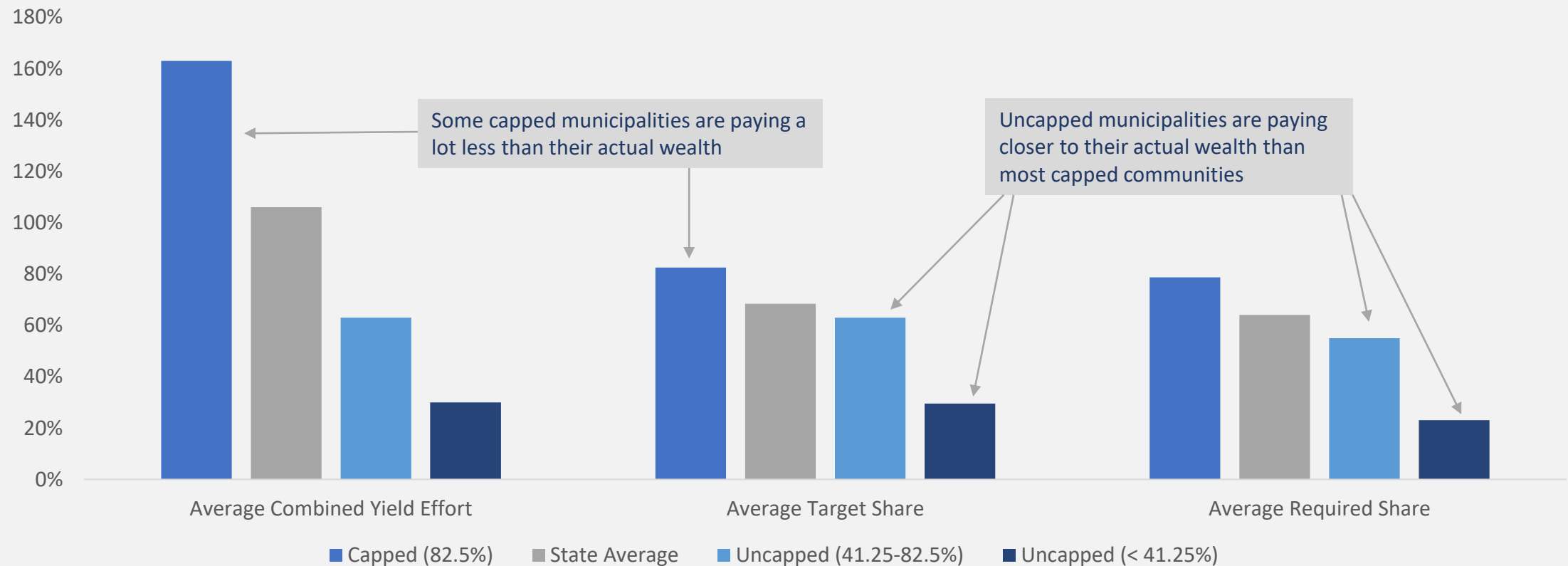




# Pulling the Weight

The average wealth of uncapped municipalities with target shares between 82.5 – 41.25% have an average combined yield effort half the state average but are required to pay just 9 points below the state's average contribution

## FY24 Local Contributions Grouped by Target Share



# Rate of Growth by District Wealth

## Group 1:

- Lowest percentage of student poverty;
- About 80% of the districts are capped

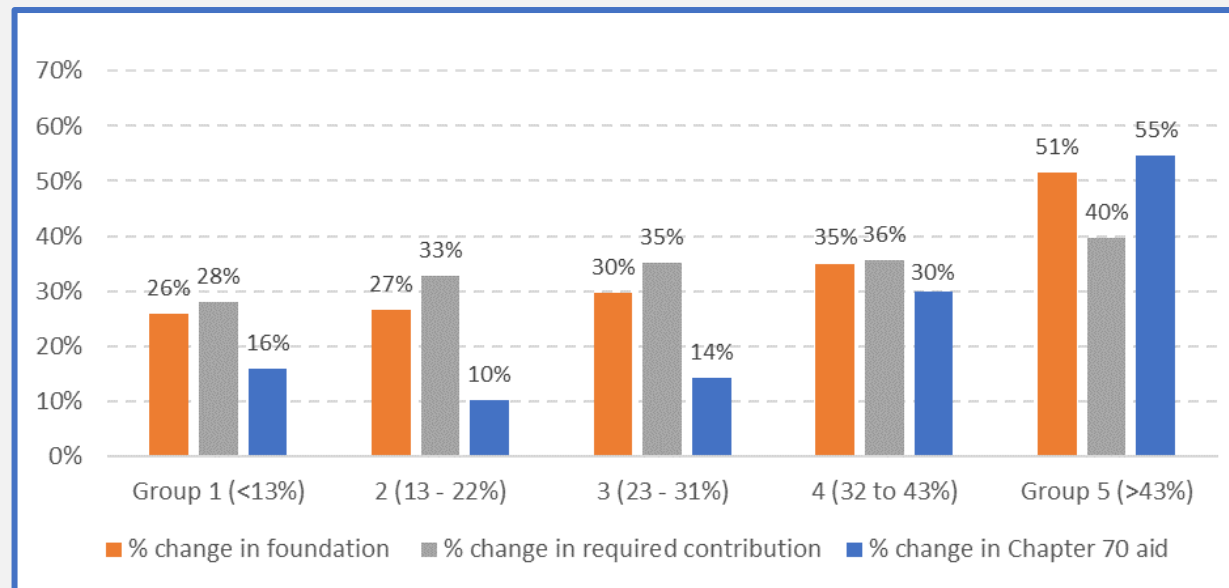
## Groups 2 & 3:

- Student poverty percentages between 13% and 31%;
- 35% in Group 2 and 29% in Group 3 are capped

## Groups 4 & 5:

- Highest percentage of student poverty
- 1% of Group 4 and no districts in Group 5 are capped
  - Note: Malden is in Group 5

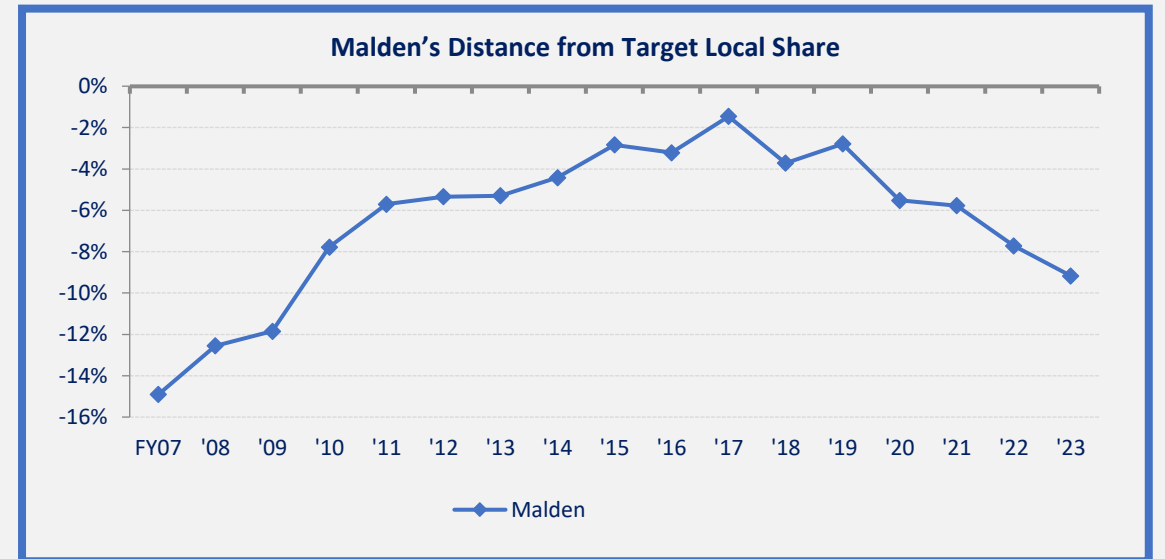
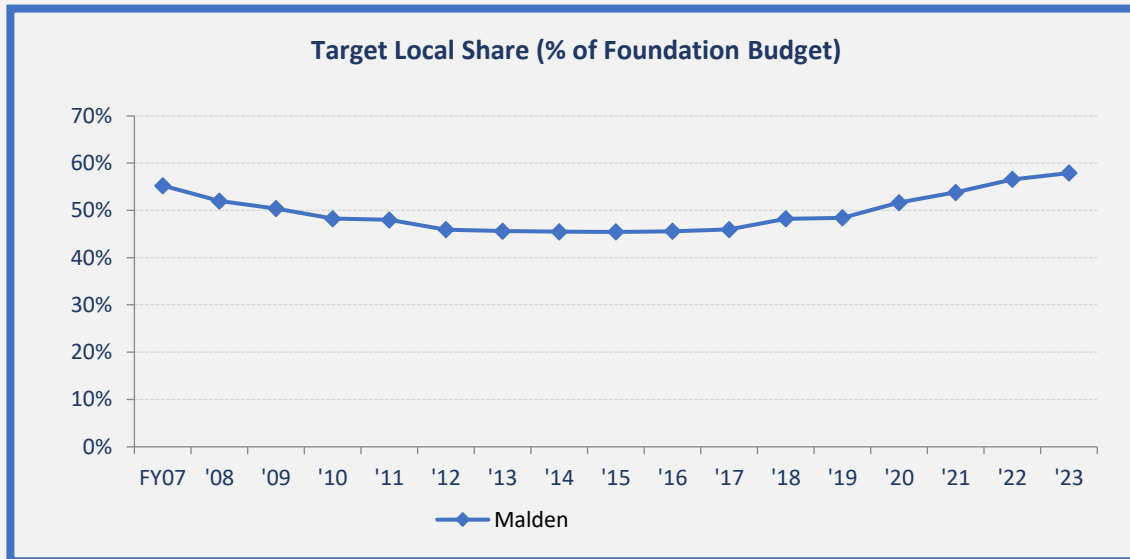
Estimated impact of SOA rate increases on required local contributions and aid by concentration of poverty in school districts (FY2021)



- Group 1 (despite having a high percentage of capped districts) is **projected to see their aid grow at a faster rate** than Groups 2 & 3 and their **projected local contributions grow at a slowest rate statewide**.
- At the same time, Group 2 (with significantly less capped districts) are projected to see the lowest percentage increases in state aid, 10% and 14% respectively, while their local contribution requirements are projected to grow by 33% and 35%.
- Despite seeing the highest increases of state aid, Groups 4 & 5 are seeing their local contribution requirements are projected to grow by 36% and 40%.

# A Closer Look At Local Contribution Impacts On Malden

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
<b>Target Local Share</b>	48.2%	48.4%	51.7%	53.8%	56.6%	57.9%	55.8%	56.2%
<b>Required Local Share</b>	44.5%	45.6%	46.1%	48.0%	48.9%	48.7%	46.27%	47.5%
<b>Percent Change</b>	3.7%	2.3%	5.6%	5.8%	7.7%	9.2%	9.5%	7.7%



# Local contribution requirements are defined by two key policy decisions

## 1. How the funding of the foundation budget should be shared between the state and local levels

- The target local contributions are calculated to raise 59% of the statewide foundation budget, with the remaining 41% coming from Chapter 70 aid
- Given the state's commitment to funding the SOA's significant expansion of foundation budgets, the actual state share of foundation budgets could rise even higher than the current 41% level if required local contribution increases in some communities are not sufficient to keep up with the foundation budget increases
- For example, in FY23, if you increased the state share by 2% to 43%, the state would contribute \$450k more towards Malden's foundation budget. If the state share was increased by 5% to 46% Malden would receive \$955k more.
- However, this adjustment would lead to a large increase of state funding overall. If the state share was increased by 5% in FY23, the state would pay \$231 million more in Chap 70 aid.

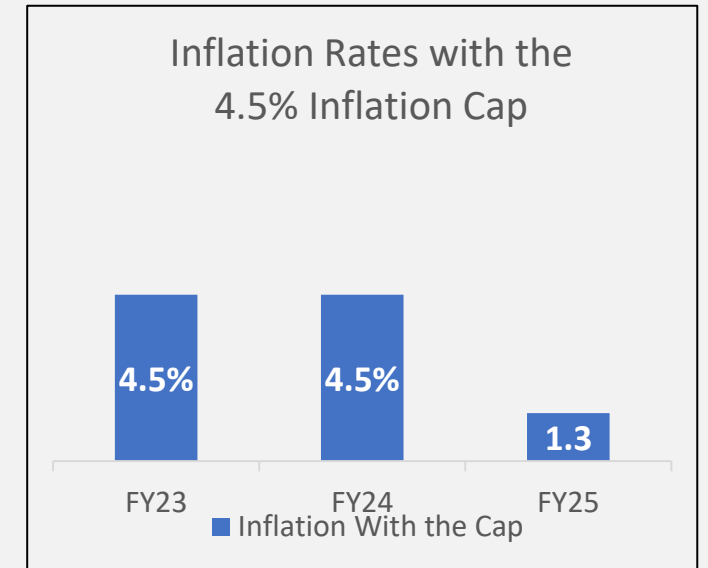
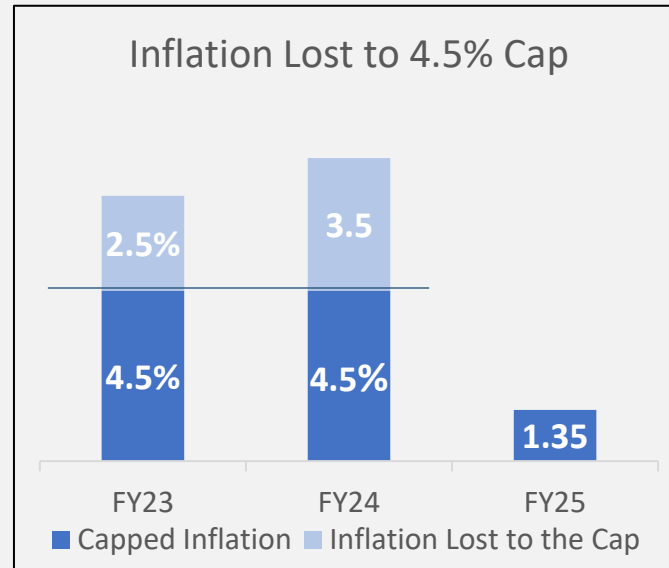
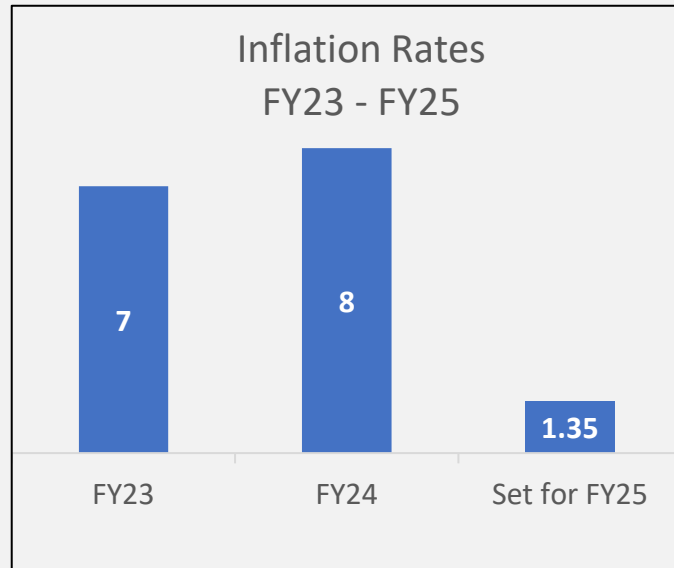
# Local contribution requirements are defined by two key policy decisions

## 2. What cap should be placed on the contribution of high wealth communities

- The 17.5% cap was implemented in the late 2000s to guarantee that districts would receive a minimum amount of state support for their schools.
- However, if you run a simulation of the formula since 2007 without the 17.5% cap, you will see that many – but not all – communities are being asked to pay 15-20% more than they would if the cap was 0%
- Even if the cap was raised to 90%, Malden’s FY23 target contribution would be \$5 million less and would ultimately pay \$477k less towards its foundation budget
- At the same time, Lexington’s target contribution would be \$6.4 million more and would ultimately pay \$1.3 million more towards its foundation budget
  - Note: Even with a 90% cap Lexington could afford to pay \$36.4 million more than it would be required to contribute

# Other Issues with the Formula: Inflation Cap

- Foundation budgets are adjusted each year to reflect changes in inflation
- The inflation rate is based on a third quarter to third quarter comparison from the U.S. Department of Commerce's state and local government price deflator and is capped at a 4.50% maximum.



- The inflation rate was about 7% in FY23 and 8% in FY24 but was only about 1.35% in FY25
- The Chapter 70 funding formula currently caps inflation adjustment at 4.5%
- When the inflation rate is above the 4.5% cap, the inflation value above the cap is lost
- Therefore, school districts have significant gaps in funding between the true inflation level and the 4.5% cap

# Challenges We Face In Addressing This Problem

- Lack of legislative appetite to revisit the school funding formula so soon after passage of the Student Opportunity Act
- Difficulty in convincing legislative leadership to increase school funding further, given the substantial increases already being phased-in by the SOA and the billions of dollars in federal COVID relief (ESSER) that went directly to school districts
- Actual state share has risen to 46% since FY20 due to hold harmless aid and additional aid directed to below effort communities
- The problem we are seeking to tackle is linked to the politically sensitive issue of Chapter 70 aid that goes to wealthier communities
- There is no consensus yet regarding further reforms that should be made to the Chapter 70 formula, and limited understanding of the problem(s)

# Other Possible Solutions

Idea	Pros	Cons
3. Create a new pothole account to provide additional Chapter 70 aid to eligible municipalities	Targeted solution and thus less costly; can be flexibly designed	Difficult to determine/gain consensus on eligibility criteria
4. Revise the calculation of MRGF	Potentially more accurately reflect local revenue growth	Difficult to reach consensus on changes
5. Pause Below Effort Increment in the formula	Easy to implement; directly addresses problem in the short-term	Gap between target and actual local contributions will grow wider over time
6. Make changes to the 82.5% cap (for example, could create multiple tiers)	Would make formula better reflect local fiscal capacity; drive more Chapter 70 aid to uncapped municipalities	May be politically difficult to implement
7. Consider other changes to the Chapter 70 formula (for example, how CEY is calculated, how enrollment changes are calculated, etc.)	TBD depending on specific change	TBD depending on specific change; will be difficult to gain consensus
8. Fix the inflation cap so that so that inflation value lost to the 4.5% cap one year would automatically be added back to the foundation budget the next year inflation is below the cap	Increases Chapter 70 aid for all 351 municipalities to better keep pace with inflation	Would cost the state an additional an estimated \$465M in Chapter 70 aid



# Best Next Steps...

## Launch a Working Group

- Work with Healey administration (DESE, EOE, DOR, DLS, and others) to launch a working group, informed by Chapter 70 experts to properly and fully assess the problem, and come up with long-term solutions in the formula

# Appendix A - Malden's NSS Detail



## Massachusetts Department of Elementary and Secondary Education Chapter 70 District Profile

6/2/23

Select a district

**0165 Malden**

FY	Foundation Enrollment		Foundation Budget		Chapter 70 Aid			"Formula" Requirement	"Adjusted" Requirement	Required NSS		Actual NSS		Dollars Over/Under Requirement	
	Enrollment	% Chg	Budget	% Chg	Required Local Contribution	Reflects Penalties, where applicable	% Chg	Required Net School Spending Aid + Local Contribution	Required NSS Includes Carryover	% Chg	Actual NSS	% Chg	Requirement	% Over/Under	
FY08	6,709	0.8%	62,297,085	6.7%	24,505,538	37,791,547	8.4%	62,297,085	62,297,085	6.7%	68,743,768	6.5%	6,446,683	10.3%	
FY09	6,798	1.3%	66,974,104	7.5%	25,736,533	36,900,852	-2.4%	66,974,104	62,637,385	0.5%	69,811,147	1.6%	7,173,762	11.5%	
FY10	6,883	1.3%	70,256,110	4.9%	28,341,018	40,412,820	9.5%	68,753,838	68,753,838	9.8%	70,894,850	1.6%	2,141,012	3.1%	
FY11	6,867	-0.2%	69,445,050	-1.2%	29,256,886	39,466,415	-2.3%	68,723,301	68,723,301	0.0%	70,516,069	-0.5%	1,792,768	2.6%	
FY12	7,145	4.0%	74,002,031	6.6%	29,910,919	44,091,112	11.7%	74,002,031	74,002,031	7.7%	72,397,596	2.7%	-1,604,435	-2.2%	
FY13	7,207	0.9%	78,173,570	5.6%	31,406,125	46,767,445	6.1%	78,173,570	79,778,005	7.8%	77,203,964	6.6%	-2,574,040	-3.2%	
FY14	7,253	0.6%	79,552,183	1.8%	32,589,651	46,962,532	0.4%	79,552,183	82,126,223	2.9%	81,194,121	5.2%	-932,103	-1.1%	
FY15	7,309	0.8%	80,737,954	1.5%	34,410,984	47,246,321	0.6%	81,657,305	82,589,408	0.6%	83,645,850	3.0%	1,056,442	1.3%	
FY16	7,395	1.2%	84,059,176	4.1%	35,620,417	48,438,759	2.5%	84,059,176	84,059,176	1.8%	85,884,085	2.7%	1,824,909	2.2%	
FY17	7,412	0.2%	84,148,786	0.1%	37,450,081	48,846,419	0.8%	86,296,500	86,296,500	2.7%	89,944,849	4.7%	3,648,349	4.2%	
FY18	7,529	1.6%	87,320,752	3.8%	38,872,647	49,072,289	0.5%	87,944,936	87,944,936	1.9%	92,260,445	2.6%	4,315,509	4.9%	
FY19	7,516	-0.2%	90,460,805	3.6%	41,267,281	49,297,769	0.5%	90,565,050	90,565,050	3.0%	94,132,321	2.0%	3,567,271	3.9%	
FY20	7,451	-0.9%	95,060,967	5.1%	43,854,744	51,206,223	3.9%	95,060,967	95,060,967	5.0%	97,506,197	3.6%	2,445,230	2.6%	
FY21	7,268	-2.5%	94,879,630	-0.2%	45,560,692	51,206,223	0.0%	96,766,915	96,766,915	1.8%	98,814,892	1.3%	2,047,977	2.1%	
FY22	6,921	-4.8%	97,816,216	3.1%	47,782,256	51,413,853	0.4%	99,196,109	99,196,109	2.5%	99,382,735	0.6%	186,626	0.2%	
FY23*	6,803	-1.7%	105,452,144	7.8%	51,377,517	54,074,627	5.2%	105,452,144	105,452,144	6.3%	103,683,205	4.3%	-1,768,939	-1.7%	

# Appendix B – FY25 Top Below Effort Penalties

Municipality	Below Effort Increment Penalty
Worcester	2,408,659
Quincy	2,384,208
Framingham	1,623,565
Lowell	1,366,810
Weymouth	1,321,915
Barnstable	1,255,545
Lynn	1,217,027
Peabody	1,208,617
Brockton	1,170,382
Haverhill	1,134,185
Malden	1,122,236
Braintree	1,092,738
Franklin	998,365
Methuen	976,157
Springfield	960,522

# Appendix C - Malden, Lexington, Chelsea Comparison

