

COMMONWEALTH OF MASSACHUSETTS
MASSACHUSETTS SENATE
 State House, Boston, MA 02133-1053

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April 26, 2007

Dear School Committee Members:

I'd like to give you a fiscal update for Hopkinton as of April 26, 2007. Here is a summary of Hopkinton's local aid for the past two fiscal years, as well as the local aid amounts agreed upon in the Joint Resolution on Local Aid passed April 4, 2007:

	FY 06	FY 07	FY 08	% Increase FY06-FY08
Chapter 70	\$4,841,117	\$5,364,504	\$5,538,660	14.4%
Lottery	\$666,821	\$839,794	\$857,397	28.6%
Additional Assistance	\$120,287	\$120,287	\$120,287	--

For your reference, I have attached a white paper from the Department of Education which outlines the various aspects of the Chapter 70 formula.

In Fiscal Year 2007, the budget included a new category of aid, *growth aid*, to ensure that *every district with an increasing foundation budget will see some increase in state aid*, regardless of changes in other parts of the formula. While the governor's local aid package did not fully fund this new component due to fiscal constraints, the Joint Resolution does.

As explained in the white paper, a school district's *foundation budget* is adjusted each year to reflect changes in the district's enrollment; changes in student demographics; inflation; and geographical differences in wage levels. If it is likely that Hopkinton will see increases in any of the foundation budget factors in the coming years, it is also likely that you will continue to see aid increases.

I hope that this information is helpful to you. Please feel free to contact my office should you have further questions about the local aid formula.

Regards,

Senator Karen E. Spilka
 2nd Middlesex & Norfolk

**Massachusetts Department of Education
FY08 Chapter 70, Local Aid Resolution**

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Aid Calculation FY08

Prior Year Aid

1 Chapter 70 aid FY07

5,364,504

Foundation Aid

2 Foundation budget FY08

26,814,198

3 Required district contribution FY08

21,690,292

4 Foundation aid (2 - 3)

5,123,906

5 Increase over FY07 (4 - 1)

0

Down Payment of Fully-Phased In Foundation Aid

6 Target Aid Percentage

18.39%

7 Foundation aid at full phase-in (6 x 2)

4,931,131

8 Share of increase over FY07 (30% x (7-1))

0

9 Full phase-in "down payment" (8 - 5)

0

Growth aid

10 Foundation budget FY07

25,867,183

11 Change in foundation FY07 to FY08 (2 - 10)

947,015

12 Target percentage times chg in foundation (6 x 11)

174,156

13 Growth aid (12 - 9 - 5)

174,156

\$50 Per Pupil Minimum Increase

14 Foundation enrollment FY08

3,319

15 Minimum increase (\$50 x row 14)

165,950

16 Additional aid to reach per pupil guarantee (15-13-9-5)

0

Non-Operating District Reduction to Foundation

17 Non-operating district reduction to foundation

0

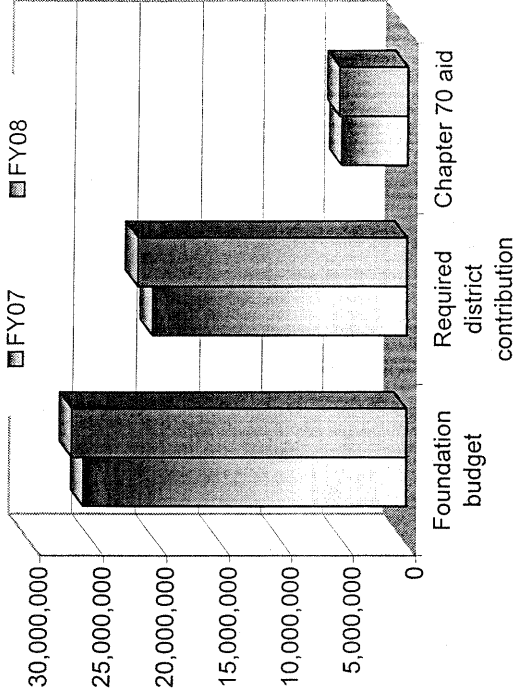
Chapter 70 Aid FY08

sum of line 1,5,9,13,16 minus line 17

5,538,660

Comparison to FY07

	FY07	FY08	Change	Pct Chg
Enrollment	3,312	3,319	7	0.21%
Foundation budget	25,867,183	26,814,198	947,015	3.66%
Required district contribution	20,502,679	21,690,292	1,187,613	5.79%
Chapter 70 aid	5,364,504	5,538,660	174,156	3.25%
Required net school spending	25,867,183	27,228,952	1,361,769	5.26%
Chapter 70 pct of foundation	20.74%	20.66%		
NSS as pct of foundation	100.00%	101.55%		



Massachusetts Department of Education
Determination of City and Town Total Required Contribution FY08, Local Aid Resolution

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<u>Effort Goal</u>	<u>FY08 Increments</u>	<u>Toward Goal</u>
1) 2006 equalized valuation	3,164,450,000	20,753,893
2) Property percentage	0.2943%	5.71%
3) Local effort from property wealth	9,311,882	21,938,940
4) 2004 income	812,562,000	80.89%
5) Income percentage	1.5779%	
6) Local effort from income	12,821,061	
7) Combined effort yield (row 3+ row 6)	22,132,943	
8) Foundation budget FY08	27,121,584	
9) Maximum local contribution (82.5% * row 8)	22,375,307	
10) Target local contribution (lesser of row 7 or row 9)	22,132,943	0.72%
11) Target local share (row 10 as % of row 8)	81.61%	194,003
12) Target aid share (100% minus row 11)	18.39%	0
		*1% if shortfall is between 5% and 10%; 2% if shortfall > 10%
		24) FY08 required local contribution (15 + 23)
		25) Contribution as percentage of foundation (24
		80.89

See a listing of all 351 communities

**PREPARED BY THE MA DEPARTMENT OF EDUCATION
(www.mass.gov/doe)**

About the Joint Resolution

One of the enduring problems in municipal finance is that municipal budgets are typically developed and approved prior to final enactment of the state budget. The resulting uncertainty is heightened in the case of Chapter 70, where the budget process is also being used as the vehicle for implementing long-overdue improvements to the state aid formula.

Prior to 1990, it was common practice for the Legislature to vote a local aid resolution in the winter, prior to final enactment of the state budget, to give local officials a better sense of what their state aid allotments were likely to be. In recent years, many local officials have recommended a return to that practice.

The Joint Resolution voted by the Legislature on April 4 expresses the intent to include these local aid amounts in the final FY08 budget. The resolution does not require the Governor's approval, and from a legal standpoint it is not a binding commitment. It is theoretically possible that additional changes could be made during the legislative budget debate or when the budget reaches the Governor's desk. So we offer the same cautionary message that we use when the House 1 estimates are released: *These are preliminary estimates subject to change as the House and Senate deliberate on the budget. Our purpose in providing these estimates at this time is to assist cities and towns in their own budget preparation for FY08. We advise you to construct your local budgets with sufficient flexibility to accommodate the changes that typically occur in the state budget process.*

Nevertheless, the adoption of a Joint Resolution is a significant step in indicating the likely outcome of this year's budget debate, and accordingly we recommend that school districts take these numbers into account in your FY08 budget approval process. Even where school committees have already adopted their budgets, the impact of the Joint Resolution should be studied and, where appropriate, communicated informally to selectmen, finance committees, city or town councils, and town meetings. In some cases, it may be useful for the appropriating body to amend the school committee's previously submitted official request to reflect these new state aid allotments and spending requirements.

In the case of regional districts, your attention is called to one of the provisions of the recently-promulgated regulations, 603 CMR 41.05(3)(h), which permits the regional school committee to adopt an amended budget proposal to supercede a previous budget that is pending before the district's members. If the warrants for the members' town meetings have not yet closed, the amended budget proposal can be incorporated into the warrant. If the warrants have already closed, it may be appropriate to recommend that corrections be made in an amendment from the floor.

For most districts, the Joint Resolution's Chapter 70 numbers are not hugely different than the preliminary estimates issued in February in conjunction with the Governor's House 1 budget proposal. At the same time, the Governor, the Legislature, and the Department all recognize that any changes can be problematic in the context of a municipal budget process that is already underway. Our ultimate goal is to have a fair and equitable Chapter 70 formula, codified in the General Laws, which will allow us to produce preliminary estimates in January of each year with a high degree of accuracy. Because improvements to the Chapter 70 formula are still being considered and implemented, we are probably at least a year or two away from reaching that goal.

Comparing the House 1 and Joint Resolution Models

The Chapter 70 proposals in the Governor's House 1 budget for FY08 ("House 1") and in the April 4 Joint Legislative Resolution ("Joint Resolution") are similar but not identical. Both are based on the changes to the Chapter 70 formula enacted for FY07 (see St. 2006, c.139, s.3). The FY07 formula incorporated the first major changes to the formula since it was originally enacted as part of the Education Reform Law in 1993. Most of these changes focused on the local contribution and state aid components, in an effort to eliminate inequities in the original formula and ensure that communities of comparable fiscal capacity were treated equally. The FY07 changes did not include a comprehensive review of the adequacy of the foundation budget component; it is generally acknowledged that such a review is still needed.

The FY07 changes included the adoption of a new "aggregate wealth" model for establishing targets for each municipality's required local contribution. Full implementation of the new targets would require significant increases in spending for both the Commonwealth and for some municipalities. Fiscal realities dictated that the new formula could not be fully implemented in one year, but would need to be phased in over a period of several years. The FY07 budget language laid out the new model but did not specify the details of this transition. Some of the small differences between the House 1 and Joint Resolution proposals for FY08 are due to slightly different viewpoints on how the transition should occur.

Aggregate wealth model. Both House 1 and the Joint Resolution are based on the aggregate wealth model used in FY07. Both models use the same factors: property values and personal income weighted equally (50%/50%); a state/local split of 41%/59%; and a cap on required local contributions equal to 82.5% of foundation budget.

Foundation budget. House 1 does not make any changes to the foundation budget calculation, other than the adjustment for inflation. The Joint Resolution increases the allotment for low-income students by \$25 per pupil and increases the allotment for English language learners by \$50 per pupil. The Joint Resolution also reflects a small number of corrections of enrollment data identified subsequent to the release of House 1. These corrections have always been a part of the Chapter 70 process; in previous years they were reflected in the House Ways and Means budget proposal.

Foundation aid. Both models fully fund foundation aid, to ensure that all districts have sufficient resources to spend at least at the foundation budget level.

Effort reduction for high effort communities. In FY07, municipalities whose required contribution exceeded their target had their requirement reduced by 20% of the difference. For FY08, House 1 increased this reduction factor to 30%, and the Joint Resolution increased it to 25%. The goal of both proposals is to bring these communities down to their target over a five-year period. In terms of overall progress, the FY07 reforms reduced the amount of excess effort from approximately \$621 million to \$495 million. For FY08, there is a further reduction in excess effort of \$149 million (House 1) or \$124 million (Joint Resolution).

Effort increase for low effort communities. In FY07, municipalities whose required contribution was below their target had their requirement increased by their municipal revenue growth factor. For FY08, House 1 retained this requirement. The Joint Resolution provides for a small additional increase, above the municipal revenue growth factor, for those communities significantly below their target. This change, which results in about \$20 million in increased requirements statewide, is intended to slow the growing gap between their target and required contributions. Even with the change, the excess deficit for low effort communities remains \$322 million, about the same as in FY07. It should also be noted that actual spending in many of these municipalities already exceeds their requirement; for these communities, increases in the requirement will not require increases in local appropriations.

Growth aid. The FY07 changes included a new category of aid, growth aid, which ensures that every district with an increasing foundation budget will see some increase in state aid, regardless of the changes in other parts of the formula. Due to fiscal constraints, House 1 did not fully fund the growth aid component; allotments were prorated at 47%. The Joint Resolution fully funds this component.

Down payment aid. The FY07 changes also included another new category of aid, down payment aid, which deals with the transition to higher state aid payments and lower required local contributions for municipalities currently above their target contribution. These amounts are calculated in slightly different ways in the two models; the Joint Resolution model provides down payment aid to more districts, at lower amounts in some instances and higher amounts in others, than does House 1. It should be noted that this is a "temporary" aid category that will automatically disappear when the target contributions have been fully phased in for high effort communities.

Minimum aid. Both models provide a guaranteed aid increase of \$50 per pupil over FY07 for all operating districts.

Total state aid. The House 1 model results in total Chapter 70 aid of \$3,705,486,690. For the Joint Resolution model, Chapter 70 aid is \$3,725,671,328, or 0.5% higher.

The Joint Resolution also increases required contributions of below target communities by \$19,739,145. This results in a remaining deficit of approximately \$332 million, up from approximately \$321 million last year. It should be recognized that the Chapter 70 formula is a complex model with many interrelated components. Changes in one part of the model can affect the calculations in other parts of the model. For example, an increase in foundation aid due to the increases in the foundation budget allotments could result in a decrease in minimum aid.

Finally, in addition to these substantive changes, the presentation of the data in the Chapter 70 workbook has changed in response to feedback on how best to convey all of this information.