

Chapter 70 Aid and Required Contribution Calculations

Since its original enactment as part of the 1993 education reform law, the Chapter 70 formula has required a minimum local contribution from each city and town in the Commonwealth. The intent was that richer communities would be asked to contribute more, and conversely would receive less state aid, than poorer communities. In the formula's early years, an effort was made to measure community wealth and to adjust local contributions accordingly. But these factors did not work well in practice, and most of them have been dropped over the years. Today, there are too many examples of towns of comparable wealth with widely differing contribution requirements. This, in turn, has led to considerable frustration on the part of local officials and taxpayers. The state budget enacted for FY07 includes some significant changes to the Chapter 70 formula to address these issues, as described below.

Summary of how the formula works

A **foundation budget** is calculated for each school district, representing the minimum spending level needed to provide an adequate education. The foundation budget is adjusted each year to reflect changes in the district's enrollment; changes in student demographics (grade levels; low income status; English language proficiency); inflation; and geographical differences in wage levels.

A **target local contribution** establishes an ideal goal for how much each city and town should contribute toward its foundation budget, based on the municipality's wealth. Two measures of municipal wealth are used: aggregate property values and aggregate personal income levels, with each given equal weight. The target is recalculated each year based upon the most recent income and property valuations.

The target calculations assume that local contributions in total should cover 59 percent of the state-wide foundation budget (**target local share**), with state aid covering the remaining 41 percent (**target aid share**).* The target local share and target aid share for any individual city or town will vary in proportion to the municipality's wealth. The target calculation also includes a **maximum local share** of 82.5 percent, thus ensuring that all communities will get some minimum amount of state funding.

The **required local contribution** for each municipality for FY07 is based on the target local contribution, but includes some transition factors so that the shift toward the target levels occurs over a period of several years.

- Municipalities whose local contributions are now higher than their target will see a reduction in the requirement of 20 percent of the amount above the target. Five municipalities with extremely high required contributions (exceeding 150 percent of foundation budget) will get additional relief.
- Municipalities whose local contributions are now lower than their target will be unaffected; they will continue to see their requirements increased by the municipal revenue growth factor.

Districts may receive state aid from any of four different but related computations. **Foundation aid** is the difference between a district's foundation budget and its required contribution. This ensures that every district will have funding at least equal to its foundation budget. Foundation "**down payment**" aid provides many districts with a share of the additional funding that they would receive if their contributions were reduced all the way to their targets. **Growth aid** guarantees an increase in state aid for any district whose foundation budget has increased, even if the district's aid already exceeds what is needed to bring the district to foundation. If these three components do not provide at least a \$50 per pupil increase over FY06 Chapter 70 amounts, then districts receive "**minimum aid**" to reach that level.

Target contribution calculations

- Determine the state-wide target local contribution level. In FY06, total required local contributions amounted to 62.8 percent of that year's foundation budgets. Under the new proposal, the target is set at 59 percent. Fifty-nine percent of the statewide foundation budget of \$8,014,672,861 amounts to a total target local contribution of \$4,728,656,993.
- For FY07, the **property percentage** is set at 0.3383%, which is applied to each municipality's 2004 aggregate equalized property valuation. For FY07, the **income percentage** is set at 1.6306%, which is applied to each municipality's aggregate total personal income, as reported to the Department of Revenue by local residents for the 2003 calendar year. When these two factors are applied state-wide, they yield a total local contribution of \$5,521,121,258, with half coming from the property percentage and half from the income percentage.
- Apply the property percentage and the income percentage to each individual municipality's aggregate property valuation and income, which determines the municipality's **combined effort yield**. Some municipalities have so much wealth, or a small enough student population, that their combined effort yield is excessive. The **maximum local contribution** is set at 82.5 percent of foundation budget, which means that when fully

phased in, the formula would fund a minimum of 17.5 percent of foundation through state aid, even for the wealthiest of communities. In FY07, 109 communities are assigned this maximum contribution. A municipality's **target local contribution** is the lesser of the combined effort yield and the maximum local contribution. The total target local contribution for all municipalities, after taking into account the 82.5 percent cap, equals 59 percent of foundation budget (\$4,728,656,993).

- A city or town's **target local share** presents the target local contribution as a percentage of its municipal foundation budget.

Calculation of the FY07 increments toward the targets

- Increase the city or town's FY06 required local contribution by the **municipal revenue growth factor (mrgf)**. The mrgf has been calculated each year since FY94 by the Massachusetts Department of Revenue and quantifies the most recent annual percentage change in each community's local revenues (such as the annual increase in the Proposition 2 ½ levy limit) that should be available for schools. The result is the FY07 **preliminary local contribution**.
- If the preliminary local contribution is greater than the target local contribution, then the difference is called **excess local effort**. In FY07, 232 or 66 percent of 351 cities and towns have a total of \$621 million in excess local effort. For each of these communities the preliminary local contribution is reduced by an **effort reduction percentage** of 20 percent to arrive at the **FY07 required local contribution**.
- For the remaining 119 communities the required local contributions are set at their preliminary contributions. They fall short of their target local contributions by \$321 million.
- Most cities and towns belong to at least one regional school district; some operate a local district and are members of as many as three regionals. A city or town's total contribution is apportioned among the various districts to which it belongs, based on its relative share of foundation budgets at each of those districts. FY07 is the third year of a four-year phase-in of this **regional allocation** methodology.

State aid calculations

1. The difference between a district's foundation budget and its required district contribution equals **foundation aid**. If a district's foundation aid

exceeds its FY06 Chapter 70 amount, the difference is its **foundation aid increase**.

2. Foundation “**down-payment**” aid accelerates the pace at which districts whose requirement contributions are above their targets receive additional aid to make up for expected reductions in those contributions in future years. The district target aid percentage multiplied by its foundation budget yields an aid amount at full phase-in. Where 20 percent of that amount is larger than the foundation aid increase calculated in the previous step, then the difference is its **down-payment aid**.
3. A separate component called **growth aid** is designed to provide equitable increases in aid for districts whose current aid is already more than sufficient to reach foundation. A district’s **target aid share** is determined by subtracting the target local share from 100 percent. This percentage is multiplied by the dollar change in foundation budget between FY06 and FY07. If the resulting amount is greater than the sum of the increases from step 1 and step 2, then the difference is “growth aid.”
4. If the combined increase from the first three steps is less than \$50 per pupil, the district receives additional aid to bring it to that level.
5. **Non-operating** districts do not operate local schools but sometimes receive aid because they tuition small numbers of pupils to other districts, especially for vocational programs. In a few cases where the number of pupils has decreased, their current year’s aid actually exceeds their foundation budget for those pupils. In the three districts where this occurs, aid is reduced to the foundation budget. The **non-operating district reduction to foundation** totals \$6,248 for three districts.
6. **FY07 Chapter 70 aid** equals the sum of its FY06 aid, plus 1) the foundation aid increase 2) down-payment aid 3) growth aid, 4) and \$50 per pupil aid, minus 5) the non-operating district reduction.

Net School Spending Requirements

- Each district must spend the sum of its required district contribution and its Chapter 70 aid. This sum is referred to as the **net school spending requirement**.

* For FY07, total Chapter 70 aid is actually 43.7% of the total state-wide foundation budget. This is higher than the nominal 41% target because some districts are still receiving above-foundation aid and some districts are still below their target local contribution level. It is a slight upward change from the FY06 level of 43.5%, after several years of decline.