

## EXECUTIVE SUMMARY

### EDUCATION REFORM AT RISK: A STUDY OF THE IMPACT OF EDUCATION REFORM FINANCE

Passage of the Education Reform Act in Massachusetts dramatically changed school finance in the State. The financial aspects of the Act were meant to bring a greater degree of equity between districts, increase the State's contribution to public education, and set high and equitable standards for local contribution to education. Over the past two years, however, public school officials and school committees have raised concerns about problems in the foundation formula that prevent this new funding concept from reaching its full intended purpose.

The Massachusetts Association of School Superintendents initiated a study of education reform finance in order to determine which concerns were most pressing and problematic for school districts. Surveys were sent to every superintendent in the State asking about the general financial impact that the Act has had on their community as well as asking about particular problem areas that had been identified by an initial group of superintendents. In addition, financial data from the Department of Education and the Department of Revenue were examined.

An analysis of surveys of superintendents and financial data from the Department of Education point to a number of serious problems in the foundation formula that need to be addressed in order for the legislation to meet its intended goals. Overall, the data show that there is significant and widespread concern about the Education Reform Act's financial formulas. Although a number of districts are deriving significant financial benefit from the Act, aspects of the formula are creating problems for districts across the spectrums of wealth and size. Taken together these problems place the educational goals of Education Reform at risk. The leading findings of the study are:

1. Low-wealth districts are seeing the greatest gains from the Education Reform Act while high-wealth districts are having greater difficulty securing funding from their local communities. However, there are a significant number of low-wealth districts that have been negatively impacted by particular aspects of the funding formula.
2. The Minimum Local Contribution standard, special needs allocation, and foundation enrollment calculation were serious problems for 69%, 63%, and 45% of the responding districts respectively. Although the changes in school choice financing and the calculation of the municipal growth factor were serious problems for 22% and 32% of the responding districts, this represents a substantial number of districts negatively impacted by the Act. Only a small percentage of districts, primarily those that received the greatest benefit, did not experience problems with some aspect of the formula.
3. The Minimum Local Contribution and Foundation Budget standards have been seriously undermined by changes in regulations related to expenditures that towns and cities can now credit as part of Municipal Net School Spending. The minimum standard itself has made it

more difficult for some districts to secure adequate funding to meet their budgetary needs.

4. There is significant variance between growth as calculated in the Municipal Growth Factor and actual municipal growth. Underestimates of growth in calculating the Municipal Growth Factor reduce the required Minimum Local Contribution and deprive districts of local resources that should be allocated to schools.

5. The data show that out-of-district special needs placements range from 0% to 3.63% of a district's total enrollment. Because the foundation formula sets a 1% limit on allocations for special needs placements, the districts with fewer out-of-district special needs placements receive a benefit from this allocation, while districts with higher special needs populations are inadequately compensated within the formula. Because the State-wide average for out-of-district special needs placements is 1%, the 1% allocation limit in the foundation formula for out-of-district special needs placements is not necessary to contain the statewide costs of these placements to 1% of enrollment.

6. Enrollment has grown 2.79% statewide in FY95. Because there is no adjustment for this growth in the foundation formula, the Foundation Budget has been depreciated by approximately \$150 per student. The enrollment problem affects districts differently, however, because enrollment changes vary from a decline of 15.75% to an increase of 22.31%. Those districts experiencing decline in enrollment receive State assistance at their previous level while districts experiencing increases receive no additional aid to assist in meeting the added costs.

7. The primary beneficiaries of school choice are wealthy communities and those most negatively impacted are low-wealth communities. Changes in the school choice formula that allow towns to credit choice costs as part of Net School Spending tend to overreward wealthy districts and make it more difficult for low-wealth districts to retain students.

8. Other problems with the financial aspects of the Act that were frequently identified by superintendents included:

- \* The general inadequacy of some of the foundation budget standards to meet the actual financial needs of reform;

- \* The computation of town assessments for regional school districts;

- \* The use of excess debt to reduce the required Minimum Local Contribution;

- \* The general complexity of the formula for public understanding;

- \* The lack of inflation aid for districts over foundation; and

- \* The significant increase in costs of the Early Retirement Incentive over the original estimates given to school districts.

Overall, it is the perception of many superintendents that current problems with Education

Reform financing make it difficult to achieve the bold goals set out in the legislation.

The Education Reform Act can make an invaluable contribution to the quality of education in Massachusetts, if the State honors its commitment and identifies the revenue necessary to fully fund the program. The Massachusetts Association of School Superintendents strongly affirms the goals and programmatic initiatives of the Education Reform Act. MASS believes that the problems analyzed in this report are correctable with relatively simple modifications in the funding formula. Based on the data in this study, we offer the following recommendations:

1. The Foundation Budget and the Minimum Local Contribution should be adjusted to ensure that these standards accurately reflect the real costs to school districts, taking special note of the increased municipal spending now allowed under Net School Spending and not included in the Foundation Budget calculations
2. The Foundation formula should provide a financial incentive for communities willing to fund their local schools beyond the required minimum, such as an increase in State aid in proportion to the increase over the minimum.
3. Incentives should be provided for school districts spending at or above the Foundation Budget to ensure that spending in these districts can keep pace with inflation and enrollment. These incentives should be in the form of increased State aid or exclusion of local increases from Proposition 2 1/2.
4. The Municipal Growth Factor should be based on an average of the past three years of actual municipal revenue growth rather than revenue projections.
5. The foundation formula for out-of-district special needs placements and in-district special needs students should use the current allocation limits as a minimum allocation. The formula should use actual special needs enrollment data for those districts with special needs populations above the allocation limit. A commission should be established to: 1) determine if there is substantiation for the claim that school districts overidentify special needs students, and 2) make recommendations for improving special needs services and reducing costs.
6. Foundation Enrollment should be adjusted for growth. This can be best accomplished by adjusting enrollment based on the average of the past three years of enrollment growth.
7. If the State wishes to continue to offer school choice to parents, then poorer districts with school choice losses should receive some additional compensatory assistance beyond New Choice Aid until all districts reach Foundation.
8. The Department of Education should exclude school choice losses from Net School Spending for all districts.
9. Excess debt should not be allowed to reduce the required Minimum Local Contribution. School-related debt should be deducted from the Standard of Effort in the community.

10. A new allocation system should be developed by the Department of Education for regional school assessments that allows dollars to follow student enrollment and reflects the financial commitment of each community in a regional school district.

The Education Reform Act brought about dramatic changes in school finance and few could have predicted the problems embedded in the new formula. Now that we have seen what these problems are, the Legislature, the Board of Education, and the Department of Education need to have the courage to follow through on their initial bold step and correct the inadequacies that have been revealed during the past two years.

For a minority of school districts, Education Reform has given them the resources to make these changes. For the majority, however, problems in parts of the finance formula presently forestall districts from making the changes envisioned in the law. The finance formula should be changed so that the State as a whole can move forward in achieving the ambitious goals set in Education Reform.