The Governor signed the state's FY04 budget on June 30 (chapter 26 of the acts of 2003). This memo summarizes the major provisions for K12 education programs contained in the budget and in the companion municipal fiscal relief bill. This information reflects the enacted budget, the Governor’s vetoes, and those veto overrides passed by the Legislature through July 17. The Legislature may choose to consider additional veto overrides at any later time in the legislative session.

CHAPTER 70

Final FY04 net school spending requirements and required local contributions have been posted on the DOE website. Although many districts are receiving less state aid than in FY03, sufficient aid has been provided to ensure that every district remains at or above its foundation budget target.

No major reforms or revisions were made to the Chapter 70 statute. The Legislature has indicated its intent to revisit the various reform proposals later this year, in advance of the FY05 budget.

The professional development spending requirement ($125 per pupil in FY03) has been eliminated.

TRANSPORTATION FUNDING

Regional transportation has been funded at $26.4 million, a 37% reduction from FY03. Please note that the amounts listed for each district on the FY04 cherry sheets are only estimates, based on last year’s payments. The actual FY04 entitlements and payments will be calculated later this year based on each district's actual FY03 spending reporting on the end-of-year financial returns.

No funding has been provided for transportation reimbursements for municipal (non-regional) school districts or for special education transportation. In addition, we will be unable to process any prior year adjustments for municipal districts resulting from corrections to end-of-year returns.

No funding has been provided for transportation subsidies for low income students in the charter school or school choice programs.

SCHOOL BUILDING ASSISTANCE

The Legislature did not appropriate sufficient funds for planned payments on existing grants. All grant payments will be reduced by approximately one percent. Cherry sheet amounts reflect this reduction. We do not yet know whether this is a permanent, one-time reduction or if the Legislature will eventually appropriate additional funds to make up for this shortfall.

No new SBA grants will be awarded this year. All projects on the priority waiting list will remain on the list.

A four-year moratorium has been placed on new SBA applications, effective July 1, 2003. During this time it is expected that the Governor and the Legislature will be discussing significant changes to the
financing and structure of the program.

Pending applications will be added to the waiting list if final town meeting or city council approval was voted by the statutory deadline of June 30. Districts should submit their completed applications, including certified copies of the appropriations vote, to the Department by August 29.

An extension of the temporary borrowing period from seven years to ten years was vetoed by the Governor. The Governor noted that no districts will be reaching the seven year limit this year, and he recommended that the issue be considered as part of a comprehensive overhaul of the SBA program.

SPECIAL EDUCATION FUNDING

The new circuit breaker program has been funded and will be implemented in FY04, replacing the former "50/50" program for residential placements. The circuit breaker statute has been amended to eliminate the separate rates for in-district and out-of-district placements. The statutory reimbursement rate for all students will now be based on 75% of eligible costs exceeding four times the statewide foundation budget per pupil. The only exceptions will be for abandoned children and children placed in districts by DSS or DTA, where the reimbursement rate will be 100% over the threshold. For FY04, the statewide foundation budget per pupil is $7330, so the circuit breaker threshold will be $29,320.

Circuit breaker forms and instructions have been posted in the new Circuit Breaker section of the school finance webpage. Training sessions will be held during the month of August and are being scheduled through the educational collaboratives. Initial claim forms must be submitted to the Department by August 31.

Please note that circuit breaker reimbursements are subject to appropriations, and it does not appear that the available funding will be sufficient to cover the full 75% reimbursement rate. In September, after all of the initial claim forms have been submitted, we will provide districts with an estimate of the actual reimbursement rate expected for FY04.

The first quarterly payment to districts will be made in October, and will include half of each district’s anticipated reimbursement for the year. All state payments are to be recorded by the municipal or district treasurer as additional appropriations available to the school committee; no action is required by the local appropriating authority. Cities and towns should consider establishing departmental revolving funds for circuit breaker receipts (under MGL c.44 s.53E1/2), to simplify the year-end accounting issues.

The circuit breaker program includes a provision for direct state payments to approved private residential programs. These payments will begin in October for September invoices submitted through the sending district. Residential program invoices for services in July and August should be paid in full by the sending district, and those amounts will be credited toward the threshold.

The state budget also contains a provision (section 646) which freezes most approved private school tuition rates at their FY03 levels.

Any remaining unpaid FY03 invoices under the "50/50" program, or adjustments to previously submitted invoices, must be submitted to the Department no later than August 31 to ensure payment. Any requests for retroactive "50/50" payments received after August 31 will be paid only in the unlikely event that surplus funds are available in the circuit breaker appropriation at the end of FY04.

CATEGORICAL GRANT PROGRAMS

The chart below shows the FY03 and FY04 appropriation levels for the Department’s major categorical grants to districts:

<table>
<thead>
<tr>
<th>PROGRAM</th>
<th>FY03</th>
<th>FY04</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCAS remediation</td>
<td>50,000,000</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Metco</td>
<td>15,128,126</td>
<td>13,615,313</td>
</tr>
</tbody>
</table>
Early childhood  84,662,732  74,604,130
Kindergarten development  24,587,200  23,000,000
Early literacy  6,481,220  3,892,994
Early intervention tutorials  2,123,097  1,910,788

Please keep in mind that all categorical grants are subject to approval by the Board of Education, and are also subject to the Governor's 9C budget authority.

OTHER PROGRAMS/PROVISIONS

Regional districts which do not yet have an approved FY04 budget have been granted interim budget authority for the months of July and August, based on 1/12 of their FY03 budget. Regional districts which do not expect to have a final approved FY04 budget by the end of August should request a continuation of their 1/12 interim budget authority from the Commissioner, in accordance with the normal procedures of MGL c.71 s.16B.

- Regional districts are also required to recalculate their assessments if their original assessments were based on the Governor's House 1 proposals. Towns may hold a town meeting within 45 days to reconsider the revised assessments; if no town meeting is held, the town is deemed to have given its approval. (See DOR Local Services bulletin 2003-14B for more information on these regional budget issues.)
- Charter schools are now eligible to receive reimbursements under the municipal medicaid program.
- A number of changes have been made to chapter 71, which governs programs for English language learners. These will be discussed under separate cover.
- A provision which would eliminate the educator quality endowment fund was vetoed by the Governor. The Governor recommended that it be amended to allow FY04 payments for the master teacher and new teacher bonus programs. As of this writing, no action has been taken on the Governor's recommendation, so the endowment fund remains in place. However, no funds have been released to the Department for expenditure, so it remains unclear whether the promised FY04 payments will be made.
- The Legislature has appropriated $7 million for the foundation reserve ("pothole") program, which was last funded in FY01. Please do not submit any applications for this program at this time. We will provide information later this summer on the criteria and procedures which will be used to distribute these funds.

MUNICIPAL RELIEF BILL

The Legislature has also enacted a "municipal relief bill", which contains a number of provisions affecting school districts. IMPORTANT NOTE: This bill was returned by the Governor for amendment (on a matter unrelated to K12 education). The provisions in this bill will NOT take effect until the Legislature takes further action on the Governor's message. At this time we do not know when that will be.

(The numbers in parentheses below refer to the section numbers in the originally-enacted bill.)

- The state auditor is given expanded authority to conduct audits of local governments, either by local request or on his own initiative. (7,35)
- Regional school districts can elect to pay a share of retired employees' life and health insurance premiums. (13)
- Municipalities are given greater flexibility in establishing stabilization funds for various purposes, including school construction projects. (14)
- Regional school committees are granted expanded powers to refinance existing debt. (34, 78)
- State requirements for school and district improvement plans are combined and simplified. (73, 82)
- Tuberculosis tests are no longer required for school employees. (81)
- Districts which charge fees for non-mandated transportation must waive the fees for low income students. (83)
- Cities and towns are no longer required to provide free transportation for students attending vocational programs in other communities. (84)
- Cities and towns may elect an early retirement incentive program. (116)
Section 118 of the municipal relief bill, which appears to require some cities and towns to share municipal medicaid reimbursements with their school committees, contains an apparent drafting error which negates the intent.

FOR FURTHER INFORMATION

Additional information on many of these items will be posted in the appropriate sections of the Department’s website. Municipal and school officials are welcome to contact the Department of Education’s school finance staff with any further questions.