

Fiscal Year 2025 Budget: A Closer Look

Local Aid & K-12 Education Funding in the Governor's Budget

On January 24th, the Healey administration filed its budget proposal for Fiscal Year (FY) 2025. The \$58.13 billion spending plan included critical investments in child care, healthcare, and transportation; as well as sizeable increases in support for local aid to cities and towns and K-12 education.

In total, Governor Healey's budget includes \$8.98 billion for Unrestricted General Government Aid (UGGA), Chapter 70 state aid, and other major K-12 education programs. This represents 15.5 percent of all spending in the administration's proposal. Funding for local aid and K-12 education is the second largest category of investment in FY 2025, only falling behind spending on the state's MassHealth program.

Summary of Local Aid & K-12 Education Investments in the Governor's Budget

Program	FY 2024 GAA	FY 2025 - Governor
Unrestricted General Government Aid (UGGA)	\$1,270.6	\$1,308.7
Chapter 70 State Aid	\$6,592.6	\$6,856.0
Education Reimbursement Programs	\$858.4	\$820.3
Total Spending	\$8,721.6	\$8,985.1
% of Total Spending	15.6%	15.5%

\$ in millions

To provide a more in depth analysis of the Governor's proposals for local aid and K-12 funding and place those investments into context, this brief will evaluate the programs' recent funding histories and describe the major factors influencing spending trends in FY 2025. The brief will end by highlighting the key questions that House and Senate policymakers will be faced with as the budget process moves through the Legislature.

Local Aid for Cities and Towns

Unrestricted General Government Aid (UGGA) is the largest source of discretionary aid to cities and towns across the Commonwealth funded through the state budget. For more than 10 years, increases in local aid have been made proportionally so that each municipality receives the same percent increase to their local aid amount; which is no longer tied to a specific distribution formula.¹ In FY 2025, Governor Healey funds

¹ Unrestricted General Government Aid was created in FY 2010 through the combination of Lottery Aid and Additional Assistance. While each of those programs originally distributed aid to municipalities via formula, since their combination, aid amounts have been unilaterally increased or decreased across the board.

UGGA at \$1.31 billion, a \$38.1 million (3 percent) increase over the FY 2024 General Appropriations Act (GAA).

Recent Funding History of UGGA in the State Budget

Program	FY 2022 GAA	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor
UGGA	\$1,128.6	\$1,168.1	\$1,270.6	\$1,308.7
<i>\$ Increase v. Prior Year</i>	\$0.0	\$39.5	\$102.5	\$38.1
<i>% Increase v. Prior Year</i>	0.0%	3.5%	8.8%	3.0%

\$ in millions

At 3 percent, the proposed increase for local aid to cities and towns is consistent with overall spending trends and the expected rate of consensus revenue growth in FY 2025 (3.5 percent).² Excluding spending supported by the income surtax and a transfer to the Medical Assistance Trust Fund, overall line-item spending in the Governor’s budget proposal grows by 2.9 percent over the FY 2024 GAA.

Summary of Line-Item Spending & Revenue Growth in FY 2024 & FY 2025

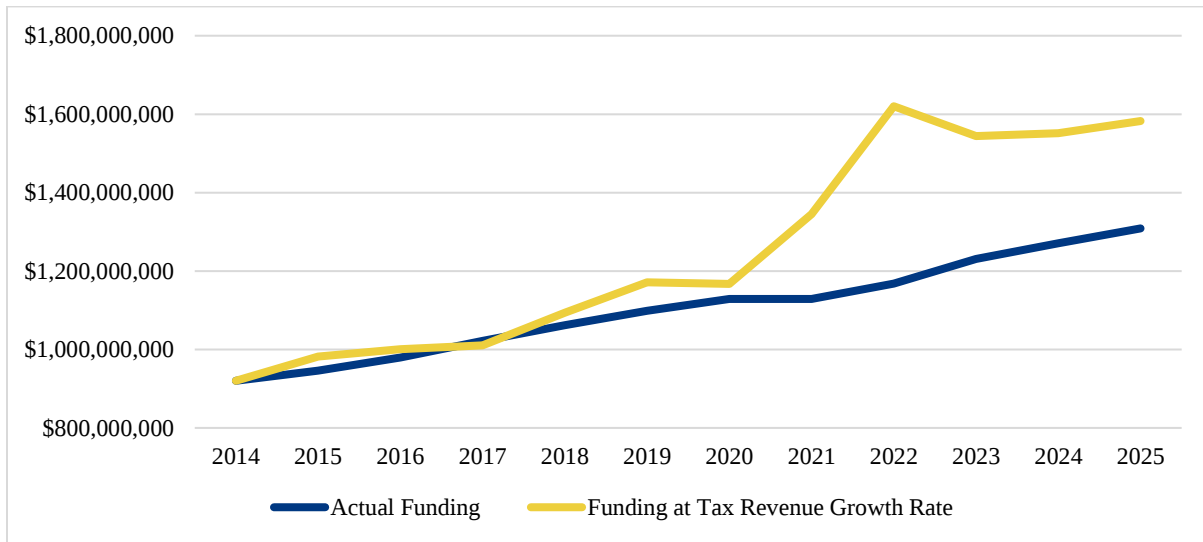
	FY 2024 GAA	FY 2025 Governor	\$ vs. FY 2024 GAA	% vs. FY 2024 GAA
Line-Item Spending	\$54,558.1	\$56,152.2	\$1,594.1	2.9%
Surtax Spending	\$1,000.0	\$1,300.0	\$300.0	30.0%
Medical Asst. Trust Fund	\$505.0	\$682.2	\$177.2	35.1%
Total Line-Item Spending	\$56,063.1	\$58,134.4	\$2,071.3	3.7%
Consensus Tax Revenues	\$40,410.0	\$40,202.0	-\$208.0	-0.5%
Updated Tax Revenue Projections	\$38,833.0	\$40,202.0	\$1,369.0	3.5%

\$ in millions

Notably, for the second year in a row, Governor Healey departs from the recent practice of explicitly tying the increase for UGGA to the rate that consensus tax revenues are expected to grow. This policy had begun in 2015 under the Baker administration and aimed to improve the sustainability and predictability of local aid for cities and towns. However, as actual tax revenue collections began to substantially outpace original consensus revenue estimates in FY 2021 and FY 2022, some argued that those revenue collections should be more equitably distributed to municipalities. As illustrated by the graph below, if UGGA funding had been increased by the actual tax revenue growth percentage between FY 2021 and FY 2023, local aid to cities and towns would have increased by \$377 million over that time period, as opposed to the actual funding increase of \$103 million.

² In FY 2025, the consensus tax revenue figure of \$40.202 billion represents 2 percent growth over the revised FY 2024 revenue benchmark of \$39.41 billion. After taking into account the revenue impacts of tax relief, expected tax revenues in FY 2024 total \$38.833 billion. Compared to this figure, the FY 2025 consensus revenue figure represents 3.5 percent growth.

Comparison of UGGA Funding at CR Growth vs. Actual Tax Revenue Growth



State Aid for K-12 Public Schools

State aid for public schools in Massachusetts is governed by Chapter 70 of the Massachusetts General Laws, and is calculated according to an enrollment-based “foundation budget formula.” This formula determines the state and local education spending that is required to provide all students with an equitable public education. The state aid component of the formula is often referred to as “Chapter 70 state aid.”

In 2019, a landmark piece of education finance reform legislation was signed into law, known as the Student Opportunity Act (SOA). The legislation overhauled the foundation budget formula to more accurately reflect the cost of providing all students with a high-quality education, including significant increases to the cost assumptions for low-income students, English learner students, employee health insurance, and mental health services for students.

In FY 2025, Governor Healey fully funds the fourth-year of Student Opportunity Act (SOA) implementation, with total funding for Chapter 70 state aid reaching \$6.85 billion. This is the single largest item funded through the state budget, and it represents a \$263.4 million (4 percent) increase over FY 2024.

Recent Funding History of Chapter 70 Aid in the State Budget

Program	FY 2022 GAA	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor
Chapter 70 State Aid	\$5,283.7	\$5,503.3	\$6,584.8	\$6,856.03
<i>Minimum Aid Supplement</i>	\$0.00	\$0.00	\$7.86	\$0.00
Total State Aid	\$5,283.7	\$5,503.3	\$6,592.6	\$6,856.0
<i>\$ Increase v. Prior Year</i>	<i>\$107.6</i>	<i>\$219.6</i>	<i>\$1,089.4</i>	<i>\$263.4</i>
<i>% Increase v. Prior Year</i>	<i>2.1%</i>	<i>4.2%</i>	<i>19.8%</i>	<i>4.0%</i>
SOA Implementation Schedule	Year 1	Year 2	Year 3	Year 4

\$ in millions

The cost of Chapter 70 aid in the Governor’s budget is supported through a combination of General Fund (\$6.5 billion) and Education Fund³ (\$49 million) revenues, as well as resources previously set aside in the Student Opportunity Act Investment Fund (\$300 million).

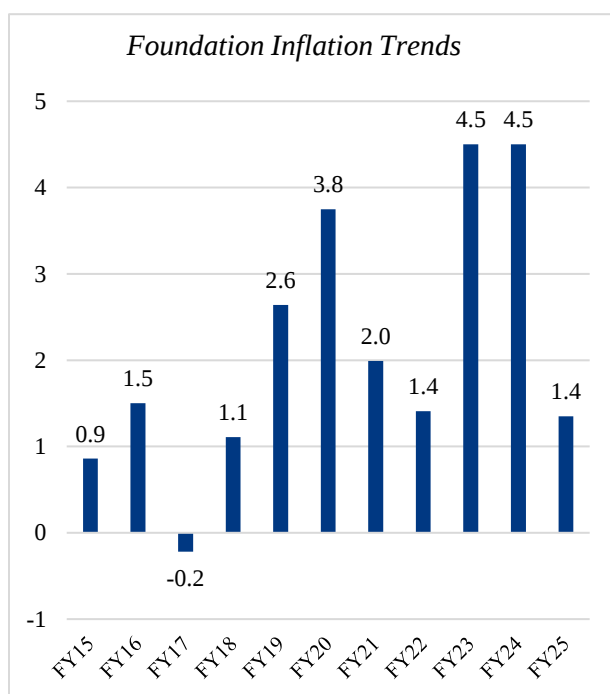
The Governor’s proposed funding level for Chapter 70 aid in FY 2025 keeps the state on track to fully fund the SOA by FY 2027, but the year over year increase in aid is significantly smaller compared to FY 2023 and FY 2024 due to inflation and enrollment factors, detailed below.

Foundation Inflation Index

Each year, the per-pupil rates within the foundation budget formula are increased by an inflation factor.⁴ As the Chapter 70 statute dictates, this factor – known as the foundation inflation index – is the lesser of a calculation of state and local government inflation based on Bureau of Economic Analysis data or 4.5 percent. In FY 2025, this calculation results in an inflation rate of 1.35 percent; the lowest inflation rate that has been applied to the foundation budget formula since FY 2018, when the rate was calculated at 1.1 percent.

In FY 2023 and FY 2024, the foundation inflation index was capped at the statutorily required 4.5 percent, despite actual state and local government inflation reaching 7 and 8 percent at the time. Even with the cap on inflation, state aid increased by record levels in both years.

The impacts of a high or low inflation rate on the statewide foundation budget and Chapter 70 aid growth are clear. A high inflation rate increases the cost of every district’s foundation budget, whereas a low inflation rate depresses year over year cost increases. However, it’s important to note that due to the unique elements of the foundation budget formula that determine how education costs are shared between local municipalities and the state, a high inflation rate doesn’t translate to increases in Chapter 70 aid for many districts.



In FY 2025, if the inflation rate in the foundation budget formula had been one percentage point higher at 2.35 percent, total Chapter 70 state aid would have increased by \$63 million over the Governor’s budget.

³ The Education Fund collects a portion of the tax revenue generated by casino gaming. Resources in the fund are statutorily committed to K-12 and Higher Education.

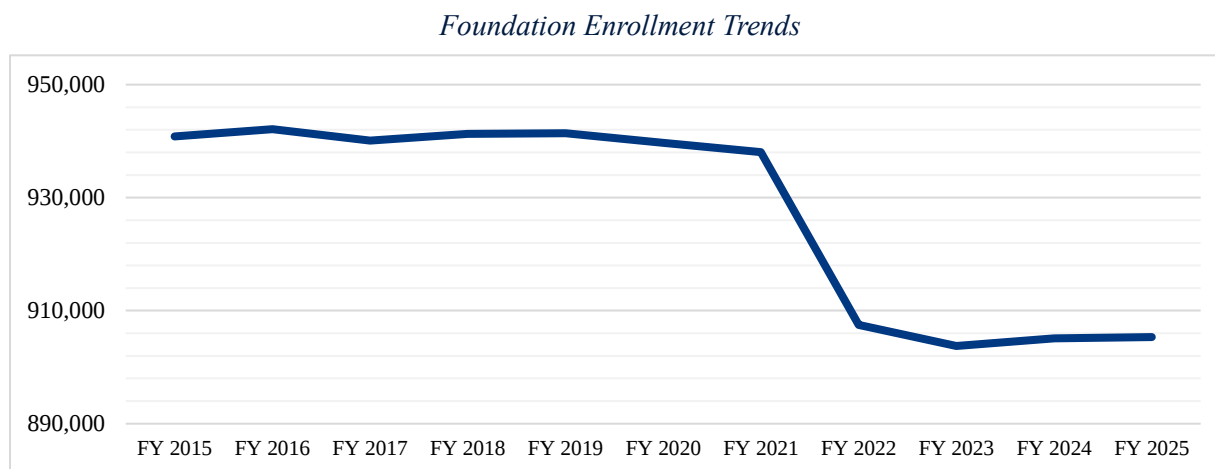
⁴ The per-pupil rates for employee benefits and fixed charges within the foundation budget formula are increased by a unique inflation rate, based on an enrollment-weighted, three-year average premium increase for Group Insurance Commission Plans. In FY 2025, the inflation rate applied to employee benefits and fixed charges is calculated at 5.03 percent.

Of that increase, \$46 million (73 percent) would have gone towards the 60 districts already experiencing the largest increases in aid.

Foundation Enrollment Trends

At its core, the foundation budget formula is an enrollment-based calculation. It determines the amount of state and local education spending that is necessary to provide all student with an adequate education, based on the number of students being educated in a district and their unique demographic characteristics.

Between FY 2020 and FY 2023, statewide foundation enrollment decreased by over 30,000 students. In FY 2024, enrollment rebounded slightly, increasing by 1,355 students. In FY 2025, enrollment remains essentially flat, increasing by only 225 students. While enrollment trends vary significantly district by district, this overall stagnation in student enrollment reduces foundation budget and Chapter 70 aid growth. Since FY 2020, over 100 districts across the state have seen net decreases in enrollment of greater than 100 students.



Student Opportunity Act Implementation

Governor Healey’s budget proposal for FY 2025 fully funds the fourth year of Student Opportunity Act implementation. Over the course of SOA implementation to date (FY 2021 to FY 2025), statewide Chapter 70 aid has increased by \$1.57 billion (30 percent).

Notably, nearly 75 percent (\$1.17 billion) of the increased Chapter 70 aid has been directed towards 60 school districts across the state, while the remaining 259 operating districts in the state have seen their Chapter 70 aid increase by a combined total of \$398 million. Though this distribution of new state aid may appear unbalanced, it’s important to remember that it is largely intentional.

A primary goal of the SOA is to significantly increase the amount of state aid being directed towards the districts serving the highest-needs students across the state; namely, those districts educating high percentages of English learners and low-income students. Across the 60 districts that have experienced the largest increases in state aid over the last four years, 64 percent of identified low-income students and 75 percent of all English learners are being educated.

Minimum Aid

Through the minimum aid component of the foundation budget formula, a district is guaranteed to receive an increase to their Chapter 70 state aid at least equal to their foundation enrollment multiplied by a per-pupil amount. In FY 2025, Governor Healey sets the per-pupil minimum aid amount at \$30 and across the state 212 districts are projected to benefit.

In recent years, the Legislature has increased the per-pupil minimum aid amount to \$60. If the same approach is followed in FY 2025, the total cost of Chapter 70 aid would increase by \$14.9 million over the Governor's budget and more than 250 operating districts across the state would see their aid increase.

K-12 Education Reimbursement Programs

In addition to Chapter 70 state aid, the state budget includes funding for five other major education reimbursement programs related to special education, charter schools, and student transportation. In total, Governor Healey funds these programs at \$820.3 million in FY 2025, a decrease of \$38.1 million (4.4 percent) compared to FY 2024.

Summary of Major Education Reimbursement Programs

Program	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	Governor v. FY 2024 GAA
SPED Circuit Breaker	\$441.0	\$499.0	\$492.2	-\$6.7
Charter Tuition Reimbursement	\$243.8	\$232.7	\$199.0	-\$33.7
Regional School Transportation	\$82.2	\$97.1	\$99.5	\$2.4
Non-Resident Vocational Transportation	\$0.3	\$1.0	\$1.0	\$0.0
Homeless Student Transportation	\$23.0	\$28.7	\$28.7	\$0.0
Total Education Reimbursement	\$790.2	\$858.4	\$820.3	-\$38.1

\$ in millions

The decrease in funding for major education reimbursement programs is driven by factors impacting the Special Education Circuit Breaker and Charter Tuition Program programs. In the sections that follow, this brief describes those factors in greater detail.

Special Education Circuit Breaker

In FY 2024, the tuition rates for approved private special education schools in Massachusetts, which receive out-of-district placements from public schools, were increased by 14 percent to address costs that had increased substantially due to inflation and to respond to challenges in retaining and attracting staff. As a result, school districts across the state expected to face substantial cost increases for special education services. To help districts cover these increased costs, the FY 2024 GAA included \$20 million within the Special Education Circuit Breaker program for extraordinary relief payments. Extraordinary relief payments reimburse districts in the current fiscal year for special education cost increases that exceeded 25 percent over the prior year and had historically been funded at \$5 million.

In addition to this \$15 million increase, the Legislature appropriated an additional \$75 million for extraordinary relief in the FY 2023 closeout supplement budget. This funding was made available to support districts that met a specific set of criteria over the course of FY 2024 and FY 2025.

Special education circuit breaker reimbursement in FY 2024 is currently estimated at \$461 million. Though that figure is subject to increase as additional claims are submitted, it suggests that nearly all of the \$75 million supplemental appropriation will be available to support FY 2025 costs. The Governor’s budget accounts for the availability of these resources, and estimates that in combination with the circuit breaker appropriation, districts will be fully reimbursed at the 75 percent rate for all eligible instructional and out-of-district transportation costs.

Circuit Breaker Funding in FY 2024 and FY 2025

Fiscal Year	Total Circuit Breaker Funding	Extraordinary Relief Funding
FY 2024	\$499.0	\$20.0
FY 2025	\$492.2	\$5.0
Supplemental Funding	\$75.0	

\$ in millions

Charter Tuition Reimbursement

In FY 2025, the Governor’s budget proposal funds the Charter Tuition Reimbursement program at \$199 million, a \$33.7 million decrease (14 percent) compared to the FY 2024 GAA. This funding level is projected to fully fund the reimbursement formula.

The Charter Tuition Reimbursement program compensates districts for year-over-year increases in charter tuition payments. In the first-year of a tuition payment increase, a district is reimbursed for 100 percent of the cost. In the second and third-years following the tuition increase, a district is reimbursed for 60 percent and then 40 percent of the original increase.

The cost to fully fund the reimbursement formula in FY 2025 is less than it was in FY 2024 because the year-over-year increase in charter tuition payments is less than what was experienced between FY 2023 and FY 2024. This is a result of the low-inflation rate used to calculate the foundation budget formula in FY 2025, which is also used to calculate districts’ charter tuition payments.

Key Takeaways for the House and Senate

Funding for local aid, Chapter 70 state aid, and other K-12 education programs comprises a significant share of the Governor’s FY 2025 spending plan. At 15.5 percent of total operating budget spending, it is the second largest category of investment.

As the budget process moves to the Legislature, House and Senate policymakers will be faced with a few key questions.

- **Will the Legislature adopt the Governor’s proposal to decouple growth in local aid to cities and towns from expected tax revenue growth?**

The Governor’s proposed 3 percent increase to Unrestricted General Government Aid (UGGA) ensures that discretionary local aid to cities and towns keeps pace with expected revenue growth and overall spending. However, the Governor does not maintain the Baker-era policy of tying UGGA growth directly to consensus revenue assumptions. While this policy was intended to maintain stability in local aid, in recent years it also placed limitations on annual aid increases; and ultimately did not align local aid levels with actual tax revenue growth.

- **Will the Legislature adopt the Governor’s approach towards Student Opportunity Act implementation, moving towards full implementation by FY 2027?**

The Healey administration fully funds the fourth-year of SOA implementation, keeping the state on track to reach full implementation by FY 2027. But despite adhering to this schedule, the year-over-year increase in Chapter 70 state aid is depressed due to inflation and enrollment factors. As the Legislature considers potential increases for state aid to public schools, they should carefully examine the costs and benefits of various proposals. For example, an increase to the foundation inflation index may significantly increase overall state aid, but the benefits would be directed to few districts. By contrast, an increase to the minimum aid per-pupil amount may be less expensive, while benefiting the vast majority of school districts in FY 2025.

- **Will the Legislature alter the Governor’s approach to special education funding in recognition of continued cost pressures?**

In FY 2024, the Legislature approved a \$75 million supplemental appropriation for the Special Education Circuit Breaker program to assist districts experiencing large cost increases related to a 14 percent tuition increase at approved private special education schools. It is estimated that nearly all of this supplemental funding will remain available to support districts in FY 2025. During a challenging budget year, when there are limited resources to support new spending, policymakers would be wise to follow the Governor’s recommendation to utilize existing resources for programs before increasing funding levels.