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Soaring health care costs swallow state funding for Massachusetts school districts

Boston –Soaring costs for school employee health care coverage have drained school budgets and undermined the historic bargain that was central to education reform in Massachusetts in 1993. These increases have crowded out funding for other portions of the school budget that directly affect students. In consequence, gains made as a result of the state’s increased aid to poorest districts in the early years of reform have largely been nullified in the past decade, and per-pupil spending for students in those districts today stands significantly below spending levels for students in the state’s wealthiest districts.

Every school district in the Commonwealth, rich or poor, has been adversely affected, as resources intended to strengthen learning in the classroom—money for textbooks, professional training and additional teachers, in particular—has been absorbed in recent years by health care costs.

Those conclusions are the result of new research conducted by **Ed Moscovitch**, an economist and one of the authors of the original Chapter 70 state funding formula for school budgets.

That research was released today in a report prepared for the Boston Foundation and Massachusetts Business Alliance for Education, titled *School Funding Reality: A Bargain Not Kept*. The report was released today by the Boston Foundation at an Understanding Boston forum.

“Ed Moscovitch puts into clear and compelling focus what many have suspected for some time—that our good-faith efforts to close the achievement gap are being erased by the cost of health care,” said **Paul S. Grogan**, President and CEO of the Boston Foundation. “In the words of the report, ‘Controlling the overall cost of health care in Massachusetts is now the ultimate education issue.’”

Among the key findings of the new research:

- From 2000 to 2007 health care costs in school budgets grew by \$1 billion, \$300 million more than the increase in Chapter 70 aid.
- Inflation driven in significant part by the health care costs increase and not reimbursed by the school funding formula created a shortfall of \$1.2 billion a year by 2007 and has grown today to almost \$1.7 billion for the current school year.
- Spending on books fell by more than 50 percent from 2000 to 2007 and spending for teacher training fell by almost 25 percent—two expenditures that most directly affect student learning.
- The student/teacher ratio is significantly *less favorable* in 2007 than it was in 1996.

“Our significant investment in education since 1993, and the gains in student achievement that followed, are at risk due to the uncontrolled costs of employee health care,” said **Linda M. Noonan**, Executive Director of the Massachusetts Business Alliance for Education.”

The Massachusetts Education Reform Act of 1993 represented a “grand bargain,” high standards for student learning and accountability for performance in exchange for adequate and equitable funding. The report examines the funding side of the grand bargain, the foundation budget, which was the new law’s definition of what constituted adequate funding. It set class size goals and spending goals for professional development and instructional materials. It included an adjustment for inflation and changes in enrollment.

It acknowledged that wealthier towns had resources that could be tapped to support essential education spending that simply were not available to poorer urban districts and that students in poorer districts tended to have greater deficits to begin with than their suburban, wealthier peers.

The foundation budget reflected a wide agreement among education and political leaders, with broad support from the business community, that economic resources would always have an important impact on a district’s ability to close the achievement gap, and it provided the extra support for urban districts with large concentrations of low-income and minority students.

In return, districts agreed to be held accountable for the performance of their students to a single, consistent standard of performance.

The impact of health care spending on school districts also forms part of a bigger story about soaring costs and what it has meant across the board for spending and economic investment in Massachusetts. According to the report, health care has consumed fully two-thirds of all increases in state spending between 2000 and 2010, crowding out investment in a host of areas of general interest, but taking a special toll on education, which was seeking to compensate for past deficits.

The role of health-care fueled inflation

While health care costs have the most dramatic part of the story reported in the new report, inflation has exacted a toll, as well. The price index used to accommodate rising costs has failed to keep pace with real costs in the years since 2000, according to Moscovitch. While some wealthy towns have made up the difference by spending more than the statutory level, that option has not been available to poor and urban districts. As a result, they are now generally spending considerably below the programmatic level envisioned in 1993, even before the impact of health care costs is factored in.

Chapter 70 was designed to keep school districts at the level of the foundation budget, with the assumption that this would maintain parity into the future. To chart the impact of real-world prices on school districts, Moscovitch compares spending adjusted for true inflation across a number of spending categories, including teachers, operations, books and professional development. The change when viewed with this corrective is especially dramatic for books and professional development. The former declined from an average of plus-0.9 percent annually from 1996-2000 to minus-11.3 percent annually from 2000 to 2007. Spending for professional development dropped in similar fashion from plus-20.2 percent from 1996 to 2000 to minus-3.6 percent from 2000 to 2007.

Comparing high-need low-wealth districts to low-need, high wealth-districts provides a single summary comparison of the impact of the failure of the formula to achieve the goals of education reform. When all spending is adjusted for inflation, real spending has fallen across the board, but further in areas of greater need. From 2000 to 2007, spending per pupil in high-need districts has fallen 14 percent in the poorest districts and fully 16.1 percent in the second poorest grouping of districts, while spending has decreased by 8.8 percent per capita in the wealthiest and lowest need districts.

Cumulatively, the gap between costs and needs across all districts in Massachusetts has grown to almost \$1.7 billion by the 2010. Any attempt to close this gap would require both local resources and increased state aid. Because of their greater resources, the wealthiest districts are already, on average, spending at the “true” foundation level, which means foundation level adjusted for the real cost of inflation. Moscovitch estimates it would cost somewhere between \$800 million and \$1 billion a year in increased state aid to raise the foundation budget by \$1.7 billion, enough to close the new and widening gap.

The way forward

The report concludes that controlling the cost of health care in Massachusetts is now the ultimate education issue. Without a change in the trend, it appears impossible for the Commonwealth to keep all districts at true foundation levels. Even new resources provided to education cannot hope to cover the trends that show health care costs continuing to spiral upward.

The Boston Foundation, Greater Boston’s community foundation, is one of the oldest and largest community foundations in the nation, with assets of \$733 million. In Fiscal Year 2009, the Foundation and its donors made almost \$83 million in grants to nonprofit organizations and

received gifts of over \$82 million. The Foundation is made up of some 900 separate charitable funds established by donors either for the general benefit of the community or for special purposes. The Boston Foundation also serves as a major civic leader, provider of information, convener, and sponsor of special initiatives designed to address the community's and region's most pressing challenges. For more information about the Boston Foundation, visit www.tbf.org or call 617-338-1700.

The Massachusetts Business Alliance for Education (MBAE) is committed to a high quality public education system that will prepare all students to engage successfully in a global economy and society. We bring together business and education leaders to promote education policies and practices based on measurable standards of achievement, accountability for performance, and equitable educational opportunities for all students. For more information about MBAE, visit www.mbae.org or call 617-737-3122.