

Special Report

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Highlights

- The rising cost of existing services, due, in large part, to growing salary costs, is the major driving force behind the budgetary strain
- A 22% reduction of external funds since 2011 has resulted in the BPS operating budget absorbing additional costs in order to maintain key services
- BPS spending over the past five years has increased by 19% compared to all other departments at 13%, even with a 36% decrease in the City's net Chapter 70 state aid.

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Inside the Boston Public Schools' Budget

Factors contributing to the BPS' annual budget challenge

The School Committee recently approved the fiscal 2016 Boston Public Schools (BPS) operating budget of \$1.014 billion which exceeds \$1 billion for the first time and represents approximately 35% of the City's total operating budget. However, earlier in the budget process, officials were faced with an estimated budget gap of \$41 million. This budget gap scenario has been common in recent years, which is why a review of the factors contributing to the increase in school spending and the change in revenue sources is warranted at this time. This report focuses on expenditure growth from fiscal 2010 to fiscal 2015 budget to be more precise in trends, but does on occasion note the recommended fiscal 2016 budget.

The budgetary strain within the BPS is caused by several factors such as:

- The rising cost of personnel mainly due to negotiated contract salary, step increases and employee growth
- The size of the BPS workforce whose cost in salaries and benefits represents 78.4% of the total fiscal 2015 BPS operating budget
- The BPS transportation system is one of the most expensive models in the country and provides yellow bus service to a high number of students
- The cost of excess capacity in which a classroom must be 87% full to support classroom staff costs and 50% of the K-5 classrooms are underutilized and require additional funds to reach that threshold
- Food services rely on a \$2.3 million subsidy from the BPS operating budget rather than be a self-sustained operation as in most districts
- Over the past five years, state and federal education funds for Boston have declined causing the operating budget to absorb more service costs

Change in BPS Budget FY10-FY15

\$ in millions

Account	FY10*	FY15**	FY15 % of Total	Change FY10-15	% of Growth
Salaries	\$531.2	\$639.1	65.6%	\$108.0	68.4%
Benefits	121.1	125.1	12.8%	4.0	2.6%
Personnel Subtotal	\$652.2	\$764.2	78.4%	\$112.0	71.0%
Purchased Services	38.6	61.3	6.3%	22.7	14.4%
Transportation	69.8	95.4	9.8%	25.6	16.2%
Property Services	38.0	38.6	4.0%	.6	0.4%
Equipment Acquisition	4.0	4.8	0.5%	.8	0.5%
Supplies	7.1	7.4	0.8%	.3	0.2%
Miscellaneous	1.4	2.1	0.2%	.7	0.5%
Reserves	6.1	1.1	0.1%	-5.0	-3.2%
Non-Personnel Subtotal	\$164.9	\$210.7	21.6%	\$45.8	29.0%
Total	\$817.1	\$975.0	100.0%	\$157.8	100.0%

*FY10 Adopted Budget **FY15 Budget Update as of February 1, 2015

Fiscal 2016 Budget Gap

The initial fiscal 2016 budget projected increased expenditures of \$80 million, with a \$58 million increase in level service costs, \$8 million in new initiatives, and \$14 million in grant expenditures that will be absorbed by the General Fund. The increased appropriation of \$38.6 million left a gap of roughly \$41.4 million, which the BPS estimated it eliminated by reducing central office staff and services, closing two schools, consolidating certain academic programs, and changing transportation and food service policies. It should be noted that school and city officials have been able to manage the operating budget so that the BPS has ended each year with a small operating surplus for the last 24 years.

BPS General Fund Expenses

In fiscal 2016, the BPS will be responsible for educating 57,157 students in 126 schools and is the largest city department with a fiscal 2016 operating budget of \$1,014 billion. BPS city-funded employees totaled 8,789 as of January 2015.

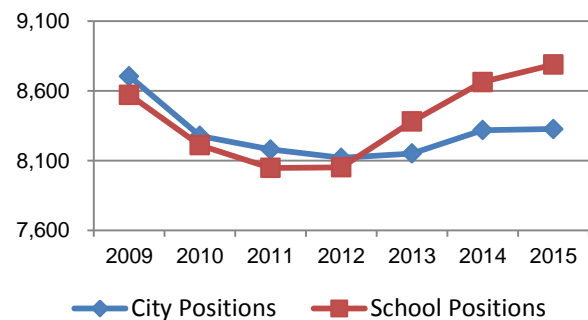
As with most city departments, the largest operating expense for the BPS is personnel costs. As seen on the previous page, in fiscal 2015 personnel costs, including both salaries and benefits, are budgeted at \$764.2 million or 78.4% of the BPS operating budget. In the five years from fiscal 2010 through fiscal 2015, spending on BPS personnel salaries and benefits grew by \$112 million, or 17.2% which represented 71% of the total BPS expenditure growth during that time. In fiscal 2016 personnel costs are currently budgeted at \$781.6 million or 77.1% of the BPS operating budget.

BPS benefits include health insurance costs even though for all other departments employee health insurance is budgeted in a central account and not included in the individual departmental budgets. The Research Bureau has recommended that the BPS be treated the same as all other departments in the budgeting of health benefits.

Beyond salaries and benefits, the next largest expense is transportation, with the BPS responsible for the transportation costs of BPS students, as well as charter, private, and parochial school students. Despite making up 9.8% of the current fiscal 2015 budget, the growth in transportation costs represented 16.2% of the growth in expenditures from fiscal 2010 to fiscal 2015. Other accounts such as purchased services, property services, equipment, and supplies constitute the rest of the General Fund operational budget.

Employee Levels - With 8,789 employees, the School Department accounts for 51.4% of the total city-funded workforce as of January 2015 and most of the employee growth since 2009. Over the past six years, total city-funded employee levels declined by 162 positions or 1%. However, the School Department added 217 employees during this period, an increase of 2.5%. The number of city-funded employees in all other departments decreased, in aggregate, by 379.

Figure 1
FTE Positions Since 2009



Over the past year from January 2014 to January 2015, the School Department increased its city-funded [employees](#) by 125 to 8,789 or 93.5% of the city-wide employee growth. The increase of 125 employees contrasts with the total increase of nine city-funded employees in the other 46 departments. This increase of 125 school employees is due to a combination of systematic challenges such as the change in enrollment mix and the retention of some services previously funded by federal funds. Also contributing to the

increase are policy decisions that increased the workforce such as the retention of teachers as part of a Human Capital initiative, the expansion of Inclusion Special Education classrooms, and the addition of K1 seats. As a group, teachers represented the largest increase (+86) primarily for Regular Education, and either Substantially Separate or Inclusion Special Education teachers. This growth was somewhat offset by decreases of Kindergarten and Special Education Resource teachers.

The growth in BPS workforce occurred despite a projected decrease of 69 city-funded positions as the BPS restructured central office services to improve service delivery and decrease personnel costs in fiscal 2015. The BPS did reduce central office positions by 106, but the majority of the reduction (-100) came from externally funded positions, leaving a reduction of only six city-funded central office positions. As central office positions declined, school based positions grew by 131 employees, in good part, due to the Human Capital initiative, the expansion of special education programs and the decline of external funds.

The fiscal 2016 BPS budget plans for a reduction of 144 positions from all funds. The central office workforce is projected to decline by 134 positions. The potential effect of two years of cuts in central office staff will need to be closely monitored.

Increase Cost of Existing Service - The BPS annual budget challenge is driven by the increasing cost of providing existing services to BPS students. The cost of existing services increases due to a number of factors, most importantly increases in personnel costs due to salary increases granted through collective bargaining and employee growth. Maintaining existing levels of service can require the addition of positions to accommodate a changing student population with specific academic needs such as special education plans and English language learners. In addition to rising personnel costs, the School Department faces budgetary challenges from excess capacity and increased costs

for transportation. In preparing the fiscal 2016 budget, level service was projected to cost \$58 million, which outpaced the appropriation increase of \$38.6 million.

Collective Bargaining Awards - In October 2012, the School Committee settled a contract agreement with the Boston Teachers Union (BTU) that included the standard approximate 12.6% salary increase from fiscal 2011 through fiscal 2016 and other factors that together are estimated to cost \$156.3 million over six years of which \$136.5 million is allocated for salaries. In addition to the Boston Teachers Union, there are 11 smaller unions representing the BPS non-teacher workforce. These 11 unions all agreed to the same 12.6% increase from fiscal 2011 through fiscal 2016.

Step Increases - In addition to the salary increases, employees not at the maximum salary level also receive step increases each year on the anniversary of their start date. These increases are automatic regardless of employee performance, yet they add significantly to yearly personnel costs. The BPS fiscal 2015 budget included \$11.8 million for step increases, which will total \$12.2 million in fiscal 2016. Step increases in the most recent BTU contract were 6.2% on average. That's higher than the step increases for other city unions such as AFSCME and SEIU which were 4% on average. The teachers' contract has nine steps to reach maximum. With the current six-year BPS-BTU contract, a teacher's salary can increase [significantly](#) from salary and step increases based on longevity and number of academic credits, not performance.

Excess Capacity/Facilities Issues - Spreading limited resources to classrooms not supported by adequate enrollment contributes to the annual budget strain facing the School Department. With BPS schools funded based on the weighted cost of the programmatic needs of each assigned student, class size must equal 87% of the class size maximum to support the cost of the teacher or teacher and paraprofessional where required. However, according to the BPS, there are presently 4,100

empty seats in BPS schools. Currently 50% of BPS K-5 classrooms do not meet the funding threshold, requiring the schools to transfer funds from their non-personnel budget accounts or non-instructional personnel accounts to support classroom expenses. Alternatively, if funds cannot be transferred between accounts, the District must subsidize the school in order to maintain minimum staffing levels that ensure compliance. The cost of excess capacity is unsustainable in the long-term.

Under the BPS' weighted student funding model, the lowest cost for an individual seat is \$5,237 for regular education third grade students. Using this number as a conservative baseline, the 4,100 empty seats cost the BPS roughly \$21.5 million in fiscal 2015.

Transportation Costs – The BPS owns a fleet of over 700 school buses that are operated by an independent vendor, Transdev (formerly Veolia Transportation), which is under contract through fiscal 2018. The City's contract with Transdev is for management services which includes the hiring and supervision of the bus drivers. Expenses beyond the management contract are the responsibility of the City and include funding any salary and benefit increases awarded to the bus drivers through collective bargaining. The City is responsible for the transportation costs of all Boston students, including those who attend charter, private and parochial schools. This means the BPS must provide transportation to 48,172 students who attend 261 schools both inside and outside the City. This year 16,599 regular education students received transportation through an MBTA pass, leaving roughly 31,573 students who receive yellow bus service to 227 schools.

In the five years from fiscal 2010 to fiscal 2015, BPS transportation costs grew by \$25.6 million or 36.7%, due both to the increase in the total number of bus assignments and a new transportation contract. During the fiscal 2015 budget process, a proposal to replace yellow bus service with MBTA passes for 7th and 8th grade BPS students was modified to include

only 8th graders, which has contributed to the budgetary shortfall for fiscal 2015 and the budget gap for fiscal 2016. The fiscal 2016 budget does extend the MBTA pass program to 7th graders, 49% of whom already use MBTA passes. All private, parochial and charter students in 7th grade and above already receive MBTA passes. As charter school seats expand in Boston, rising transportation costs will be a continuing challenge that will require further thinking on school assignment and facilities.

Food and Nutrition Services - The food and nutrition services for a public school district is expected to be self-sustaining, with revenue received from the program through meal sales and federal aid matching expenditures for the program. However, for the past eight years, the BPS has run a deficit with the District using between \$1.7 million and \$4.1 million in General Fund revenues to subsidize the costs of food services. In fiscal 2015, the BPS will spend \$39 million on food services, with \$2.3 million of this total supported by General Fund revenues. This continued subsidization of food services is unsustainable, and in fiscal 2016, the BPS will look to streamline food options and services in order to reach a system that can be sustained without General Fund resources.

Weighted Student Funding

The allocation of resources to the 126 Boston schools is determined through a Weighted Student Funding (WSF) process. WSF establishes school budgets based on the needs of each student weighted by grade and such factors as poverty status and the requirements for English, special education and vocational instruction. The weights are based on the class size required to support a teacher in the classroom or a teacher and paraprofessional where required, which is approximately 87% of the maximum class size. WSF creates incentives for schools to increase existing class sizes in order to achieve at least 87% of the teacher contract class size maximum and to serve students with higher social and learning needs with their higher weights.

In fiscal 2012 when WSF was first introduced, class size and pupil mix did not support all teachers in every school and those schools facing large cuts were given additional funding (“soft landing”) to help mitigate the impact. These soft landings were meant to last for one year as the school adjusted to the new system. In fiscal 2016 the BPS expects to spend \$1.8 million providing soft landings to nine BPS schools. Continuing to award these soft landings contributes to the BPS’ budgetary shortfall and masks the fact that those schools are failing to attract a sufficient mix of students to be economically viable.

New Initiatives

In addition to the increased cost of existing services, the BPS also prioritizes funding certain new initiatives in each fiscal year which contribute to the financial stress since these costs require cuts in funds for existing services. In 2015, key new initiatives included the implementation of Common Core and PARCC assessments, adding 100 K1 seats, increased funds for Weighted Student Funding, implementing the new home based school choice plan, and increasing hiring autonomy in schools for a total projected cost of \$13 million.

The fiscal 2016 BPS budget approved by the School Committee includes new initiatives that are estimated to cost roughly \$8 million. Some are a continuation of fiscal 2015 initiatives such as the addition of another 100 K1 seats and the completion of the facilities master plan. The key new initiative will be the new extended learning time agreement between the BPS and the Boston Teachers Union that will extend the school day of 16 BPS schools by 40 minutes in the next school year at a cost of roughly \$3.9 million. Over the next three years this initiative will expand to roughly 60 schools and cost the City \$12.5 million a year at full implementation.

City Appropriation

The BPS General Fund budget is supported by an annual appropriation by the City. The trend over the past five years, from fiscal 2010 to fiscal 2015,

has been that the BPS annual budget is built on receiving an appropriation that is based on approximately 35% of the City’s total operational revenues despite declining net state aid available for education. Therefore, the decline in net state aid available for education is generally felt proportionally by all departments and services. As a result, even when net state aid fell from representing 20.3% of BPS expenditures in fiscal 2010 to 10.9% in the current fiscal 2015 budget, BPS General Fund spending over this period increased by \$157.8 million or 19.3%. The aggregate budget increase for all other departments over the five years was 13.4%.

State Aid - Boston’s second largest revenue source for operations is state aid which totaled \$418.5 million in fiscal 2015, representing 15.3% of the total operational budget of \$2.7 billion. However over the last five years, the growth of this revenue source has been relatively flat, growing only by \$5.3 million or 1.3% while the property tax grew by 27.2% and the excise revenues by 61.2%. Chapter 70 state education aid is received by the City and included in its total mix of operational revenue. In fiscal 2015, Chapter 70 aid represents 50.4% of total state aid. In addition to the financial support, the Commonwealth also assesses municipalities for services such as the MBTA or the tuition for resident students attending Commonwealth charter schools in and outside of Boston. State aid less assessments, or net state aid, is the actual amount of state aid available for City operations.

Chapter 70 Aid – Chapter 70 education aid is the largest component of state aid each year, but it has declined over the past five years by \$6 million or -2.8%. Chapter 70 aid in fiscal 2010 of \$217 million is budgeted at \$211 million in fiscal 2015. Chapter 70 establishes a “foundation budget” or baseline amount of funding needed to provide an “adequate” education for each community. The amount that a municipality is expected to pay towards this foundation budget is based on its personal income and property values.

Net Chapter 70 Aid – The available Chapter 70 education aid for the City’s operating budget each year is a net figure that combines Chapter 70 aid with the charter tuition assessment and the charter school reimbursement. The charter tuition assessment is the amount of Chapter 70 funds that follows Boston resident students to the Commonwealth charter schools they attend. To help mitigate the impact of this loss of state funds for education, the state designed a reimbursement mechanism which returns to the City 100% of the lost funds the first year a student attends a charter school and 25% of the fund in each of the next five years. The charter tuition reimbursement from the state is subject to appropriation. In the current state budget the charter tuition reimbursement is funded at only 66.8% of the obligation, which represents a loss of \$11.6 million for Boston.

Table 2
Net Chapter 70 Aid FY10-FY15
 \$ in millions

Account	FY10	FY15	Change FY10- FY15
Ch. 70 Aid	\$217.0	\$211.0	(\$6.0)
Charter Assessment	(\$62.0)	(\$130.9)	(\$68.9)
Charter Reimbursement	\$11.0	\$26.1	\$15.1
Net Ch. 70	\$166.0	\$106.2	(\$59.8)
% BPS Budget	20.3%	10.9%	

In fiscal 2015, net Chapter 70 of \$106.2 million represents only 50.3% of Chapter 70 revenue of \$211 million. Over the past five years, net Chapter 70 has decreased by \$59.8 million or 35.5%, as charter expansion has increased the tuition assessment. However, as previously stated, this decline in available state aid for education is a shared loss of revenue with other city departments and services. The BPS’ proportional budget share of 35% represents approximately \$20 million of the loss over the past five years. While this loss is concerning, more troubling is the system’s inability to reduce excess capacity created by charter expansion, and a disconnect between enrollment,

programmatic offerings and school facilities, which spreads resources thin throughout the District by contributing to increased personnel, transportation and facility costs.

External Fund Revenues

External fund revenues available for education peaked in fiscal 2011 at \$170.3 million as a result of an influx of federal funds, but have declined rapidly, falling by \$36.7 million or 21.5% between fiscal 2011 and the current fiscal 2015 budget of \$133.6 million. Over this period, the largest loss in external funds came from the expiration of Race to the Top funds totaling \$15.4 million in fiscal 2014. School Improvement Grants also expired, while Title I, Title IIA, and Title III grants were reduced. These federal grant programs provide necessary support to students with English language needs, students eligible for federal free lunches who require additional services, and teacher and principal development and retention programs. Because of the important services these funds provide, the BPS has found it necessary to absorb many of these services into its operating budget.

Table 3
Change in BPS External Budget FY11-FY15
 \$ in millions

Account	FY11	FY15	Change FY11- FY15	% Change
City	\$821.4	\$975.0	\$153.6	18.7%
External	\$170.3	\$133.6	-\$36.7	-21.5%
Total	\$991.7	\$1108.6	\$116.9	11.8%
External as % of Total	17.2%	12.1%	-5.1%	

External funds in the current fiscal 2015 budget represent a reduction of \$13.8 million or 9.4% from the prior year. This trend is expected to continue with external funds in fiscal 2016 expected to decline by \$15.2 million or 11.3% compared to fiscal 2015.

Due to declining external funds, both programs and staff have been shifted increasingly to General Fund expenditures. In January 2011, the BPS had 869 external fund FTE employees, which represented

9.8% of the BPS workforce. However, by January 2015, externally-funded employees had declined by 269 or 30.9%, to 601 FTE employees or 6.4% of the total BPS workforce.

Circuit Breaker for Special Education – In fiscal 2004, the Commonwealth established a special education reimbursement program to provide additional financial support to municipalities with the expense of high-cost special education students. This “Circuit Breaker,” legislation provided that the state would reimburse municipalities for 75% of the expense of each student’s special education cost that exceeded four times the state average foundation budget per pupil cost. Like the charter tuition reimbursement, the circuit breaker is subject to appropriation. However, it has been fully funded every year since fiscal 2005. In fiscal 2015, the BPS expects \$14.8 million in circuit breaker funds. The City has filed legislation to change the circuit breaker formula by allowing municipalities to claim expenses three times the state average.

Conclusion

The BPS was able to close the estimated \$41 million budget gap and approve a balanced General School Purpose budget for fiscal 2016 totaling \$1.014 billion. With the fiscal 2016 budget the BPS has taken initial steps to address budgetary gaps, but many of the underlying factors that contributed to the gap will continue to be problematic in fiscal 2017 and beyond. Federal and state school revenues will continue to not keep pace with school expenditure growth, especially with the continuing increase of the charter tuition assessment. Without change school resources will be spread too thin to satisfactorily meet the needs of all BPS students.

The completion of the 10-year master facilities plan, which is just getting started, can address many of the issues that can contribute to operational resources being allocated more effectively. The current operation of 126 schools for an enrollment of 57,157 students with 50% of the K-5 classrooms requiring additional financial support due to under enrollment cannot continue. The facilities plan

should be structured to be supportive of the BPS’ programmatic needs. This plan will require tough decisions to be made about the BPS grade structure, programmatic effectiveness, the school decommissioning process and strategic location of new schools. A strategy to develop a cluster connection between district high schools and feeder middle schools to provide a clear path for parents and students, and eventually connecting kindergarten through elementary grades should be included in this facility study. While the facilities master plan will not be complete for the next budget cycle, the work being done should influence any budget decision that must be made on facilities or school closures for fiscal 2017.

The City will need to continue to pursue its legislative agenda with the objective of full funding by the state of the Commonwealth charter school reimbursement and increasing reimbursements through the education Circuit Breaker program. To support the Human Capital teacher hiring initiative, existing state law (MGL c.71, s.42) should be modified to enable permanent teachers not selected by schools in two consecutive hiring seasons to be dismissed.

With salaries and benefits being the primary driver of increased BPS spending, representing 77% of the recommended fiscal 2016 budget, the BPS will need to carefully manage its employee levels to control spending. The collective bargaining contracts with the BPS and its 12 unions, including the Boston Teachers Union, will expire in June or August 2016. The salary increases in successor contracts should not exceed inflationary increases unless significant reform is negotiated and benefits should remain as currently agreed upon.

The implementation and results of planned savings in the fiscal 2016 budget should be monitored and reported monthly to the School Committee, especially for those savings expected from changes in central administration. Complying with state law, the Superintendent should prepare and submit to the School Committee, City Auditor and the City’s

Office of Budget Management a monthly budget report that details School Department expenditures and budget transfers and make this report public. With a fiscal 2016 General Fund budget exceeding \$1.0 billion, the Mayor, Superintendent and School Committee must focus on controlling costs and managing resources to maximize student achievement.