

MEMORANDUM

TO: Board of Directors
Massachusetts School Building Authority

FROM: Maureen Valente, Chief Executive Officer and John K. McCarthy, Executive Director

DATE: September 23, 2015

RE: Calendar Year 2016 Reimbursement Rates

Pursuant to G.L. c. 70B, § 10, the MSBA calculates grant percentages for approved school projects based on a formula using several factors, one of which is the Community Poverty Factor. The Community Poverty Factor is the proportion of low income students, as determined by federal eligibility for free or reduced price lunch, for the district as a per cent of the statewide average proportion of low income students. As the MSBA prepares to calculate reimbursement rates for each fiscal year, it obtains information from the Department of Elementary and Secondary Education ('ESE') to use in determining the Community Poverty Factor. With increased district participation in the US Department of Agriculture's Community Eligibility Program, a provision from the Healthy, Hunger-Free Kids Act of 2010 that allows schools with high poverty rates to provide free breakfast and lunch to all students and which eliminates a district's need to collect free or reduced-price school lunch eligibility information directly from families, ESE has recently implemented a new methodology to calculate the percentage of low income students.

Earlier this year, Board member Matt Deninger informed the MSBA about the changes in ESE's methodology for calculating the percentage of low-income students. On May 13, 2015, he followed up with the attached memorandum detailing the new methodology and the potential impact for projects in the MSBA's Capital Pipeline.

In July, as has been the MSBA's practice, we sent requests to ESE and the Department of Revenue for the data used in order to inform the Fiscal Year 2016 G.L. c. 70 state-funded school aid calculation. We received prompt responses from both Departments, and have begun building the MSBA's Calendar Year 2016 reimbursement rates using this information.

Previously, ESE had provided the number of Low-Income students as calculated by combining the number of students eligible for free and reduced price lunch. Under the new methodology, ESE provided the number of students in the Economically Disadvantaged category.

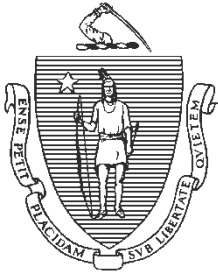
Since the new Selected Populations report shows the number of Economically Disadvantaged students per district, the percent of Economically Disadvantaged students

per district, and the state average, we have been able to prepare draft MSBA reimbursement rates in the same manner as prior years.

Pursuant to G.L. c. 70B, § 10, the Community Poverty Factor points are determined by comparing the school district low income students with the state average. Districts that have 0-99% of the state average do not receive Community Poverty Factor points. Districts that have 133% or more of the state average of low income students receive 17 Community Poverty Factor points. The statute specifies the range of points allocated for districts with an average between 100% and 132%.

As discussed in Board Member Deninger's memorandum, and at the Administration, Operations, and Finance Subcommittee, staff is prepared to compare the Calendar Year 2015 Poverty Factor points with the Poverty Factor points in effect at the time of the creation of the reimbursement rate certification for projects that have been invited into the MSBA's Capital Pipeline, including the Eligibility Period, as of the September 30, 2015 Board meeting. For these projects, staff would use the Calendar Year 2015 Poverty Factor points if the Calendar Year 2016 Poverty Factor points, under the new methodology, are lower.

There would be no adjustment for these districts if the Poverty Factor points are higher or if there was no change under the new methodology. For projects that receive a Project Scope and Budget vote at the September 2015 or November 2015 Board meetings (e.g., Provincetown High School), no adjustment would be needed because the reimbursement rate certifications will be prepared using the Calendar Year 2015 rates under the original methodology.



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MEMORANDUM

To: Jack McCarthy, Maureen Valente
CC: Jeff Wulfson, Roger Hatch, Rob Curtin, Carrie Conaway (ESE)
From: Matt Deninger
Date: May 13, 2015
Subject: Effects of "low income status" change on MSBA reimbursements

As part of its formula for determining how much a given city or town is reimbursed for eligible school building project costs, the Massachusetts School Building Authority is [statutorily required](#)¹ to use ESE's "low income status" variable. Up until the 2014-2015 school year, ESE has calculated the low income status variable using free or reduced-price lunch eligibility as a surrogate measure, and has shared that variable with MSBA for the purposes of their reimbursement formula. However, an increasing number of districts and charter schools are participating in the US Department of Agriculture's [Community Eligibility Program](#), which eliminates a district's need to collect free or reduced-price school lunch eligibility information from families.

Without free or reduced-price lunch information from many of our districts, including some of our largest districts, ESE needed to adjust its method for determining students' low income status. The solution: starting in the 2014-15 school year, ESE's certified student level data will be matched against four public databases (Supplemental Nutrition Assistance Program (SNAP), Transitional Assistance for Families with Dependent Children (TAFDC), the Department of Children and Families (DCF) Foster Child(ren) certification, and MassHealth (Medicaid) eligibility) to determine low income status.² This new method is known as "Direct Certification."

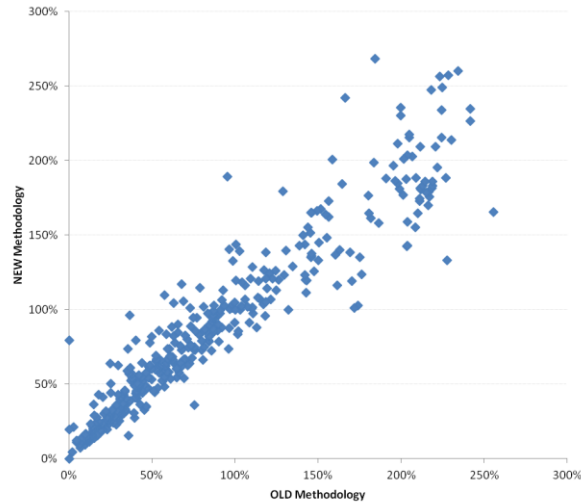
As a result of this change, there are likely to be some cities and towns that benefit (i.e. receive a higher reimbursement than they would have expected under the old methodology), and some that are adversely affected (they would receive a lower reimbursement). **The purpose of this memo is to explore how the change in methodology could affect yet-to-be-finalized reimbursement rates for towns already in the MSBA pipeline, to identify those towns, and make a recommendation to MSBA so that the Authority might structure both a fair policy going forward for all districts and a timeline to implement the change.**

¹ "...as determined by federal eligibility for free or reduced price lunch, for the district as a percent of the statewide average proportion of low income students."

² Taken from memo to ESE staff, May 2015 (R. Curtin)

Analysis

To get a general sense of the magnitude of the changes in district low income status, I first looked at district-level community poverty factor (proportion of low income students for the district as a percent of the statewide average proportion of low income students) between the 2013-14 school year (old methodology on x-axis) and the 2014-15 school year (new methodology on y-axis). I found a strong linear correlation between the two methodologies.



Despite the tight correlation, there are some clear outliers. These outliers, if they happen to be in the MSBA project pipeline, may see a sizable shift in the amount of reimbursement they receive. As such, my next step was to identify those districts and to determine the extent to which the change in methodology affects them.

I sorted the all districts in the Commonwealth into three categories: those for whom the change made no difference in potential reimbursement rates, those for whom potential reimbursements would increase, and those for whom potential reimbursements would decrease. True to the tight correlation I observed in the scatter plot, out of 405 districts, the vast majority (84%) are unaffected by the change. The remaining districts show up nearly evenly split.

No Difference	Increased Reimbursement	Decreased Reimbursement
338 (84%)	33 (8%)	34 (8%)

Of the 34 districts where the change caused a potential *decrease* in reimbursement, four had current projects in the MSBA pipeline that have not yet locked in their reimbursement rates:

District	MSBA Phase	Low Income (OLD)	Points (OLD)	Direct Cert. (NEW)	Points (NEW)	Point Difference
Provincetown	Designer Select.	125%	12.75	113%	7.08	-5.67
Quincy (Reay)	OPM Selection	130%	15.58	123%	11.33	-4.25
Waltham	Eligibility	108%	4.25	92%	0.00	-4.25
Attleboro	Eligibility	103%	2.83	100%	1.42	-1.41

Of the 33 districts where the change caused a potential *increase* in reimbursement, four had current projects in the MSBA pipeline that have not yet locked in their reimbursement rates.

District	MSBA Phase	Low Income (OLD)	Points (OLD)	Direct Cert. (NEW)	Points (NEW)	Point Difference
Clarksburg	Eligibility	93%	0.00	113%	7.08	+7.08
Cape Cod V/T	Eligibility	106%	4.25	117%	8.5	+4.25
Taunton	Eligibility	130%	15.58	140%	17.00	+1.42
Amherst	OPM Selection	100%	1.42	105%	2.83	+1.41

It should be noted that in any given year it is normal for the low income percentage to fluctuate slightly. Therefore, Amherst’s fluctuation from 100% to 105% could have happened regardless of the methodology change. On the other hand, Clarksburg’s fluctuation, from 93% to 113%, is less likely to have happened independent of the methodology change.

Policy Considerations

Option 1: No Grandfathering – The benefit of going with this option is that it is the easiest administratively. The numbers are what they are, and MSBA will simply use the new data for any town that hasn’t locked in a reimbursement rate for their project.

On the other hand, those districts adversely affected by the change may push back, arguing that they expected a certain reimbursement rate given their current demographics, and now that rate has been cut.

Option 2: One-Time Grandfathering – For those districts in the pipeline and affected by the change, grandfather them in by giving them the higher of the two reimbursements.

The benefit of this option is its perceived fairness. Those that benefit from the new methodology retain that benefit. Those that could have been disadvantaged are held harmless.

On the other hand, option 2 requires a bit more work administratively, and it also assumes that MSBA would have the reserves to make option 2 feasible from a financial perspective.

Recommendation

Based on the analysis, I would recommend option 2, as it eases this one-time transition to a new methodology and ensures that there are no “losers,” real or perceived.

Timing

MSBA has the option of making the switch at any time, as ESE is transitioning to its use on a rolling basis. Currently, direct certification data is being used as part of ESE’s accountability system, but it is not yet being used as a component of the state’s Chapter 70 formula or the federal Title I entitlement formula.

Making the switch later this fall or winter (concurrent with Chapter 70 and Title I) would mean that a potentially new set of districts would be affected, and that this analysis would need to be redone.

Making the switch in the near future, perhaps at the June 3rd MSBA Board meeting, guarantees that this one-time transition only applies to the districts listed above (if option 2 were chosen).

Statutory Changes

MSBA will likely need to initiate changes to the current statute (Chapter 70B, Section 10), which specifies low income as determined by free and reduced price lunch status. Any change should be flexible (i.e. MSBA uses ESE’s determination of “low income”, whatever method ESE happens to use).