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Charter School Funding, Explained

By Luc Schuster

Our Commonwealth is built on the idea that our democracy and our economy are strongest when all of our children have access to great public schools. In 1846, Horace Mann, our state's Secretary of Education and the nation's leading advocate of universal free public education, painted a vivid picture of the role of education in our history: "Having no other mines to work, Massachusetts has mined into the human intellect; and, from its limitless resources, she has won more sustaining and enduring prosperity and happiness than if she had been founded on a stratification of silver and gold, reaching deeper down than geology has yet penetrated." And through our state constitution, John Adams reminds us that while education is at the core of our economic strength, this is only part of why it matters, stressing that our "rights and liberties" depend on "(w)isdom and knowledge, as well as virtue, [being] diffused generally among the body of the people."

Strategies for providing high-quality public education to all of our children have been central to public policy debates in Massachusetts throughout our history. And debate has been especially vibrant in recent decades. The Education Reform Act of 1993 made wide-ranging changes to public education in Massachusetts, including authorizing the creation of charter schools. This brief explains how funding works for Commonwealth Charter Schools and how it interacts with funding for traditional school districts. Horace Mann Charter Schools, another less common type of charter school, receive funding through direct agreements with host school districts, and therefore are not funded through the uniform system established by the state and described in this brief.

How are charter schools funded?

The vast majority of their funding—about 90 percent in FY 2015—comes from tuition payments paid by the sending district that a student otherwise would have attended. The remaining 10 percent comes largely from state and federal grants and through private fundraising. Tuition amounts are set each year by a state formula. According to the Department of Elementary and Secondary Education (DESE): "The goal of the Commonwealth charter school tuition rate formula is to establish a tuition that is comparable to what would have been spent on a student had he or she stayed in their home district."[1]

How are district tuition payments determined?

The simple answer:

Tuition payments are roughly equal to average per pupil spending in the sending district (the district where a student resides and would otherwise have attended the traditional public school). Since charter schools often educate kids from many sending districts, they receive different tuition amounts based off of spending levels in each of those districts. The table below illustrates how this works through a simplified, made-up example. Per pupil spending in Sending District B is higher than in the

other two districts, so tuition payments received on behalf of students coming from District B are higher than tuition payments made on behalf of other students.

Tuition Funding for Made-Up Charter School

	# of Students at Made-Up Charter School	Per Pupil Spending in Sending District	Total Tuition Payments
Sending District A	100	$12,000	$1,200,000
Sending District B	100	$17,000	$1,700,000
Sending District C	100	$13,000	$1,300,000
			$4,200,000

The detailed answer:
The actual tuition formula is a three-step calculation that is more fine-grained than just using average per pupil spending in the sending district. Specifically, the formula calculates and then adds together the following three rates:

1. a **foundation budget rate** that factors in the specific mix of kids leaving a district for a given charter school;
2. an **above foundation rate** that captures average district spending above its foundation budget minimum; and
3. a **facilities aid rate**, a flat per student amount originally intended to help charter schools pay for school buildings, usually through a lease. Districts have always been reimbursed by the state for 100 percent of this amount, so the effective tuition rate paid by sending districts is really just the sum of the foundation budget rate and the above foundation rate.

This formula aims to calculate tuitions that more closely match the needs of actual students leaving a sending district. But since charter schools tend to educate fewer in-district special education students and the formula doesn't account for this difference, they often end up receiving a disproportionate share of district special education funding. See the next section for more detail.

The **foundation budget rate** factors in the specific demographic make-up of students leaving a given district and is modeled on the foundation budget calculation used in the Chapter 70 education aid formula (see Demystifying the Chapter 70 Formula for more detail). A traditional school district's foundation budget serves as the state's definition of an adequate minimum spending level. Recognizing the need to provide additional supports for certain types of students, it provides additional funding for low-income students and English language learners. It also provides additional support for special education students, but rather than taking an actual headcount, the formula uses an assumed percentage to estimate special education enrollment. We discuss this and related issues in the next section.

As part of the charter tuition formula, the state essentially creates a unique foundation budget for the subset of students leaving a given district and attending a given charter school. That total amount is then divided by the number of students leaving for the charter school to generate the foundation

budget rate. This rate varies from the sending district's per pupil foundation budget when the specific mix of low-income or English language learner students leaving for the charter school is different from the mix in the sending district at large. Different foundation budget cost assumptions for different grade levels could also lead to some variation with the per pupil foundation budget of a sending district.

Recent improvements to the national school meals program have led to changes in how districts count low-income students. These changes will affect FY 2017 foundation budget rate calculations. For more detail on this issue, see Proposed Low-Income Student Changes Would Have Varied Chapter 70 Impact**.**

Since most districts spend more than their required minimum foundation budget amount, the formula then calculates an **above foundation rate** to capture district spending above this minimum.

This above foundation rate is calculated by:

1. Identifying a district's Net School Spending—roughly total general fund spending from state and local sources. Net School Spending does not include spending out of state and federal grants and a few other types of spending.
2. Adjusting Net School Spending downwards by two costs that charter schools generally do not incur: out-of-district special education tuition and retired teacher health insurance.
3. Converting adjusted Net School Spending into an "above foundation percentage" and multiplying that by the foundation budget rate. For more detail on how these adjustments are made, see the *Preliminary FY16 Net School Spending Percentage Above Foundation Budget* spreadsheet at the bottom of this DESE webpage.

Some districts that spend right at their foundation budget minimum end up with above foundation rates of $0 (e.g. Everett and Lynn in the table below), whereas others spend considerably more than their foundation budget minimum (e.g. Cambridge at $13,291 per pupil). If a district chooses to increase local spending above its required minimum, this in turn also increases its charter tuition payments.

Since the foundation budget and Net School Spending calculations do not account for capital costs, and since charter schools are not eligible for capital project financing through the Massachusetts School Building Authority (MSBA), the tuition formula includes a **facilities aid rate**. This rate was initially calculated by using per pupil capital spending from school district end-of-year reports. But the state's contribution to local capital projects has been frontloaded since creation of the MSBA in 2004, rather than spread out evenly as a portion of regular bond payments, making it harder to model total capital spending on an annual basis for school districts. Since this change, the facilities aid rate has been legislatively appropriated within line item language of the charter reimbursement account. The facilities aid rate has for many years been unadjusted for inflation, set at a flat $893 per pupil since FY 2009.

For accounting purposes, the facilities aid rate is part of the total tuition amount that sending districts pay to charter schools, but districts are 100 percent reimbursed by the state for this amount. Facilities aid functions, in effect, as a pass-through of state funding through districts to charter schools. Therefore, the tuition amount paid by sending districts is essentially the sum of the foundation budget rate and the above foundation rate.

In order to show an example of this in practice, below is a table detailing tuition calculations for the 23 districts sending students to Prospect Hill Academy's Somerville Campus. Tuitions range widely—from $9,522 for students coming from Haverhill to $25,432 for students coming from Cambridge—driven largely by variable spending in each of the sending districts.

Charter Tuition Calculations for Prospect Hill Academy Somerville Campus, FY 2016 (as of Q2)

Sending District	Students From District	Foundation Budget Rate	Above Foundation Rate	Facilities Aid Rate	Total Tuition Rate
Billerica	4	11,910	5,096	893	17,899
Boston	24	11,180	3,020	893	15,093
Brockton	3	12,040	66	893	12,999
Brookline	2	9,724	5,182	893	15,799
Burlington	1	14,073	9,990	893	24,956
Cambridge	112	11,248	13,291	893	25,432
Chelsea	11	11,412	200	893	12,505
Everett	58	11,924	0	893	12,817
Haverhill	3	8,474	155	893	9,522
Lawrence	2	12,040	10	893	12,943
Lynn	13	12,835	0	893	13,728
Malden	51	11,322	350	893	12,565
Medford	39	11,040	3,443	893	15,376
Newton	2	9,938	6,080	893	16,911
Peabody	1	8,474	724	893	10,091
Randolph	10	10,961	3,223	893	15,077
Revere	5	10,340	675	893	11,908
Saugus	5	10,151	2,296	893	13,340
Somerville	284	10,844	3,901	893	15,638
Stoughton	2	8,474	2,397	893	11,764
Waltham	4	8,344	4,444	893	13,681
Watertown	2	11,845	8,790	893	21,528
Woburn	4	11,657	4,327	893	16,877

Districts make these tuition payments on a monthly basis, so if a student returns to a district from a charter school mid-year, their tuition costs are reduced proportionally.

How does the tuition formula treat special education students?

For school funding purposes there are two categories of special education students: those receiving services in-district and those receiving services out-of-district. Out-of-district special education students have greater needs and are typically educated in specialized private schools. Since sending districts are required by law to meet the needs of these students, they pay tuition for them to attend

these specialized schools. Therefore, charter schools do not support any out-of-district special education students. If it is later determined that a charter student needs to start receiving out-of-district services, the student goes back to becoming the sending district's financial responsibility (for more detail see Technical Assistance Advisory SPED 2014-5). Out-of-district tuition payments are supported by local and state revenue (including by the state's Special Education Circuit Breaker program) and are accounted for separately from charter school tuition calculations. These students are not counted towards the foundation budget rate of any sending districts, and costs associated with them are also taken out when calculating the above foundation rate.

By contrast, charter schools do educate in-district special education students, so costs associated with them are factored into the charter tuition formula. But because the formula assumes that charters educate an equal share of special education students as those educated in district schools, when in fact they tend to educate a lower share, this provision has led many charter schools to receive a disproportionate share of a district's special education funding. Specifically, 14.3 percent of charter school students received special education services in FY 2016, whereas 17.4 percent of students in sending districts received special education services. These percentages are based off of DESE special education enrollment reporting that unfortunately does not account for the intensity of services received by individual students. Some special education students spend the vast majority of their time in mainstream classrooms with no additional support, whereas others are in self-contained classrooms for most of the school week. This data does not account for these differences.

It is possible that special education students with the greatest needs are less likely to attend charter schools since larger districts have greater economies of scale that better allow them to meet the unique needs of particular populations of students (e.g. having enough students with autism to provide a self-contained autism classroom within the district). But without better data on the intensity of services being provided to each student, it is very difficult to know for certain the impact of these variations.

In-district special education spending is captured both through the foundation budget rate and the above foundation rate. In order to discourage districts from over-identifying students for special education, the foundation budget uses an assumed full-time equivalent rate of 3.75 percent of total enrollment. This is built upon an assumption that 15 percent of all students receive special education services 25 percent of the time (15% x 25% = 3.75%). The foundation budget rate in the charter tuition formula uses this same assumed percentage. Recent research has shown that the foundation budget's assumed in-district special education spending levels are well below actual costs of providing necessary services, and this is an issue that faces charter schools and regular districts. For more detail, see Cutting Class: Underfunding the Foundation Budget's Core Education Program.

All additional in-district spending is captured through the above foundation budget rate and by requiring sending districts to pay this per pupil amount, the formula implicitly assumes that charter schools are educating the same proportion of special education students. But because charter schools have tended to educate a smaller share of special education students, they end up receiving a disproportionate share of a district's special education funding. If charter tuitions were adjusted to account for the lower share of in-district special education students served by charters, the tuition rate would go down in most cases.

How do charters affect a sending district's foundation budget and Chapter 70 aid?

Charter school students are associated with revenue directed to sending districts (through local support and Chapter 70 aid) and their costs (through charter tuition payments). A district's foundation budget counts together students attending district schools and those attending charter schools. Factoring in a district's total foundation budget, the Chapter 70 formula generates a minimum local spending requirement and Chapter 70 state aid at levels intended to support the education of all of these students. Districts then fund both the operation of their own schools and charter tuition payments (and other out-of-district placements) out of this total budget.

What is the charter reimbursement formula?

In theory, when new students attend a charter school, district costs shift from the direct cost of educating kids in district classrooms to the cost of paying tuition to receiving charter schools. In practice, however, districts often can't recoup the full per pupil cost of a departing student. Students going to charter schools are usually sprinkled across classrooms and schools, so even if the total number of exiting students is equal to the size of a full classroom or school, it is often impractical to close them immediately. This can be especially difficult for districts that lose smaller numbers of students to charter schools, since these totals might not ever equal the size of multiple classrooms or schools.

In order to address these transition challenges, the state funds a charter reimbursement program that offsets a portion of district tuition costs in the early years after the number of students attending charters increases (these reimbursements are also referred to as Chapter 46 Aid). Specifically, when tuition payments increase for a given school district over the prior year, the state reimburses that district for 100 percent of the increased cost in the first year (when the formula is fully-funded). The state then reimburses 25 percent of this first year increase amount for each of the subsequent five years. Reflecting this six-year reimbursements schedule, it is sometimes referred to as the "100/25/25/25/25/25" formula.

The reimbursement formula used to work on a three-year 100/60/40 schedule, but it was changed to the new six-year formula as part of 2010's An Act Relative to the Achievement Gap. Year one of the 100/25/25/25/25/25 formula was first implemented in FY 2011.

Here's a stripped-down example of how the current formula works: If a new charter school opens up and receives new students from one sending district that generate $1 million per year in additional tuition payments from the sending district (going from, say, $10 million in tuition payments to $11 million), reimbursements would work as follows:

Made-Up Charter Reimbursement Scenario Under Current Formula

	Prior Years	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Total Charter Tuition Payments	$10 mil	$11 mil	$11 mil	$11 mil	$11 mil	$11 mil	$11 mil
Percent Reimbursement of $1 mil Increase in Year 1		100%	25%	25%	25%	25%	25%
New Reimbursements to Sending District (if formula fully funded)		$1,000,000	$250,000	$250,000	$250,000	$250,000	$250,000

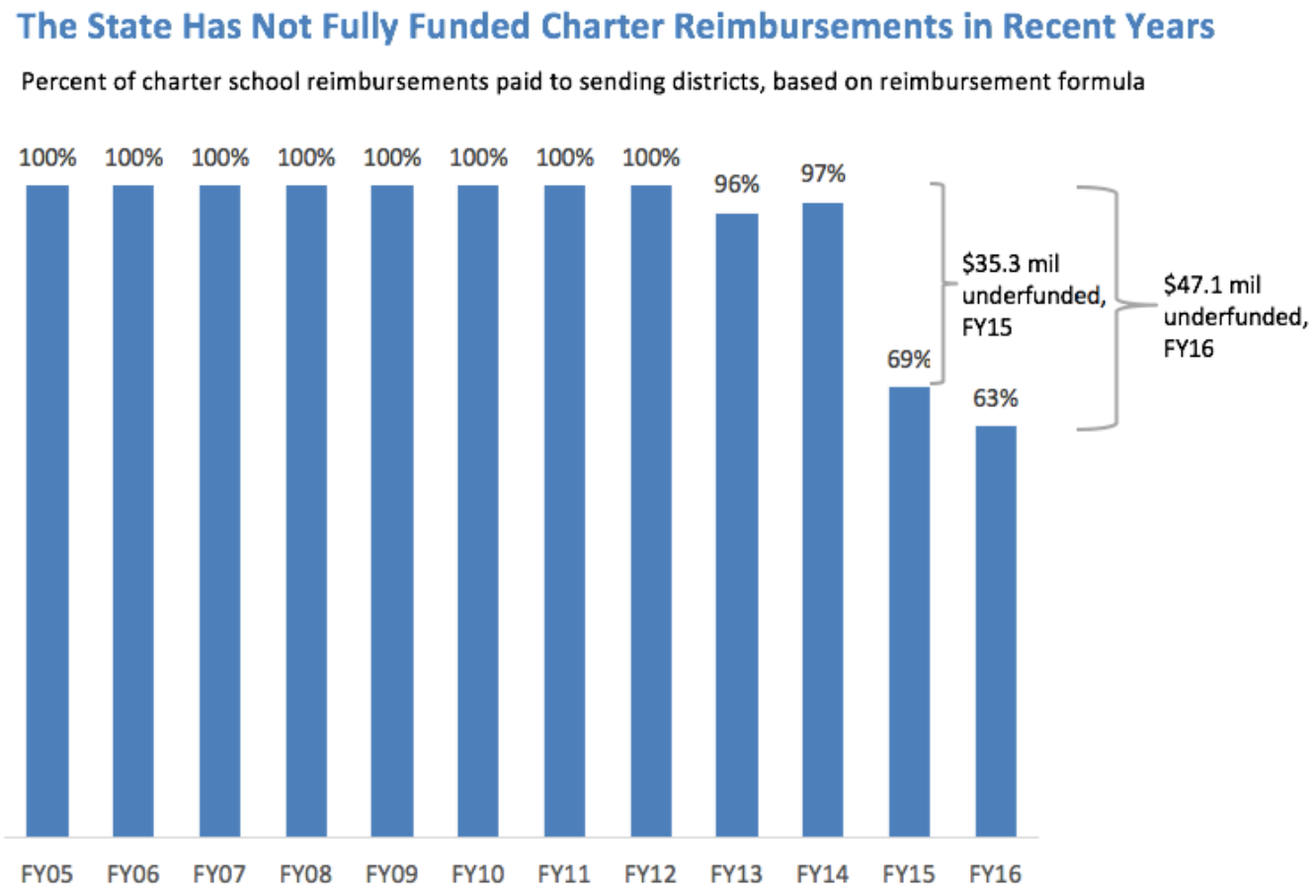
Reimbursements are based off of *increases* in tuition payments, not on total amounts. If a district sends a consistent number of students to charter schools over several years and pays $10 million a year in tuition year-in and year-out, it would not receive any reimbursement funding after the sixth year. If a new charter school opened up, however, leading tuitions to increase from $10 million to $11 million, the sending district would then become eligible for reimbursements off of the $1 million increase. (In practice, even if the number of students stays constant, normal cost growth typically leads school spending to increase, thereby triggering small charter tuition increases that do initiate new rounds of reimbursement.)

An additional component of Chapter 46 aid is funding of first-year tuition for new students attending a charter school who previously had attended a private school or had been home-schooled. Since these students hadn't previously been educated by the sending district, their charter tuitions represent a new cost for the district. To help smooth this transition, the state fully pays this first-year tuition. In later years, financial responsibility for these charter students shifts back to the district.

For more detail, see DESE's Understanding District Aid for Commonwealth Charter School Tuition.

What does it mean to say that reimbursements haven't been fully funded?

For many years, the state reimbursed districts for the full amount determined by the charter reimbursement formula. But reimbursement levels are subject to annual appropriations, and in recent years the Legislature has not appropriated sufficient funding to provide sending districts with 100 percent of the reimbursements as determined by the formula. In fact, the relatively new 100/25/25/25/25/25 formula has never been fully-funded. A year-by-year phase-in began in FY 2011—funding year one reimbursements at 100 percent in FY 2011, funding year one (100 percent) and year two (25 percent) reimbursements in FY 2012, and so on). The first four years were all close to fully-funded but, as shown in the graph below, the state has only provided about two-thirds of the formula-driven reimbursement amounts in the past two years.



These calculations above include full reimbursement of facilities aid and full funding for first-year charter students who had previously attended private schools or had been home-schooled. Setting these aside in order to focus only on reimbursements associated with the foundation base rate and the above foundation rate, these key portions of the reimbursement formula are only 51 percent funded in FY 2016.

Fully funding reimbursements would have directed an additional $35.3 million to sending districts in FY 2015 and $47.1 million in FY 2016.

Corresponding with the large drop in funding of tuition reimbursements in FY 2015, DESE changed its approach for prioritizing how available funding is distributed. Rather than providing all sending districts a uniform percentage of the total amount determined by the formula, DESE is now prioritizing reimbursements to districts during the first year of a tuition increase (the 100 percent reimbursement tier of the 100/25/25/25/25/25 sequence). Districts due reimbursements for later tiers only receive funding as it's available. For FY 2016 it appears as though funding will be close to sufficient for funding first-year reimbursements (DESE currently projects 95% reimbursement for year one increases), with little to nothing left over for later year reimbursements.

This effectively shifts the formula in FY 2016 from 100/25/25/25/25/25 to 95/0/0/0/0/0.

Who is responsible for transporting charter students and how is this funded?

For students attending charter schools in the same district where they live, the district is required to provide transportation under the same rules established for district students. This can mean providing no transportation for students living within a determined walk zone, providing T-passes for the use of public transportation, or providing transportation through a district's existing school bus network. One challenge some districts face is providing transportation to charter schools that operate school schedules that vary significantly from the schedule of district schools. In these cases, districts lose economies of scale and often need to fund separate transportation services for small numbers of students. Nonetheless, once a charter school's school day and calendar have been approved by the Board of Elementary and Secondary Education, the district is required to provide transportation that accommodates this schedule.

Some charter schools choose to operate their own transportation services for students who reside in the same district as where the charter school is located. In these cases, they receive a per student funding amount that is equal to the lesser of either the charter school's per pupil transportation costs or per pupil transportation costs in the sending district. Since this transportation amount is added to a sending district's tuition calculation (essentially a fourth rate on top of the three rates described earlier in this brief), these costs can trigger charter reimbursement funding from the state when they are part of an overall increase in tuition costs.

Additionally, schools designated as regional charter schools are eligible for funding through the state's regional transportation reimbursement program.

For more detail, see DESE's Charter School Technical Advisory 07-2: Transportation.

What are the recent proposals for changing charter school funding?

The Governor's proposal:

Through his FY 2017 budget, the Governor proposes a few key changes to the charter reimbursement formula. Specifically:

- For districts that are low-performing and have charter tuition payments that exceed 9 percent of Net School Spending, the six-year reimbursement schedule would be shortened to a three-years, and reimbursements in year two would increase from 25 percent to 50 percent; the schedule would shift from 100/25/25/25/25/25 to 100/50/25. Additionally, in order to receive funding in the second and third years, these districts would have to submit plans for using these funds.
- All other districts would only be eligible for 100 percent reimbursements in year one, thereby eliminating 25 percent reimbursements in years two to six from the current schedule.

The Governor proposes funding this revised system in FY 2017 at $20.5 million above current levels, which the administration projects would allow for fully funding reimbursements for districts in years one and two, and possibly for districts in year three.

The Senate working group's proposal:

Last week (March 31, 2016), a working group appointed by the Senate President released a charter school bill, which among many other proposals includes a few related to the funding mechanisms described above. The House has not proposed similar legislation. Specifically, the Senate working group bill would:

- Move to the 100/50/25 reimbursement schedule but make reimbursements available to all districts, not just those that are low-performing and have tuition payments that exceed 9 percent of Net School Spending.
- Provide districts with up to $1,000 per student in "small district equity aid" for each charter school student leaving a district with total enrollment of 1,000 students or fewer.
- Limit district responsibility for funding charter school transportation under certain circumstances: if a charter school and district cannot reach agreement on the charter school's start time, the district's responsibility for funding transportation would be limited to 50 percent of the charter school's transportation costs.

[1] DESE PowerPoint presentation—*Commonwealth Charter School Funding*, July 2015