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PASBO Testimony to the Senate Education Committee on Charter School Funding

August 14, 2019

The PA Association of School Business Officials (PASBO) comprises school business officials who are responsible for building school district budgets and managing school district finances. Ensuring stability, predictability and sustainability of school district revenues and expenses is a priority for our members, and growing charter school expenditures—along with increasing employee pension and special education costs—consistently create fiscal stress for school districts across the commonwealth. As a result, charter school funding reform has been a priority for our members for decades, and there is definitely a better way to fund charter schools—one that is fair and consistent for all stakeholders.

From our perspective, the issue of charter school funding reform is not a debate on school choice, on school quality or educational programming. Charter schools have existed for more than two decades, they educate about 140,000 students statewide; they're a part of Pennsylvania's public education system.

The goal, from our perspective, is to revise the funding mechanism to develop a system that is fair to everyone—including charter schools. Current policy is having a detrimental financial impact on school districts, taxpayers and students alike. It's time to make some adjustments to this 1997 policy to inject some financial stability and predictability into the process for school districts and to, hopefully, mitigate the adversarial relationship that sometimes exists between school districts and charter schools because of the tuition calculation.

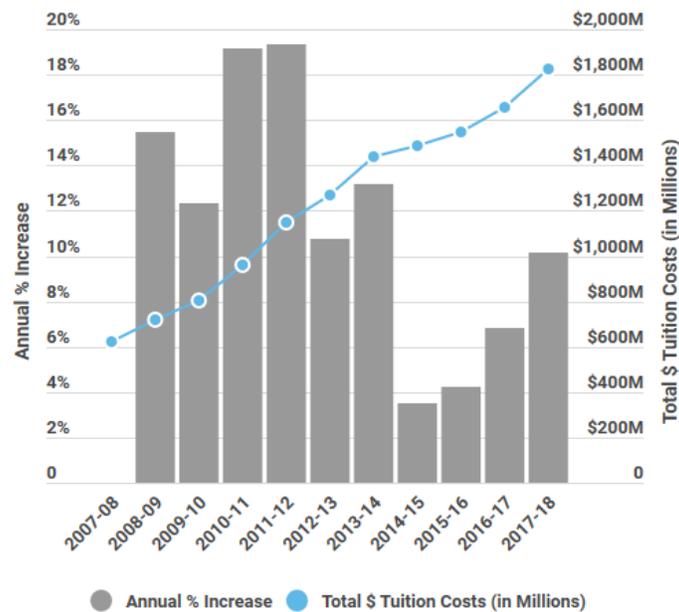
Background

Our prioritization of charter school funding reform derives from the fact that charter school tuition expenditures are one of the fastest growing areas of school district budgets. Between 2016-17 and 2017-18, statewide charter school tuition costs grew by \$170 million—more than a 10% increase. This \$170 million increase in total charter school tuition costs meant that \$0.37 of every \$1.00 in additional property tax revenue collected in 2017-18 went to pay charter schools.

School districts paid more than \$1.8 billion in charter school tuition costs in 2017-18, and charter school expenditures represented nearly 7% of total school district operating costs. In terms of scope, this \$1.8 billion in charter school tuition costs represented nearly 14% of the total property tax revenue collected by school districts in 2017-18.

School districts must pay tuition for every resident student that attends a charter school, and charter school tuition costs grow each year. The graph below shows both the total statewide charter school tuition expenditures each year and the annual percentage increase in these total expenditures.

Growth in Charter School Tuition Costs



Increases in charter school tuition expenditures over the past five years have been so significant that they have functioned to wipe out all of the state basic education funding increases for nearly 20% of school districts. For these school districts alone, charter school tuition increases totaled \$394 million over five years, eclipsing their basic education funding increases by more than \$135 million.

Additionally, almost 10% of school districts sent at least \$0.50 of every dollar of their basic education funding increases *and* property tax increases over the past five years directly to charter schools.

This mandated cost is outside the control of school districts, and the tuition calculation that was put into place in 1997 basically ensures annual increases in the charter school tuition rate for school districts, increasing overall charter school tuition expenditures even if charter school enrollment remains static.

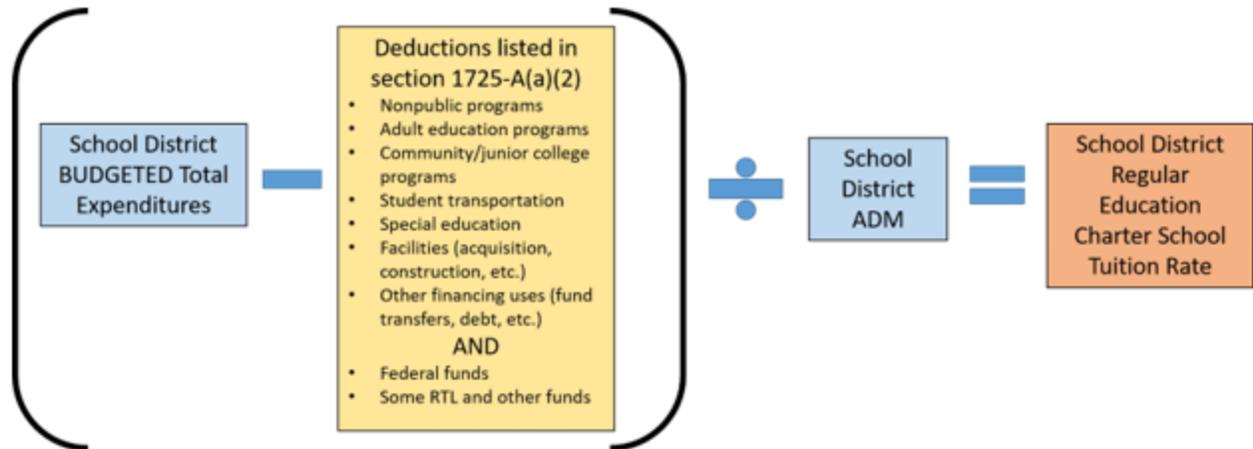
The Charter School Tuition Calculations

The annual growth in charter school tuition expenditures is a result of the charter school tuition calculation in section 1725-A of the Public School Code. The calculation articulates the tuition amount each resident school district pays to a charter school—either brick and mortar or cyber—for a regular education student and a special education student.

The tuition amount is based entirely upon the school district's costs, not a charter school's cost. As a result, there are 500 charter school tuition rates—one for each school district. That means that a charter school that educates students from multiple school districts receives an entirely different amount for each student.

For a regular education student (a student without an IEP) attending a charter school, the school district starts with their budgeted total school district expenditures from the prior school year. Then, they make some deductions to that total amount for several expenditures—these expenditures either reflect areas where charter schools have no corresponding cost, where school districts are required to provide services to charter schools or where charter schools receive state or federal funding for the same purpose as school districts. Special education expenditures are also deducted.

The graphic below illustrates the calculation that a school district does on an annual basis to define their regular education charter school tuition amount.

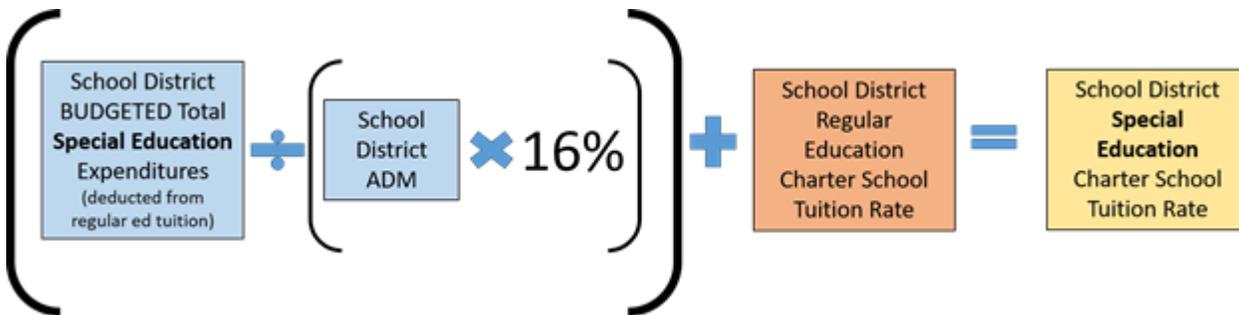


The total school district budgeted expenditures minus the appropriate deductions is then divided by a school district's Average Daily Membership (ADMs) for the prior year. The result is the regular education charter school tuition rate. For 2018-19, this rate ranged from \$7,800 to more than \$21,000 per student.

If a student attending a charter school requires special education services and has an IEP, the school district pays a different—higher—tuition for that student in which a supplement is added to the district's regular education charter school tuition rate discussed above.

To calculate the special education charter school tuition rate, the school district starts with their total budgeted school district special education expenditures for the prior year. Those school district special education expenditures are then divided by 16% of the school district's ADMs. Sixteen percent is used in this calculation because it was placed in the formula by law to represent the average percentage of special education students in a district. However, the actual average percentage of special education students is greater than 16%.

The resulting amount is then added to the regular education charter school tuition rate. This sum becomes the special education tuition rate. The graphic below illustrates the annual calculation to determine the special education charter school tuition rate.



The special education tuition rate is generally more than twice as high as the regular education tuition rate. For 2018-19, the special education charter school tuition rate was, on average, more than \$14,000 per student higher than the regular education tuition rate. For 2018-19, special education charter school tuition rates ranged from \$16,600 to nearly \$54,000 per student.

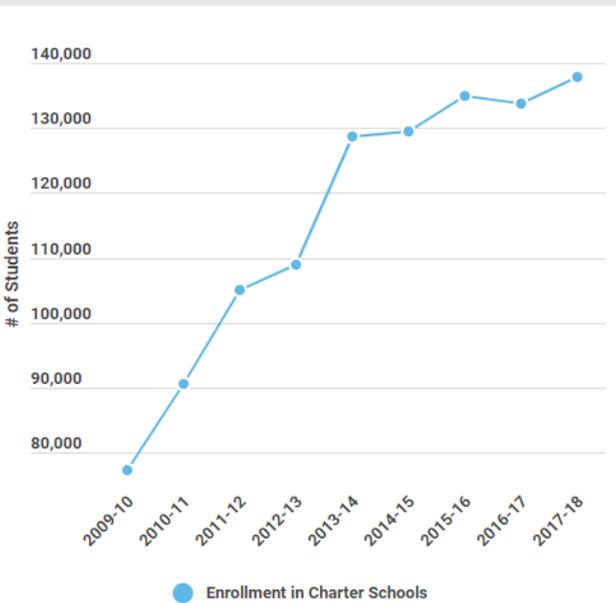
Based on the charter school tuition calculations discussed above, the amount of charter school tuition a school district pays—and how quickly the tuition increases from year to year—is largely dependent on factors outside a school district’s control. However, rises in mandated costs for school districts—namely pensions, special education and charter school tuition—ensure that the charter school tuition rate goes up every year. Since school district pension costs, school district special education costs and charter school tuition costs are all factored into the charter school tuition calculation as part of a school district’s budgeted total expenditures, when these costs go up—which occurs every year—the charter school tuition rate increases. This creates a mandated cost feedback loop in which rising mandated costs that increase school district total expenditures increase charter school tuition expenditures, which then increases school district expenditures and so on.



Additionally, school districts facing declining enrollment often see an increasing charter school tuition rate simply because the denominator of the calculations discussed above is getting smaller.

In addition to mandated cost increases and/or enrollment declines, both of which increase the individual school district charter school tuition rates, overall charter school tuition expenditures increase in many school districts because charter school enrollment continues to grow. While the impact of charter school enrollment growth differs for every school district, some school districts struggle with significant increases in enrollment from year to year in addition to tuition rate increases. The graph below illustrates the growth in charter school enrollment over time.

Charter School Enrollment



Charter School Funding Reform Options

Recognizing the financial impact of the current charter school tuition calculations on school district finances and the growing burden on local taxpayers, PASBO has consistently advocated for changes to the charter school tuition calculation to both provide relief to school districts from these increasing mandated costs and to ensure that the calculation is fair for school districts, charter schools and taxpayers alike.

Thus far, we have been unsuccessful in advancing any charter school funding reforms. The impact of the failure to revise the underlying charter school tuition calculation is that charter school tuition increases significantly every year, and school districts must cover the costs locally.

In terms of making improvements to the charter school funding system, we believe there are many ways to tackle this problem, slow the growth in charter school tuition costs and provide needed relief to school districts and taxpayers. Three of many options are discussed below.

First, PASBO supports simply slowing the rate of growth of the regular and special education charter school tuition rates for each individual school district. As discussed above, based on the charter school tuition calculation and its inclusion of so many mandated costs, the charter school tuition rate often increases—by hundreds or thousands of dollars per student—from year to year.

While the Act 1 index limits the amount of revenue school districts can raise each year, individual charter school tuition rates often increase annually by a percentage that is greater than the Act 1 index. Aligning charter school tuition rate growth to a school district's capacity to raise revenue under the Act 1 index would acknowledge the financial impact of charter school tuition on school district budgets, provide some limited parity between charter schools and school districts, provide school districts with greater predictability from year to year in budgeting for charter school tuition costs and allow for growth in the charter school tuition rate each year.

Mechanically, this proposal will simply cap annual charter school tuition rate growth at each school district's Act 1 index. While this will have no impact on charter school tuition rates for some school districts, it will slow the increase in the rate from year to year in others.

For example, if a school district's regular education charter school tuition rate calculated pursuant to the charter school law grew from \$10,000 to \$10,500 per student from one year to the next, it would be a 5.0% increase in the charter school tuition rate. If the school district's Act 1 index was 3.2%, the proposal would limit the growth of the regular education charter school tuition rate to 3.2%, meaning that the rate would go from \$10,000 one year to \$10,320 the following year. That becomes the base rate for the following year and so on. The same limitation would apply to the special education charter school tuition rate, allowing for growth in the rate from year to year, but ultimately capping it.

Second, another proposal would make a change to the charter school special education tuition rate by modifying one number in the calculation and using actual data. As discussed above, the current calculation requires a school district to divide its special education expenditures by 16% of its total population, regardless of its actual special education percentage of students. When the charter school law was written, the average special education population of a school district was about 16%; however, today, the special education population is much greater than 16% in many school districts.

School districts with a special education population greater than 16% are paying a higher charter school special education tuition rate than they should, since they're dividing by a number that's smaller than their special education population.

As an easy example, assume a school district has \$30,000 in special education expenditures and 100 ADMs. The current special education charter school tuition rate would require the \$30,000 to be divided by 16% of 100 students—or 16. This would result in a special education amount of \$1,875. That amount would be added to the district's regular education tuition rate.

If, however, the school district had a special education population of 25%, rather than use a fictitious 16%, the denominator would be 25, and the special education amount added on to the regular education tuition rate would be \$1,200.

Based on the most recently available data (using Act 16 data, which is used in the special education funding formula), the proposal would reduce the special education charter school tuition rate for about 80% of school districts because their special education percentages are greater than 16%. School districts with a special education population of less than 16% would see an increase in their charter school special education tuition rate.

Finally, another option would be to have the state reinstate partial funding for charter school tuition costs—or provide full reimbursement to districts based on cost or wealth levels. The state had been funding about 25% of these costs in the past, but the reimbursement stopped in 2011-12, sending over \$225 million instantly to taxpayers in that single year.

This could be done to provide relief to all school districts, or it could be targeted to provide relief to those school districts with the largest charter school cost increases, the greatest charter school tuition increases or even the greatest impact on taxpayers. Additionally, since school districts have no authority to authorize cyber charter schools, another option would be for the state to target reimbursement to school districts based on cyber charter enrollment—or even to begin to fund cyber charter school tuition in its entirety.

While the amount of savings for school districts would be dependent upon the policy direction of reimbursement and a corresponding state appropriation, this option would ensure that the state is at least partially financially responsible for the policy they've implemented and that charter school costs are not borne by school districts and taxpayers alone.

While these options are just three of many possibilities for addressing the underlying charter school tuition calculation, we believe these options take at least an initial step in ensuring that the calculation is reasonable and fair for all involved and that most school districts and taxpayers receive relief in the process.

Again, as an association made up of school business officials, charter school funding reform remains a priority. There is certainly a better way to fund charter schools—a way that will work for school districts, taxpayers and charter schools, and we are appreciative of your attention to and engagement in this important issue. PASBO is eager to continue to work with the Committee, the Senate, the House, the Department, the administration and all stakeholders towards a solution.

Thank you for your time and attention.