



Subject: Charter School Funding
To: Senate Education Committee
From: David Lapp – Director of Policy Research at Research for Action
Date: 8/14/2019

Good afternoon Senator Langerholc, Senator Dinniman, and other honorable members of the Senate Education Committee. My name is David Lapp and I serve as the Director of Policy Research at Research for Action (RFA), a 25-year old Pennsylvania-based education research organization. While we conduct research across the country, RFA continues to value our long history of providing independent research and analysis to inform Pennsylvania policymakers, practitioners, and the public. Thank you for this opportunity to share findings from some of RFA's recent research, as well as other researchers, and discuss the implications for this important topic of charter school funding in Pennsylvania.

The following comments pertain primarily to brick and mortar charter schools and not to cyber charters. It is widely understood that cyber charter schools in Pennsylvania receive far more funding than cyber schools in most states. RFA¹ and other researchers² have documented the poor return yielded by this over-investment in cyber charter schools.

What is less well-understood is the extent to which traditional brick and mortar charter schools are **adequately** and **equitably** funded in Pennsylvania, and the most efficient way to ensure both.

Available research on this topic points to three main conclusions:

1. It is true that most brick and mortar charter schools in Pennsylvania **are inadequately funded**. (And compared to schools in Pennsylvania's wealthy communities, most charter schools are also inequitably funded).
2. However, compared to their districts of residence, charter schools **are not inequitably** under-funded. To the contrary, many charter schools receive more than their fair share.
3. Reinstating, and adequately funding, the **charter school reimbursement** line item, which was zeroed out in 2010, would **improve adequacy and equity in both charter and traditional public schools**.

¹ See <https://www.researchforaction.org/rfa-releases-issue-brief-on-cyber-charter-schools/>; and <https://www.researchforaction.org/publications/revisiting-cyber-charter-school-performance/>.

² https://credo.stanford.edu/pdfs/2019_PA_State_Report_FINAL.pdf

1. Adequacy:

Charter schools are underfunded because they are, for the most part, located in (and thus funded based on) school districts that are themselves underfunded. It has been over 12 years since Pennsylvania conducted a statewide costing-out study, but little has changed since that study found that the state was underfunding public schools by over \$4 billion dollars.³ Recently, RFA worked with school funding experts Picus Odden & Associates to conduct localized costing-out studies; in the three districts studied to date, Picus Odden found state underfunding ranged from 16-22% of these districts total budgets.⁴

Because brick and mortar charter school funding is based on spending by their districts of residence, they also are inadequately funded.

2. Equity

The issue of **equity** is more complicated. It is true that, compared to Pennsylvania's wealthiest communities, brick and mortar charter schools are unfairly funded. Again, this is due to the fact that charter school funding is based on the funding of school districts of residence, most of which are themselves inadequately and inequitably funded.⁵ Fixing this type of inequity is hugely important, not just for charter schools, but also for the school districts in which they operate. It is also crucial to ensure the General Assembly is complying with its state constitutional mandate to support a "thorough and efficient system of public education to serve the needs of the Commonwealth."

However, the more immediate question before this Committee is whether charter schools receive an equitable share of the revenues received by their authorizing districts, the districts in which their students reside. The answer is that most do and that many receive even more than their fair share.

This question was studied in 2017 by Afton Partners. Afton found an approximately 2% difference in the amount of funding that Philadelphia brick and mortar charter schools received when compared to schools operated by the School District of Philadelphia.⁶ This is a substantial variation from the 30% difference claimed by many charter advocates, who mistakenly include funding for district-wide expenses, such as transportation, charter authorization activities, and debt service when comparing funding between the schools. These expenses are incurred by the larger school district system and not by individual schools themselves. By properly limiting the analysis to the amount of funding that actually goes to public schools, Afton concluded that the **"results of our analyses indicated that the district and charters were funded rather equitably."**

³ <https://www.stateboard.education.pa.gov/Reports/Costing-Out/Pages/default.aspx>

⁴ <http://picusodden.com/investing-so-schools-work/> So far, Butler Area School District, Chambersburg Area School District, and Upper Darby School District have participated in the study.

⁵ Of course, this is not the case for charter schools which operate and enroll students from well-funded school districts. However, there are only a few such charter schools in Pennsylvania which fit that description.

⁶ <https://aftonpartners.com/project/school-district-of-philadelphia/>

Charter Schools Are Underserving High-Cost Students

Even Afton, however, did not fully account for the fact that charter schools, as a sector and on average, are not serving the same proportion of their community's most costly-to-serve students as district schools – students with high-cost disabilities,⁷ English learners,⁸ migrant students, students in deep poverty,⁹ students in foster care, students experiencing homelessness,¹⁰ other students who are system-involved,¹¹ and other students experiencing the highest levels of trauma.

It is well-established through research that students with these needs are more costly to serve. The funding distribution under the Pennsylvania Charter School Law assumes that charter schools are serving all student subgroups equitably. When they in fact underserve those students, they receive *more than their fair share* of education funding.¹²

In discussing Pennsylvania's charter school special education funding, Rutgers professor Dr. Bruce Baker described the impact as the "Commonwealth Triple-Screw."¹³ First, (1) in districts with high rates of special education, the state-funding distribution still treats them as serving only 16% special education students, even if rates are higher numbers. Second, (2) charter special education tuition is also calculated by dividing district special education expenditures by 16% of the student population, rather than by the actual percentage of their special education population (resulting in an artificially high tuition calculation). Finally, (3) the charter funding assumes charters serve students that have average special education costs, when most charters serve students with more mild/low-cost disabilities.

Many other researchers, including RFA,¹⁴ have also described this impact and shown how the math works to provide a vastly greater share of special education funding to charter schools than is considered equitable.

Meanwhile, a similar phenomenon occurs for other student sub-groups with high-cost needs. The Charter School Law is built on the assumption that charters serve equitable numbers of all kinds of students. When charters underserve the most high-cost students, they receive, as a sector, a greater share of district revenues than what would be equitable.

⁷ <https://www.researchforaction.org/publications/charter-school-special-education-funding-pennsylvania/>

⁸ https://www.elc-pa.org/wp-content/uploads/2019/02/ELC_report-Safeguarding-Civil-Rights.pdf

⁹ https://www.elc-pa.org/wp-content/uploads/2019/02/ELC_report-Safeguarding-Civil-Rights.pdf

¹⁰ <https://www.researchforaction.org/publications/students-experiencing-homelessness-in-pennsylvania-under-identification-and-inequitable-enrollment/>

¹¹ http://policylab.chop.edu/sites/default/files/pdf/publications/PolicyLab_Report_Supporting_Students_Involved_with_Child_Welfare_June_2014.pdf

¹² The opposite is true as well. Charter schools which serve above average numbers of costly-to-serve students receive less than their fair share. The reality is that there are few such charter schools. On average charters are underserving these students.

¹³ <https://schoolfinance101.wordpress.com/2012/06/05/the-commonwealth-triple-screw-special-education-funding-charter-school-payments-in-pennsylvania/>

¹⁴ Charter School Special Education Funding in Pennsylvania, Research for Action, April 2017

<https://www.researchforaction.org/publications/charter-school-special-education-funding-pennsylvania/>

Finally, and perhaps most importantly, charter school funding in Pennsylvania no longer accounts for the negative fiscal impact of charter expansion on charters' school districts of residence. Many district costs are fixed, so when students leave for charter schools and the tuition follows them, the cost savings as a result of their departure are not proportional.

This issue of "stranded costs" was first studied in Philadelphia in 2012 by the Boston Consulting Group (BCG). BCG found that for every student who entered a charter school, the School District of Philadelphia experienced annual stranded costs of **\$7,000 per charter student**.¹⁵

Afton Partners also studied this issue in Philadelphia and found a more conservative annual negative fiscal impact of **\$4,824 per charter student**.¹⁶

In 2017, RFA conducted the most expansive study into the [fiscal impact of charter school expansion](#).¹⁷ The study included six schools district of varying size, degree of charter expansion, funding, and geographic location. The research was designed to be collaborative. We established an advisory group of both charter and district operators who were consulted and briefed at each stage of the study. The calculations were entirely transparent, and we published our calculation tool along with the results. The impact was calculated under multiple hypothetical rates of charter expansion, at both the first year of charter expansion and at five years in.

For Philadelphia, our year one per-student estimates were higher than both BCG and Afton (**\$8,125 per charter student**). Our year-five estimates were smaller (**\$3,803 per charter student**), but still very significant. Perhaps most importantly, we found that as long as charters continue to expand, the impact never reaches zero. There is no break-even point for school districts.

3. Charter Reimbursement

The Pennsylvania Charter School Law itself has always recognized the fiscal impact of charter expansion.¹⁸ And as recently as the 2010-11 school year, the state provided districts over \$219 million (on average \$2,417 per student) through a line item commonly referred to as the charter school "reimbursement" to partially alleviate that impact by students moving to charter schools.

However, in 2011 the General Assembly zeroed out that budgetary line item.

¹⁵ Available at https://www.crpe.org/sites/default/files/BCG-Summary-Findings-and-Recommendations_August_2012.pdf.

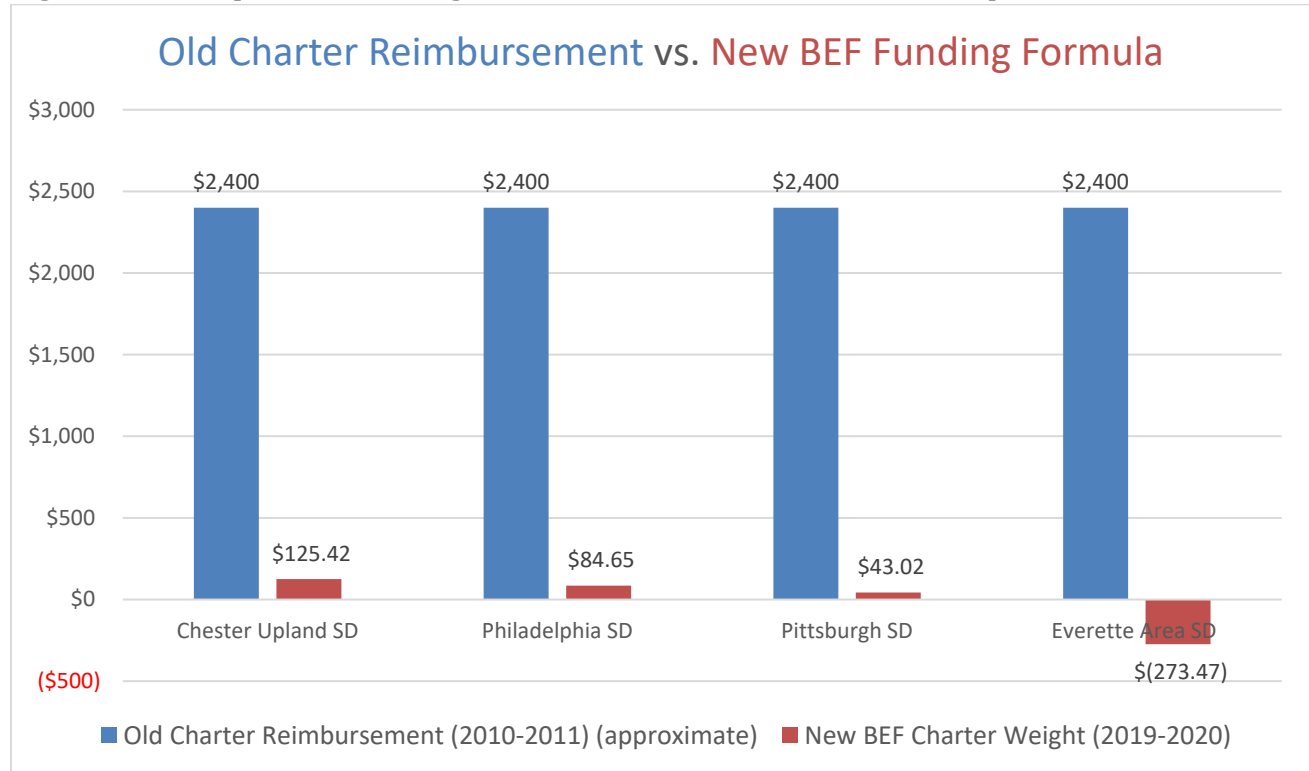
¹⁶ <https://aftonpartners.com/wp-content/uploads/2017/10/20170306-SDP-Summary-Outcomes.pdf>

¹⁷ Lapp; Lin; Dolson; and Moran. The Fiscal Impact of Charter School Expansion: Calculations in Six Pennsylvania School Districts. Research for Action, September 2017. <https://www.researchforaction.org/publications/fiscal-impact-charter-school-expansion-calculations-six-pennsylvaniaschool-districts/> (Executive Summary is attached for easy reference).

¹⁸ 24 P.S. § 17-1725-A (The law provides, subject to state appropriations, for a "grant program to provide temporary transitional funding to a school district due to the budgetary impact relating to any student's first-year attendance at a charter school.").

In 2016, the state adopted a new funding formula for the Basic Education Fund. This formula includes a charter student “weight” to, ostensibly, offset some of the costs of charter expansion. However, RFA has calculated that, as of 2018-19, the weight in the formula only provided a small fraction of the prior charter reimbursement line item. The difference for several school districts in Pennsylvania is demonstrated in Figure 1.

Figure 1: Per-Pupil State Funding to Offset the Cost of Charter School Expansion in PA



As is clear above, compared to the old reimbursement, the BEF charter weight does not provide meaningful funding to offset the negative fiscal impact of charter expansion.

Another key difference between the old reimbursement and the BEF charter weight is that the reimbursement *added* revenue to the system. In contrast, the BEF weight merely *distributes* appropriations. This means that while some districts receive some additional revenue for charter impact, many districts lose revenue. You can see that Everette Area School District, despite having 40 students in charter schools, lost money under BEF

If Pennsylvania is serious about providing additional school choices without negatively impacting existing school district choices, it must provide the funding to ensure districts and charter schools are both adequately and equitably funded. Reinstating and fully funding the charter reimbursement, would be an efficient way to accomplish both.

Thank you,

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THE FISCAL IMPACT OF CHARTER SCHOOL EXPANSION:

Calculations in Six Pennsylvania
School Districts

September 2017

David Lapp • Joshua Lin • Erik Dolson • Della Moran



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Executive Summary

THE NEED FOR A TRANSPARENT METHOD TO CALCULATE THE FISCAL IMPACT OF CHARTER SCHOOL EXPANSION

From 2008 to 2015, charter school enrollment in Pennsylvania more than doubled, growing from under 64,000 students to nearly 135,000 students.ⁱ In Pennsylvania, as in many states, a student's transition from a traditional public or private school to a charter school creates additional costs to the district of residence, mostly in the form of new charter tuition payments and increased administrative and oversight costs. There are also savings a district can realize for each student that it no longer educates in its own schools.

The difference between the increased costs of charter expansion (charter tuition payments) and the savings a district can realize as students depart (variable costs) is considered the fiscal impact of charter expansion. While several studies have estimated the impact of charter school expansion, estimates vary widely, and the methods for calculating them have often not been transparent. Moreover, these studies did not take important district variations or the rate of charter expansion into account. To address these shortcomings, RFA designed a transparent accounting-based projection model to estimate the fiscal impact of charter school expansion. The instrument used for these calculations—the Charter Impact Calculation Tool—is also available for public use.

THE CALCULATION MODEL

The charter school projection model, the Charter Impact Calculation Tool created to implement it, and the projection estimates and assumptions it relied on were reviewed and vetted at each step by independent school finance experts and by district and charter sector stakeholders convened by the Pennsylvania Coalition of Public Charter Schools (PCPCS), the Pennsylvania Association of School Administrators (PASA), and the Pennsylvania Association of School Business Officials (PASBO).

ⁱ Pennsylvania Department of Education, "Reports, Data and Resources," *Pennsylvania Department of Education*, <http://www.education.pa.gov/K-12/Charter%20Schools/Pages/Annual-Reports,-Data-and-Resources.aspx#tab-1>

Six Pennsylvania school districts with diverse budgets, sizes, and current rates of charter enrollment agreed to participate in the study. Each district provided necessary budget, enrollment, and building capacity data. Based on estimates provided by two independent school finance experts, we ran four hypothetical charter expansion scenarios through our calculation tool for all six participating school districts. In the model, we hold total public enrollment constant so that the rate of expansion in charter enrollment equals the rate of student loss from district schools. We do not attempt to quantify the impact of past charter growth.

The four hypothetical growth scenarios, which present charter growth as a *percentage of the total public school enrollment* in each district, are presented in Table ES-1.

Table ES-1: Four Hypothetical Charter Growth Scenarios

Scenario 1	Charter expansion at 0.5% for five years (2.5% total growth)
Scenario 2	Charter expansion at 1% for five years (5% total growth)
Scenario 3	Charter expansion at 2% for five years (10% total growth)
Scenario 4	Charter expansion at 4% for five years (20% total growth)

For each of the six districts, we calculate the fiscal impact in Year 1 and Year 5 of each scenario, representing the short- and long-term impact of charter expansion, respectively. Because charter expansion in Pennsylvania currently leads to only negligible changes in revenues, we focus solely on changes in expenditures when calculating fiscal impact.

Our Charter Impact Calculation Tool includes:

- Projections of the number of teachers, administrators, and staff that each district would be expected to lose as enrollment declines due to charter expansion.
- Projections of the number of school buildings the district would need to close as enrollment declines, based on existing building capacity rates.
- Each district’s budget, disaggregated by the appropriate object and/or function.
- The primary cost driver and the percent of variability of each budget line item.

Additional details on our assumptions and calculations are included in the full report.

FINDINGS

Table ES-2 summarizes our findings from our slowest and the fastest charter growth projections (0.5% and 4% annual growth). For each participating district we calculated the following:

1. The **total annual impact**, or the total amount of additional dollars each district would require to accommodate the new costs of charter expansion, while maintaining services and staff for students in district schools at roughly the same levels and proportions.
2. The **per-charter-pupil impact**, or simply the total impact divided by the number of new charter school students
3. The **impact as a percentage of a district's charter tuition rate**, which compares the amount of per-pupil impact to the average amount each district pays in tuition for a student enrolled in a charter school. In other words, this is the percent of new charter tuition costs that a district is not able to save. This analysis controls for the varying levels of charter tuition in our six districts, which allows for better comparisons of impact across districts.

Table ES-2: Summary of District-Level Findings

		Total Impact	Per Charter Pupil Impact	Percent of Charter Tuition	Total Impact	Per Charter Pupil Impact	Percent of Charter Tuition	Total Impact	Per Charter Pupil Impact	Percent of Charter Tuition
		Philadelphia (Large district — 35% charter)			Oxford Area (Med. district — 11% charter)			Mahanoy (Small district — 5% charter)		
Scenario 1 (0.5% growth)	Year 1	\$(8,246,460)	\$(8,125)	80%	\$(222,527)	\$(10,115)	89%	\$(68,900)	\$(13,780)	95%
	Year 5	\$(22,494,582)	\$(4,433)	44%	\$(888,747)	\$(8,229)	73%	\$(174,215)	\$(6,701)	46%
Scenario 4 (4% growth)	Year 1	\$(65,718,355)	\$(8,095)	80%	\$(1,757,244)	\$(10,217)	90%	\$(559,778)	\$(13,653)	94%
	Year 5	\$(154,377,306)	\$(3,803)	37%	\$(5,097,630)	\$(5,921)	52%	\$(1,683,626)	\$(8,133)	56%
		Central Bucks (Large district — 1% charter)			South Western (Med. district — 2% charter)			Quaker Valley (Small district — 2% charter)		
Scenario 1 (0.5% growth)	Year 1	\$(871,205)	\$(9,268)	81%	\$(224,425)	\$(10,687)	93%	\$(167,645)	\$(16,764)	96%
	Year 5	\$(1,600,564)	\$(3,391)	30%	\$(324,401)	\$(3,090)	27%	\$(357,513)	\$(7,448)	42%
Scenario 4 (4% growth)	Year 1	\$(7,577,516)	\$(10,036)	88%	\$(1,607,849)	\$(9,571)	83%	\$(1,311,216)	\$(17,253)	97%
	Year 5	\$(13,633,519)	\$(3,611)	32%	\$(3,455,617)	\$(4,124)	36%	\$(3,487,830)	\$(9,154)	52%

Note: Dollar amounts in parentheses indicate a negative fiscal impact

High-level Findings:

- **The fiscal impact of charter expansion is consistently negative**, across all scenarios of our model, on both a per-pupil and total level, and in both the short- and long term.
- **The total annual fiscal impact grows each year as more students depart for charters.**
- **However, the per-pupil impact decreases in the longer term.** With a constant rate of charter growth, the per-pupil impact in year five is smaller than the per-pupil impact in year one, because districts are able to economize on teacher salaries, building costs, and other fixed costs as more students leave.
- **Yet the impact never reaches zero as charter expansion continues.** Even by year five in our fastest growth scenario, districts will only be able to recoup between 44-68% of the cost of charter tuition for each student that leaves.
- **Small districts generally show a higher per-pupil fiscal impact than large districts.** This is because smaller districts need a higher percentage of students to leave before they are able to economize on teachers or buildings.

CONCLUSION

Using an accounting-based projection model of charter expansion, we estimated *a significant, negative fiscal impact of charter expansion in all six participating Pennsylvania school districts in both the short and long term*. This is true for districts of all sizes, and does not vary significantly by the rate of charter expansion. Pennsylvania can offset these costs, as it has in the past, by providing districts an additional state funding reimbursement for charter enrollment.



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