



# Pennsylvania Association of School Business Officials

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## Charter School Tuition and the Options for Charter School Funding Reform

The House of Representatives is considering a package of charter school reform bills that make various changes to the charter school law; however, none modifies the charter school tuition calculation or provides funding relief to school districts or taxpayers.

The bills, which were voted out of the House Education Committee in mid-May, are below:

[\*\*House Bill 355\*\*](#) (Rep. Reese, R-Westmoreland), which provides for parity between school districts and charter schools in the requirements that apply to chief school administrators and governing bodies, along with other critical good governance requirements such as annual independent audits and unassigned fund balance limitations.

[\*\*House Bill 356\*\*](#) (Rep. Dowling, R-Fayette), which requires school entities to provide a right of first refusal to charter schools when a school district plans to sell a building, allows charter schools with no limits on enrollment to operate multiple schools within the district that authorized the charter, provides for use of sectarian facilities and requires school districts, IUs and others to provide cyber charter schools with access to facilities for standardized tests.

[\*\*House Bill 357\*\*](#) (Rep. Topper, R-Bedford), which generally creates a standard application, modifies the process for a charter or cyber charter school requesting amendments to its charter, allows for enrollment expansion by a charter school via notification to the authorizing school district and clarifies the process for charter school enrollment.

[\*\*House Bill 358\*\*](#) (Rep. Marshall, R-Beaver), which provides parity in dual enrollment agreements for charter and cyber charter school students, also includes authority for school districts to exclude grant revenue they receive for dual enrollment programs from inclusion in the charter school tuition calculation.

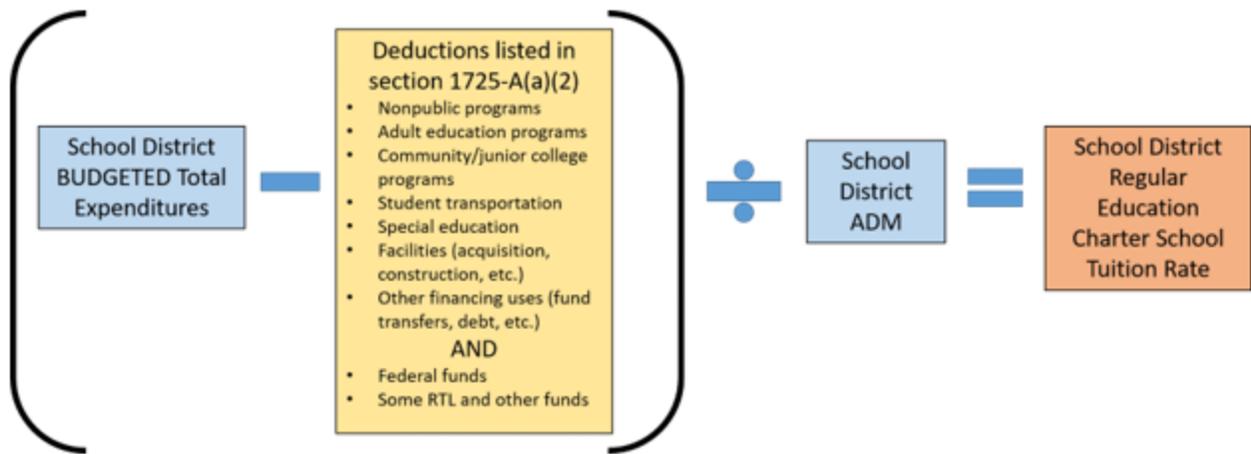
### How Is Charter School Tuition Calculated?

While charter schools receive some limited funding from the state, the vast majority of their funding comes from school districts. When a student decides to attend either a charter or cyber charter school, the school district of residence pays the charter school tuition for that student.

The tuition rate paid by a school district to a charter school is the same regardless of whether a student attends a charter or cyber charter school. 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 cyber charter school that educates students from multiple school districts receives an entirely different amount for each student.

The charter school tuition calculation is included in the charter school law, and it is broken into two parts--regular education tuition and special education tuition.

The regular education tuition calculation is relatively simple. A school district starts with their budgeted total expenditures from the prior school year (for the current school year, school districts used their budgeted 2017-18 expenditures)—this means that they use what they budgeted at the beginning of the prior year to calculate the rate, not what they actually spent during the prior year.



Then, they make some deductions (see the yellow box above). The Public School Code specifically allows deductions for several expenditures—these expenditures either reflect areas where charter schools have no corresponding cost (such as nonpublic school-related expenditures), where school districts are required to provide services to charter schools (such as transportation) or where charter schools receive state funding for the same purpose as school districts (such as Ready to Learn Block Grant funds; federal funds are also deducted for this reason).

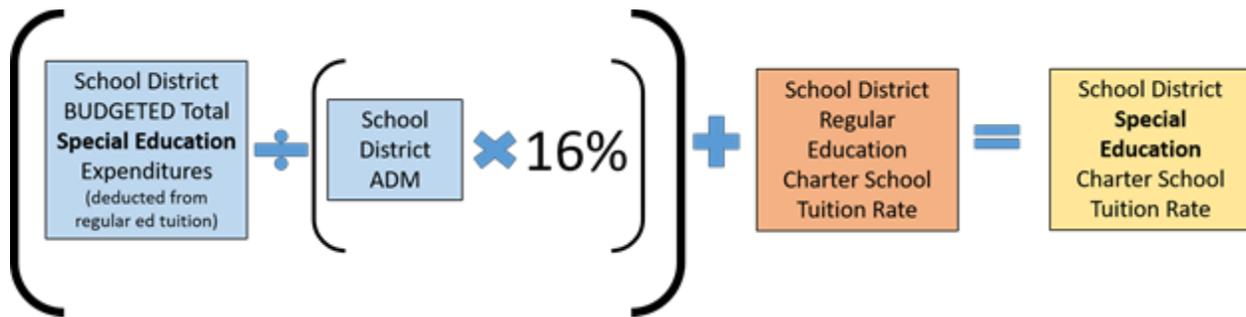
The charter school law also requires school districts to deduct their special education expenditures from the calculation when determining the regular education tuition rate. These school district expenditures are factored back in when calculating the special education tuition rate. The total school district budgeted expenditures minus the appropriate deductions is then divided by a school district’s Average Daily Membership (ADMs). The result is the regular education charter school tuition rate. For 2017-18, this rate ranged from \$7,600 to \$18,500 per student.

If a student attending a charter school requires special education services and has an Individualized Education Plan (IEP), the school district pays a different—higher—tuition for that student.

Like the regular education tuition rate, the special education tuition rate is defined by the charter school law. Generally, the special education tuition calculation adds a supplement onto the district’s regular education tuition rate.

To calculate the special education charter school tuition rate, the school district starts with their total budgeted special education expenditures for the prior year—this is the amount that was deducted from the regular education tuition calculation. 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 is placed in the formula by law as an average statewide percentage (median) of special education students to regular education students in all school districts. However, the actual percentage of students for 2017-18 was 19.8%.

The resulting amount is then added to the regular education charter school tuition rate. This sum becomes the special education tuition rate. The special education tuition rate is generally about 211% higher (2.11 times) or, on average, \$11,975 per student greater than the regular education tuition rate.

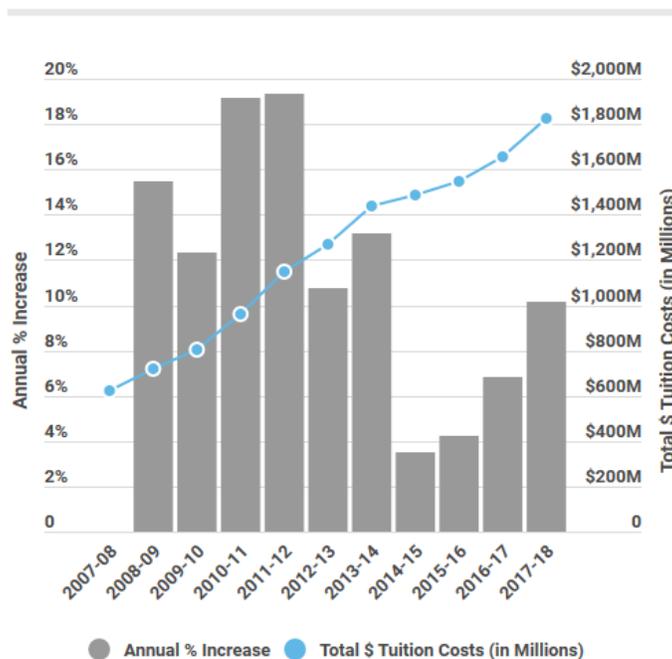


The median percent increase in the special education charter tuition rate is 4.9% annually, with the median special education charter tuition rate growing per student from \$17,962 in 2010-11 to \$23,179 in 2017-18. For 2017-18, special education ranged from \$15,100 to \$48,200 per student.

### How Have Charter School Costs Grown Over Time?

Charter school tuition costs represent one of the major areas of mandated cost growth for school districts. School districts paid charter schools more than \$1.8 billion in 2017-18, and that total amount has more than doubled over the past ten years. In the aggregate, charter school costs increase annually by more than 6%, on average. However, these costs increased by 10%—or \$170 million—between 2016-17 and 2017-18.

Growth in Charter School Tuition Costs

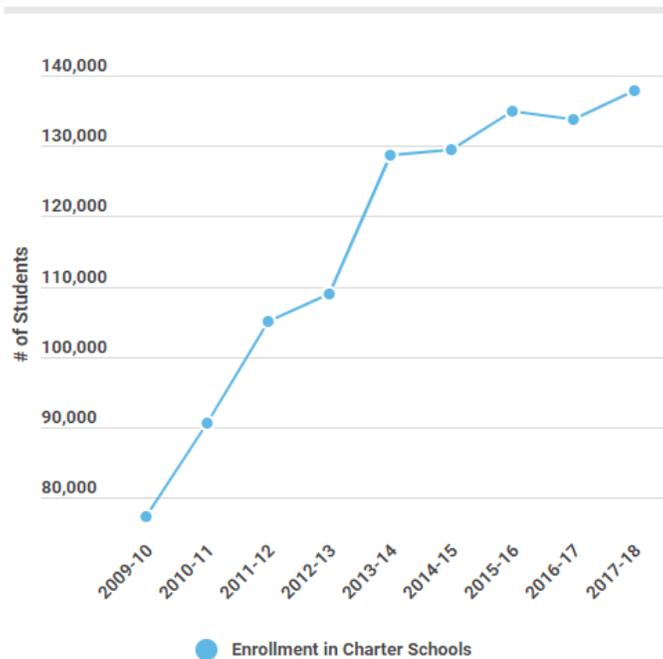


The specific reasons for the increases in the charter school tuition cost vary from district to district; however, the fact that the charter school tuition calculation is based entirely on school district expenditures—which increase annually due to rising mandated costs for pensions, special education and charter school costs—generally means that the charter school tuition rate goes up every year.

In addition to rising charter school tuition rates, the number of students attending charter schools continues to grow. With nearly 140,000 students enrolled in charter schools in 2017-18, while the increases in charter school enrollment have slowed over the past few years, overall enrollment is increasing. School districts that

face rising tuition rates and growing charter school enrollment experience the largest growth in their charter school costs.

## Charter School Enrollment



### What Are the Options for Funding Relief?

As discussed in the press release, charter school tuition costs are one of the major areas of annual cost growth for school districts. Since school districts are responsible for footing the bill for charter school tuition, they have no choice but to cover these mandated costs—costs that totaled \$1.18 billion in 2017-18.

Each year, school districts struggle to cover charter school cost increases, and as these costs are entirely locally funded, the burden of this growth is unevenly spread across districts that have a wide variance in ability to pay.

There are, however, many ways to tackle this problem, slow the growth in charter school tuition costs and provide needed relief to school districts and taxpayers. We've provided three of the many options below:

**Charter and Cyber Charter Tuition Deduction:** One way to reduce these costs would be to allow school districts to deduct their charter and cyber charter school tuition from the tuition calculation.

Since a school district's charter and cyber charter costs are folded into their total expenditures, the result is that rising charter tuition costs one year increase a school district's charter tuition costs the next year, and so on.

Making this one change would reduce school district charter tuition costs by more than \$400 million this year.

**Real Numbers in Special Education Tuition Calculation:** Another simple option would be to tackle a component of the charter school tuition calculation that significantly inflates the special education tuition for many school districts. Currently, the calculation assumes that 16% of students in a school district are special education students. In the vast majority of school districts, however, the actual rate is much higher.

Allowing school districts to use their actual number of special education students in the calculation would result in a reduction in charter school special education tuition for most school districts; however, those school districts with a special education population below 16% would see an increase. However, at least districts would then use the appropriate, and actual, percent of IEP students who are creating their special education expenses.

Overall, this simple change of using real data instead of an arbitrary percentage would save school districts and taxpayers a net of \$65 million in charter school tuition costs.

**State Reimbursement for Charter School Costs:** Another option would be to have the state reinstate significant partial funding of charter school tuition costs—or to provide full reimbursement to districts based on cost/wealth levels. The state had been funding about 25% of these costs, but stopped in 2011-12, sending over \$225 million instantly to property taxes 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. While the amount of savings for school districts would be dependent upon 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.