

Charter Public School Funding in Massachusetts: A Primer

By Cara Stillings Candal & Ken Ardon

Massachusetts has one of the highest performing yet slowest growing charter school sectors in the nation. Since the Massachusetts Education Reform Act (MERA) included enabling legislation for charter schools in 1993, the Commonwealth has capped the number of charters that can operate, both statewide and in individual districts. The legislature has modestly increased those caps three times, but since 2010, efforts to raise the caps further have failed in the legislature, the courts, and at the ballot box. In 2018, there were over 26,000 students on charter school waiting lists in Massachusetts.

Efforts to lift or abolish charter school caps have failed for many reasons, but one pervasive criticism stands out as a major culprit: those opposed to lifting charter school caps claim that charters harm districts by draining their operating funds. Few studies empirically support or refute this claim, and the Commonwealth's murky school funding formula complicates any attempt to do so.

How School Funding Works

Massachusetts funds public schools like almost every other state in the nation: with a combination of local property taxes and state money that together account for roughly 95 percent of school funding. A much smaller amount (about 5 percent) comes in the form of federal grants.

Some aspects of the school funding formula set Massachusetts apart from other states. Since 1993 the Commonwealth has annually determined a "foundation budget," which is the per-pupil amount it deems each district needs to spend to provide students with an adequate education. After arriving at a foundation budget, the law also requires the state to determine the "fair" share of that per-pupil budget that the Commonwealth should pay. What the state deems "fair" relates to how much each locality can generate in property tax.

When a city or town can generate enough property tax revenue to meet the pre-determined foundation budget, the majority of its funding comes from local tax revenue; the wealthiest districts in the state receive 17.5 percent of the foundation budget, or less than \$2,000 per pupil, from the state. When there is a gap between what a locality can raise in property tax and the state-mandated foundation budget, the Commonwealth bridges that gap with state aid. Many lower-income,



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Figure 1. Flow of Funds to Local School Districts

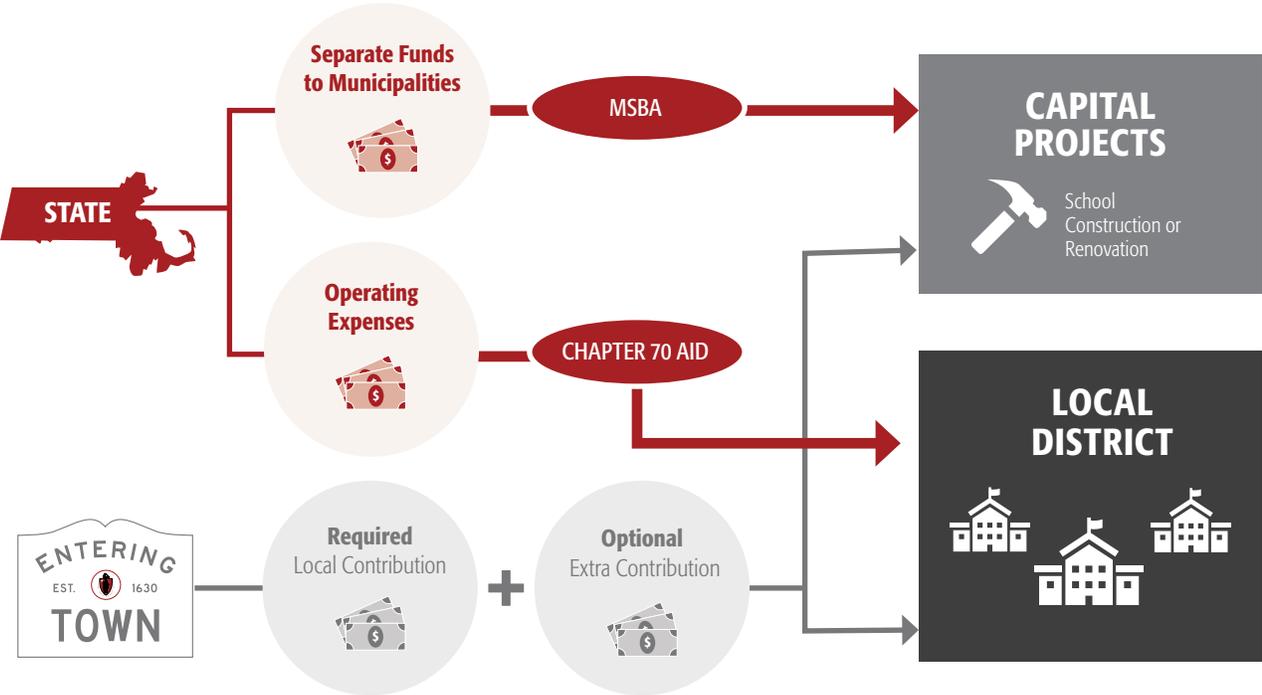
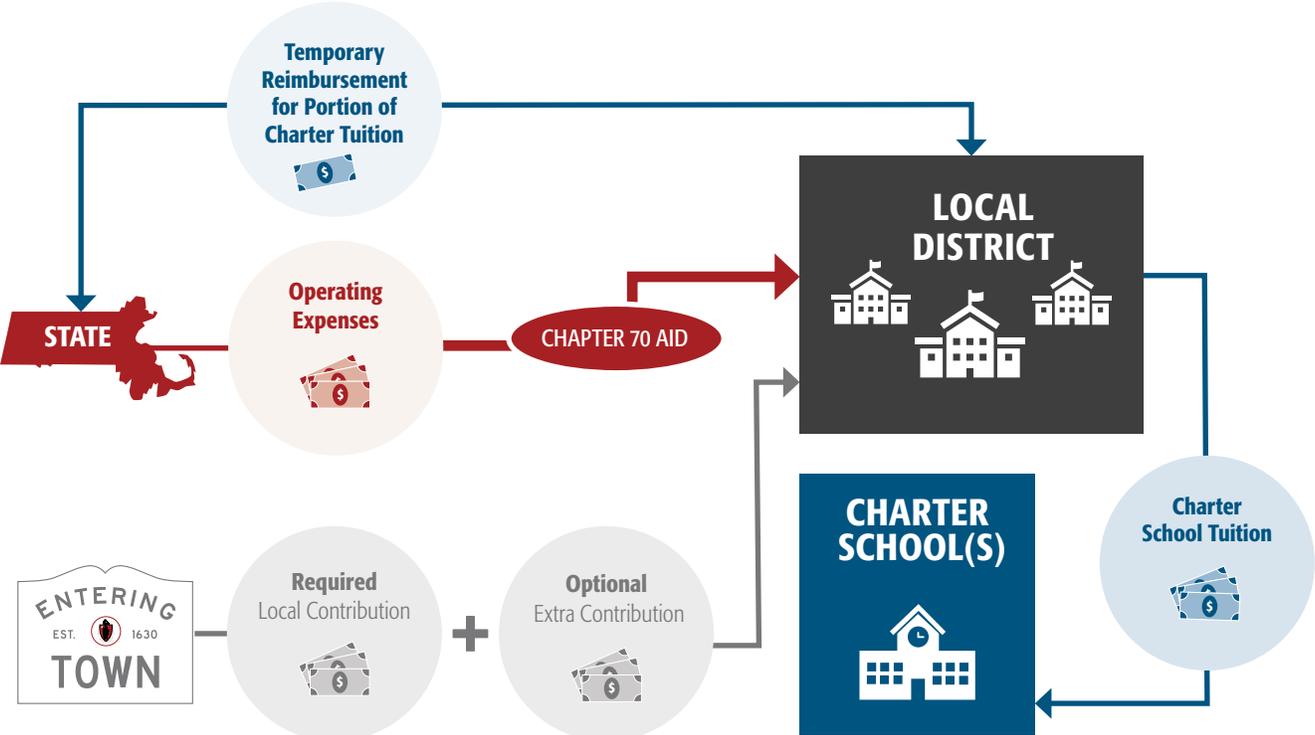


Figure 2. Flow of Funds to Charter Schools



property-poor cities receive most of their per-pupil operating expenses via state aid. About 25 percent of Massachusetts districts pay for the majority of K–12 education expenses with state funds. Together, these communities educate about 35 percent of all public school students in the state.

Funding for charter public schools complicates this general formula because, although charters are considered their own school districts for operational purposes, they are unable to access local property tax bases. The legislature wanted to ensure that charter schools received operational funding roughly equal to that enjoyed by their district counterparts in each city or town, so they devised a charter school funding formula in which per-pupil allocations follow the child. When a student chooses to leave a district for a charter public school, the state determines the amount of tuition (based on local property-tax revenue and state aid) that the “sending” district would have allocated to that child’s education. The state then requires the district to send that amount to the charter of the child’s choice. The end result is that the funding flows from the state and municipality to the district, and then on to the charter school.

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For cities and towns where charter public schools are concentrated (mainly larger urban centers like Boston and Springfield), the amount of tuition the local districts must pay to charters each year is substantial. The funds the district pays out come from various sources. In wealthier locales, much of the funding may derive from local sources. In other (less wealthy) districts, almost all funding comes from the district’s state aid allocation.

Regardless of the source of money, when students leave a district for charters, districts may need time to adjust to decreases in enrollment and the corresponding increase in operating funds for local schools—even though they are no longer educating students who have left for charters. To offset this cost, in 1997 the legislature developed a reimbursement formula in which districts receive money to offset the tuition payments they make to charter schools. Under the formula, which has been revised slightly over time, the state fully or partially reimburses districts for increases in annual tuition payments to charters. When charter school reimbursements, which are a line item in the state budget, are fully funded (and they haven’t been in recent years) districts receive money for pupils lost to charters for a period of six years. In the first year of a tuition decrease, districts receive 100 percent of the tuition they paid a charter school for a lost student. For each the next five years, districts receive 25 percent.

By most accounts, the Commonwealth’s funding formula is generous for both districts and charters. Massachusetts’s charters enjoy operational funding that is close to parity with districts, and this makes them an exception nationally (Unfortunately, charters do not enjoy equitable facilities funding from the Commonwealth, which puts them in good company with most other states). Likewise, Massachusetts is the only state to reimburse districts when students leave for charter schools, which means districts enjoy some financial security when students switch to charters. The existence of the reimbursement formula alone seems to answer the question “do charter schools drain funding from districts?” Unfortunately, it’s not that simple. Because of vast differences in how state aid is allocated to districts, determining the impact of charters schools on district finances requires a more nuanced analysis.

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How Do Charter Schools Affect Local Districts?

A. Enrollment and Special Populations

In 2018–19 45,000 students attend 74 charter schools across Massachusetts, mostly in urban areas. Charter school enrollment has almost doubled over the past decade. This rapid rise in enrollment means districts have significantly increased the amount of tuition they must pay to charters. Statewide, the amount districts must pay in charter school tuition has increased from \$260 million in 2009 to \$660 million in 2018. In Boston, where there is a comparatively large concentration

Figure 3: District Reimbursements for Charter School Tuition Over Time*

	Prior Year Tuition	Current Year Tuition	Change in Tuition	Amount Reimbursed
Year 1	0	\$100,000	\$100,000	\$100,000
Year 2	\$100,000	0	(\$100,000)	\$25,000
Year 3	0	0	0	\$25,000
Year 4	0	0	0	\$25,000
Year 5	0	0	0	\$25,000
Year 6	0	0	0	\$25,000

Districts receive \$225,000 in exchange for a one time, \$100,000 tuition payment to charters.

Adapted from Massachusetts Department of Elementary and Secondary Education, “Understanding district aid for Commonwealth charter school tuition,” <http://www.doe.mass.edu/charter/finance/tuition/reimbursements.html>.

of charter schools, tuition payments have increased from \$61 million to \$194 million. Since 2009, Boston has received \$293 million in charter school reimbursements in addition to the state aid it is due under the general funding formula. This is a significant amount, but it is also a point of contention because over the past five years the legislature has only funded about 60 percent of the statutory reimbursements. Viewed one way, Boston and cities like it receive money for students they are not serving; viewed another way, the Commonwealth is short-changing these communities the funding that is due to them. Perceptions aside, the net effect of the reimbursement formula is that districts with charter schools receive more state aid, on average, than those with similar profiles that do not have as many charters.

But there is another complicating factor in this scenario that offsets that effect. The charter school funding formula does not weight per-pupil tuition according to special education needs (though it does for English language learners). This means that Boston, which enrolls a slightly higher percentage of students with special educational needs than Boston charter schools in general, is bearing more of the cost of these expensive-to-educate students.

The current funding formula takes the average amount that a district spends on all students in the district, including those with special needs

but excluding special needs students who receive their services from out-of-district providers. Charters receive a tuition payment for students with special educational needs that is based on that average, regardless of the number of special needs students who attend the charter. This is problematic because, although special needs students have been enrolling in charter schools at much higher rates since 2010, Boston's charters, on average, still serve a slightly lower percentage of SPED students than the district. Moreover, nothing in the funding formula weights funding according to severity of need; a student with a severe disability is more expensive to educate than one with a more moderate disability. This flaw in the funding formula cuts both ways: an increasing number of individual charter schools serve higher numbers of students with disabilities than their

district counterparts. In such cases, the charter, not the district, shoulders the burden caused by insufficient operational funds.

B. The Impact of Charters in Foundation Districts

In addition to the impacts of funding for SPED students, the financial impact on a district that loses students to charter schools depends in large part upon the percentage of district funding that comes from state aid. Most charter public schools are located in urban centers and/or middle cities. The majority receive ample state aid (also known as Chapter 70 funding).

Chapter 70 aid varies considerably across districts and across years, from less than \$1,700 per student to as much as \$16,000. The main reason for the huge discrepancy is that roughly a third of districts receive “foundation aid” to ensure that they reach a required minimum spending level. Foundation aid districts tend to be low-income and urban. They also tend to be larger

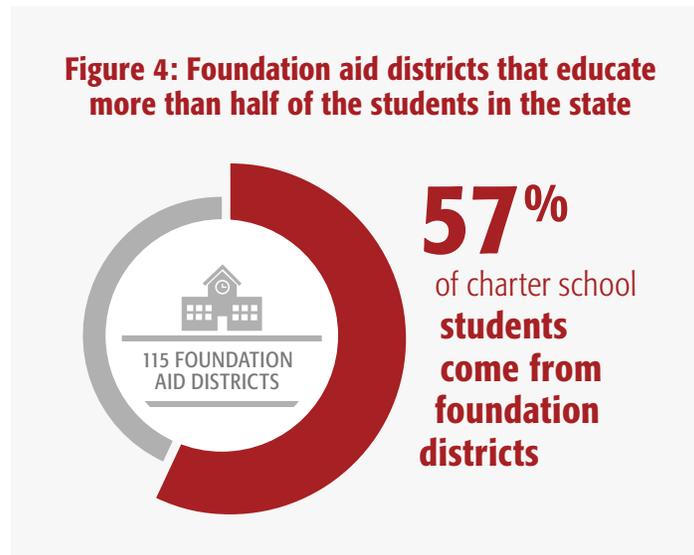
than their non-foundation counterparts. In these districts, one extra student—at either a traditional local school or a charter school—generates a large increase in state aid, while in other districts state aid may be mostly unconnected to changes in enrollment.

The City of New Bedford provides a good example of the impact of differential state aid. The school district is home to 13,600 students, and in 2018–19 roughly 1,200 attend three charter schools (a

very small number attend other charters). In recent years the number of students with special educational needs enrolled in New Bedford charter schools has come close to parity with the district, and differences exist depending upon the charter school. At one K–8 charter, 16 percent of the students have disabilities, compared to 21 percent in the district. But at a local charter high school, 30 percent of the students have disabilities, compared to only 19.5 percent at New Bedford High School.

The local district pays charter school tuition of \$13,500 per student, for a total of almost \$16 million. Charter enrollment and tuition in New Bedford has tripled in the past decade. According to the formula, the state owes the district \$4 million in charter school reimbursements, but this year the state will pay

Figure 4: Foundation aid districts that educate more than half of the students in the state



only \$1.85 million. Rising tuition payments feel like a drain on local budgets (although the district is not educating those students receiving the tuition payments), and the underfunded reimbursement is a visible reminder of the loss. However, these two payment streams are not the entire story.

New Bedford is a foundation aid district, and each additional student generates an increase of roughly \$12,000 in state aid. The local district receives state aid whether or not students choose to leave the district for a charter school. Considering that the majority of funding for students in New Bedford's public schools comes from the state, Chapter 70 aid, coupled with even a partial reimbursement for charter school students, means that the state effectively covers the entire \$16 million of tuition that it requires the district to pay to charter schools. If the 1,200 students at charter schools had moved to another district or switched to private schools, the local district would not owe \$16 million in tuition but it would also receive roughly \$16 million less state aid.

Districts often overlook this fact when they claim that charters drain their funding, because these per-pupil allocations are buried within the district's overall allotment of state aid; they are not visible like a charter school tuition payment or reimbursement check. The lack of transparency contributes to the idea that the local district bears almost the full cost of charter tuition, when in the majority of cases charter tuition payments are actually made with state money.

C. The Impact of Charters in Above-Foundation Districts

These calculations are dramatically different in a district that is not receiving foundation aid because it raises enough property tax revenue to cover the per-pupil spending the state deems sufficient. The community of Plymouth, for example, serves 8,200 students, with almost 600 in charter schools. In 2018–19, charter tuition is \$8.6 million, and the local district will receive \$1.6 million in reimbursements. However, because Plymouth is not a foundation aid district, it received only \$3,200 per student in state aid, which means state funding is not making up for charter school tuition payments, as it does in New Bedford. The gap is larger if we look at changes in aid and enrollment rather than averages; if a new family with one child moves to Plymouth but sends their child to a charter school, tuition would rise by \$14,000 but state aid would rise by only \$30.

Whether this means charter school tuition payments are draining Plymouth's district budgets is largely a matter of perception. Viewed one way, charter school students do not attend Plymouth's district schools, but their parents or guardians still pay property taxes, which are in part allocated for public education (whether that education is in a public district or a public charter school). In this scenario, any reimbursement, even an amount less than expected should be a boon to Plymouth's budget.

Viewed another way, however, Plymouth is suffering in comparison to a district like New Bedford because it receives so little state aid—Chapter 70 aid was designed to help low-income districts, not their more affluent peers. Adjustments Plymouth may need to make when enrollment decreases will be more difficult to offset, diverting funds to charter school tuition certainly feels like a loss of money the district could otherwise use.

And the perceived drain on resources is exacerbated when enrollment rises. Unlike in foundation districts, when enrollment increases in an above-foundation city or town, the state provides very little additional funding for “extra” students. In some cases, the state will pay only \$30 in minimum aid per student, leaving the city or town to pay virtually the entire incremental cost of educating newcomers. When only a handful of new students enter the district, the cost can be absorbed, but when enrollment spikes sharply, districts can be strained.

What do spikes in enrollments have to do with charter schools? In an above-foundation district, making a pre-determined annual tuition payment to a charter school while also having to absorb large enrollment increases with little or no additional state funding leaves districts strapped. In recent years, many of the state's larger districts—some of which are above-foundation—have simultaneously experienced rising charter school tuition and increases in district enrollment (and the state does not cover enrollment increases in above-foundation districts). When these factors combine, it becomes easy to blame charter school tuition payments for the squeeze districts feel.

Conclusions and Recommendations

Massachusetts has a very progressive formula for funding public schools, including charter public schools. Since the 1990s, the Commonwealth has held that 1) the state is responsible for ensuring that every child has access to an adequate education and 2) funding for charter public schools should follow students who choose them. These principles have led to important improvements in public education.

However, 25 years after the Massachusetts Education Reform Act, it is time to revisit and modernize the funding formula. To rectify inequities that impact both districts and charters, the legislature should consider the following:

Weight Tuition for Students with Special Educational Needs: The current formula uses district averages to determine tuition.

The lack of transparency contributes to the idea that the local district bears almost the full cost of charter tuition, when in the majority of cases charter tuition payments are actually made with state money.

When districts have higher SPED enrollment than charters, they suffer. Conversely, when charters have higher SPED enrollment than districts they suffer. Weighted funding that follows the child can reduce this inequity.

Adjust the state aid formula to ensure that districts with growing enrollment receive state aid to cover the “target share” of the cost for new students. This target share, which the state calculates based on local income and property values, ranges from 17.5 percent to 86 percent. Providing this aid to districts with growing enrollment would reduce the strain on their budgets. The aid could easily be provided at no additional cost to the state by diverting some of the minimum aid that currently goes to all districts, even those with declining enrollment.

Provide equitable facilities funding for charters, including access to unused public-school buildings: Charter schools are public schools. The current funding formula provides reasonably equitable operating funds for charter students but does not provide them with equitable facilities funding. The result is that too many charters spend less on students in order to put a roof over their heads. This results in inequitable funding for students who choose charter schools.

Provide charter school reimbursement to districts within the overall Chapter 70 allocation districts receive. Currently, charter school reimbursements are a line item in the state budget, making them vulnerable to cuts. Setting a “target share” into the reimbursement formula and providing reimbursements as part of the overall Chapter 70 allocation should make reimbursements more difficult to slash.

Consider how reimbursements impact the ability of districts to right-size operations. Many districts have declining enrollment due to factors that have nothing to do with charter schools. Like all other large organizations, districts should consistently focus on directing as much money as possible to teaching and learning, not to supporting bureaucratic operations. If the state is to decide upon a “target share” for reimbursements (and fund it) it should also analyze how reimbursements impact districts’ abilities to right-size operations in the midst of decreasing enrollment.

