

Charter School Consensus Study:
Funding Massachusetts Charter Schools

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Charter school funding has been controversial and difficult to understand. To follow the current political debate, you need to understand how public education and charter schools in Massachusetts are funded.

This section of the report will explain the sources of educational funding and how the money flows between the state, school districts, and charter schools. It also includes some of the critiques of how schools in Massachusetts are funded.

I. Chapter 70 and the Foundation Budget

A. What is Chapter 70?

Chapter 70 is the section of Massachusetts General Law that provides state aid for all public school students, including charter and district school students.

“The Chapter 70 program is the major program of state aid to public elementary and secondary schools. In addition to providing state aid to support school operations, it also establishes minimum spending requirements for each school district and minimum requirements for each municipality’s share of school costs.”¹

“The goal of the Chapter 70 formula is to ensure that every district has sufficient resources to meet its foundation budget spending level, through an equitable combination of local property taxes and state aid.”²

B. What is the foundation budget?

The foundation budget is the amount, adjusted annually, that the state calculates each municipality must spend to provide an adequate education to its students. That amount is achieved by a combination of Chapter 70 state aid and locally generated revenue.

C. How is the foundation budget calculated³?

According to [Massachusetts Budget and Policy Center](#):

“A district’s foundation budget is determined by multiplying the number of students at each grade level and demographic group (e.g., low-income and limited English proficiency students) by a set of education spending categories (e.g., teacher compensation, professional development, building maintenance), and then adding together those total dollar amounts.”

“This total ‘foundation budget’ is designed to represent the total cost of providing an adequate education for all students, and it is often expressed as a per-pupil foundation budget by dividing the total foundation budget by the number of students.”⁴

Special needs students are covered at 3.75% (in-district) and 1% (out-of-district) of the foundation enrollment. This percentage of students is fixed to prevent over-identification of special needs for fiscal gain.⁵ The state

¹ DESE website, <http://www.doe.mass.edu/finance/chapter70/>

² Mass DOE website, “The Massachusetts Foundation Budget”: <http://www.doe.mass.edu/finance/chapter70/chapter-cal.pdf>

³ The legal description of the calculation of the foundation budget is at [Chapter 70, Section 2 of the Massachusetts General Laws](#); for a more accessible version, look at [The Massachusetts Foundation Report](#) from DESE.

⁴ Massachusetts Budget and Policy Center, “Demystifying the Chapter 70 Formula: How the Massachusetts Education Funding System Works”: http://www.massbudget.org/report_window.php?loc=Facts_10_22_10.html

⁵ DESE: “How the Foundation Budget is Calculated”: <http://www.doe.mass.edu/finance/chapter70/>

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provides additional assistance through a circuit breaker program when the out-of-district special needs students meet a threshold⁶.

The foundation budget formula has had minor adjustments since it was developed in 1993.

Each year a district's foundation budget is updated on the basis of:

- Enrollment as of October 1 (including both district and charter school students)
- Inflation: as per Chapter 70, inflation is calculated for all districts by the change in the third quarter inflation index.
- Wage adjustment factor: adjusts the costs for staff using local average wage data.

D. What are the shortcomings of the foundation budget?

The [Foundation Budget Review Commission](#)⁷ in 2015 recommended updating the calculations in the foundation budget in the following areas:

- Health insurance costs are vastly higher than the costs specified in the foundation budget formula.
- The foundation enrollment figure underestimates the number of in-district special education students by about 1%. Since these students are much more expensive than other students, this figure underestimates the total budget.
- The rate for out-of-district special needs students falls far short of covering expenses.
- The funding for English language learner students does not take into account the services needed for students whose education has been interrupted and/or who come from war-torn countries and need additional help.
- Low-income students need more services than the funding provides.

⁶ Massachusetts Budget and Policy Center, "Mass Budget's Children's Budget: Special Education Circuit Breaker":

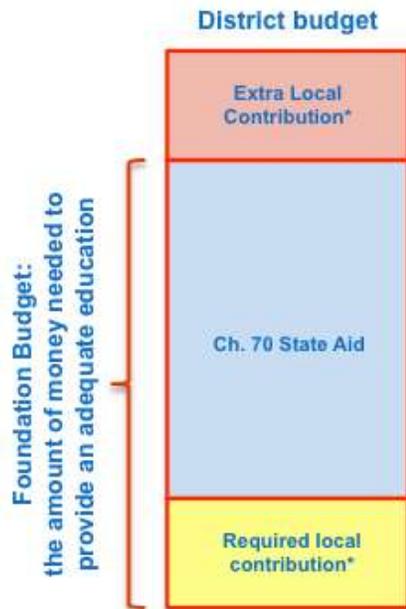
<http://children.massbudget.org/special-education-circuit-breaker>

⁷ <http://www.mass.gov/legis/journal/desktop/2015/fbr.pdf>

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II. Calculating the district budget

Note: the following section draws heavily from [Demystifying the Chapter 70 Formula: How the Massachusetts Education Funding System Works](#)⁸ and [Charter School Funding Explained](#)⁹, both by the Massachusetts Budget and Policy Center. We encourage you to read these papers for a fuller understanding of the budget process.



There are four steps to determine the Chapter 70 aid allocations for school districts:

1. DESE calculates the foundation budget for each district separately. Each district has a different foundation budget, because that budget is based on student characteristics and local wage rates.
2. DESE calculates the required local contribution. This is the amount of money that a local district can afford to pay toward the foundation budget, based on its income levels and tax base.
3. The state sends Chapter 70 education aid to each district. This amount is the difference between the foundation budget and the required local contribution.
4. The extra local contribution (also known as the above-foundation rate) is the amount a district may choose to contribute to the education of its students above the amount required by the foundation budget, usually from local taxpayers.

III. Charter School Tuition

The average per-pupil tuition for a charter school is roughly equal to the average tuition of a student in the sending district. This tuition is based on the district budget, which includes the part of the per-pupil spending that comes from state aid (Chapter 70) and the parts of the per-pupil spending that come from the community, both the required local contribution and the above-foundation rate. (See the bar chart, above.)

More specifically, for each sending district, the charter school tuition is calculated as follows:

1. Charter school foundation budget

DESE calculates the charter school foundation budget in the same manner as it calculates the district school budget, by multiplying the number of students at each grade level and demographic group by a set of education spending categories, and then adding together those total dollar amounts.

It divides the charter school foundation budget by the number of charter school students to get the average per student charter school foundation budget.

2. Above-foundation-rate portion of the charter school tuition

DESE then calculates the above-foundation portion of the charter per pupil cost by:

⁸ "Demystifying the Chapter 70 Formula: How the Massachusetts Education Funding Works," Massachusetts Budget and Policy Center: http://www.massbudget.org/report_window.php?loc=Facts_10_22_10.html

⁹ "Charter School Funding Explained", Massachusetts Budget and Policy Center: http://www.massbudget.org/report_window.php?loc=Charter-School-Funding.-Explained.html

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- deducting the retired teachers' health insurance and out-of-district education costs from the total district budget, since these costs are not incurred by charter schools
- then subtracting the total district foundation budget
- then dividing by the total number of public school students in the district to get the above-foundation per-pupil portion of the district budget
- then multiplying by the number of charter school students to get the above-foundation amount due to the charter school

3. Charter school tuition calculation

The charter schools receive the sum of the charter school foundation budget and the above-foundation rate portion of the charter school tuition.

This same process happens for each sending school district. This means that a charter school is paid different amounts for students who live in different districts, since each district has a different budget.

4. How the charter school receives its tuition

According to law, the district pays the charter school tuition for all public school students in its district. The state implements this by deducting that payment from the Chapter 70 funds designated for the district then sending that payment to the charter school. .

IV. Other Charter School Funding

A. Transportation costs

The school district sending students to a charter school located within its boundaries is also required to provide transportation for charter school students who live in the district on the same terms and conditions as transportation is provided for students attending district schools.

B. Facility aid

Since charter schools are not eligible for state school building assistance, a separate per-pupil assessment for facility aid (currently \$893 per student) is also charged to the district. The state has been fully reimbursing the districts for this facility aid charge through a legislative line-item appropriation¹⁰.

C. State and federal grants and private fundraising

According to the Massachusetts Budget and Policy Center, about 10% of charter school funding in 2015 came from state and federal grants and private fundraising.

V. What happens when students leave district schools?

When a student transfers from a district school to a charter school, that student's tuition is paid to the charter school. When a student goes to a private school, becomes home-schooled, or moves out of the school district, the district no longer receives Chapter 70 funding for that child, but neither is it responsible for tuition payments.

In districts that receive a small portion of their budget through Chapter 70, the charter school tuition payment can be a significant amount of money coming from the local taxpayers.

For example:

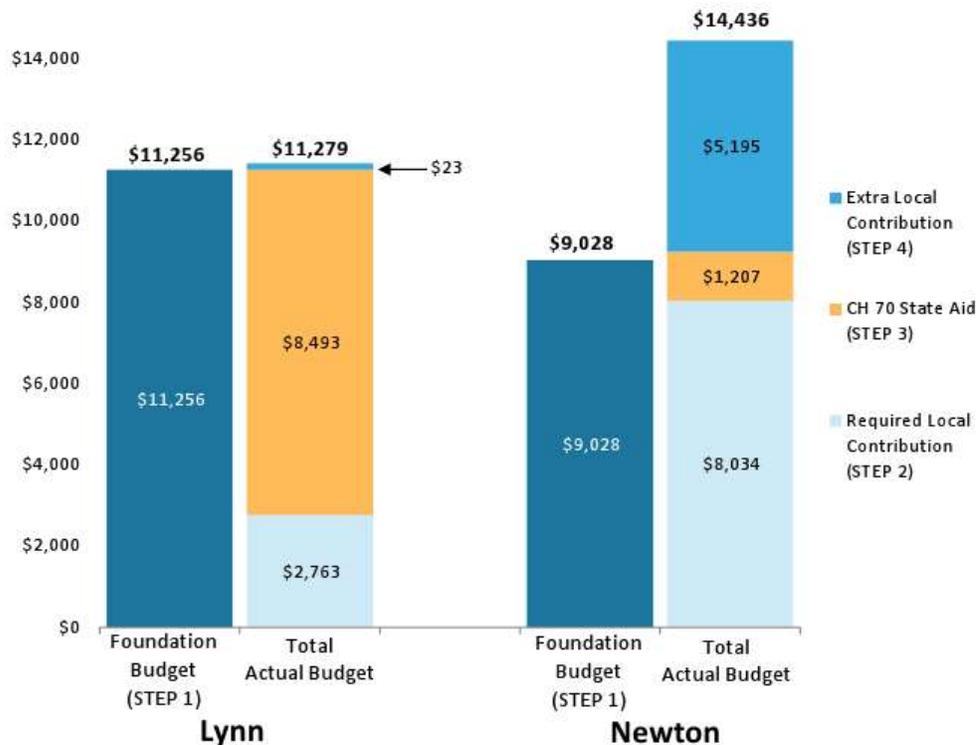
¹⁰ Ibid.

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In Newton, if a student transfers from a district school to a charter school, more than \$13,000 in locally generated funds will move with her. In contrast, in Lynn, less than \$3,000 in locally generated funds will follow. Both the Newton and Lynn districts pay the entire tuition to the charter school. The difference is with the proportion of the district's tuition payment flowing from state Chapter 70 funds. (See table below from Massachusetts Budget and Policy Center, [Demystifying the Chapter 70 Formula: How the Massachusetts Education Funding System Works.](#))

Chapter 70 Funding for Two Sample Districts

Per-pupil spending by revenue source, Fiscal Year 2010



Please note that in the examples above "CH 70 State Aid" and "Required Local Contribution" together do not equal precisely the foundation budget. This is due to technical details outside the scope of this Facts At A Glance.

VI. Chapter 46 Aid

A. The Chapter 46 reimbursement

The assumption in the "money follows the child" is that districts will adapt to the changing student population over time. Since many of the costs within the per-pupil payment cover such items as teachers, staff, programs, etc., these may not be able to be reduced quickly.

Under the Chapter 46 reimbursement law designed to help district schools during that transition, as the number of students going to a charter school increases, the state pays to the district 100% of the cost of any increase in the total tuition the school district has paid over the prior year. After that, the state pays 25% of that first-year tuition increase amount each year for the next five years. The aid is based on the change in tuition paid over the prior year's amount. However, this aid is "subject to appropriation," and the state has not been fully funding this

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reimbursement for the last few years. In 2015, for example, the state funded only the first year of reimbursement and none of the subsequent years. Please see the [DESE website](#)¹¹ for more information.

B. Private, home-schooled, and sibling pupil aid

Another part of the Chapter 46 State Aid, as described by [DESE](#)¹²:

“An additional constituent of the Chapter 46 aid program covers the first year tuition of pupils who enroll at a Commonwealth Charter school and who have been previously educated in a private or home-schooled setting. In these cases, the sending districts did not educate these pupils. Their enrollment in a charter school presents a new cost burden for the sending district, without the offset of Chapter 70, and other, state aid.

The Private and Home School aid eradicates this burden by paying the pupil's first year tuition. In the following year, their enrollment will be captured by the Chapter 70 aid program and financial responsibility shifts to the sending district.

Additionally, if the enrollment of a sibling at a Commonwealth charter school is the sole cause of a sending district's tuition exceeding the Net School Spending cap, the sibling's tuition will be paid from the Chapter 46 aid.”

VII. Critiques of funding process

A. Can costs be reduced without reducing valuable resources?

The Chapter 46 funds were intended to cover the transition costs as the district schools downsize to offset the shift in enrollment to charter schools.

Some districts, particularly smaller districts or those that send a larger number of students to charter schools, may not be able to make this transition without losing programs. Although the money follows the child, the marginal cost of each student is much less than the per-pupil cost, because the per-pupil cost also includes such fixed costs as school programs, administration, utilities, and maintenance. Districts express the concern that, faced with budget reductions to compensate for the charter school tuition assessment, they must cut programs, services, schools, and/or staffing. This could result in higher class sizes, larger schools, and/or a reduction in programs and services to the remaining students in the district.

Although large schools may have more flexibility in reducing the number of schools and/or teachers, redistricting and reducing the number of classes, teachers, or schools within public school districts is disruptive and takes time.

B. The Inter-District School Choice payment option

When students choose to go to another school district through the Inter-District School Choice Program, the sending school district pays \$5,000 to the receiving school district to educate that student. For the sending school district, this would be closer to the amount of money that it saves by not educating the individual child.

If this school choice payment was applied to charter school students, then another source of funding would need to be found so that charter schools could cover their infrastructure and operating costs. These costs are not included in the inter-district transfers, because school districts that choose to receive school choice students limit

¹¹ from DESE, <http://www.doe.mass.edu/charter/finance/tuition/Reimbursements.html>

¹² <http://www.doe.mass.edu/charter/finance/tuition/Reimbursements.html>

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the number of students they will admit into each grade so they do not increase their infrastructure and operating costs.¹³

C. Two schools are more expensive than one

Many district schools say that they cannot fully offset the loss of funds for the charter school students. This means that either they must reduce staffing and programs, or taxpayers in the district need to allocate more funds. If more local funds are allocated to the district, a portion of these funds will also go to the charter schools, since the charter school tuition is based on the district per-pupil costs. This can exacerbate the upward spiral in education costs.

D. Confusion over who pays the bill

The law states that the district is responsible for the charter school tuition. The state sends the tuition directly to the charter schools and then offsets the tuition by reducing the Chapter 70 funds to the district schools by the same amount

Some view this process as the district indirectly paying the tuition through the Chapter 70 funding. Others view the process as the state directly paying the charter school tuition then sending the remainder of the Chapter 70 funds to the district.

Either way you look at the process, the amount of money the school district receives from the state is reduced by the amount of money paid to charter schools to cover the tuition of students who live in the district.

E. Chapter 46 has not been fully funded

Chapter 46 funds cover transition costs for districts to adjust to loss of funds, as described above. In 2016, the state only funded this line item at 62%¹⁴ of the amount budgeted. Chapter 46 funding depends on appropriation from the legislature.

F. Charters must find money for facilities

Charter schools receive \$893 for facilities aid for each student. Since this is barely enough to cover maintenance, they must find alternative sources to pay for buildings or rent.

G. Foundation budget formula – special education, in-house

The foundation budget assumes that all schools have the same percentage of special education students, and pays each school accordingly. Charter schools generally have fewer special education students than district schools, so they are receiving more than their share of special education money. However, some specific charter schools do have a greater percentage of special education students than their sending districts. The question arises whether schools should receive special education funds based on the actual number of special education students enrolled.

H. Inadequacy of foundation budget

According to the [Foundation Budget Review Commission](#)¹⁵, the foundation budget does not meet its mandate to establish the full cost of an adequate education. In 2015 the commission said that the foundation budget would

¹³ DESE: School Choice: "Choosing a School: A Parent's Guide to Educational Choices in Massachusetts": [School Finance School Choice](http://www.doe.mass.edu/finance/schoolchoice/choice-guide.html), <http://www.doe.mass.edu/finance/schoolchoice/choice-guide.html>

¹⁴ <http://www.doe.mass.edu/charter/finance/tuition/> Summary of Historical Commonwealth Charter School FTE, Tuition and Reimbursements, presented as statewide, by district, and by charter

¹⁵ <http://www.mass.gov/legis/journal/desktop/2015/fbrc.pdf>, a report by the Foundation Budget Review Commission which was established by Sections 124 and 278 of the FY15 State Budget "to determine the educational programs and services necessary to achieve the commonwealth's educational

need to be increased by almost 10% just to incorporate needed changes in health insurance and special education coverage.(See Section I.D. for more detail).

The cost of education is increasingly shifting to local communities. The Pioneer Institute says that “Because the increase in enrollment and tuition outpaced the growth in state payments, the state’s direct share of the total tuition bill fell from 30 percent a decade ago to 16 percent in FY16.”¹⁶”

I. Should charter school tuition be a budget line item?

Because the charter school tuition is deducted from Chapter 70 payments, the state does not have to break out the amount going to the charter schools. A separate line item would make this amount more apparent, but also make it more susceptible to funding cuts.

A line item in the state budget for charter school tuition would also make it easier to compare education expenditures for various programs.

goals” and to “review the way foundation budgets are calculated and to make recommendations for potential changes in those calculations as the commission deems appropriate.”

¹⁶ http://pioneerinstitute.org/charter_schools/charter-funding-study-calls-money-closely-follow-students/ (see download for Assessing Charter School Funding in 2016))

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