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## With State Formula for Charter School Funding Likely to Change, City Costs to Grow More Than Budgeted

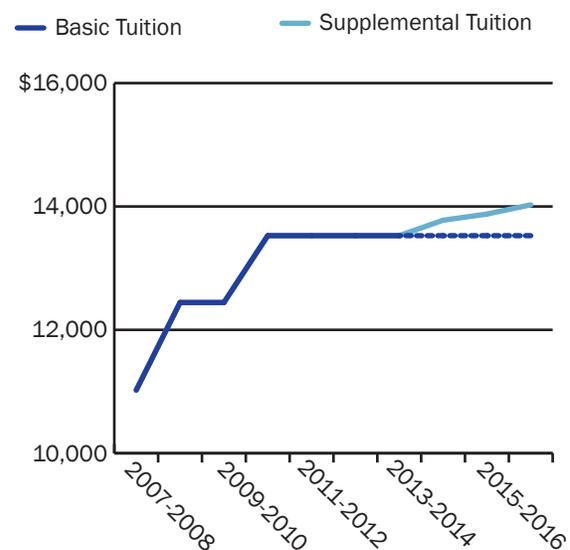
Although the preliminary budget forecast of charter school enrollment is lower than projected by IBO, the Department of Education's (DOE) budget for charter school tuition in 2018 represents a \$138 million increase over the current year's figure. This increase reflects not only enrollment growth, but an anticipated increase in the state-approved per-pupil tuition rate for charter schools. It is likely that the per-pupil tuition rate for charter school students will continue to rise in coming years as the formula driven amount catches up to recent increases in per-pupil spending at the DOE. IBO estimates that once the state updates the formula for determining charter school funding for next school year, the additional cost to the city may range from \$159 million to \$220 million. The city may also lose an expected state reimbursement of \$52 million for 2016-2017 costs.

New York City charter schools currently receive over \$1.7 billion from the DOE's budget to educate over 105,000 students. This total is primarily comprised of the per-pupil tuition funding for all students enrolled in charter schools. Charter schools also receive additional funds to cover the cost of supplementary services required for students with special needs. These per-pupil and special needs expenditures are funded primarily with city dollars, but also include significant state and—to a lesser extent—federal funds. All of these funds pass through the DOE's budget to the individual charter schools.

**The Charter Tuition Formula.** The per-pupil amount of charter school tuition, excluding funding for special education services, is determined by a formula defined in state education law. This formula was regularly applied through the 2008-2009 school year. Then the state Legislature and Governor placed a freeze on charter allocations—ignoring the formula—so that tuition remained

at \$12,443 per pupil in 2009-2010. The freeze was lifted, and the charter allocation rose to \$13,527 in 2010-2011 and then was frozen at that level through 2013-2014. State legislation enacted in March 2014 provided an alternate funding formula for charter schools. The Legislature set the basic tuition at the amount that had been in effect since 2010-2011 and supplemented it with per-pupil payments of \$250 for 2014-2015, \$350 for 2015-2016, and \$500 for 2016-2017. As a result, charter school tuition in New York City for the current year is \$14,027: the sum of the 2010-2011 formula amount of \$13,527 plus the \$500 supplement. [NOTE: This budget brief has been revised to reflect that the \$500 supplemental payment, expected to end this year, is not part of the charter tuition.]

**State Approved Charter Tuition Frozen for a Number of Years, Has Risen by \$500 Since 2013-2014**



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The 2014 act changing the charter school funding formula expires this year. If no action is taken, the original formula will be applied to determine the tuition level. For 2017-2018, this formula would be determined by multiplying the state's calculation of city spending per traditional public school pupil in 2015-2016 by the percentage growth in statewide education spending from 2014-2015 through 2016-2017.<sup>1</sup> The Governor has proposed to accept the end of the freeze in the formula amount. Thus, barring some unexpected change, the tuition for charter schools will rise to the formula amount.

**More Data Needed for Next School Year's Formula.** The formula-derived basic tuition for New York City's charter schools for 2017-2018 has not yet been determined, as not all of the data used in the formula are available yet. The State Education Department calculates that the city spent \$13,912 per pupil in 2015-2016. The final charter tuition rate for 2017-2018 will be the product of that figure and the yet-to-be determined statewide increase in total education spending from 2014-2015 to 2016-2017. In the three most recent years, the two year look-back in statewide spending resulted in the application of growth rates of between 9 percent and 11.5 percent. For the current school year, 2016-2017, the applied growth rate was 10.1 percent.

IBO estimated charter school tuition for 2017-2018 using three different assumptions about the rate of growth in statewide education spending: 8.0 percent, 10.0 percent, and 12.0 percent. Under all three scenarios, the increased tuition and the resultant impact on the DOE's budget would be significant. Based on IBO's 2017-2018 charter school enrollment projection of 108,443, city payments to charter schools would increase by \$159 million to \$220 million over current 2016-2017 levels under the Governor's proposal. Another aspect of the Governor's proposal would shift the cost of the \$500 supplement from the state to the city, leaving the city responsible for all of the \$52 million cost of the supplemental payment from 2016-2017 that the state was scheduled to reimburse in 2018-2019. The Mayor's preliminary budget, with a somewhat smaller enrollment projection than IBO's, includes an additional \$138 million in funding for charter school tuition in 2018.

Assuming that the state budget is adopted by April 1<sup>st</sup>, the city will know the charter school tuition rate for 2017-2018 prior to the release of the Mayor's executive budget, at which time more accurate estimates can be made.

### Comparative Public Spending in Charters vs Traditional Public Schools

IBO has examined the issue of charter tuition and what is driving the cost increases periodically since 2009. Our last [report](#) on the subject, published in 2015, contains a complete explanation of our methodology. We use the same methodology below to compare public funding of general education students in charter and DOE schools in 2016-2017. This comparison is designed to measure the relative public funding of general education students in DOE schools and three types of charter schools. It does not consider either private grants or categorical public funding provided to the schools.

Both IBO's analysis and the state formula used to determine charter school tuition rely on an examination of DOE's spending in traditional public schools, but the two differ in important ways. In addition to considering the per-pupil tuition that flows to charter schools, we estimate the value of non-cash resources that the DOE provides to charter schools: books and materials, transportation, and food. In addition, for charter schools located within DOE buildings, we include the per-pupil value of the building space being provided to those schools rent-free. Finally, for newer charter schools not housed in DOE-controlled space, we include the reimbursement charter schools receive for their lease costs in private space as part of the estimate of public support. IBO's full calculations for each type of school are presented [here](#).

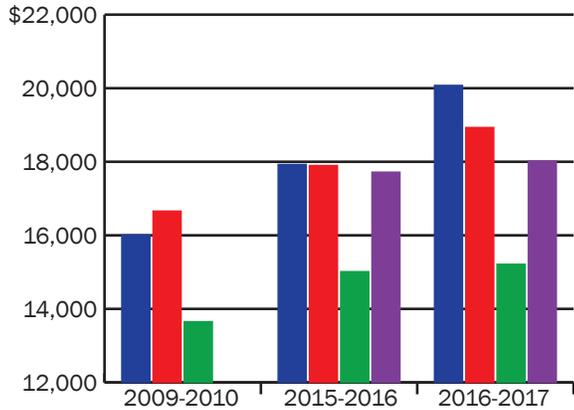
Per-pupil funding for charter schools, regardless of location, has been increasing more slowly than per-pupil funding for students in general education in DOE schools. (See our companion [report](#) for a fuller discussion of increased spending at the DOE.) Based on IBO's calculations, spending on general education students in traditional DOE public schools is \$20,078 per pupil in 2016-2017. For

| <b>Estimating New York City's 2017-2018 Charter School Tuition Under the Governor's Proposal</b> |   |              |              |
|--|---|--------------|--------------|
| New York City Per Pupil Spending for 2015-2016*: \$13,912  |   |              |              |
|  | <b>Possible Growth Factors—Actual to be Determined by SED</b> |              |              |
|  | <b>8.0%</b>   | <b>10.0%</b> | <b>12.0%</b> |
| New York City Charter School Tuition for 2017-2018   | \$15,025  | \$15,303     | \$15,581     |
| Change from Current Tuition Level  | \$998   | \$1,276      | \$1,554      |

*New York City Independent Budget Office*

**Charter Funding Has Not Kept Pace With Increases In Department of Education Funding**

- Department of Education General Education Per Pupil
- Charters Co-located in Department of Education Buildings
- Charters in Private Space Without Public Lease Support
- Charters in Private Space With Public Lease Support



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charter schools co-located in DOE buildings, the value of the classroom space that is provided to the schools free of charge is allocated to the school as a cost. IBO estimates that 2016-2017 expenditures in these schools total \$18,933 per pupil, which is \$1,145, or 5.7 percent, lower than per-pupil spending in traditional DOE schools. Under the terms of state legislation enacted in 2014, a small number of charter schools that do not operate in DOE space

receive city and state money to cover their lease payments. We estimate that the public contribution to those schools is currently \$18,021 per pupil, 10.2 percent below per-pupil spending by DOE. Those charter schools in private space which predate the 2014 law receive the least public funding, \$15,215 per pupil, which is \$4,863, or 24.2 percent less, than that for DOE schools.

While the anticipated increases in the state charter school tuition formula will narrow these disparities, it is not likely that the gaps will be eliminated in a single year. This is partially by design: the state formula looks back at DOE spending from two years earlier and multiplies by the growth in spending statewide. After several years in which expenditures grew slowly, per-pupil spending in DOE schools has been on a strong upward trajectory. This uptick in spending, largely driven by a 2014 collective bargaining agreement that includes retroactive raises back to 2009, will eventually result in future increases in the formula-driven charter school tuition payment, assuming no further changes to the formula.

*Prepared by Raymond Domanico and Yolanda Smith*

**Endnote**

<sup>1</sup>In state formula terms, the city's 2015-2016 Approved Operating Expense/ Total Aidable Pupil Units (AOE/TAPU) multiplied by the percentage change in statewide Approved Operating Expense from 2014-2015 through 2016-2017.

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