

## Issue Brief Introduction

The attached brief was developed to introduce and frame key issues under discussion by the Funding Formula Working Group.

These briefs do not address every issue that affects public education funding. By focusing on concise introductions to important and complicated topics, some detail and nuance has been intentionally omitted.

We welcome your feedback on these briefs or on any other topic related to Rhode Island's Funding Formula, which you may submit to [edfundingri@ride.ri.gov](mailto:edfundingri@ride.ri.gov).

## Issue Brief #2: Differences in financial obligations: traditional school districts and public schools of choice

### Issue Summary

Rhode Island's funding formula requires that state and local funds follow the student from their resident district to their public school of choice. This brief focuses on the issue of fundamental differences in expense obligations between charter schools and traditional school districts.<sup>1</sup>

Traditional districts are required to send a local per pupil share to public schools of choice that is calculated based on (nearly) all their local revenue, including revenue used for expenses that charter schools do not typically bear. Conversely, charter schools must fund their educational program based largely on state and local per pupil funding, even though they bear expenses that traditional districts do not. It is therefore important to understand the unique expenses for both school types to estimate their net impact.

This brief focuses only on unique expenses that can be defined by two criteria: **Criteria 1** are differences in regulatory or statutory requirements; or **Criteria 2** are overwhelming differences in practice.

Districts tend to have expenses that charter schools do not in the following areas:

- (1) *Pre-school screening, intervention, and targeted educational services*: These are costs associated with the federal requirement that districts identify resident 3-5 year olds, screen them for potential disabilities, and provide services to qualifying students.
  - **This meets criteria 1.** Because charter schools do not have "resident" 3-5 year old students, they have no regulatory responsibility in this area.
- (2) *Private school obligations*: Rhode Island General Law requires that districts pay for the transportation and some textbooks for resident students attending private schools.<sup>2</sup>
  - **This meets criteria 1.** Charter schools are not required to provide this benefit.
- (3) *Career and technical tuition costs*: These are the tuition costs associated with students enrolling in career and technical education programs outside their resident district.
  - **This meets criteria 2.** If a charter student requested access to a career and technical education program outside their school, the charter would be required to provide it. However, historically, charter school students do not request tuition-based placement outside their school.
- (4) *Out of district special education costs and transportation*: Some students with disabilities have needs that cannot be met within the district and require placement in a specialized program. In these instances, the district must pay the student's tuition.
  - This expense meets **criteria 2**. It is possible that charter schools could enroll and would need to serve students through out-of-district-placement; historically, charter school students tend to not require out-of-district placement.
- (5) *Retiree health benefits*: These are the legacy costs of continuing to pay for health benefits that were guaranteed to prior staff and persist through their retirement.
  - This expense meets **criteria 2**. In time, some charter schools may have some retiree benefit expenses but due to management of benefit packages and relative youth of the workforce and sector, they have virtually no expenses in this area.

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<sup>1</sup> This brief does not address Davies and the Met, two state-operated public schools of choice.

<sup>2</sup> A portion of non-public transportation and high-cost special education expenses are offset by a state-funded categorical.

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- (6) *18-21 year old services*: These are costs associated with providing education and transition services to youth with disabilities up to the age of 21.
- This expense meets **criteria 2**. If a charter enrolled a student that was legally entitled to services through the age of 21, they would be obligated to provide them; historically, very few 18-21 year olds receive these services in charter schools.

Charter schools tend to have unique expenses that meet the above criteria in the following areas:

- (1) *Debt service*: The cost of repaying debt is nearly exclusively associated with facilities purchase, construction, or renovation. For traditional districts, this expense is covered by the city/town and is not encompassed by their per pupil funding. Conversely, charter schools must pay for all housing costs from per pupil funding.
- **This meets criteria 1**. With the exception of regional districts, virtually no traditional districts incur this expense and charters currently incur it as a result of both budget and statute.
- (2) *Rental*: These are the costs of renting schools and facilities. Charter schools very frequently rent (rather than buy) their schools.
- **This meets criteria 2**. Although some traditional districts incur rental expenses, they are negligible and tend to be associated with the cost of small ancillary space, storage, and access to athletic facilities. Charter schools are incurring rental expenses for the school buildings.

### Rhode Island Context and Data

The House Study Commission dedicated significant time to the discussion and study of this issue. Based on FY14 expenditure data, rounded average costs for expenses incurred by traditional districts (and not charter schools) are presented in table 1, below. Rounded average costs incurred by charter schools are presented in table 2, below.

**Table 1: Rounded average FY14 Costs Incurred By Traditional Districts, Per Pupil**

<i>Out of district special ed.</i>	<i>Retiree Health Benefits</i>	<i>18-21 Services</i>	<i>Pre-School Screening /Costs</i>	<i>Non-Public obligations</i>	<i>Career and Tech Tuition</i>
\$560	\$250	\$280	\$115	\$30	\$60

**Table 2: Rounded Average FY14 Costs Incurred by Charters, Per Pupil**

<i>Debt Service</i>	<i>Rental Costs</i>
\$510	\$430

### National Practice and Examples

This issue is not unique to Rhode Island. At least five other states' funding formulas allow for itemized adjustments to account for differences in expenses. These states include Massachusetts, Connecticut, Delaware, Ohio, and Pennsylvania. In these states, charter school funding adjustments for high cost special education and other extraordinary expenses were common.