

# Fixed and Marginal Costs: Differences in Financial Obligations between Traditional Districts and Schools of Choice

Review of Issue Briefs – Fair Funding Formula Working Group  
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# Rhode Island Funding Formula: Marginal and fixed Costs

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- Rhode Island formula: “funding follows the student”
- The state contributes to every full seat and nothing to every empty seat.
- Raises two important issues that affect both traditional school districts and public schools of choice (Issue Brief #1)
  1. Fixed Costs
  2. Marginal Costs/Savings

# Fixed Cost

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*Fixed Cost:* Districts and schools have some financial obligations that are “fixed” and do not vary much by small changes in enrollment. The loss of revenue doesn’t result in any decrease in expenses.

- Ex: Heating, lights, ground maintenance and accounting services

Most common and well-established ways to quantify fixed costs is through a federal method of defining and combining them and expressing them as a percentage.

- This method includes an array of expenses including utilities, maintenance, retiree health and other legacy costs, etc.
- Estimate that districts’ fixed costs range from approximately 3% – 10%.

# Marginal Costs/ Savings

*Marginal cost/savings:* Marginal costs can be adjusted to fit revenue. However, not all marginal costs can be adjusted at the same rate as revenue and it may take time for the costs and revenues to align.

- Some marginal costs can be managed to match enrollment
  - Ex: consumable workbooks and meals.
- Some cannot be managed to match enrollment changes
  - Ex: teachers and building administrators.

Marginal Loss – the loss in revenue associated with the loss of a student cannot be met by an equivalent reduction in expenses

Marginal Gain - the revenue gained through the addition of a student is greater than the costs of serving that student

It is difficult to precisely calculate the marginal costs or savings on student seats. Calculation of this value has three issues:

- (1) the rate and urgency with which schools and districts respond to enrollment changes,
- (2) the fact that empty seats can appear and disappear at any time (and sometimes multiple times) during the school year
- (3) marginal “cost” is not the same as “lost revenue.”

# Practices in Other States

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Several states use a “funding follows the student” approach to their formula and across these states, there are two primary adjustments made to address fixed and marginal costs/savings:

States reimburse districts for a portion of the “lost revenue” when students move to public schools of choice

*State Reimbursement Example: Massachusetts:*

Massachusetts reimburses the sending district 100% of per pupil revenue the first year and 25% of the per pupil revenue every year for five years for each additional charter student. This transition support is triggered by increase in charter school enrollment.

# Practices in Other States

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Several states use a “funding follows the student” approach to their formula and across these states, there are two primary adjustments made to address fixed and marginal costs/savings:

States allow districts to withhold a flat percentage from their per-pupil “tuition” to public schools of choice

*Withheld Flat Percentage Example: New Jersey*

New Jersey charters are required to receive at least 90% of the traditional school district per-pupil funding.

# Fixed and Marginal Costs: Differences in Financial Obligations

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Traditional districts are required to send a local per pupil share to public schools of choice that is calculated based on (nearly) all their revenue, including revenue used for expenses that choice schools do not typically bear.

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.

Unique expenses can be defined into **two criteria** (See Issue Brief #2)

1. differences in regulatory or statutory requirements
2. overwhelming differences in practice

# Traditional District expenses that meet Criteria 1: differences in regulatory or statutory requirements

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*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.

- Because charter schools do not have “resident” 3-5 year old students, they have no regulatory responsibility in this area.

*Private school obligations:* Rhode Island General Law requires that districts pay for the transportation and some textbooks for resident students attending private schools.

- Charter schools are not required to provide this benefit.

# Charter School Expense that meet Criteria 1 : differences in regulatory or statutory requirements

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*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. (See Briefing #3)

- 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.
- Note: There are Debt Services in the four regional districts as suggested in FY 2014 expenditure data

# Traditional School Expenses that meet Criteria 2: Overwhelming Differences in Practice

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*Career and technical tuition costs:* These are the tuition costs associated with students enrolling in career and technical education programs outside their resident district.

- 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, virtually no charter school students request tuition-based placement outside their school.

*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 tuition and transportation for served students.

- It is possible that charter schools could enroll and would need to serve students through out-of-district-placement; historically, students that enroll in charter schools rarely require out-of-district placement.

# Traditional School Expenses that meet Criteria 2: Overwhelming Differences in Practice

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*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.

- 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.

*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

- 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 School Expense that meet Criteria 2: Overwhelming Differences in Practice

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*Rental:* These are the costs of renting schools and facilities (See Briefing #3). Charter schools very frequently rent (rather than buy) their schools.

- Although some traditional districts incur rental expenses, they are negligible and tend to cover things like the cost of small ancillary space, storage, and access to athletic facilities. Charter schools are incurring rental expenses for the school buildings.

**Rounded Average FY14 Costs Incurred Primarily 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

**Rounded Average FY14 Costs Incurred Primarily by Schools of Choice, Per Pupil**

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

**Summary of Differences in School Housing Expenses Funded Through Per Pupil Funds**

	<i>Charter</i>	<i>Traditional District</i>
Debt Service	Average: \$510	Average: \$80
Rental	Average: \$430	Average: \$5

# Practices in Other States: Charter Housing Aid

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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.

Our review of charter laws found four primary categories for how states support charter school housing costs.

1. An Annual Set-Aside for Application-Based Aid and/or Matching Funds for Construction/Renovation
2. Right of First Refusal/Increased Access to Existing Public Facilities
3. Tax-Exempt Financing and/or Bond Application
4. Per Pupil Facilities Aid

# Examples in Other States: Charter Housing Aid

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1. An Annual Set-Aside for Application-Based Aid and/or Matching Funds for Construction/Renovation
  - Connecticut: Competitively awarded grants are available to assist established state charter schools in financing school building projects and repayment of debt incurred for school building projects.
2. Right of First Refusal/Increased Access to Existing Public Facilities
  - Louisiana: Local school boards must make available to chartering groups any vacant school facilities or any facility slated to be vacant for lease or purchase at fair market value.
3. Tax-Exempt Financing and/or Bond Application
  - Delaware: Charter schools are eligible to access tax-exempt industrial development revenue bonds through the Delaware Economic Development Authority.
4. Per Pupil Facilities Aid
  - Massachusetts: Facilities funding is embedded into the tuition formula for commonwealth charters.