



BUFFALO BOARD OF EDUCATION

INTEROFFICE MEMORANDUM

FINANCE DEPARTMENT – ROOM 708 CITY HALL

DATE: January 26, 2018 (revised February 19, 2018)

TO: Buffalo Board of Education

CC: Dr. Kriner Cash, Superintendent
Cabinet

FROM: Geoffrey Pritchard, Chief Financial Officer *GFP*

SUBJECT: Charter School Impact on the Buffalo Public Schools

EXECUTIVE SUMMARY

The District considers charter school pupils from Buffalo to be part of the overall City School District and part of the District's budget. The District and charter schools have begun collaborative meetings, looking for areas we can help each other and advocate for all the students in Buffalo. This is positive, but there is much work necessary to ensure equitable and sustainable funding for both District and charter schools.

When charter school legislation was written, it was designed so the majority of funding for charter schools in Buffalo is passed from the State, through the District, to the charter schools. The State funds the District for charter school pupils by including them in the Foundation aid and other aid calculations and has set up formulas for calculating charter school tuition to be paid by the District, based ultimately on the level of the District's non-charter expenditures, and also has regulations that require the District, as the Lead Educational Agency (LEA) to provide other services to charter schools.

With the data on the following pages, this memo will outline several of the impacts of the current set up of charter schools in Buffalo:

- 1) It is clear that even if the moratorium requested by the Board in September 2017 was approved, there would still be significant future growth in charter pupils, as existing charter schools continue their expansion. This growth in charter pupils is occurring during a period of relatively stagnant overall growth in pupils in Buffalo, while charter pupil counts have exceeded statutory limits.
- 2) Charter schools, collectively, appear to have a very strong financial position with significant growth in net assets and cash reserves generated during the period of frozen charter tuition. Starting in 2017-18, tuition rates are now unfrozen and could expand this net asset and cash growth.
- 3) The growth in charter school seats appears to be at saturation point as evidenced by a growing fluctuation in the number of filled charter seats, compared to budgeted seats, within each year over the last three years. This is a budgeting concern for the District and an instructional concern if these students are churning through various schools each year as more schools compete for the same students.
- 4) The existing charter school tuition formula penalizes the District for legacy costs, such as retiree healthcare and a more tenured workforce, by including those costs in the formula used to calculate charter school tuition. Charter

schools do not have those same legacy costs, but benefit from higher tuition revenue as a result of the District having those costs.

5) Charter schools argue that they should receive building aid, while the calculations below show that the base charter school tuition effectively provides a significant share of building aid to charter schools.

6) In addition to charter school tuition, the District provides other services to charter schools, with direct costs outlined below that should be considered in the overall analysis of the impact of charter schools on the District.

7) Analyzing the revenues generated by charter school pupils vs. the associated expenditures, it appears that the District will subsidize charter schools by at least \$3.2 million more in 2017-18 than if the students were removed from the District's rolls and funded separately and directly by the State. If this analysis is done on a cash flow basis, recognizing that many of the revenues are reimbursing prior year expenses paid by the District, the subsidy grows to \$21.6 million.

8) By unfreezing charter school tuition, each of the concerns raised in items 1-7 above will likely become more pronounced in the coming years. The District has proposed legislation providing Charter School Supplemental Tuition Reimbursement to the District in the same year the tuition is paid to offset much of the impact of this tuition rate growth.

9) An area needing more study is special education, though it appears charter schools do not provide the same level of service that the District provides. Additionally, in the last two years, the gap may be widening as special education tuition paid to charter schools by the District on a per capita basis was lower in 2016-17 than in 2014-15, while District special education costs continued to rise.

10) The District has requested legislation to provide Charter School Transitional Aid on two charter schools converted or sponsored by the District prior to the State creating this aid type.

11) It appears more could be done to protect the publicly funded net assets of charter schools after they are closed to ensure that those funds are returned to the students' home districts. Pinnacle Charter School, closed in 2013, is provided as an example.

Each of these topics are outlined more fully below:

Continual Growth in Charter Schools

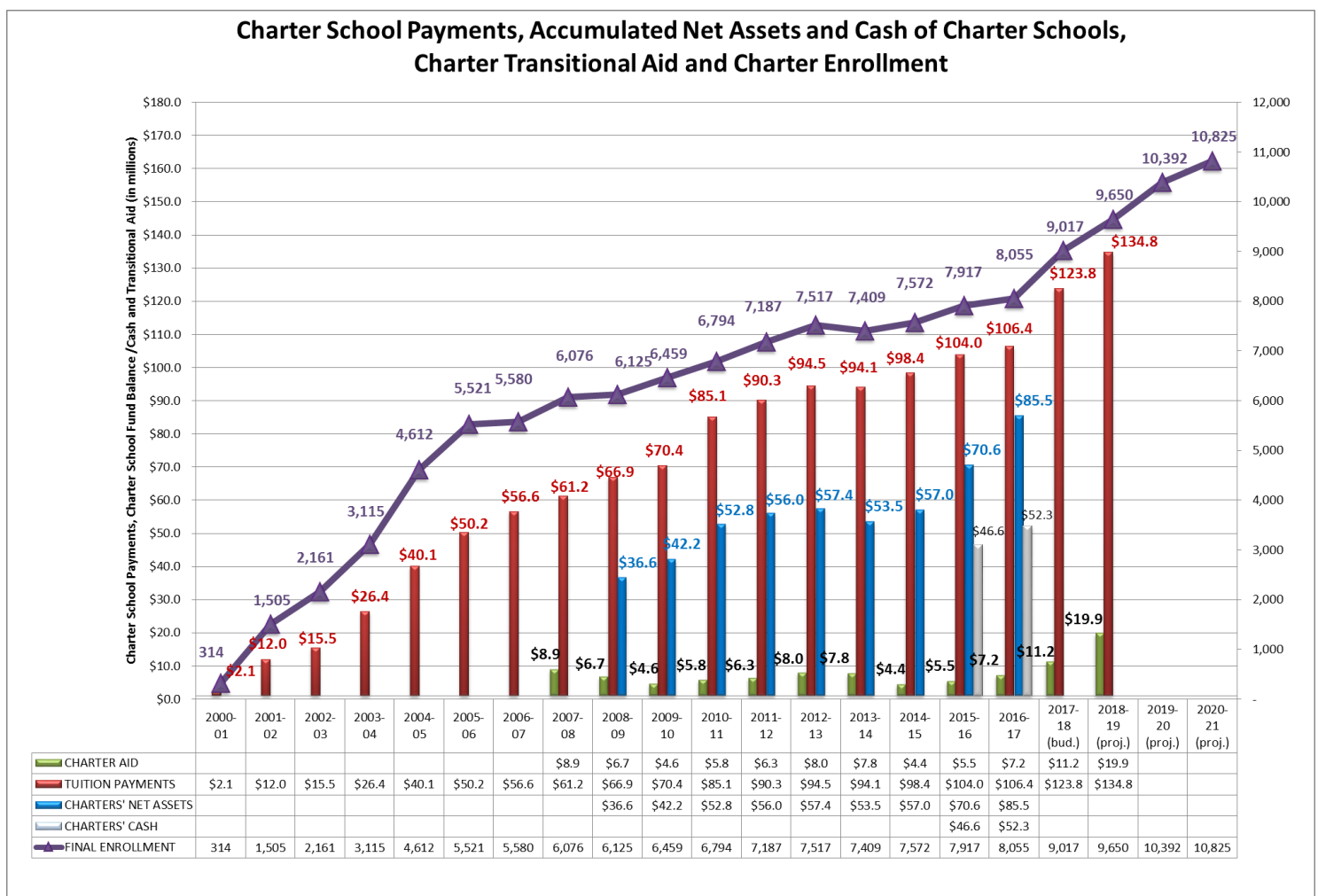
There are 18 charter schools operating in Buffalo or the immediate suburbs during the 2017-18 fiscal year. That number is projected to grow to 20 in the 2018-19 fiscal year. Charter schools in Buffalo began with one school in 2000-01 and have steadily grown since then. Charter schools have approximately 9,000 Buffalo Pupils, or 22% of the approximately 41,000 Public/Charter pupils in Buffalo. The charter school statute in New York includes a limit of 5%, which has long since been exceeded. In September 2017, the District's Board requested a three-year moratorium on charter schools to allow the existing charter schools to complete their planned growth and to allow time to study the impact of charter schools on the overall District and each other.

In a recent charter school application to the State, the applicant indicated that the impact on District and other charter schools was likely to be negligible. However, this was because the charter school anticipated growing 60-80 students per year for its first five years and didn't provide data on the pre-existing projected growth in charter school pupils in Buffalo. Consider this: as of December 2017, there are 10 (of 18) charter schools in Buffalo that are projecting growth in 2018-19 and 2019-20 and eight charter schools that are projecting growth in every year from 2018-19, 2019-20, 2020-21 and 2021-22. Even if no charter schools were added for the next five years, there would still be annual growth in charter school seats in Buffalo, which negatively impacts the ability of the District to effectively implement the Superintendent's New Education Bargain. The projected growth of charter school pupils, based on data provided by the

charter schools, is shown in the table in the next section. Individually charter schools may say they have minimal impact on the whole of the District, but when looked at collectively, that is clearly not the case.

Charter School Financial Position

The following table outlines the several points of data: 1) the District’s annual historical tuition cost of charter school pupils (this excludes other supports provided by the District); 2) the number of charter school pupils (FTE) at year end (with projections for future years based on data provided by charter schools); 3) charter schools’ collective net assets at each year end – net assets are essentially assets minus liabilities, or an accumulation of unexpended revenues from prior years; 4) charter schools’ collective cash balances at each year end – this is less than net assets, as charter schools have assets in the form of facilities, equipment and receivables; 5) charter aid to the District – the District receives Charter School Transitional Aid and Charter School Supplemental Aid, which are based on prior year tuition payments to charter schools. These aid payments will be discussed further below.



While the growth in charter school pupils and tuition is well documented, this chart also shows an acceleration of charter school net assets, which have grown to \$84.3 million as of June 30, 2017 (17 charter schools) from \$53.5 million three years earlier, on June 30, 2014 (16 charter schools). Note also that one charter school is run by a for-profit entity

and transfers any remaining funds at year end to that entity – if those funds were retained, the fund balance and cash presented here would be even higher.

The table below outlines total charter school expenses, unrestricted net assets, and cash balances for each of the charter schools in operation at the end of the 2016-17 fiscal year:

Year 2016 - 2017					
Charter School	Total Expenses	Unrestricted Net Assets	Unrestricted Net Assets as a Percent of Expenditures	Cash Balances	Cash as a Percent of Expenditures
Academy of Science	5,744,374	2,820,663	49%	973,526	17%
Aloma	3,961,249	1,451,900	37%	1,307,722	33%
Applied Technology	28,074,679	16,249,056	58%	7,620,540	27%
Buffalo United (1)	9,512,081	75,114	1%	139,980	1%
Elmwood Village	5,666,500	6,669,811	118%	2,620,745	46%
Enterprise	5,913,266	5,370,267	91%	4,873,067	82%
Global Concepts	11,757,533	12,284,052	104%	8,794,614	75%
Health Science	6,403,511	462,300	7%	1,224,004	19%
Inquiry	1,955,653	733,150	37%	322,605	16%
King Center	4,801,567	4,833,329	101%	2,632,061	55%
Oracle	5,522,051	2,175,655	39%	1,515,669	27%
South Buffalo	12,429,787	18,444,488	148%	8,703,927	70%
Tapestry	11,361,660	3,278,852	29%	3,375,597	30%
West Buffalo	4,485,656	1,685,136	38%	54,922	1%
Westminster	8,957,626	7,162,274	80%	6,671,574	74%
WNY Maritime	5,730,685	1,846,328	32%	1,446,728	25%
Total	132,277,878	85,542,375	65%	52,277,281	40%
(1) All profits are annually sent to National Heritage; no net assets retained					

District Budget Planning and Instructional Concerns Due to the Scale of Charter Schools

Charter schools have grown to encompass more than 20% of the District’s public school students, at a little under 9,000 of approximately 41,000 pupils as of January 2018. At the start of the 2017-18 fiscal year, charter schools reported 9,256 FTE Buffalo pupils on their rolls, and those counts have dropped by 499 pupils to 8,757 FTE in January 2018. The District pays tuition based on the number of pupils charter schools report. The projected annualized tuition payments have ranged \$6.5 million from high to low thus far in 2017-18, starting out \$3.3 million over budget in July 2017 and projecting \$3.2 million under budget as of January 2018. The table below outlines the budget impact of these fluctuations for the last three fiscal years on base tuition (excludes special education costs):

	2017-18			2016-17			2015-16		
	Reported Charter Pupils	Pupils (Over)/ Under Budget	Base Tuition (Over)/ Under Budget	Reported Charter Pupils	Pupils (Over)/ Under Budget	Base Tuition (Over)/ Under Budget	Reported Charter Pupils	Pupils (Over)/ Under Budget	Base Tuition (Over)/ Under Budget
Budget	9,000			8,278			8,025		
Projection Month:									
July	9,256	(256)	(3,329,280)	8,366	(88)	(1,100,440)	8,190	(165)	(2,038,575)
September	9,017	(17)	(221,085)	8,422	(144)	(1,800,720)	8,200	(175)	(2,162,125)
November	8,813	187	2,431,935	8,200	78	974,357	8,055	(30)	(365,428)
January	8,757	243	3,160,215	8,158	120	1,505,516	7,991	34	424,455
March	TBD	TBD	TBD	8,100	178	2,220,909	7,946	79	970,543
May (Final)	TBD	TBD	TBD	8,055	223	2,783,779	7,917	108	1,329,361
Variance - high to low	499		6,489,495	367		4,584,499	283		3,491,486

The District attempts to budget conservatively, to avoid a mid-year budget deficit. However, if we are forced to budget millions more in charter tuition payments based on the projected enrollments, it may be at the detriment of instructional programs in District schools. Typically charter pupils start the year higher than budget and end the year under budget. However, as charter schools become a larger component of the District’s budget it is becoming clear that the potential impact on the District’s budget is not only affected by the growth in charter pupils and tuition rates, but in the fluctuation of the number of pupils. This may happen for a number of reasons, including the possible over-saturation of Buffalo with charter schools. This is also a significant instructional concern as this data seems to indicate that many pupils are returned from charters to the District each year, to the likely detriment of the students, as they lose the continuity of remaining in the same school the full year.

Tuition Formula Inequities

Charter schools are not separately funded; they receive tuition and other services from the District’s where their pupils reside. There are several inequities in how charter school tuition rates are calculated that support either adjusting the formula or creating a separate funding mechanism for charter schools. Because the 2017-18 State budget unfreezes tuition, one of the most significant inequities is described below:

Base charter tuition is calculated based on the District’s Approved Operating Expenses (“AOE”), which is defined as general fund expenditures for day to day operations divided by a weighted per pupil count multiplied by an inflation factor. Several expenditure types that are not day to day expenditures are included in the AOE, with retiree healthcare being one of the most significant items. Retiree healthcare is a legacy cost of the District. Retiree healthcare is not a cost that charter schools have or will have for years to come. Yet, the cost of retiree health insurance to the District adds approximately \$1,400 to the per pupil charter tuition, for a total cost of \$12.5 million projected in 2017-18. The District essentially pays a portion of retiree healthcare a second time to charter schools in the form of higher charter school tuition. Additionally, the District has a far more senior work force than our charter schools, so our higher relative average salaries further inflate the tuition rate.

However, this point is only meant to underscore the concerns with how the tuition rate is set, not to what an appropriate level of charter school tuition should be. It may ultimately be appropriate to set charter tuition rates based on a separate funding mechanism based on the needs of the pupils at charter schools, instead of what the District spends on students in its schools, with a different population mix and related cost to support.

Building Aid Argument

Charter schools frequently point out that they do not receive State building aid, even though they must obtain facilities in order to teach their students. Other public school districts do receive building aid. Charter schools are expected to pay for building costs out of their base tuition, which exceeds Foundation aid per pupil. Directly below is a table that attempts to estimate a proportionate amount of building aid that is included within the base charter school tuition. This information is then described more fully in the numbered sections below the table.

What the table shows is that by taking the total state aid received by the District and backing out aid types that are already proportionately shared with charter schools or that are 100% generated by individual high cost pupils in the District, the remainder, including Building aid, can be compared on a per pupil basis to determine what portion of Building aid is essentially included in the charter school tuition formula.

This might be stated more simply by saying that the variable charter school tuition paid per pupil is \$13,005, while the variable revenue generated per pupil is approximately \$10,477. The difference between those amounts can be used by charter schools for facility related costs; instead of providing separate revenue types for charter schools, they are lumped together into the per pupil charter school tuition. Essentially, by this calculation, it appears that charter schools receive a proportionate share of building aid at a level 60% of the District, included as part of their base tuition. Considering the District just completed a \$1.4 billion reconstruction project, has 60 facilities with most being built in the early 1900s, this is a substantial share for charter schools, who don't have the same old building stock.

Buffalo Public Schools - 2017-18 budget Analysis of Revenues vs. Charter Tuition		2017-18 Budget Adj for detail Aid Run	Shared with all pupils in city of buffalo	District only revenues	Reimbursement specific to high cost students (i.e. special ed)	Revenues proportionately shared with charter schools
STATE AID:						
FOUNDATION AID	3101	510,904,788				510,904,788
EXCESS COST - PRIVATE (S3609b)	3101	26,283,830			26,283,830	
EXCESS COST (PUBLIC HIGH) (S3609b)	3101	4,048,527			4,048,527	
TRANSPORTATION	3101	46,319,685	46,319,685			
SPECIAL SERVICE AID	3101					
Career Ed Aid	3101	8,996,645				8,996,645
Computer Admin Aid	3101	2,121,392				2,121,392
Academic Improvement Aid	3101	7,600,729				7,600,729
BUILDING AID	3101	115,829,339		46,000,000		69,829,339
CHARTER SCHOOL TRANSITIONAL AID	3101	7,290,415				7,290,415
CHARTER SCHOOL SUPPLEMENTAL TUITION REIMB	3289	3,900,000				3,900,000
HARDWARE & TECHNOLOGY	3262	938,238	938,238			
TSL AID (A3260-3263)	3260-3263					
Software	3262	659,974	659,974			
Library	3263	275,356	275,356			
Textbook	3260	2,627,017	2,627,017			
DEDUCT LOCAL SHARE FOR CERTAIN STUDENTS	3101	-				
Bullet aid and other		1,200,000	1,200,000			
		-				
	Total State Aid (A)	738,995,935	52,020,270	46,000,000	30,332,357	610,643,308
			District actually retains an unaided cost in administering these	This is a plug of the buffalo only building aid; rest is shared proportionately	pass through to agency or reimbursed costs over \$35,000 per pupil	
charter tuition costs						123,825,000
charter tuition as a percentage of State aid in this column						20.3%
						17/18
				charter enrollment + sped weighted charters		9,907
				TAFPU weighted total buffalo (charter plus district)		48,764
				charter as a percent of total		20.3%
				unweighted charters		9,000
				unweighted total buffalo (charter plus district)		41,052
				charter as a percent of total		21.9%

1. The District receives several different types of State aid, the largest of which is Foundation Aid, which is a base aid designed to support nearly all District programs, and other aid types that are reimbursable in, which include Building Aid—the second largest aid type, along with various other reimbursable aids that are specific to District students and reimbursable aids that are passed through to all pupils in Buffalo (e.g. charter, parochial, private).
2. For some State aid types, the District serves as a pass through on a per pupil basis (i.e. the dollars or services follow the pupils, regardless of which school they attend): These include Transportation Aid, Textbook, Hardware, Software and Library aids, Excess cost for private and public students, along with certain bullet aid amounts (e.g. nursing, which is also passed through). This aid follows the students in Buffalo, so as students move to different schools, the aid will follow them. In 2017-18 this amounted to approximately \$52.0 million, with Transportation being \$46.3 million.
3. The remaining State aid types include Foundation Aid, Building Aid, Special Services Aid (CTE and IT), and Charter school transitional and supplemental. Because these aid types are received by the District and utilized for programs, we will conservatively assume they are ALL in the bucket of aid types that charter schools don't independently receive, but would like to receive in order to support their programs and facilities. Charter schools receive tuition calculated based on District expenditures, so as District expenditures increase, the tuition paid to charter schools will increase as well. So charter schools will actually benefit from the existence of charter school transitional aid and supplemental aid because it allows the District to spend more, which then increases the charter tuition rate—that is the rationale for including them in this calculation even though they are not entitled to the revenues per se.
4. Charter School tuition is a payment made to Charter schools on behalf of students that reside in the City of Buffalo and attend a charter school. Current base tuition in 2017/18 is \$13,005 per pupil, which exceeds the District's per pupil Foundation Aid of \$10,477. This fact alone indicates that charter schools receive tuition from other aid types outlined in the paragraph above.
5. In 2017-18, the District is budgeted to receive \$510.9 million in foundation aid, \$18.7 million in special services aid, \$115.8 million in building aid and \$11.2 million in charter school transitional and supplemental aid. This adds up to \$656.6 million. Charter school tuition in 2017-18 is budgeted at \$123.8 million, which is equal to 18.9% of \$634.5 million. Charter schools would say that their pupil count is 9,000, while the total in Buffalo is 41,052, which means they receive 18.9%, while their pupils are 21.9% of the total. A more accurate calculation takes into account that Foundation aid is based on a pupil weighting, where charter schools are 9,907 of 48,764 pupils or 20.3%. This is conservative as well, because the District's special education students are on average in more restrictive (i.e. expensive) settings. These calculations would likely be more accurate, and make it look like charter schools get a larger piece of the pie, if the special education costs were weighted based on special ed funding per pupil, which is data I don't have completed at this point.
6. At 20.3% of weighted pupils, charter schools are receiving a proportionate (dollar for dollar based on weighted pupil counts) share of foundation aid, special services aid, and charter school transitional aid, along with a proportionate share of \$69.8 million out of the District's \$115.8 million building aid revenue – more than 60%, meaning the District doesn't share 40% of its building aid. (By including \$69.8 million of building aid the right-most column, and excluding \$46 million, it results in the charter tuition being 20.3% of the column total, matching the weighted charter pupils as a proportion of the total Buffalo pupils.) Though not receiving a proportionate dollar for dollar amount of 100% of building aid, they are receiving a significant share at 60%. Understand as well, that the District has a much older stock of facilities that required the Joint Schools Construction Board (JCSB) to bring into the 21st century and the building aid received today pays for that required investment. Charter schools are able to obtain facilities in arm's length transactions that meet their needs and don't require the correction of decades of deferred building improvement that resulted in the JSCB.
 - a. Westminster Charter School is unique in that they are in a conversion charter in former District facility that is not eligible for building aid, though it has similar investment needs as the District's pre-JSCB schools.

Other District Costs Related to Charter Schools

The table below outlines (in millions) the budgeted direct costs of charter schools to the District in 2017-18. This per pupil document was released in conjunction with the 2017-18 budget in May 2018 to calculate per pupil costs of various pupils included in the District budget. It has been revised to include 8 Special Education FTEs and 1.5 Budget and IT FTEs that work exclusively on charter school matters, along with IDEA grant funds shared with charter schools, but is otherwise unchanged from May 2018.

In the Charter Schools column, the largest item is budgeted charter school tuition, \$123.9 million, an amount budgeted to be paid by the District to charter schools. This amount includes both the base tuition and special education tuition.

The second largest expenditure is for transportation. The District provides transportation services to charter school pupils, but retains all the administrative costs and costs of the bussing contracts. The District is reimbursed in the subsequent year approximately 87% of transportation costs, with the remaining 13% in unreimbursed costs being retained by the District – charter schools do not pay for the unreimbursed cost.

The District, through its Food Service fund, provides breakfast and lunch to 8 charter schools (along with other non-public schools that have signed up) in the amount of roughly \$3.0 million. The charter schools do not pay for this service as the District is reimbursed by the Federal and State governments through the Food Service fund. The food service fund absorbs the costs and revenues of the program, though it does run at a slight deficit annually.

The District, through grants, provides services to charter schools in the amount of roughly \$2.2 million, with the District's IDEA 611 and 619 grants providing approximately \$1.2 million of that amount. The charter schools do not pay for these service as the District is reimbursed by the State government through grants and other aid. However, it should be noted that as of 2016/17, these grant funds are no longer able to cover the entire amount of the District's cost.

The District, as part of regular student instruction, serves as a pass through to charter schools for \$0.9 million in textbook, software, hardware, and library (TSHL) aid received, along with \$0.5 million of community schools dollars. The TSHL aid is received on a per pupil basis and is passed through to charter and other non-public schools in Buffalo, while the Community schools funding is allocated to Westminster Charter School, but otherwise would have been retained by the District.

Charter schools, as part of special education, receive the services of 5 full time Coordinators and 3 full time Psychologists in the District's Committee on Special Education (CSE). The District is the LEA in Buffalo for special education pupils and is required to provide these services to charter schools to assess special education students. Charter schools do not reimburse the District for these costs. As noted above, the District provides \$1.2 million in IDEA grant funding to charter schools. Also included in that line are the 1.5 FTEs in IT and Budget that track the various charter school data and perform related State filings.

To recap, the District budgets to provide direct tuition payments of cash of approximately \$123.9 million to charter schools. The District then passes through direct services or supplies amounting to \$14.8 million, where there is no cash exchange between the District and charter schools; the District is either fully or partly reimbursed through State or Federal Funds or utilizes Foundation Aid to cover the costs. Other costs of administrators' time or overhead related to charter schools are not included in this analysis. The total direct District expenditures related to charter schools are estimated to be \$138.7 million.

Buffalo Public Schools								
Per Pupil Costs - 2017/18 Proposed Budget								
	Total Budgets by Function	Charter Schools (District Costs)	Agency Placements	Adult Education and Equivalent Attendance	Non Public (PK-12) and CBO (PK) Students	PK-12 District - Regular Education	PK-12 District - Special Education	PK-12 District - Total
17/18 general fund budget (in millions):								
Regular student instruction	237.2	1.4	2.0		0.4	233.4		233.4
Special education	149.5	0.9	31.1	1.0			116.5	116.5
School based support	31.5					15.8	15.8	31.5
School administration	27.1					19.9	7.3	27.1
Transportation	56.3	7.2	0.7		2.9	30.3	15.2	45.5
Facilities and central services	65.5					47.9	17.6	65.5
General and instructional support	21.4					15.6	5.7	21.4
Charter tuition	123.9	123.9						-
PK grants - costs and pupils include in District totals					1.7	10.4	4.4	14.8
Instructional and operational costs	712.5	133.5	33.8	1.0	5.0	373.2	182.5	555.8
Retiree healthcare	68.1					49.8	18.3	68.1
Debt service	113.6					83.1	30.5	113.6
Total general fund budget (in millions)	894.2	133.5	33.8	1.0	5.0	506.2	231.3	737.5
Total food service budget	35.9	3.0			3.4	21.6	7.9	29.6
Total grants budget	120.0	2.2	14.0	9.4	2.9	61.7	13.3	75.0
Grand total budgets (in millions)	1,050.1	138.7	47.8	10.4	11.2	589.5	252.5	842.0
Total pupils (2017/18 budget)		9,000	850		3,600	25,344	9,300	34,644
Per pupil costs of operations + PK grants		14,829	39,744		1,379	14,727	19,625	16,042
Per pupil costs of total general fund + PK grants		14,829	39,744		1,379	19,972	24,870	21,287
Per pupil costs to GEN, GRANTS, FOOD funds		15,406	56,215		3,120	23,259	27,153	24,304
NOTE: This report uses estimates to break out major categories of spending that flow through District funds, but don't support the District's PK-12 schools								
This report also uses estimates to break out District PK-12 between regular and special education								

Cash Flows of Charter Expenditures and Related Revenues

As noted above, in 2017-18, the District has budgeted direct expenditures related to charter school pupils of approximately \$138.7 million, with the bulk, \$123.9 million, being charter school tuition payments. In the 2017-18 budget, total weighted pupils for the District are expected to generate approximately \$10,477 per pupil in Foundation aid. For charter school pupils, with a weighted 9,907 pupils, this is \$103.8 million in Foundation aid. Additionally, through Charter School Transitional Aid (\$7.3 million) and Charter School Supplemental Aid (\$3.9 million), the District will receive another \$11.2 million in revenues. Note that although Charter School Transitional Aid is included as a revenue generated by charter pupils, it is really designed to be a transitional revenue to the District to allow a phase out of the existing costs related to the departed pupils; however, we include in here to be conservative. Charter school pupils generate approximately 20% of the District's budgeted Erie County Sales Tax, or \$8.5 million. The District is reimbursed by the State \$0.9 million for textbooks, software, hardware, and library materials (TSHL) passed through to charter schools. The District is also reimbursed \$6.3 million for Transportation (87% of cost); \$2.7 million for Food Service (~90% of cost) and \$2.1 million for Grants (~95% of cost). This adds up to \$135.5 million in cash revenues generated by charter pupils or as expense reimbursements on the District's direct costs related to charter pupils.

In 2017-18, \$135.5 million in revenues less \$138.7 million in costs results in an approximately \$3.2 net revenue shortfall to the District related to charter schools – this is counter to the widely held belief that the District retains additional revenue generated by charter pupils. Further, it should be noted that the several reimbursable items (e.g. Charter Aid, TSHL, and Transportation) are received the year after the expense is paid for, so those revenues, amounting to \$18.4

million, are reimbursing costs from the prior year, and the real cumulative net cash outflow to the District is \$3.2 million plus \$18.4 million, or \$21.6 million. It is important to note that this cash differential is the basis of the legislative request to receive Supplemental Charter Tuition Reimbursement in the same fiscal year as the tuition expenditures. The table below lists the various expenditures and revenues:

District's Direct Charter Expenditure and Revenue Comparison FY 2017-18 (in millions)				
			Charter pupil costs	Charter pupil revenues
		Tuition Paid/Foundation Aid Received	123.9	103.8
		Charter Supplemental and Transitional Aid	-	11.2 x
		Erie County Sales tax (20 % of budget)		8.5
		Textbook, Hardware, Software, Library and CSP	1.4	0.9 x
		Special Education, Budget, IT	0.9	-
		Transportation	7.2	6.3 x
		Food Service	3.0	2.7
		Grants	2.2	2.1
			<u>138.7</u>	<u>135.5</u>
		Budgeted revenue shortfall to District		<u>(3.2)</u>
		Cash flow shortfall including advance items paid by District		<u>(21.6)</u>
		x - aid received in 2017-18 reimburses prior year expenses paid		

As a final note, assuming that the charter school pupil counts and costs above became frozen, the revenues generated would, within three years, decline by \$7.3 million as the Charter School Transitional Aid expired—this is written into the legislation. So the real recurring revenue shortfall would grow to \$10.5 million on an annual basis, while the cash flow shortfall would grow to \$28.9 million on an annual basis.

Unfreezing of the Charter Tuition and Supplemental Charter Tuition Reimbursement

In 2010-11, the State froze charter school tuition, which for Buffalo was at \$12,005 per pupil, where it stayed frozen through 2013-14. In 2014-15 the State added \$250 supplemental tuition, followed by another \$100 in 2015-16 and another \$150 per pupil increase in 2016-17. That was a cumulative increase of \$500 in per pupil tuition over seven years. During this period of time, charter school net assets increased \$43.3 or 102.6% from \$42.2 million at the start of 2010-11 to \$85.5 million at the end of 2016-17. Just looking at the last three years where tuition rates increased, charter school net assets increased by \$32.0 million, or 60%, from \$53.5 million at the start of the 2014-15 year to \$85.5 million and the end of 2016-17. See the chart on page 3 for more detail.

In the 2017-18 year, the State unfroze tuition, adding \$500 per pupil in one year (while in the previous seven years described above it had only grown \$500) and after that, tuition rates will float based on the District's AOE growth. This is projected to grow per pupil tuition rates by as much as \$2,461 per pupil from 2016-17 and 2021-22, while in the previous seven years, charter school tuition grew only \$500. We cannot project charter school net assets in the future, but based on the net asset growth with a relatively flat tuition rate, we expect a significant increase in charter schools' net assets. In addition to legacy costs, much of the growth is based on the New Education Bargain, as charter schools will receive an increase in tuition based on the additional spending investment of the District.

Included in current law is a supplemental tuition reimbursement to school districts for charter school tuition amounts over a base amount (that base is \$12,005 for Buffalo), so as the tuition rates increase, the State will reimburse the District for the per pupil amounts times the number of pupils. However, this reimbursement is made in the following fiscal year, and the District must advance those funds using current year Foundation aid. In 2017-18, the supplemental

tuition paid to charter schools is budgeted to be \$8.8 million as of January 2018, which is more than half of the District’s \$16.8 million Foundation Aid increase. The District and our local delegation have proposed legislation to reimburse districts in the same year tuition payments are made, which would effectively cap the tuition rate from a cash flow perspective. The District requests this same legislation in the 2018-19 State budget. This is a legislative request that helps the District and would be neutral to charter schools.

Below is the table that outlines projected tuition rate increases based on the current legislation and projected AOE costs of the District. Note the significant projected growth from 2017-18 to 2021-22.

Buffalo Public Schools - Per Pupil Charter School Tuition Rates										
Year		Base tuition	Special Ed Tuition *	Total Tuition	\$ Growth - Base	% Growth - Base	\$ Growth - SPED	% Growth - SPED	\$ Growth - Total	% Growth - Total
2010/11	actual	12,005	521	12,526						
2011/12	actual	12,005	559	12,564	-	0.0%	38	7.3%	38	0.3%
2012/13	actual	12,005	567	12,572	-	0.0%	8	1.4%	8	0.1%
2013/14	actual	12,005	696	12,701	-	0.0%	129	22.8%	129	1.0%
2014/15	actual	12,255	740	12,995	250	2.1%	44	6.3%	294	2.3%
2015/16	actual	12,355	777	13,132	100	0.8%	37	5.0%	137	1.1%
2016/17	actual	12,505	704	13,209	150	1.2%	(73)	-9.4%	77	0.6%
2017/18	projected	13,005	760	13,765	500	4.0%	56	8.0%	556	4.2%
2018/19	projected	13,347	760	14,107	342	2.6%	-	0.0%	342	2.5%
2019/20	projected	13,568	760	14,328	221	1.7%	-	0.0%	221	1.6%
2020/21	projected	14,193	760	14,953	625	4.6%	-	0.0%	625	4.4%
2021/22	projected	14,966	760	15,726	772	5.4%	-	0.0%	772	5.2%

* special education is an average, since not all pupils receive these services

Special Education Rates

Note in the table above that that special education is an additional payment on top of base tuition. Special education payments per pupil have dropped in 2016-17 when compared to the two prior years. This appears to be the result, not of a lower cost per special ed pupil, but of fewer special education pupils as a percent of total charter school pupils. So as charter schools have expanded the number of pupils, the special education students served do not appear to have grown at the same rate, based on data through the 2016/17 fiscal year. This is in contrast to the District, which continues to see significant special education growth. This needs to be studied further and is a priority topic for the new formed joint BPS/Charter school problem solving committee.

Charter School Transitional Aid

Charter School Transitional Aid is another type of aid received by districts based on the growth in charter pupil counts times a base tuition amount. It reimburses the District at a rolling 80%, 60% and 40% over three years following growth in tuition from the prior year to allow districts a period to transition (shrink) as pupils drop. This drop in pupils is, of course, spread out among the District’s schools, so there is little opportunity to reduce classrooms or close schools in the short-term. In 2017-18, the District budgets \$7.3 million in transitional aid, which is \$116.5 million less than charter school tuition payments. The District first sponsored or converted two charter schools several years before transitional aid was created to help offset the cost of charter school tuition. These schools receive the same tuition per pupil as all other charter schools, yet their enrollments do not count toward charter transitional aid. Allowing these students to

count in the transitional aid formula would provide additional funding to the District of approximately \$22 million over a three year period. The District requests that legislation be changed to include District sponsored charter schools in the Charter School Transitional Aid calculation.

Charter School Closures

Prior to July 1, 2013, charter schools that were closed were able to liquidate assets as they saw fit, with some issuing RFPs to other charter schools to allow them to request assets, completely independent of where the attending pupils came from and ultimately went to in the following year. Since July 1, 2013, State Law requires that public assets remaining after the closure of charter schools be returned to their student's home district. However, the current law appears not to have the strength necessary to protect assets during the dissolution period to maximize the funds returned to the home districts of the students. The following paragraphs describe what happened when Pinnacle Charter School was closed. In addition to the fiscal items below, there were audits identifying that some furniture and equipment went missing upon the school's closure as no independent receiver was there to prevent it.

In August 2013, the New York Court of Appeals ended Pinnacle Charter School's injunction against its closure, and immediately thereafter the New York State Education Department ordered the school to close. If this was analogous to a bank closure, at that time, an independent financial receiver would have been put in control of the operations of the now closed school in order to maximize the return of the assets.

As of June 30, 2013, Pinnacle had \$3.0 million in cash, \$0.4 million in receivables, and \$1.5 million in property and equipment. Offsetting this was \$1.2 million in liabilities and \$3.8 million in unrestricted net assets. Giving no value to the property and equipment and \$0.2 million to the receivables (50%) and deducting \$1.2 million in liabilities, there should have been as much as \$2.0 million in net cash upon conclusion of their final year of operations. As was outlined in the charts on page 3 and 4, most charter schools have significant net asset and cash reserves, which were generated primarily through public dollars.

On July 5, 2013, the District remitted \$1.1 million to Pinnacle for the first payment of the 2013/14 fiscal year, which would have increased Pinnacle's cash balance to \$4.1 million. This was subsequently returned to the District in September 2013.

On the September 30, 2016 Statement of Net Assets in Liquidation, Cash balances had declined by another \$2.1 million from \$3.0 million to \$0.9 million, while liabilities of \$0.7 million remained, leaving net assets of \$0.2 million. Included in that \$0.7 million liability balance at September 30, 2016 was approximately \$0.6 million of severance payments not contractually required at the time the school was closed. (Months after the school was closed, on December 9, 2013, the Pinnacle Board of Trustees executed an agreement with the New York State United Teachers to pay severance to teachers not hired/retained by the District. There was no contractual requirement to do so at the time of closure, but the Pinnacle Board of Trustees was able to do so, nonetheless. This amounted to approximately \$0.6 million for all affected employees.)

The remaining net assets in liquidation were \$0.2 million as of September 30, 2016. At least \$2.0 million in payments were made or liabilities were accrued subsequent to the school's closure, including the \$0.6 million in severance costs, approximately \$0.7 million in liabilities that appeared on their books between July 1, 2013 and August 31, 2013 and \$0.7 million in costs from September 1, 2013 to September 30, 2016.

In September 2015, the District was given an opportunity to comment on Pinnacle's draft dissolution plan (with financial statements dated July 31, 2015) by the New York State Education Department Charter School Office and recommended that the severance payments be denied based on the fact they were not contractually required at the time the school was closed, not necessary in order to dissolve the school, and do not help the students. Additionally, it was not clear

what other liabilities were accrued subsequent to June 30, 2013 to deplete the cash balance of \$3.0 million at June 30, 2013 down to \$1.0 million at July 31, 2015, and ultimately to \$0.9 million by September 30, 2016, since the school had ceased operations years earlier. Pinnacle was ultimately given consent for judicial dissolution; however, the District has not received any remaining net assets in liquidation as of January 2018.

Community Charter School closed after the 2013/14 fiscal year and the District has received no information related to their dissolution as of January 2018, but continues to follow up.

As of January 2018, Oracle Charter School has been given notice by SUNY's Charter School Institute that it is not recommending renewal of their charter.

The District requests the State Legislature review the legislation related to closures of charter schools (Section 2851 of Education Law), and potentially call for an independent receiver or some other mechanism to ensure that public funds at the time of a charter school's closure are protected and returned to the district of residence where those funds originated from, as is required by the existing legislation.