PSBA a**closer**LOOK

Double dip pension payments means charter schools get paid twice

Adjusting the school district portion would save taxpayers $122 million in 2014-15 and $1 billion over six years

Each year, the costs mandated by the state for school districts to pay for the costs of charter schools continues to climb – from $434 million in 2006-07 to a staggering $1.145 billion 2011-12. These costs to school districts continue to grow with no help from the state since partial reimbursements were eliminated in 2010-11. Compounding the problem is the fact that the basis of calculating the tuition payment as established in state law is weighted in favor of charter schools.

One key example is that the law supports double payments to charter schools for the employer share of their employee pension costs. Despite the fact that 100% of pension costs are figured into the tuition payment that charter schools receive from school districts for each student enrolled, charter schools also are reimbursed by the state for 50% of their pension costs. This is called the pension double dip, and it wastes taxpayer dollars.

Fact: **The pension double dip means that charters receive reimbursement at the rate of 150% – a major windfall for them and fundamentally unfair to school districts and taxpayers who ultimately pay the bill.**

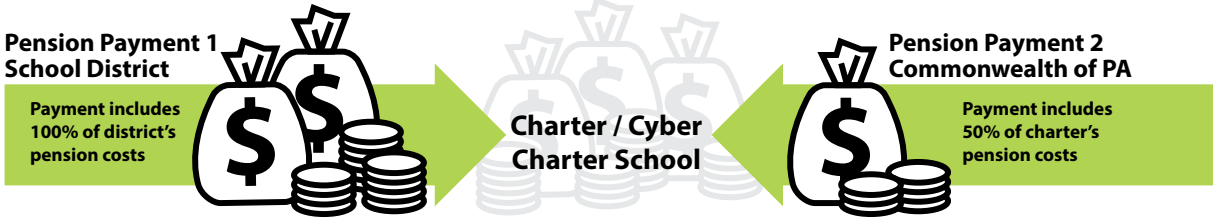
Fact: **Solving the double dip is an easy fix. Removing the school district's employer contribution from the charter school funding formula is estimated to save taxpayers $122 million in the first year and $1 billion over six years.**

Fact: **Any proposal to address the double dip by eliminating the state portion of the reimbursement to charters leaves school districts with 100% of the costs. It does nothing to provide districts, and the local taxpayers they serve, with financial relief.**

Funding formula favors charters

The current charter school funding formula requires districts to pay for each resident student who is enrolled in a charter or cyber charter school. However, the charter school funding formula contains some significant flaws which dramatically increase the tuition school districts must pay. In fact, the payment that a school district must make for each of its resident school-age children enrolled in a charter school typically is more than the district spends for the instruction for students in traditional public schools.

How does this happen? Under the formula, the amount a district has to pay to a charter school for each student depends on the school district's costs, not on the costs of the charter school. Each year, the district must add up its total expenditures, subtracting out a few expenditures, such as those for transportation and special education, to determine the annual tuition amount per student attending a charter school. If the student is a special education student, the district also must pay an additional amount per student to the charter school.



Tuition payments paid by school districts for charter school students are now over $1.145 billion. For 2013-14, district payments to charters schools ranged from a low of $6,405 to a high of $16,390 for regular education students. For special education students, payments to charters ranged from a low of $18,570 to a high of $54,170.

Since the elimination of the charter school reimbursement line item in 2010-11, which provided school districts with about $225 million in state funding to cover up to 30% of their charter and cyber charter school costs, nearly all of the $1.145 billion dollars spent each year on school district charter school payments comes from local district budgets.

These mandated charter school costs place a tremendous burden on school districts' already limited resources, forcing them to cut staff and instructional programs, increase class size, and eliminate tutoring and other extracurricular activities just to balance their budgets. School districts need immediate relief from the flawed funding formula that forces them to overpay charter and cyber charter schools. With limited resources available for school districts, every dollar counts.

Pension crisis escalates charter overpayments

Districts across the state continue to struggle with balancing budgets in times of fiscal restraint, particularly in regard to pension costs. The employer contribution rates for pension projected by the Public School Employee Retirement System (PSERS) indicate a steep climb over the next several years. The rate for 2013-14 is 16.93%, and will jump to 21.40% in 2014-15. The rates will continue to increase to over 30% by 2018-19 and linger there for the next few years after that.

Those increases also will be required of the charter schools for their employees. However, the impact will roll back to the districts through the tuition calculation. As districts costs increase due to increased pension contributions, the tuition will increase correspondingly. As a result, district taxpayers will be paying higher taxes to offset the pension cost for both the district and the charter schools.

The impact is that charter schools will see revenue from increased tuition calculations and this will be without regard to a charter school's actual needs. As the rates jump substantially, the tuition rates also will increase, thus producing more revenue to the charters and imposing even larger costs on the district and its taxpayers.

Double dip fix provides significant savings to districts, taxpayers

PSBA is seeking legislation to ensure that school districts and taxpayers are not overpaying for services provided by charter schools by ending the pension double dip and providing financial relief to districts. It has been suggested that the General Assembly address the double dip by eliminating the state portion of the reimbursement to charter schools. Under such a plan, districts are left with 100% of the payments and no relief.

Rather, the General Assembly can fix the double dip problem by eliminating the school district reimbursement to charter schools for the employer retirement contribution to PSERS from the charter school funding formula. This can be done by revising Section 1725-A of the Public School Code to include school district retirement costs on the list of expenditures to be subtracted from the total budgeted expenditures when determining the amount a charter or cyber charter school gets for each student attending. It's an easy fix, and estimates show the significant cumulative effect over the next six years if this tuition change is implemented.

Conclusion

Charter schools get a double dip on their pension costs because they are paid twice for retirement – once by school districts that must pay 100% of charter employee retirement costs, and once more by the state, which reimburses charters for at least 50% of their retirement costs.

The fact is that charter school pension expenses are overfunded, and this is unfair to the school districts and taxpayers who are footing the bill. Charters should not be paid for expenses they do not have. The General Assembly can correct this double dip by eliminating the mandated requirement for school districts to pay charters for their pension costs. This will save taxpayers $122 million next year and $1 billion over six years.

Eliminating the School District Reimbursement to Charters for PSERS Contributions: Estimate of Savings to School Districts and Taxpayers

Budget Year	Cumulative Savings on Cyber Charter School Tuition Costs to SDs (annually)	Cumulative Savings on Brick and Mortar Charter School Tuition Costs to SDs (annually)	Total Cumulative Savings
2014-15	$36,817,300	$84,891,168	$121,708,468
2015-16	$46,342,390	$106,853,561	$153,195,951
2016-17	$56,106,694	$129,367,521	$185,474,215
2017-18	$61,543,389	$141,903,134	$203,446,523
2018-19	$63,391,866	$146,165,242	$209,557,108
2019-20	$65,544,797	$151,129,345	$216,674,142
TOTALS	$329,746,435	$760,309,972	$1,090,056,407

(Estimates calculated by the Pennsylvania Association of School Business Officials based on PSERS current and projected employer contribution rates)