



Setting Tuition Including State Funding

State funding of tuition and other education expenses including for private education is an increasingly common phenomenon. 29 states currently provide this kind of funding. CSM believes profoundly that funding should follow the child, wherever the best interests of the child lie. This recognizes the Biblical authority given to parents to raise their children; it is also enshrined in international law where the parent is also recognized as having the prior right to choose the best education for their child.

What happens to tuition setting when your parents and/or you are in receipt of state funding for tuition? 29 US states now provide this kind of funding in various formats (at time of writing):

Education Savings Accounts (ESAs) – available in 16 states

Tax-Credit Scholarships – offered in 20 states

Vouchers – available in 10 states plus D.C.

Direct Tax Credits – provided by 5 states

Tax-Credit ESAs – available in 2 states

15 of these states have a universal program K-12 meaning that there is no income qualification to participate. Before discussing the effect these programs have on tuition setting, we suggest to Boards that they consider this funding as a medium-term risk. CSM believes that Boards should take the money and, at the same time, have a clear-eyed vision of what they would need to do should circumstances change - either the amount being provided or the conditions under which they are provided.

Finance Committees, and this article is hopefully most helpful to you, have already discovered and should understand that this changes the dynamic of tuition setting considerably and makes CSM's October article (Setting Tuition and Teacher Pay Raises for Next Year) true in principle but not in practice. True in principle means:

- School budgets are still impacted by Rate of Inflation (ROI) and the Rate of Productivity Increase (RPI) – see the article referenced for details.
- The Operations Budget must still increase by the ROI + RPI + Strategic items i.e. expenses and the way you think about expenses does not change.

In practice, the tuition that parents pay and how that is presented to them is radically different in a school without access to state funding than in a school with access to state funding – and the way state funding is delivered may have an impact on that as well.

In order to illustrate these points and provide direction for Finance Committees and Business Managers, we provide an example from a Christian school with whom we partnered. Note that an ESA is essentially an account from which the family can draw funds to pay for educational

expenses. Our school is in Iowa that has an ESA program with the following tuition support available to families:

- *Parents who choose to enroll their eligible children in one of Iowa’s accredited nonpublic schools will receive an amount equal to the per pupil funding allocated to public school districts for the same budget school year. For the 2025-26 school year, the amount will be \$7,988. Beginning with the 2025-26 school year, and for each subsequent year, all Iowa resident K-12 students are eligible regardless of income. ([Students First Education Savings Accounts](#) | [Department of Education](#))*

Let’s start with ROI/RPI implications. The \$7,988 amount is a 2.07% increase over the previous year reflecting the state’s calculation of inflation. ROI+RPI for the same time was 4.71% and thus the difference in the increase given and the increase needed is 2.64%. Tuition charged to parents has to cover the portion not paid by the ESA, and then also the difference in the loss of value represented by 2.64%.

This is how it worked out at our school.

The school has 373 K-12 children registered. Its non-tuition income was estimated as follows. Sharp-eyed accountants will realize that the ESA income seems lower than it should be. These are real numbers to illustrate the process. In your own situation the numbers might look different. The process is the same.

Registration Fees	114,934
Other Income	301,000
Investment Income	2,384
ESAs	2,242,255
Total Other Income and Fees	2,660,574

In CSM’s Strategic Financial Management, there is tuition (typically a pink box) and Other Income, typically a green box. They are separated out because items in the green box rarely, if ever, rise at the same rate as tuition and so we separate it out in order to understand the difference in growth rates. For example, registration fees might go up every two or three years. The paradox is that the more money there is in the green box, the higher tuition must rise. Let’s consider the case of the ESA at this school.

ESAs in Iowa rose 2.07% and we predict that rates of increase will average the Fed’s target inflation number of 2% over time. At this school, the prediction looked like this over 6 years with current year ESA increased by 2% each year:

ESAs	2,242,255	2,409,312	2,617,769	2,742,781	2,785,285	2,840,991	2% increase
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Remember that the Operations Budget must increase at ROI + RPI (plus SI)? In the purple line below, that is estimated at 4.5% and 4% going forward. That is a difference of 2.5% and 2% from the estimated increase in state funding (ESA).

Operations Budget	3,237,819	3,611,186	3,988,960	4,403,422	4,737,847	5,085,649
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ROI + RPI (+SI)	5.40%	4.50%	4.00%	4.00%	4.00%
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This school had a balanced budget in the current year (Program cost \$8,329 and average Tuition/ESA of \$8,382). Going forward, the school had to make some investments and average Tuition/ESA dipped below the Program cost and the difference was covered by the Other Income (registration fees etc.). By the 6th year, Program Cost and Average Total Tuition/ESA are once again aligned.

Program cost	8,239	9,220	9,601	10,057	10,843	11,498
Average Total Tuition including ESA	8,382	8,751	9,417	10,093	10,792	11,520

The next three lines illustrate Total Income in (tuition/ESA/other income), Expenses (total operations budget), and then the Resilient Income Key Performance Indicator (KPI) i.e. income divided by expenses. The CSM KPI is 102%. This school was able to be above the KPI in every year.

Total Income	3,525,419	3,854,668	4,302,237	4,673,740	4,929,346	5,216,050
Expenses (increased by OTI percentage)	3,237,819	3,611,186	3,988,960	4,403,422	4,737,847	5,085,649
Resilient Income KPI	109%	107%	108%	106%	104%	103%

But what did that all mean for what the parent actually paid? Did what parents paid go up by ROI + RPI? The answer is no. State funding in Iowa at this school covers most of the cost of education, but not all. There is still tuition to pay. While the amount of tuition the parent pays is dramatically lower because of the ESA subsidy, the % rate of tuition increase over time looks dramatically higher than in the past before the ESA was implemented. Once the ESA was implemented, at our school, the parent payment began at only \$2,624 or \$262.40 a month on a 10 month payment schedule. Over the next four years, the parent’s payment goes up by between 13.1% and 18.75%. The monthly payment moves from \$262.40 a month to \$426.80 a month

Average Total Tuition including ESA	8,382	8,751	9,417	10,093	10,792	11,520
What the parent pays	N/A	2,624	3,017	3,415	3,829	4,268
Tuition Increase (I+RPC+SI)	NA	NA	18.75%	16.00%	14.30%	13.10%

These increases will not stop as time progresses. While state funding is excellent news, over time, its impact will dilute and, depending on the state, the process, and the annual increases, may dilute more or less quickly. As the Finance Committee, understand that this is not business as usual and that your annual thinking about “tuition” is more complicated although not more difficult. You must recognize that state funding is not the same as tuition, has to be understood differently, and that the typical percentage increases you have been accustomed to no longer apply.

The good news is that the rate of increase under state funding, while much higher percentage wise, is actually about the same in terms of dollars (\$50-\$60) as the tuition only model.

10 monthly payments	NA	26	55	56	58	60
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Financial Aid percentages will stay the same but now calculated only on what the parents pay (gross tuition) and not including the state funding.

Gross Tuition	1,051,845	1,213,745	1,535,321	1,829,435	2,081,812	2,354,529
Financial Aid	187,000	187,000	269,883	317,924	357,620	399,759
Net Tuition	864,845	1,026,745	1,265,438	1,511,510	1,724,192	1,954,771
Per Student Net Tuition	2,201	2,480	2,869	3,337	3,823	4,334
Percent Financial Aid of Tuition	17.78%	17.78%	17.58%	17.38%	17.18%	16.98%

State funding does not take away the need for financial aid, and the dollar amount needed will also increase rapidly along with the percentage rate of tuition increase. The need for Financial Aid Endowment does not go away.

Summary

1. Always increase your Operations Budget by ROI and RPI plus Strategic Items.
2. Calculate total revenues needed, subtract state funding. The remainder is tuition.
3. State funding will not keep pace with ROI + RPI.
4. Public schools will continue to be funded at ROI + RPI because of the competitive marketplace and the shortage of teachers. They may even have to be funded above that rate. Generally speaking, this has public support since the cost is hidden in the general tax rate.
5. Christian school tuition increases will be above, and sometimes far above, ROI + RPI + SI by percentage.
6. Tuition increases will be similar to 'yesterday' based on the monthly payment increase.
7. Message the arithmetic increase, not the percentage increase.

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Membership: \$9.67 month; \$116.04 annually

CSM is a 501(c)(3) dedicated to healthy, hopeful Christian schools. It works with Christian schools that have an average tuition K-12 under \$17,799. 10% of its revenues is tithed into the CSMA Foundation in order to assist Christian leaders and schools with advice/counsel and to fund Christian school research. We charge for consulting based on the tuition level of the individual school to make it affordable for all.

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