

Charter School Finance



By Yilan Shen and Alexander Berger

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Charter schools are growing rapidly nationwide. Since the first charter school law passed in Minnesota in 1991, forty states and the District of Columbia have passed laws allowing the publicly funded, privately managed and semi-autonomous schools of choice. Charter schools now educate more than 3 percent of all public school students, and the proportion of students enrolled continues to increase at more than 10 percent a year.¹

As with traditional public schools, funding for charter schools varies significantly across states and districts.² The central question in most debates about charter school funding is the level of funding. Some claim it is unfair that charters receive less funding per pupil than traditional public schools, while others argue that the different nature of charter schools justify lower funding. (Funding for charter school facilities is addressed in a separate NCSL brief.)

How Are Charter Schools Funded?

Charter schools are funded primarily by public money, similarly to the ways traditional public schools are funded. Public schools are funded by a combination of local and state funding; most local funds are raised through property taxes. This strategy historically has produced significant inequalities in the amount of funds available for school districts. Districts that contained less valuable real estate could not collect as much money through property taxes, even though their tax rates are sometimes significantly higher than wealthier districts. During the past 40 years, school finance reforms have shifted more of the funding burden onto states, which has resulted in funds being more equally distributed among districts.³ Almost every state, however, continues to allow some variation in district revenue based on local property taxes, while allocating state funds to districts based on the number and characteristics of students enrolled.⁴ The complex mix of state and local funding upon which traditional public schools rely explains some of the complexities in charters school funding.

As publicly funded schools, charter schools receive money for the students they enroll. When a student enrolls in a charter school, the money follows him or her from the resident school district. A main difference between char-

Charter Schools in the States

Charter schools are publicly funded, privately managed and semi-autonomous schools of choice. They do not charge tuition. They must hold to the same academic accountability measures as traditional schools. They receive public funding similarly to traditional schools. However, they have more freedom over their budgets, staffing, curricula and other operations. In exchange for this freedom, they must deliver academic results and there must be enough community demand for them to remain open.

The number of charter schools has continued to grow since the first charter law was passed in Minnesota in 1991. Some have delivered great academic results, but others have closed because they did not deliver on promised results.

Because state laws enable and govern charter schools, state legislatures are important to ensuring their quality.

This series provides information about charter schools and state policy topics, including finance, authorization, limits to expansion, teaching, facilities and student achievement.



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ter schools and traditional schools is that charters are granted budgetary autonomy in exchange for educational results. Defenders of traditional public schools are concerned that charter schools are taking money away from those schools. Simply having one less student does not proportionally decrease the burden on a district. It likely still needs the same number of teachers, other staff, the same facilities and the same instructional materials. However, losing students to a charter school or another traditional school have the same effects and traditional schools have always had to adjust to enrollment changes.

If a student transfers from a traditional public school to a charter school, advocates argue the full amount of money that would have been spent for that student at the traditional public school should move to the charter school. Charter advocates hold that districts receive funds to educate a certain number of students. When that number declines, it makes sense that their funding also should decline.

To give districts time to adjust to decreasing funding, some states have adopted “hold harmless” provisions. Allocating additional funds to districts that lose students to charter schools helps them adjust to lower funding levels. Massachusetts, for instance, provides extra funds to a district that loses a student to a charter school for six years, gradually decreasing the funding during that time. Over the six year period after a student moves to a charter school, the district will have received a total of more than twice the state’s annual per-pupil contribution.⁵ These types of provisions soften the effects of losing per-pupil revenue on traditional school districts. However, charter schools were originally envisioned to be drivers of competition. If the goal is to follow the original charter concept, some argue these provisions may dampen true competition.

Types of Charter Funding

Although charter schools in every state are funded based on the number of pupils they enroll, the amount of per-pupil funding for charter schools can vary significantly within and across states. States have shaped three different types of funding formulas for charter schools—based on the student’s resident district, the authorizer or the statewide formula.⁶

One strategy funds charter schools based on the per-pupil revenue of districts in which their students reside. It is used in eight states. These states require districts to pass along a portion of both state and local funds.⁷ Because each student brings a portion of home district spending, a charter school could receive different amounts of money for different students. Conversely, the same amount of public funding will follow a student wherever he or she decides to enroll in a charter school. Thus, a student whose parents and neighbors are taxed at high local rates can carry a larger amount of funds anywhere in the state.

The second type of formula is based on the per-pupil revenue of the authorizer. It is the most common formula as it is used in 29 states. In most cases, because authorizers are traditional school districts, this strategy is similar to the first. It diverges, however, when students attend charter schools outside their home district or when charter schools are authorized by non-district entities. For example, the authorizer can be an institution of higher education. Under this formula, charter schools receive money based on the authorizing district’s revenue. Colorado uses a variant of this approach to fund its charter schools. It requires school district authorizers to pass on to charter schools 100 percent of their per-pupil revenues, except for up to 5 percent that is spent on administrative costs associated with authorizing the charter school. If the authorizer is the Colorado Charter Institute, a non-district authorizer, the charter school receives the same amount of funding as the district where it is located. Colorado al

lows districts to raise more money by overriding certain local property tax limits, but does not require the resulting funds to be distributed to charter schools within a district. Thus, charter schools, on average, have 15 percent less revenue per-pupil than traditional public schools.⁸

The third formula uses a statewide per-pupil allocation. Used in five states and the District of Columbia, it provides charter schools the same funding wherever they are located within the state and wherever their students reside. Minnesota uses this formula and funds charter schools at almost exactly the district level when statewide averages are compared. However, when individual charter schools are compared with their district counterparts, it is estimated a Minnesota charter school receives about 13 percent less revenue per-pupil than the district in which it is located.⁹ One reason for this disparity is charter schools in Minnesota are disproportionately located in urban districts that have large property tax bases and, therefore, high local revenues. Some advocates are concerned that the average charter school is still at a disadvantage in these cases, despite efforts written in law to fund charter schools more equitably.

Tradeoffs

Each of the charter school funding strategies comes with tradeoffs. By funding a student’s charter school based on his or her home district’s revenue, a state creates an incentive for charter schools to draw students from a high-revenue district. Similarly, by funding a student’s charter school based on the district that authorizes the charter, a state creates an incentive for charter schools to be authorized by a high-revenue district. However, such funding mechanisms also ensure that the amount of money available to educate a student is comparable, whether at a traditional or charter school. By using a statewide per-pupil allocation, a state decreases incentives for charter schools to serve students in high revenue and high need urban districts. The charter schools in those districts would be receiving the average per-pupil funding in the state. That average is still less than the funding received by traditional counterparts with higher than average funding. Also, it might be less than what is needed to educate disadvantaged students. This type of funding mechanism results in different amounts of money available for a student’s education based on whether he or she chooses a charter or traditional public school.

What Is the Basis for Charter School Funding?

Students’ Resident District	Authorizer*	Single Statewide Formula
Delaware Massachusetts New Hampshire** New York North Carolina*** Ohio Pennsylvania Rhode Island	California Indiana Missouri Nevada North Carolina*** Utah	Arizona Hawaii Idaho Minnesota New Hampshire** Washington, D.C.

States without a charter school law (10) and states in which funding is both based on and distributed by authorizers (23) are excluded.

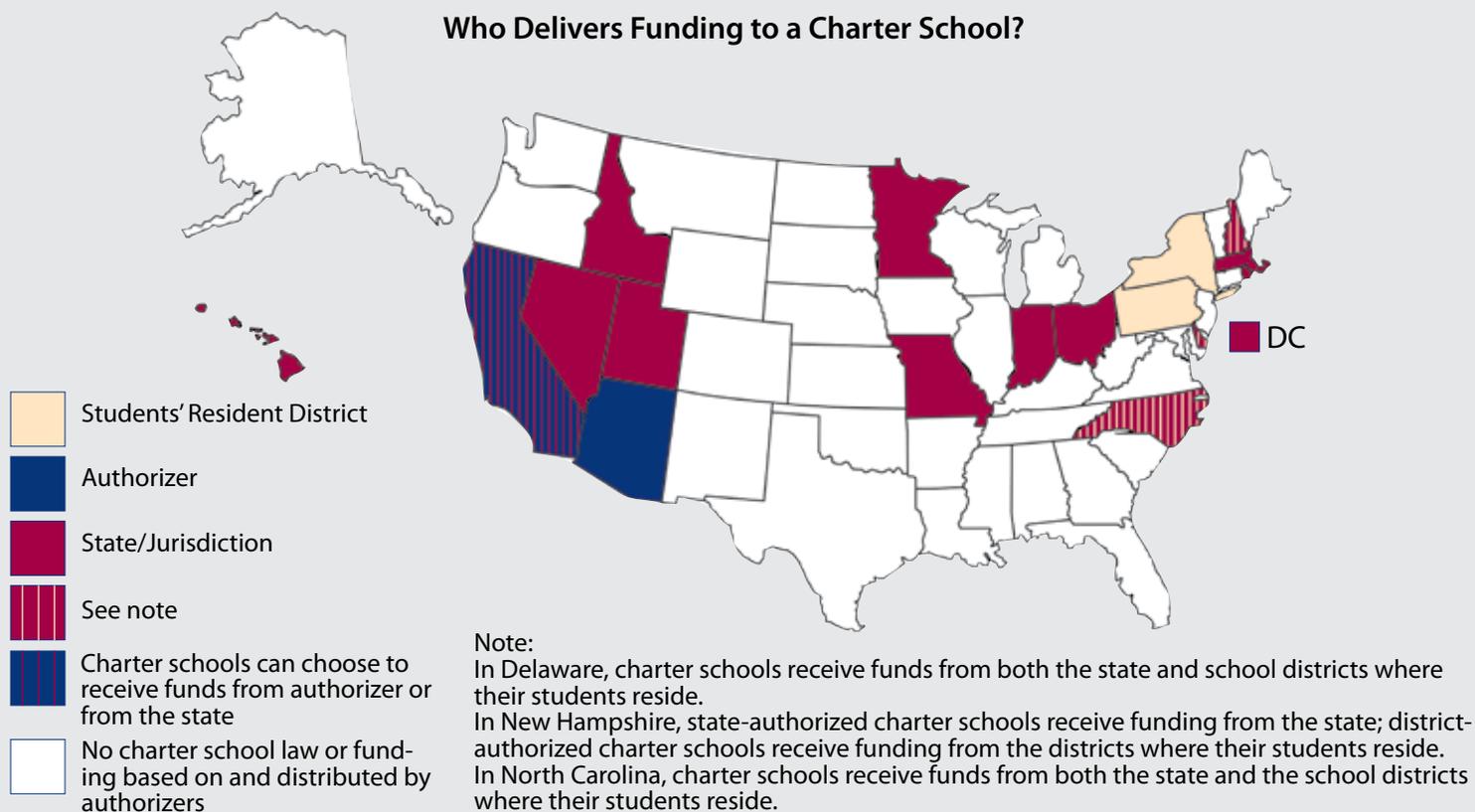
* Includes states where funding for a charter school is part of the contract with an authorizer, rather than set forth explicitly in state law.

** In New Hampshire, district-authorized charter schools receive funds based on their students’ district of residence, while state-authorized charters receive funds based on a single statewide formula.

*** In North Carolina, charter schools receive state funding based on their authorizer, along with local funding based on the districts where their students live.

Source: NCSL analysis based on Batdorff, Maloney and May, 2010, and state charter school laws.

Who Delivers Funding to a Charter School?



Source: NCSL analysis based on Batdorff, Maloney and May, 2010, and state charter school laws.

Research on the responsiveness of charter schools to fiscal incentives has primarily focused on those managed by for-profit education management organizations, so it is difficult to judge the extent to which these incentives should be cause for concern. There is some indication that for-profit managed charter schools react to incentives to serve cheaper-to-educate student populations, while other types of charter schools tend to be motivated by other concerns, such as student need.¹⁰ So long as states continue to permit some districts to spend more per-pupil than others, they have no choice but to allow either different funding for some students based on whether they attend charter schools or different funding for charter schools based on the areas from which they draw their students.

Charter School and Traditional Public School Funding

A basic question about charter school funding is how funding levels for charter schools compare with traditional public schools. While accurate comparisons are difficult because of insufficient data and complexities of school finance, there is a growing body of knowledge about the topic. Research generally indicates that charter schools receive less public money than traditional schools. A recent Ball State University study analyzed funding of charter schools in 24 states and found an average difference of 19 percent, which amounts to about \$2,247 per pupil.¹¹ Existing research points to some possible reasons for this disparity.

1. Fixed per-pupil costs—such as facilities and instructional materials—are not as easily transferred with the student when the per-pupil funding follows the student to the charter school. For example, the cost to maintain a building would be relatively the same, regardless of the number of students who leave.
2. Schools have different funding needs, depending on student population. Student characteristics such as economic disadvantage and disabilities require more funding to meet educational needs. Some charter schools serve more students with high-need characteristics than their traditional counterparts; others serve less. Ball State University researchers concluded the number of poor students served could not account for all the existing disparity in funding, nor can other possible differences in population such as special education students served or how charter schools configured grade levels.¹² In other words, the average lower per-pupil funding of charter schools was not due to the fact that they served students with fewer needs.
3. Most charter schools do not have legal obligations to provide some costly services such as lunch and transportation. Researchers at Western Michigan University studied spending differences between charter and traditional schools across the country and found the cost of services such as lunch and transportation resulted in lower costs at charter schools.¹³
4. Some charter schools simply operate more efficiently than traditional schools.¹⁴ After all, the original vision of charter schools included more autonomy and efficient operations.

Charter schools generally receive less public funding under state laws. Education stakeholders differ on whether charter schools should receive less public funding than traditional schools. Some argue charter schools should receive funding

equal to that of their traditional counterparts because the disparity is keeping charter schools from achieving their full potential. Others argue charter schools take unfair shares of existing resources from traditional schools. Those who want to see more charter school expansion believe the disparity in funding is an outdated practice, since charter schools have shown some promise and are expanding rapidly. Others believe charter schools need less money because they have more autonomy over how to spend it and more private fundraising opportunities.¹⁵ Charter schools do have funding opportunities from grants, fundraising and activities that generate income. At the same time, traditional schools have additional opportunities to raise money through local school foundations, grants and other income-generating activities as well.

Conclusion

As they review charter school funding policies, state legislatures face a series of difficult choices. Each of the funding formulas used so far comes with distinct tradeoffs. Considering these choices, legislators may want to seek answers to the following questions.

- What type of funding formula is used for charter schools? How do they receive funding?
- How does the charter funding formula compare to the traditional public school formula?
- How large is the gap in per-pupil revenue between charter and traditional public schools? Is the gap in state, local or other stream of funding? Does it vary in size around the state?
- What type of students do charter schools serve? In which areas of the state are they located?
- Do charter schools provide full special education, transportation and food services?
- How do charter schools in the state perform relative to traditional public schools?

Notes

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8. Jay F. May, “Colorado,” in *Charter School Funding: Inequity Persists*, ed. Batdorff, Maloney and May, 45-51; <http://www.bsu.edu/teachers/ocsr/funding/>.
9. Larry Maloney, “Minnesota,” in *Charter School Funding: Inequity Persists* by Batdorff, Maloney and May, 126-130; <http://www.bsu.edu/teachers/ocsr/funding/>.

10. David R. Garcia, Rebecca Barber and Alex Molnar, “Profiting from Public Education: Education Management Organizations and Student Achievement,” *Teachers College Record* 111, no. 5 (2009): 1352-1379; Natalie Lacireno-Paquet et al., “Creaming Versus Cropping: Charter School Enrollment Practices in Response to Market Incentives,” *Educational Evaluation and Policy Analysis* 24, no. 2 (June 20, 2002): 145-158.
11. Meagan Batdorff, Larry Maloney and Jay May, with Daniela Doyle and Bryan Hassel, *Charter School Funding: Inequity Persists* (Muncie, Ind.: Ball State University, 2010), 1. To calculate the gap for each state and Washington, D.C., the researchers weighted traditional district revenue by the number of charter school students within the district and compared it with the average of charter school revenues from around the state. This gave more weight in calculating the traditional revenue figure to high-revenue (urban) districts where charter schools tend to be clustered, producing a higher figure for the funding gap between charter and traditional public schools. <http://www.bsu.edu/teachers/media/pdf/charterschfunding051710.pdf>.
12. *Ibid.*, 7-9.
13. Gary Miron and Jessica L. Urschel, *Equal or Fair? A Study of Revenues and Expenditure in American Charter Schools* (Boulder, Colo.: Education and the Public Interest Center, 2010), 29. <http://www.epicpolicy.org/publication/charter-school-finance>.
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15. National Education Association, *Charter Schools: Proceed Deliberately, Monitor Diligently, and Learn What Can Be Scaled Up* (Washington, D.C.: NEA, 2008), 2.

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