



Policy Brief..... CHARTER SCHOOL FINANCING

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EMERGING ISSUES IN CHARTER SCHOOL FINANCING

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Charter school studies are growing in number and scope, but few have explored the finance implications of this reform movement. This policy brief is intended to identify emerging funding issues related to charter schools that state leaders should consider as they write, enact and implement legislation. Although this work is preliminary, charter schools are illuminating education finance issues that could have implications for high-performance schools, decentralized schools and education funding in general.

THE CHARTER SCHOOL MOVEMENT

As of May 1996, 22 states had some type of charter school law on the books, and more states are likely to follow. This response is significant given that the first charter school law was enacted just five years ago.

Charter schools are independent public schools, formed by teachers, parents and/or other community members. Such schools are freed from most state and local laws and/or policies in exchange for a written contract (or charter) which specifies certain learner results that must be met.

Each charter school law is different (as are the resulting schools), and much has been written about the characteristics of stronger and weaker laws (see the September 1995 *ECS charter schools issue brief*). Charter schools formed under weaker laws tend to remain a legal part of their school district and pose few serious school finance challenges. Those schools formed under stronger laws, however, are often legally and fiscally autonomous entities. This situation is raising new issues about how charter and other public schools are funded.

Charter schools with fiscal autonomy could serve as laboratories to study whether funding schools directly — versus the current system of funding districts — results in resources being more closely connected to student performance.

THE CONSTRAINTS OF DISTRICT-BASED FUNDING

The cry to have “the money follow the student” is frequently heard as policymakers enact charter school legislation and other choice-based initiatives. Indeed, many legislators assume this happens once they enact such laws. But this is far from reality. Pilot voucher programs provide the best examples of cases in which the money follows the student.

While K-12 financing systems do use individual student counts as the main way to distribute state or federal aid, funds still are distributed through, and therefore controlled by, the district.

Initial attempts to increase student choice did not raise issues around school-based funding because money was still directed toward the district, and only a few students took advantage of such initiatives. The more than 240 operating charter schools, however, provide the first solid opportunity to examine the issues that arise in moving to a school-based funding system. Some of these key issues are highlighted in the next section.

School Issues

1. *No or Limited Access to Local Operations Funds.*
Under current charter school laws, most charter schools do not have access to some or all of the local

education funding “weights” seldom cover the additional cost of educating these students.

7. *Additional Funding Restrictions.* Political pressures have forced some states to place funding restrictions on charter schools that do not apply to other schools.

For example, in Minnesota, charter schools are not allowed to accept any outside private funds or grants once they have moved beyond start-up. They also are not allowed to use state funds to buy a facility or property (meaning they must lease a site forever). In Michigan, charter schools may only apply up to 5% of their funding toward debt each year. These types of restrictions are not placed on other state public schools.

8. *Funding-Related Paperwork.* State departments of education often require extensive procedures and paperwork associated with keeping accurate student counts and other accounting functions. Charter schools often must hire separate personnel to cover these duties. Such costs can be absorbed to some degree within larger district systems, but pose more of a hardship for charter schools of 200 or fewer students.

Few state departments officials have begun to rethink whether the same finance-related paperwork (or any paperwork for that matter) required of large districts should be required of smaller school entities.

9. *No or Limited Financial Technical Assistance.* Creating a new independent charter school is similar to opening a small business, yet states have provided little technical assistance and start-up funding support for charter schools. While most states have special programs to support small-business development, there are few places for potential charter school operators to turn.

Banks, for instance, often do not know what to make of charter school operators when they seek loans. Traditional school-district business officials and their associations also offer little support. And, given the unique nuances of public school financing (especially compared to the private sector), it is often difficult to find appropriate financial assistance.

District Issues

10. *“My” Money Attitude.* Districts often view state and local funding as “their” funding and strongly resist having such funds go directly to charter schools. Although there may be some legitimate fixed costs (as described below), this attitude is of particular concern when charter schools are forced to negotiate with their local school board for sponsorship.

11. *District Fixed Costs.* Because charter schools often pull students from across a given district or districts (e.g., a few students from each elementary school), districts have a hard time decreasing their costs (e.g., by eliminating teaching positions), even though they may no longer be serving these students. The question is whether state policymakers should “protect” districts to some extent from the full loss of charter school students.

In Massachusetts, the legislature voted to allow districts to “phase down” over three years any funding losses due to charter schools. This move, of course, represents additional costs to the state and reduces economic pressure for districts to improve. On the other hand, it minimizes any potential funding losses to students (as well as staff) who remain in the traditional system.

12. *Charges for District-Provided Services.* School districts historically have not costed-out their expenses on a per-school or per-student basis. Thus, it is difficult for them to determine how much to charge charter schools for district services the schools may wish to purchase, such as transportation, accounting or staff development. Even for districts that wish to help charter schools, this process of determining appropriate charges is often difficult.

13. *Sponsorship Fees.* Some district costs associated with sponsorship and contract oversight for charter schools remain regardless of who carries out the service — districts, state boards or universities. These costs arise even if no other services are provided to charter schools.

Policymakers must consider: What is a fair amount to charge through application and/or other overhead fees? Should state policymakers set parameters for such fees or should the market prevail?

The answers to these questions depend upon whether potential charter school operators can seek sponsorship from a variety of sources or whether they are forced to go to one entity, such as the school board.

State Issues

14. *Additional Costs.* Although nearly every charter school receives less funding per pupil than its neighbor schools, the overall charter school program may cost more money. A key reason is that charter schools attract a number of private and home-schooled students, as well as dropouts, back into the public system, which adds to the number of students the state and district must support.