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“...In many states, charter school laws seem to be more intent on harming school districts than promoting fair competition.”

The Financial Impact of Charter Schools on School Districts

Edward Muir
F. Howard Nelson
Rachel Drown

Charter schools are new or converted schools “chartered” by agents of the state, which offer families options in addition to those choices available through their school district. Charter school legislation generally grants greater fiscal and educational autonomy from school district and state regulations. The adjustment to charter schools has not always been an easy one for school districts. This article focuses on the financial impact of charter schools on school districts. After providing background for the issue, the subsequent section enumerates the many aspects of financial impact. Several suggestions are then made for minimizing the harmful financial impact on school districts.

I. Background

Much research and commentary focuses on the fights between charter schools and school districts rather than how the system of rules and regulations governing charter schools has affected school districts. In some of the first research on the relationship between charter schools and districts, Rofes (1998, pg. 7) described how teachers and administrators perceived the charter school movement as a “slap in the face.” Rofes measured the financial impact of charter schools on districts in terms of “felt loss,” rather than actual financial impact. Most recently, Bruno Manno and his colleagues (2000) also gave human characteristics to the relationship and postulated four phases of the education establishment’s response to charter schools, starting with outright opposition, moving through competition and ending with acceptance. The charter school challenge is viewed as spiritual rather than structural, perhaps because some reformers are hoping to use charter schools to create cultural changes in school districts.¹

This article takes a different approach—one suggested by the recent research on Michigan charter schools that has focused on how “the rules matter” (Arsen, Plank and Sykes, 1999). The important research questions focus on “if” and “how” school districts are adapting to the new marketplace and whether district schools and charter schools can find common ground so they can learn from each other—once a critical part of the charter school idea. Our approach focuses on how charter school systems, which vary from state to state, shape and constrain the environment in which school districts operate. A national perspective is important. Drawing on our work as investigators for the National Charter

School Finance Study funded by the U.S. Department of Education,² this article also uses our experience learning from local unions of the American Federation of Teachers.

The direct financial impact of students leaving for charter schools and the concomitant loss of efficiency are the most obvious problems faced by school districts, but a host of other issues exacerbate this loss of efficiency. For example, the rules governing student transfers and timing of payments can create financial and pedagogical problems for school districts. Because charter schools can limit enrollment and draw students from waiting lists to keep financial stability, the burdens of shifting enrollments fall disproportionately on school districts. Other rules regarding how charter schools fit into the educational “ecosystem” similarly affect school districts. Some states, for example, allow more than one institution to authorize charter schools, a chaotic system full of unintended consequences. The funding systems created for charter schools often systematically differ from those created for school districts, with charter school funding often characterized as “streamlined” or “simplified.” Perverse incentives may result that deter charter schools from educating high-cost students. Finally, districts often carry significant hidden costs related to charter schools that do not show up as charter school revenues or expenditures.

Some widely held beliefs about the financial effect of charter schools on school districts also need to be reconsidered. One mistaken belief is that if the state pays for charter schools directly, school districts are held harmless. Another problematic belief is that school districts pay for private and home school students moving on to charter schools. While short-term costs for school districts could result if the state is not quick to count these students in enrollment, long-term costs are usually spread across all school districts.

II. The Financial Impact of Charter Schools on School Districts *The Impact of Displaced Funds*

Charter school advocates insist that all of the money flowing from school districts to charter schools results in offsetting savings for school districts. School district officials often argue that no savings result. Overhead costs do not change and the loss of students is so dispersed that financial losses cannot be recouped by reducing the number of teachers and classrooms. The actual impact depends on specific characteristics of the school district, mainly district size and growth.

Districts with enrollment growth are less likely to feel the financial impact of charter schools according to Rofes (1998). The reasons are obvious. Growing school districts are adding classrooms and hiring teachers. Fixed costs become a smaller and smaller share of the growing budgets. In many situations, charter schools ease the pain of school district growth. It is probably no coincidence that many of the early charter school states were fast growing states such as California, Colorado, Florida and Texas. While fast growth aids the painless absorption of the charter school financial impact, it also sharply diminishes the effect of charter school competition.

Stable or declining enrollment school districts are more likely to suffer a financial impact. Ironically, financial problems caused by charter schools can threaten the education reform efforts they are intended to stimulate. Districts with declining enrollments already struggle with rising fixed costs per student. Districts respond in the usual ways: they adapt to any financial crisis by raising class sizes, cutting teacher pay and eliminating programs.

The situation in Cincinnati illustrates one district’s response to charter schools. Even before the opening of five charter schools in 1999-2000, enrollment had been declining. The district had twice been unable to pass tax levies. According to Rofes’ findings, this makes Cincinnati a prime candidate to feel a negative financial impact from charter schools.

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At the start of the 1999-2000 school year, charter school enrollment was approximately four percent of district enrollment, and 98 teachers were laid off due to charter schools. The district's financial problems had already caused a debate over whether it could afford to keep its award winning professional development programs in place. The influx of charter schools exacerbated the problem, and the opening of more charter schools in 2001 should worsen the situation.

Economies of Scale

Rofes (1998) found that small districts were more likely to experience a "felt effect" than larger ones. In Minnesota, the Center for Applied Research and Educational Improvement (CAREI, 1996) also found that large districts felt a minimal impact as a result of charter schools. Ironically, the bureaucratic big city school systems that some view as most in need of reform may be the least affected by charter school competition.

Big cities may be more adaptable to the financial challenges imposed by charter schools for many reasons. Home ownership tends to be low and poverty levels greater, so cities are used to dealing with transient students. Bureaucratic budgeting formulas routinely shift staff among schools. Cities are also experienced in dealing with desegregation programs involving busing, magnet schools and a variety of other choice plans. Size offers large school districts the opportunity to manipulate attendance zones in order to improve efficiency in staffing and building utilization.

At the heart of this discussion is the issue of variable and fixed costs. Although there is a debate over the extent to which costs in public education are fixed, it is generally agreed that larger districts and larger schools (at least up to 1,500 students) are more efficient than smaller units (Riew, 1966; 1986; Cohn, 1968).³ Efficiency comes from the centralization of administrative functions and, within schools, from the increased use of common spaces such as gyms, cafeterias and playgrounds. As the number of students using these centralized functions decreases, their relative cost increases. Less funding is available for other programs.

Charter schools themselves suffer the most severe economy of scale problems. Evidence from Colorado (Berk, Augenblick and Myers, 1998) and Michigan (Prince, 1999; Wolfram, 1999) indicates that it costs more per pupil to administer a small charter school than it does a school district. Globally, charter schools added 1,700 new administrative units to the nation's 14,500 existing school districts in 1999-2000. The net result is a dispersion of funds from instruction to administration in school districts as well as charter schools.

While suffering from their smallness, charter schools are somewhat better insulated from the effects of small scale than school districts because they play by different rules. They are allowed to set their own maximum enrollment and draw students from waiting lists. Charter schools can adapt enrollment to their facility. Charter schools have some choice over their own location. While large, urban school districts may be more adaptable to charter school competition than smaller ones, population density in urban areas allows charter schools numerous opportunities to overcome some of the problems of small scale. Schools can grow larger because transportation is less of a problem. School-size facilities are easier to find. Niche markets are more easily developed.

The growing presence of management companies underscores the importance of scale. Companies seek to become more efficient by centralizing administrative processes in the corporate office. With more than 100,000 students during 2000-01, Edison Schools, Inc., has created a large virtual school district in an attempt to grow into profitability.⁴ Edison Schools, Inc., believes it will become profitable if it can operate 200 schools. Once economy of scale is viewed in this light, each gain in charter school efficiency comes at the expense of school districts,

especially small districts. Ironically, by creating national chains of charter schools, management companies are reacting to the same cost pressures that led to school district consolidation in the first place.

Impact of Student Turnover

The rules governing student transfers result in a greater pedagogical and financial impact on school districts than on charter schools. Students frequently move from school district to charter school and back again. Students returning from charter schools probably do not return to the same buildings and same grades as students exiting to charter schools. In many states, charter schools open in mid-year. A few charter schools have closed in mid-year. As a result, charter schools cause havoc with rational planning and budgeting. Charter schools do not face the same problems as school districts because they operate from a single school building, do not have to accept students if no space exists, and draw students from waiting lists to replace students who leave in order to maintain financial stability.

Cincinnati's experience illustrates the problems caused by the ebb and flow of students to charter schools. In the first five months of the 1999-2000 school year, 284 students left Cincinnati Public Schools for charter schools, mostly at the beginning of the year. During the same period, 423 students returned to district schools from charter schools, which left the total charter enrollment in February, 2000 at 1,826 students. Thus, 700 students left from or returned to the school district-40 percent of the total enrollment in charter schools.⁵ Students returning to the school district may be more costly to educate.⁶ After laying off teachers due to the initial financial impact of increasing charter school enrollment, the district had to hire back teachers in mid-year if it could; some teachers had found employment elsewhere. Loss of experienced teachers is yet another problem faced by school districts attempting to adapt to the ebb and flow of charter school enrollment.

The regulations governing the timing of payments to charter schools can affect this issue. About half of charter school states advance some money to charter schools before the school year begins.⁷ Advance payment is logical given the start-up problems of charter schools and other cash flow difficulties including difficulty in borrowing monies. The problem arises when students begin returning to district schools from charter schools. While charter schools may be required to return funds to the district, the funding adjustments may not occur until the end of the year or in the next fiscal year. It is hard to return funds if the money has been spent. States and districts have made payments to charter schools that never opened or opened with far fewer children than the school was funded for. Arizona and Texas in particular have had difficulty recovering lost funds.

Private School and Home School Student Transfers to Charter Schools

An often-voiced worry of school districts is the belief that districts pay charter schools for students who had never been enrolled in a district school- *i.e.*, those students transferring from private and home schools. This is an issue in states where charter school students are included in the school district pupil count such as Massachusetts or Ohio, and in states like California, Colorado and Florida where school districts authorize charter schools. In fact, private and home school transfer students, once they are counted on the district's rolls, typically generate new state aid for school districts equivalent to the entire foundation level, not just the average state aid per pupil.⁸ The new money flows to charter schools, leaving host school districts financially unaffected. Presuming a fixed amount of K-12 state aid for all school districts in the state, all districts lose some state aid in order to finance the movement of students from private schools to charter schools.⁹

The rub for school districts is when the state does not promptly count former private and home-schooled students. State aid is sometimes based on enrollment from the previous year, or an average of current and previous year enrollment. Thus, for one year, there would be no new state aid or insufficient aid for students coming from private schools. For this reason, Massachusetts pays the entire tuition of charter school students coming from private schools for one year.

The Financial Impact of Charter Schools on the Educational Ecosystem

Borrowing concepts from biological science such as “ecosystem,” political scientists have written about the ecology and life cycle of interest groups (Gray and Lowery, 1996a; 1996b). As animal populations increase in a biological ecosystem, the various species specialize into “niche” environments in order to survive. Political scientists found that interest groups exhibited similar specialization, as their ecosystem became more crowded. States and school districts also belong to a delicate social ecosystem. Charter schools become part of the many complex decisions made by school districts regarding educational reform, privatization, desegregation, white flight, magnet schools, transportation, school boundary setting, at-risk students and special education programs. Under the early charter school concept, it was hoped that as the number of charter schools increased in the educational ecosystem, that they too would specialize, developing niche markets in which to thrive. Groups of teachers and parents would develop innovative schools and the best ideas would be incorporated into the broader school system.

While some charter schools have filled niches and provided innovative models for public schools, some evidence suggests a trend in the opposite direction. Instead of enriching the school environment and filling niches, charter schools increasingly compete for the same students as other public schools. They adapt widely used education programs, teach students in classrooms with comparable pupil-to-teacher ratios and operate schools as large as regular public schools.¹⁰ Charter school advocates characterize such programs as Success for All, Direct Instruction, Core Knowledge, and “back-to-basics” as reforms. Since these programs are commonly found in public schools, this shows that American charter schools are adopting a middle of the road strategy. Evidence from a nationwide open enrollment program in New Zealand that has been compared to “complete characterization” indicates that schools may believe their best strategic response to competition is to become generalists, casting their marketing net as wide as possible (Ladd and Fiske, 2000).

Markets can become oversaturated in the move to the middle, placing pressures on charter schools, school districts and private schools. Private schools are concentrated in urban areas for the same reasons as charter schools. Education management companies have an advantage in competing directly with other charter schools (Arsen, 2000). Research from Texas indicates that charter schools gravitate towards more densely populated areas with higher levels of pre-existing educational competition (Grosskopf, Hayes and Taylor, 2000)

Poor management of the numbers and distribution of charter schools by states is one of the main ways that oversaturation and disruption of the education ecosystem can occur. Many states allow several chartering authorities—such as school districts, universities, municipalities, independent charter boards and the state board of education—to issue charters and few procedures exist to rationalize the sum of these choices.¹¹ Multiple chartering agencies were created as vehicles to insure proliferation of charter schools rather than stewardship of the ecosystem. The threat of multiple chartering agencies to the ecosystem is illustrated by the situations in Inkster, Michigan and Cincinnati, Ohio:

- *Inkster, Michigan.* Enrolling 1,500 students, this all minority suburban school district had been struggling with declining enrollment and financial difficulties for years. Small size and shrinking enrollment made the district especially vulnerable to an unfavorable financial impact. Authorized by several different universities, eight charter schools (only three within district boundaries) accelerated the enrollment decline. Hoping to have some influence on the charter school expansion, the district became one of only three districts in the state to authorize a charter school. Nevertheless, the school district still had the responsibility for costly programs for special education and low-income students. The resulting financial instability led to faculty layoffs, unbalanced budgets and a serious threat by the state to take over the district for financial reasons. These actions only increased the outflow of students to charter schools, which operated under a different set of rules that allowed them to become the stable institutions in the ecosystem. The district finally contracted with Edison Schools, Inc.—which operates several charter schools in Michigan—in order to receive an infusion of capital and buy time from the state shutdown authorities. The demise of Inkster was based largely on financial factors, not student performance.

- *Cincinnati, Ohio.* By 1999-2000, five charter schools opened in Cincinnati, an innovative but financially troubled school district with declining enrollment. In an effort to embrace the charter movement and incorporate it into the school choice options already available in the city, the district granted three charters of its own for 2000-01. Independent of the district’s action, the state (which has yet to reject a charter school application) granted at least four additional charters, bringing the total to twelve.¹²

In both school districts, there was no plan to manage charter school and school district coexistence. Both districts attempted to embrace the charter school movement, while both states were primarily interested in proliferating charter schools, so the district efforts only added to their financial woes.

Overly Simplistic Funding Formulas

A few states (e.g., Georgia, Hawaii, Kansas and Wisconsin) leave charter school funding decisions to the school districts that charter them. Generally, based on the district’s standard budget and facilities allocation formulas, districts then provide funding for the specific needs of charter schools including higher costs associated with particular programs, grade levels or student populations.

Many states, however, provide per pupil funding based on a simple average of school district expenditures or revenues. This system works equitably only when charter enrollment approximates host school district student populations. Problems arise when charter schools receive the same funding as school districts but do not provide similar programs or educate similar children:

- School district spending for preschool programs, private school services, residential placements, community outreach, adult education, bilingual education, vocational education and other activities are included in charter school funding in some states whether or not charter school provide these types of programs.

- About half of the states fund elementary students in charter schools at the same level as high school students, even though high school students cost more to serve. This policy encourages the development of elementary charter schools.

- Several states base funding for special education on average school district special education spending or revenue, rather than the specific needs of students enrolled in the charter school. This system discourages charter schools from serving high-cost special education students; charter schools serving only low-cost special education students reap a wind-fall.¹³ Table 1, using data for charter school systems that were operating in

1997-98, presents a breakdown of how special education for charter schools is funded.

• A majority of states provide additional funding to charter schools for at-risk students either directly or through school district negotiations. In at least seven states, however, funding for at-risk students is based on school district averages rather than the specific at-risk population in the

Table 1. Special Education Funding

| <i>Based on Disabilities of Students Enrolled in Charter Schools</i> | <i>Based on Negotiations with School District</i> | <i>Matches School District's Special Education Spending or Revenue</i> |
|---|---|--|
| Arizona, ¹ Delaware, District of Columbia, Florida, Georgia, ² Hawaii, ² Kansas, ² Michigan, New Jersey, New Mexico, ² Minnesota, ³ South Carolina, Texas, Wisconsin ¹ | California, Colorado, Connecticut, ³ Illinois ³ | Alaska, ⁴ Arizona, ¹ Louisiana, Massachusetts, Milwaukee, Pennsylvania, ⁴ North Carolina, ⁴ Rhode Island |

Source: Nelson, Muir and Drown (2000).
¹ All school districts and charter schools in Arizona receive a weight of 0.158, worth about \$375, for every pupil enrolled, whether or not they have a disability. No other funding is available for low-cost disabilities such as speech and learning disabilities, but students with middle- and high-cost disabilities generate substantial funding through a weighting system.
² On same basis as any school in the district as opposed to receiving direct funding from the state formula.
³ District of residence pays actual cost if charter school provides service.
⁴ Special education students generate funding, but not based on a specific disability.
⁵ Based on actual cost.

charter school. This system discourages charter schools from serving at-risk students.¹⁴

A few states adjust charter school per-pupil revenues using a weighting system that provides more funding for high-cost students (e.g., District of Columbia, Florida, Texas). See Table 1. By matching funding to student needs, charter schools with low-cost students do not receive as much of the funding that school districts were using to serve high-cost students. Given that state special education funds do not typically match the added cost of providing special education, however, such systems ameliorate rather than eliminate the problem.

Of the 23 states and two cities with charter schools in 1997-98: (1) twelve states provided the same funding for elementary schools as high schools, even though high school students are more costly to educate; (2) eleven states provided significant funding advantages to charter schools with low special education populations; and, (3) nine states provided funding advantages to charter schools with few low-income or at-risk children.

Hidden Financial Advantages for Charter Schools

The view that charter schools suffer funding disadvantages compared to public schools dominates the charter school literature (Bierlein and Fulton, 1996; Finn, Manno and Bierlein, 1996; Premack, 1999): Charter schools

sometimes receive less than 100% of operating revenue.¹⁵ Charter schools usually do not receive funding to finance facilities and debt that is equivalent to school district funding.¹⁶ Charter schools may pay administrative fees to school districts or chartering authorities without receiving offsetting services. In some states, charter schools focused predominantly on special needs and at-risk students may be substantially underfunded.

Several offsetting factors, some of which have been touched on in previous sections, may give charter schools a financial advantage over public schools in some states.

- Charter schools may receive “in-kind” services directly from school districts (e.g., oversight, transportation, special education services, personnel services or facilities).
- School districts may fund preschool programs, private school services, community outreach, adult education, vocational education and other activities that are justifiably withheld from charter schools.
- Charter schools can configure their grade level structure, waiting lists and enrollment to generate optimal class size, staffing, facility usage and funding.
- In some states, as discussed in the previous section, charter schools with few special needs students get funding equivalent to school district special education funding.
- Many states exempt charter schools from paying into state retirement systems.¹⁷
- A majority of states exempt some or all charter school teachers from state teacher certifications, which allows charter schools to hire less expensive teachers.
- Charter schools are usually treated as school districts for the purposes of Title I funding and therefore avoid having to meet additional criteria used to distribute scarce funds within school districts.¹⁸
- Large national management companies may be able to benefit from scale economies unavailable to small school districts in which company schools may be located.
- Charter schools choose their own location and maximizing funding may be part of the choice. Population density in urban areas allows charter schools numerous opportunities to overcome some of the problems of small scale.

The logic of having school districts provide services to charter schools rests in economy of scale. Districts already have significant capacity, and it would be inefficient for charter schools to create their own capacity. District services are more efficient, however, because of centralization. School districts cannot provide services to small, disperse independent charter schools on the same cost basis as they do for their other students. Yet, districts in a number of states are mandated to provide services at no cost to charter schools. The cost of these services typically show up in district budgets even in states where negotiations between charter school and district do not play a significant role in funding.

Student transportation proves to be one of the more problematic finance issues for charter schools. Transportation often proves a barrier to the exercise of choice, especially for poor students. The transportation costs of charter schools obviously are higher than transportation for a system of neighborhood schools, even if school districts provide transportation for charter school students on regular bus routes. Legislatures should be concerned about imposing high-cost charter school transportation on school districts without also providing extra funding. This has been a particularly difficult issue in Pennsylvania where districts are obliged to transport students up to ten miles beyond their borders. When the Philadelphia district refused to pay for transportation outside of the district to schools it had not chartered, it was sued and lost. Charter schools are free to set their own hours of operation and may operate on a different schedule than district schools. In Massachusetts, for example,

school districts have to provide crossing guards for charter schools on days when district schools are not open.

In Connecticut, charter school students identified as needing special education services are entitled to a planning and placement team meeting held by the school district in which the student resides. The school district may directly provide services or pay the charter school for special education services. Illinois school districts pay charter schools 75% to 125% of average costs. Much of the funding differential is based on whether a charter school provides special education services on its own or relies on the school district. Similarly, Colorado school districts negotiate with charter schools over a funding level that ranges from 80% to 120% of district spending. Charter schools often get less than 100% funding if they attract fewer special education students or if the school district provides special education services at no cost. Colorado districts have often entered into what has been called an “insurance” arrangement with their charter schools, whereby the charter pays the district average special education cost and the district guarantees to provide special education services.

III. Fine Tuning the Financial Transition to Charter Schools

Those most concerned about charter schools’ effect on districts sometimes argue that state governments should pay the full costs of charter schools while holding school districts harmless. Each charter school student would then always cost twice as much as other students. As argued above, direct state payments to charter schools usually do not hold school districts harmless. States usually recapture an amount equivalent to the charter school payment from school districts through subtraction from state aid payments to school districts, or when district enrollment declines due to charter schools. Some states, however, do pay twice for at least some charter school students. For example:

- A system of state aid minimums protects most Connecticut schools from losing state aid for any reason, so the state is unable to recapture charter school funding from most school districts.
- In 1998-99, a separate appropriation from Congress supported a majority of District of Columbia charter school funding.
- In some states like Texas, very wealthy districts that receive no state aid do not surrender local revenue when students move to charter schools and the state ends up paying the full charter school cost. This means that the state is paying for these students for the first time.

Paying twice for charter school students is unusual. States subsidizing the cost for wealthier districts who are over the foundation amount makes little sense. This section focuses on other forms of transition assistance.

Declining Enrollment Adjustments. Charter schools aside, many state aid formulas recognize that costs do not fall in proportion to enrollment decline, so enrollment declines are averaged down. Some states average school district enrollment from the prior and current year (e.g., Michigan). One advantage of a declining enrollment adjustment is that the shrinking districts most affected by charter schools get the most assistance.

Transition Assistance. Declining enrollment adjustments work automatically in states where charter school students no longer count as students in a school district. School districts in Massachusetts, however, include charter school students in the district pupil count and pay charter schools “tuition”- an amount approximately equal to the district’s per-pupil expenditure. New Jersey, Pennsylvania, Ohio and several other states also keep track of charter school students as residents of a school district. Three of these states-Massachusetts, Pennsylvania and Rhode Island-help ease the financial loss of enrollment shifts to charter schools from school districts by partially “reimbursing” school districts for tuition increases. “Tuition increase” is the aggregate increase in tuition generated by all

students attending charter schools. The reimbursement in Massachusetts is 100% during the first year in which the increase occurs, 60% in the second year and 40% in the third year. This transition aid amounted to more than \$2,000 per enrolled charter school pupil in 1998-99.

Rhode Island provides a different model of transition assistance. Charter schools pay back to the sending district 5% of charter school funding to acknowledge-according to legislative intent-that when a student moves to a charter school, the sending district is not able to reduce costs by 100%. This crude adjustment, however, is probably insufficient during the initial transition and then unnecessary after a few years. Furthermore, the 5% payment could also be considered a correction for problems with the Rhode Island funding formula.

Aid for Former Home Schooled and Private School Students. In states where charter school students are counted as school district residents for state aid purposes, the district either pays charter schools directly or the payment appears as a deduction against state aid. For a charter school student who had previously enrolled in private schools or been educated at home, the school district payment appears especially irksome because the school district seems to be paying for students it never educated. These “new” students, however, eventually generate new state aid for the district in an amount approximately equal to the charter school payment.

Funding problems for students who transferred into a charter school from home, private or parochial schooling may still exist. For one year, districts could potentially be required to pay for students that were never enrolled or funded as district students. Other states average enrollment over a multi-year period. To address this first year problem, the state reimburses the district 100% of the tuition for charter school students that previously received non-public education.

Managing the Charter School Ecosystem. Several states limit the number of charter schools. Typically, states increase the limits over a period of time. Charter school advocates view efforts to limit charters as merely political opposition but limits serve numerous purposes. One outcome is that school districts have a longer time not only to adapt to enrollment shifts and deal with the consequent financial problems, but also develop a competitive response to charter schools. Since limits force more competition among charter school applicants, the weakest charter school applicants are unable to start schools.

A single statewide chartering authority, if it is well run, may help to better manage the charter school ecosystem. In a state like Massachusetts, only the state charter school office charters schools and legislation limits the number of charter schools. The charter school office has chartered a wide variety of schools that together serve students at all grade levels in poor and wealthy school districts in almost all parts of the state. Most charter school proponents, however, want to make it easy to get a charter rather than compete and they have been successful in expanding the number of charter granting authorities in several states.

One reason that Massachusetts has geographically dispersed charter schools is that school district payments to charter schools is limited to 6% of school district expenditures. In 1999-2000, only four school districts hit the expenditure ceiling. In contrast, the multiple chartering authority in Michigan has led to a disproportionate number of low-cost elementary schools and a disproportionate charter school presence in or near Michigan’s mid-size cities like Flint, Lansing and Grand Rapids (Arsen, Plank and Sykes, 1999).

Allowing only school districts to authorize charter schools helps manage the charter school ecosystem. Charter schools then become part of the many complex decisions made by school districts regarding desegregation, magnet schools, transportation, at-risk students and special education programs. Sometimes for good reasons, charter school advocates view school district authorizing as unnecessarily restrictive.

Nevertheless, charter schools in some state like Colorado, Florida and Illinois, tend to be very autonomous even though schools districts are the primary authorizers.

Minimizing the Impact of Student Turnover. Part of the school district angst over charter schools is uncertainty over the number of students moving to charter schools, the number of students returning to school districts from charter schools, when students leave or return, and how the money flows with students. Charter schools deal with student turnover more easily than school districts because they are able to combine enrollment limits and waiting list to keep enrollment and financing constant. The following suggestions help alleviate financial problems associated with turnover.

- *Stop mid-year openings.* Many states like Michigan and Texas allow charter schools to open in mid-year. Not only does this policy result in sudden enrollment and financial shifts for school districts, but mid-year openings tend to characterize weak charter schools that either had difficulty opening or opened without sufficient planning.
- *Multiple attendance measurements.* Some states measure attendance in school districts only once or twice a year. Applying the same procedure to charter schools has led to many complaints from school districts about how charter school students start returning to the district immediately after they have been counted in the charter school. Some states, however, make continuous financial adjustments based on frequent enrollment counts. Florida, for example, measures attendance, adjusts funding for school districts and charter schools, and even changes its foundation level funding four times a year.
- *Improve funding certainty.* School districts seek to staff and fund schools before they open in the fall. Adapting to changes caused by charter schools is much more difficult after school opens. Some charter school laws are more effective than others in improving financial certainty. District of Columbia charter schools, for example, receive 75% of funding at the beginning of the year based on initial enrollment. The other 25% is paid in the spring based on subsequent enrollment counts. Funding can decrease in the spring, but not increase. Under a plan like this one, school districts would be protected from mid-year financial loss.

IV. Conclusion

Many school leaders have insufficient understanding of the school finance system to determine the impact charter schools have on their budgets (Rofes, 1998). This article seeks to fill the knowledge gap by describing several ways charter schools have a financial impact on school districts. Since charter school laws and funding systems vary from a state to state, a national perspective is important.

Stable or declining enrollment school districts generally suffer a greater direct financial impact. Districts with declining enrollments already struggle with rising fixed costs per student and respond as they do to any financial crisis—raising class sizes, laying off the least senior teachers and eliminating programs. Small districts face a greater financial challenge from charter schools. Big cities are more adaptable to charter school growth because they regularly deal with transient students and are experienced with their own school choice programs. On the other hand, the population density of big districts attracts charter schools seeking to deal with facilities and transportation issues. Unlike school districts, charter schools are able to fix their enrollment at optimal levels and draw students from waiting lists to fill vacancies. Charter schools can also adapt enrollment to their facility.

In addition to direct financial impact, charter schools impose other financial problems. Student transfers in and out of charter schools impose financial problems. Infrequent measuring of charter school attendance and delayed financial adjustments complicate the situation. Some states allow more than one chartering authority, a chaotic system full of

unintended consequences for the educational “ecosystem.” The “streamlined” or “simplified” funding systems created for charter schools often encourage charter schools to educate low-cost students. Finally, districts often carry significant hidden costs related to charter schools that do not show up as charter school revenues or expenditures.

This article made several suggestions for minimizing the harmful financial impact on school districts including: (1) transition aid through declining enrollment adjustments or direct financial assistance; (2) immediate financial adjustments for private and home schooled students transferring into charter schools; (3) coordination of chartering agencies; (4) limiting the number of charter schools and then expanding the limit gradually; (5) limiting school district financial loss to a fixed percentage of budget; (6) stopping mid-year openings for charter schools; (7) counting charter school enrollment several times a year and making immediate financial adjustments; and, (8) improving the funding and increasing expectations that charter school educate high-cost students.

In many states, charter school laws seem to be more intent on harming school districts than promoting fair competition. Ironically, the financial problems caused by charter schools can threaten the education reform efforts they are intended to stimulate. Furthermore, the bureaucratic big city school systems that some view as in most need of reform, especially if enrollment is growing, may be the least affected by charter school competition.

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Endnotes

1. Underlying this proposition is a concept of school districts as static and in need of change. While this may sometimes be the case, Hess (1999) subscribes to the theory that districts typically try to change too quickly and that a competitive response to charter schools may cause as much harm as good.

2. See <<http://www.aft.org/charterfinance>> for more information.

3. This concept of efficiency is based solely on cost without regard to effectiveness in improving student achievement. Smaller units may be more cost effective once outputs are considered (Stiefel, Berne, Iatorola and Fruchter, 2000). One hoped-for benefit of charter schools, but an unproven one, is the improvement of academic achievement through the creation of smaller schools.

4. At a June, 2000 appearance at the Washington Press Club, Edison Schools Inc. founder Chris Whittle noted that Edison is now the 60th largest school district in the nation.

5. Since these figures do not include students coming from or returning to private schools, turnover is even higher.

6. Seven Hills, Edison's charter school in Worcester, Mass., illustrates the problems of high-cost student returning to a school district from charter

schools. During the first half of the 1996-97 school year, 21 special education children from the school returned to public schools, two-thirds of them in moderately handicapped categories (prototype 503.3 to 503.41). Edison admitted low-cost regular education students off the waiting list. Since special education costs are averaged into charter school funding, the school district was unable to recoup funding for the high costs of the special education children returning to the district.

7. Some states advance considerable funding to charter schools. Connecticut provides 25% of funding in July and another 25% in September. In Illinois, school districts forward funds to charter schools in four equal quarterly payments beginning no later than July 1. By Oct. 1, charter schools have received half of their base funding. Delaware mandates the payment of 75% of the anticipated state per-pupil funding at the beginning of each fiscal year. The District of Columbia advances 75% of funding in October, with the remainder paid the next spring.

8. This generalization excludes wealthy school districts unable to qualify for state foundation aid.

9. Exceptions to this generalization include the District of Columbia and Hawaii, where there is only one school district.

10. In some large urban districts such as New York City, where there are dozens of smaller schools created as part of the New Visions program, it is also possible that many of the niches are already filled (Lief, 2000).

11. Minnesota recently passed legislation allowing nonprofit organizations to charter schools, which means that the creation of public schools is becoming divorced even more from governmental bodies.

12. Cincinnati's response is analogous to a Depression-era farmer's response to over production. The farmer produced more, thereby exacerbating market the problem of overproduction. The government's response to the farm crisis was to engage in policies limiting production.

13. In Massachusetts in 1997-98, for example, charter schools received an average tuition of \$6,551 per pupil for all students. The average cost for regular education in districts sending students to charter schools was \$5,650 per pupil. Special education costs are a major component of the \$1,100 difference. Basic district special education costs averaged \$15,391 per full time equivalent special education student. Charter schools and districts served similar percentages of students at the lower end of the cost spectrum, the students who spend almost all of their time in a regular classroom anyway (Wood, 1999). However, charter schools are unlikely to enroll students with moderate special needs (requiring half a day or more in a self-contained setting). In Massachusetts and a few other states, the funding for high-cost special education students is incorporated into charter school revenue. A similar dynamic occurs for bilingual education.

14. The Gateway Charter School application in Coventry, Rhode Island provides one example of the difficulties of funding at-risk schools. The applicants hoped to serve at risk students, but in Rhode Island, all charter schools get the same amount of funding based on school district averages. Without the needed extra funds, the charter school became unfeasible. In effect, the Rhode Island funding system penalizes charter schools seeking to specialize in serving high-cost students.

15. Alaska, Colorado and Illinois allow funding of varying percentages to account for the unique circumstances of charter schools. Connecticut and Minnesota fund charter schools equally regardless of the school district in which they are located, so some charter schools get less than local school districts, and some get more. In Michigan, charter schools are funded comparably up to about \$6,000 a year, the maximum funding for charter schools. In New Jersey, charter schools receive 90% of base funding, but the base includes transportation and private school support.

16. In 1998-99, 14 of 23 states provided no significant funding for charter school facilities. Arizona provides more charter school facilities funding per pupil than the state provided for an average school district. The

District of Columbia provides comparable facilities funding. Florida, Massachusetts and Minnesota also provide significant, though not necessarily comparable, funding for faculties.

17. In 1997-98, charter schools were required to participate in the state teacher retirement system in 12 states, and participation exceeded 75% in several others. Participation was very low in Arizona, the District of Columbia, Florida, Michigan and North Carolina.

18. Federal funding is insufficient to provide Title I programs for all eligible children in most school districts. Districts develop plans to ration funding. Typically, funding goes to schools with the highest concentration of poor children. Under most plans, elementary schools are more likely to receive funds than high schools.