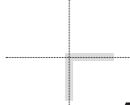


Hopes, Fears, & Reality



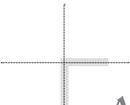
A BALANCED LOOK AT AMERICAN
CHARTER SCHOOLS IN 2005

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About NCSRP and *Hopes, Fears, & Reality*

The University of Washington's National Charter School Research Project aims to bring rigor, evidence, and balance to the national charter school debate. Its goals are to 1) facilitate the fair assessment of the value-added effects of U.S. charter schools, and 2) provide the charter school and broader public education communities with research and information for ongoing improvement.

Hopes, Fears, & Reality is the first publication from NCSRP. This report will be published annually and will explore controversial, developing, or pressing charter school issues. NCSRP intends to identify the root causes, illuminate complexities, and move beyond polemics to elevate the level of the discussion around each problem, without making specific arguments for or against any position in the debate. NCSRP hopes that this report will be useful to charter school advocates, skeptics, and people curious about this new form of public education.

For more information and research on charter schools, please visit the NCSRP website at www.crpe.org/ncsrp. Original research, state-by-state charter school data, links to charter school research by other groups, and more can be found there.



CHAPTER 6

Apples-to-Apples Fiscal Comparisons

Marguerite Roza

In May 2005, *The Baltimore Sun* reported that while a local school district wanted to give charter schools \$5,011 per pupil (in addition to district-specified services), charter school operators claimed that \$7,500 was a fair and equitable share of the district's funds. Who to believe? In its review of the issue, Maryland's Board of Education subsequently declared that an equitable share—approximating the amount spent on district schools, including district-specified services—was closer to \$11,000 per pupil. This disagreement over how to convert public education dollars to charter school funds points to a larger unresolved issue of how to compare district and charter school finances: how to obtain apples-to-apples comparisons of costs and expenditures between different schools.

The problem is also apparent in conflicting reports about expenditures, even in the same state. One study shows, for example, that Texas charter schools spend more than regular public schools, while another shows that they spend less.¹ As one might expect, different studies account for the resources differently. While most show charter schools receiving fewer dollars, some yield vastly different conclusions about cost comparisons of the same sets of schools.

These dollar figures have broad policy implications. Charter supporters argue that competent school providers are not likely to try competing for students if unequal funding tilts the playing field against them. Those concerned about questions of equity also worry that students attending charter schools may not be receiving their fair share of public school funding.

Charter opponents respond that some early charter school advocates claimed charter schools could produce better results with less money than traditional public schools.

What happened to these criticisms of overfunded public schools, they wonder. Current charter school educators argue that it is not realistic to expect charters to succeed if they have a lot less money than other public schools. They point out that their students should not be punished for advocacy claims made by others.

Where charter schools are already operating, analysts are trying to determine whether charter schools receive more or less funding than district-run public schools. Some ask a more difficult question: are charter schools more or less efficient than regular public schools? Answering this question requires attention to expenditures as well as revenues. Charter schools not only get different amounts of funding than regular public schools, they also pay for different services, particularly in the areas of transportation, facilities, oversight, and other non-comparable services.

These are important questions, but the current approaches to revenue and expenditure comparisons make it difficult to obtain reliable answers. What might seem like a straightforward question (what does a level playing field of revenues and costs look like?) is complicated enough to encourage slipshod and misleading comparisons. The most common mistakes, most but not all of which favor traditional schools, include:

- comparing charter school funding levels in one district to schools in other localities or to schools in the same district serving different student populations;
- excluding selected sources (e.g., federal funds) from revenue calculations;
- making no distinction between one-time start-up costs and continuing operating expenses;
- comparing spending without isolating costs for non-comparable functions (e.g., transportation, oversight, etc);
- ignoring the value of services provided to district-run schools but not to charters;
- taking for granted the value of district services provided free to charter schools; and
- ignoring differences in student characteristics, such as poverty and special needs, and their corresponding funding streams.

Efforts to take account of all these revenue and cost differences have just begun. Moreover, charter school income sources and costs vary dramatically among states and localities. We therefore cannot say exactly how charter school revenues and costs compare with those of district-run schools serving similar students, but instead frame the issues for continued research and policy debates.

KEY ELEMENTS OF A USEFUL COST COMPARISON

Any effort to compare charter school revenues and expenditures with those of traditional public schools should do six things:

COMPARE THE RIGHT MIX OF SCHOOLS. Since charter schools are generally considered an alternative to schools in the district in which the charter school is physically located, a natural comparison is with average expenditures of regular public schools in that district. Because most charter schools are in higher-spending metropolitan areas, it also defies common sense to compare average charter school spending with statewide average school expenditures. Further, because spending on schools varies tremendously within districts—some public schools get more than three times as much per pupil as other schools—it does not make sense to compare charter schools with just one regular public school.

ACKNOWLEDGE ALL FUNDS. Careful observers of school cost comparisons often dismiss comparisons because important sources of revenue (e.g., federal funds, construction funds, or costs for special education, leadership, or oversight) are ignored. For credible spending comparisons, it makes sense to start with revenues² from all sources (federal, state, and local, and where relevant, private) and subtract or isolate expenditures as necessary to get the right comparison (see below). Some studies count the costs of all salaries and equipment assigned to a school, and then add the costs of services the district provides directly to the school. While that seems reasonable, even these calculations do not cover total district expenditures on charter (or traditional) schools. There are also accounting, leadership, and other administrative expenses that the district incurs, and these too should be considered in financial comparisons—both because the district is incurring some of these costs, and because many charter schools are asked to perform these functions themselves, or pay someone else to do it.

USE LAYERED COSTS TO TELL THE WHOLE STORY. Apples-to-apples fiscal comparisons require just that—apples compared to apples, not apples compared to oranges. The problem arises when lumping all expenditures together means that dollars for different purposes are being compared. For instance, as has been widely documented, charter schools often have substantial construction, capital, or other one-time costs associated with initial start-up. When lumped together with the core per-pupil operating

expenses, start-up costs distort comparisons that consider only their first year of operation. In addition, charter schools must pay the entire costs of benefits like health care and teacher retirement, which are frequently subsidized for traditional public schools by state government—and hence not carried on districts’ books. Another problem is that traditional public schools typically provide transportation and food services, functions which charter schools frequently do not provide and for which they do not incur costs.

Using a layered approach, a useful comparison isolates expenditures in several categories, listing each separately (see Figure 1), as applicable. Separating out expenditures by layers—such as core operating costs; facilities, capital, and debt; food and transportation; and other services—begins to provide an accurate picture of costs on both kinds of schools, a picture that can be relied on for useful comparisons. Those expenditures not listed separately serve as the core comparable operating costs. This sort of detail enhances the comparison and helps tell the whole story.

Layer by layer, the analysis allows for apples-to-apples cost comparisons, something not possible using the categories typically reported by districts (where expenditures are coded as objects or functions, or as direct and indirect support). While the core comparable expenditures serve as the basis of the comparison, the remaining categories provide additional details as necessary and can head off concerns that surface when some portion of the spending picture is missing (see Figure 1). Different figures can be pulled from the analysis depending on how the comparison is to be used.

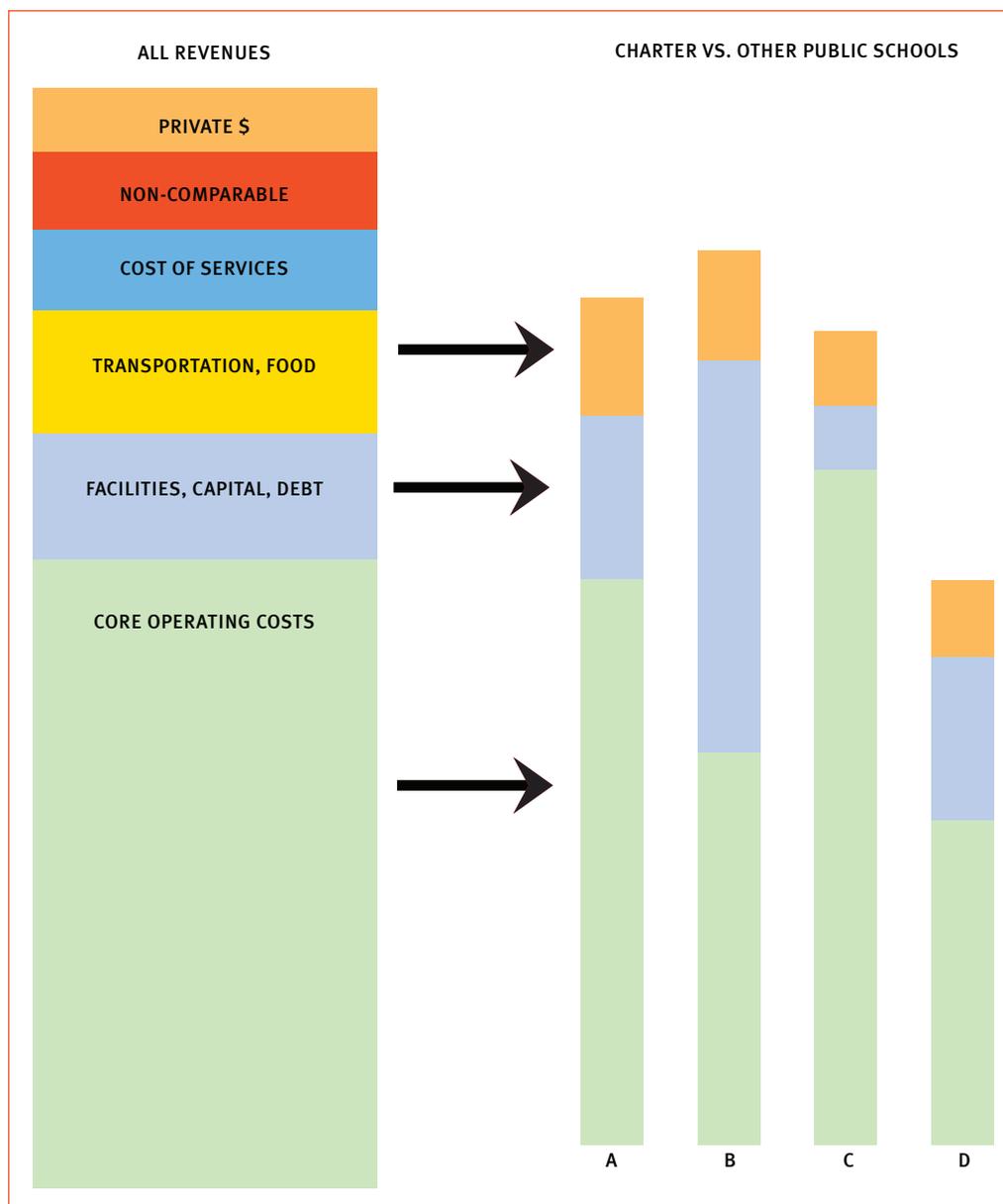
EXCLUDE NON-COMPARABLE FUNCTIONS. For both the host district and the charter school, starting with all revenues necessitates subtracting costs associated with some non-comparable functions. Non-comparable functions for school districts include adult education, services for disabled preschoolers, and other functions that do not benefit the K-12 population but which regular public school districts are required to fund.

ACCOUNT FOR SERVICES PROVIDED TO CHARTERS BY THE HOST DISTRICT.

In some cases, districts make services available for purchase by charters, or provide a portion of the charters’ resources in the form of services. While there is ongoing debate on whether districts should control any of the resources for charter schools (since some claim that district control of funds inhibits the independent nature of charters), this practice does exist in many forms, and accounting for the costs of these services is important to the overall cost comparison.

Some of the services that may be provided include student evaluation (identifying level of disability or English language need), assessment, insurance, reporting, charter school oversight, legal services, and services for students with special needs. Since many districts do not compute the costs of their shared services in per-pupil or per-school terms, accurately accounting for these costs can be a challenge for districts. Milwaukee, a district with many charters and other schools of choice, has created new and more transparent cost accounting systems for district services.

FIGURE 1: LAYERS OF DETAIL



ADJUST FOR DIFFERENCES IN STUDENT CHARACTERISTICS. Analysis frequently reveals differences in the kinds of students attending charters versus regular public schools. In many cases, these differences have cost implications that are well documented in public school spending patterns. For example, state and federal governments provide targeted funding for low-income, handicapped, and non-English speaking students. Charter schools that serve large numbers of such students might be expected to receive extra funds. Do they? It follows that both cost and revenue comparisons are improved when they take into account the differing needs of students at each school and the differing costs (and revenue streams) associated with those needs.

While taking into account revenue streams by student need is fairly straightforward, accounting for differences in costs is more difficult (but important since many districts argue that they do not get enough in targeted funds to cover the real costs of their high-need students). One approach to adjust for the cost differences due to student need is to isolate the incremental expenditures in the host district for each type of student need and average those over all students identified with that need. Charter school spending on special needs students could then be compared to the school district's average incremental cost for such students, by need (e.g., limited English ability). With new tools published that can readily convert these figures into percentage indexes, the core cost of charters can be calculated as a percentage of what is spent on regular public schools, taking into account the differing needs of students at each school considered.³

Table 1 shows how the actual allocations for one charter school can be converted to a summary percentage to show that the charter school in this example receives 84% of the district average per pupil relative to its mix of student needs. In this example, while the charter receives more than its share of funds driven by poverty sources, it receives a smaller share of the non-categorical (or base) and other categorical allocations.

TABLE 1: CHARTER SCHOOL ALLOCATION BY STUDENT TYPE

CORE OPERATING COSTS				
	ENROLLMENT	ACTUAL CHARTER SCHOOL ALLOCATION	PREDICTED \$ <i>(based on district average for each pupil type)</i>	RELATIVE TO DISTRICT AVERAGE
Non-categorical	576	\$1,790,879	\$2,068,992	87%
Poverty	543	58,071	43,440	134%
LEP	354	114,837	214,878	53%
Gifted	62	9,433	12,834	74%
Special Education (Level I)	19	11,815	14,616	81%
TOTAL		\$1,985,035	\$2,354,760	84%

TOWARD IMPROVING POLICY

It is to be expected that fiscal comparisons will often be motivated by different objectives. Before crunching numbers, analysts must be clear about their objectives. Policymakers also will want to understand exactly how the numbers were derived before using any comparisons to make or change policy.

As it stands, very few reports provide all the information detailed here, in large part because obtaining the basic data from school districts is at times nearly impossible. Most districts do not have very sophisticated data or accounting systems. As researchers get more sophisticated, new studies and reports will likely include more pieces of the puzzle to create a better picture of the funding situation. (A thorough new charter school finance study published by the Thomas B. Fordham Foundation is a case in point.)⁴ Policymakers and educators can also expect that, as districts gain experience with charters, district accounting practices will improve to yield more accessible per-pupil costs. At the same time, it should be possible to develop costs detailed by student need and services provided, thus making comparisons that much more credible and even easy.

While tedious, the extra effort involved in getting the numbers right is critically important. Charter school operators need to be sure they are starting with a level playing field, and district leaders need to ensure that public funds intended for all students do indeed reach them. And of course, researchers cannot even begin to make performance comparisons without verifying equitable resource allocation.

- ¹ Texas Center for Educational Research, *Texas Open Enrollment Charter Schools, 2003-2004 Evaluation* (Austin: Texas Center for Educational Research, 2005); and the Resource Center for Charter Schools, *Frequently Asked Questions*, accessed July 2005. http://www.charterstexas.org/about_csrtc.php.
- ² In the case of for-profit charters, cost comparisons using “expenditures” instead of “revenues” can miss the portion of public funds that become profit.
- ³ For an online guide to student weighted cost analysis, see <http://www.schoolcommunities.org/resources/APRD/NCSRPIcome.php>.
- ⁴ Chester E. Finn, Bryan C. Hassel, and Sheree Speakman, *Charter School Funding: Inequity's Next Frontier* (Washington, D.C.: Thomas B. Fordham Foundation, 2005).