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## **How Much Thirty Thousand Charter Schools Cost**

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March 1997

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In 1996, numerous states added charter school laws and half of the states now have such laws. The crowning moment in the year of the charter school was President Clinton's announcement that he wanted federal money to stimulate charter school development. He wanted 30,000 of them. A move to charter schools on this scale would reverse a half-century policy of school and school district consolidation to achieve educational improvement and economic efficiencies.

One reason behind the rapid advance of charter school legislation was the idea that it was a no-cost reform. Money flowed from existing public schools with the student to the new charter schools. Money belonged to the student, not the school. In most states, however, the per-pupil funding of charter schools is less than the state average cost per pupil. Furthermore, most charter laws insure the diversion of money from instruction to capital by failing to provide facilities for charter schools.

A thoughtful analysis of charter school funding reveals that charter schools impose new costs and that they are not necessarily underfunded when all public revenue sources are matched to the specific kinds of students educated in charter schools. In fact, unless a charter school *primarily* serves at-risk children, the charter school is probably overfunded. In comparison to regular public schools. A cost analysis should also consider the impact of lost revenue on public school districts that are generally unable to reduce costs at the same rate that they lose revenue to charter schools. Some of the discussion involves a more speculative "full economic cost" approach that incorporates contributed wage models, marginal cost reductions of public schools losing students to charter schools, the economic advantages a charter school enjoys when they can limit and control admissions by grade level, and the dependency of the charter school labor market on public school career opportunities.

This paper first creates a cost analysis model enabling the comparison of charter school costs to public school costs. The middle part of this paper describes charter school financing provisions, both as described in charter school laws and as functionally implemented in six states--Arizona, California, Colorado, Massachusetts, Michigan and Minnesota. The costs of charter schools and public schools are compared. Finally, the results of the cost models in the six states are extrapolated to the nation as a whole to estimate the cost of 30,000 charter schools.

## How Money Is Spent in Public Schools

Regular education spending in public schools in the United States, excluding capital costs, was about \$3,100 in 1993-94 as shown in Table 1. Charter schools do not provide or do not pay for many services such as special education, federally -funded compensatory education, transportation (often separately funded, or provided by public schools), school lunch, vocational education, desegregation, programs etc. In public schools, these costs amount to more than 40 percent of the budget (see Table 1). Subtracting these costs from the average public school per pupil-spending of \$5,400 in 1993-94 yields a regular education spending figure of about \$3,100 per pupil.

	<b>Share of total Per-Pupil spending</b>		<b>Per-Pupil Spending</b>
	<b>1967</b>	<b>1991</b>	<b>1993-94</b>
Regular Education	79.6%	58.1%	3,137
Summer School	0.3%	0.5%	27
Tuition	0.1%	0.2%	11
Special Education	3.7%	17.0%	918
Compensatory Education	5.4%	4.3%	232
Attendance, Counseling, Dropout Prevention, Alternative Education	2.1%	4.1%	221
Food Services	2.0%	4.1%	221
Regular Student Transportation	3.9%	3.4%	184
Vocational Education	1.4%	3.0%	162
Bilingual Education	0.3%	1.8%	97
Desegregation	0.0%	1.6%	86
Health and Psychological	1.3%	0.9%	49
After-School Athletics	0.4%	0.7%	38
Security and Violence Prevention	0.1%	0.4%	22
<b>All Programs</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$5,400</b>

Source: Tables 5 and 11 in Rothstein, R. (1996). *Where's the Money Gone*. Washington, DC: Economic Policy Institute.

At-risk students. The 60 percent of average cost figure represents a baseline for the fair funding of charter schools. In states where charter schools are usually expected to provide their own facilities (e.g., Arizona, Michigan, and Massachusetts), another 10 percent of average costs should be added to the baseline. Many charter schools serve substantial numbers of at-risk children. In many states, substantial extra funding is available. In most states, charter schools are eligible for federal Title I aid either as a separate district or are entitled to their proportionate share of district title I allocations. Minnesota adds a substantial student weighting for students from AFDC families.

Special education. Nearly all charter school laws require open admissions for special education students. In Minnesota, Colorado, and California, charter schools, for the most part, are protected from big special education cost exposures because they can either charge the sending districts a "tuition" or the sending district can be required to offer the services. Theoretically, the more autonomous charter schools in Arizona, Michigan, and Massachusetts

could be exposed to large special education obligations. In reality, few charter schools are able to serve more than a hand full of learning disabled children.

## **New Costs of Charter Schools**

New programs always add new costs. New programs are sometimes financed by new revenue. They are also financed by diverting funds from other programs. Charter schools are no exception. Most charter school laws seek to finance charter schools by taxing the school districts losing pupils to the charter schools. Because charter schools add new administrative and facilities costs, money that could be used for instructional purposes--whether new revenue or the diversion of existing revenue--is diverted to noninstructional purposes.

1. New fixed costs. Charter schools add to the number of *school-level administrative units* thus adding costs for principals, secretaries, book keepers and other adults who do not teach children for some or all of the day. Charter schools also add new *district-level* administrative costs. When charter schools operate as their own school district, independently of existing school districts, charter schools add both district-type administrative costs for the charter and new *state-level administrative* costs. In states like Colorado and California, where charters operate under the administrative umbrella of a school district, existing school districts incur higher administrative costs.

2. New facility costs. Schools, or parts of schools, that convert to charter school status and serve pretty much the same students do not add new facility costs. States with more autonomous charter school operations usually fund charter schools much better (like Michigan and Massachusetts), in part because they have to pay for facilities. Money taken from districts to support these charter schools comes from the general operations budget of public school districts and when it is spent on facilities in charter schools represents a reallocation of instructional spending to facilities spending. School districts frequently respond to financial exigencies by reducing or deferring maintenance. So some of the new facilities costs imposed by charter schools may be offset by reduced facilities costs in sending districts.

4. Start-up funding. Many states provide startup money in addition to the per-pupil funding.

5. Cost of private school to charter school enrollment shifts. Publicly financed charter schools have drawn a considerable number of students (in some instances, entire private schools) from the private sector and home-schooling students. School districts are paying "tuition" to charter schools for students they never had. Many public schools benefit from enrollment growth because they get additional state aid while the new students fill empty seats in classrooms, or new, low paid teachers are hired to add a few additional classrooms.

6. Excess funding for charters. Most charter school advocates insist that charter schools are underfunded because they do not have access to local funds, or because they may not get 100 percent of the average per-pupil cost, or because they do not get funds specifically designated for school buildings. Some of the alleged underfunding, however, can be explained by misunderstanding of how school funding formulas work. As demonstrated in the previous section, here formulas oftentimes automatically provide extra money for at-risk students, special education students, small schools, and numerous other factors.

In fact, the state-by-state analysis in this paper demonstrates that most charter schools are overfunded. In part, this is a function of taking money from school districts that serve all kinds

of pupils, and channels the money to charter schools which tend to serve fewer special education and at-risk students. This problem is magnified by the natural tendency of charter school officials to respond to funding incentives:

- In one large city, at least two schools converted to charter schools because they were staffed with teachers on the lower steps of the district salary schedule and the enterprising principals found that by going charter they would get funded as if they had average cost teachers.
- In another large city, the principal of a high SES, high performing school with an average cost faculty. Few at-risk children and no costly special education programs decided to go charter because the per pupil funding in the charter law incorporated the costs of at-risk pupils and special education costs of the entire system.
- A former administrator figured that he would start a charter school for kindergarten students because they cost less to educate than high school students and he could get the same money.
- In a densely populated area of Arizona, Education Alternatives Incorporated will operate a system of 12 schools, with each school getting the extra money that goes only to small districts. EAI gets the efficiencies of a multi-school system, the cost advantages of a densely populated area, but unlike its urban public school competitors, gets the funding advantage of a small school district.

### **Financial Advantages of Charter Schools**

Charter school advocates emphasize the financial disadvantages of charter schools. Finn, Bierleinand, and Manno (1996) for example claim that "Many charter schools have operating budgets that, pupil for pupil, are less than those of conventional public schools. When the absence of capital funding is also factored in, it must be said that charter schools, with only a couple of exceptions-are having to make do with considerable less money."

Even staunch charter school advocates, however, identify the financial problems of some school districts losing students to charter schools. From a global perspective, charter schools pull students from widely scattered classrooms in typical public schools. The sending school districts are seldom able to reduce their own costs. A private school or charter school that loses students to another school can exercise a number of options such as taking students off a waiting list, lower entrance standards. Such options are not available to public schools.

Public school districts respond to the loss of funds to charter schools in the same way that they respond to any financial exigency. In an AFT (1993) survey during the 1991-93 economic recession in the U.S., local leaders were asked to complete a checklist of 42 cost-cutting strategies drawn from suggestions made by consultants and from actual cost-cutting plans in several school districts. The most frequent strategy for cutting costs was early retirement programs, checked by nearly 60 percent of respondents, followed by increasing class size (e.g., teaching staff reductions), the traditional response to economic woes. Cutting administrators and reducing fund balances (each about 50 percent of respondents) were also frequent responses. A second tier of respondents focused on deferring maintenance, reducing the purchase of supplies, and cutting back on building and cleaning costs.

While sending districts surrender average revenue with few offsetting marginal cost reductions, charter schools get average revenue while incurring much smaller marginal costs. In charter schools, new students fill empty streets, help pay for fixed costs, and occasionally may result in the hiring of a new, cheap teacher.

Like private schools, charter schools benefit from the career opportunities in the more highly paid, sometimes unionized public sector. Private schools and charter schools are able to get new teachers and temporary teachers who will ultimately end up in public schools where pay benefits, and due process procedures are sufficient to sustain a career.

Public schools must take every student coming in the door no matter what grade they're in, which means that some classes have too many students and some are too small. Charter schools can limit enrollment and those that are able to achieve their target enrollment at each grade level benefit from cost economies that most other public schools cannot achieve.

### Six-State Comparison

As demonstrated above, about 40 percent of the typical public school's budget (special education, programs for disadvantaged students, vocational education, transportation, bilingual education, desegregation) involves services that charter schools either do not usually provide or for which they receive supplemental funding. In most states, charter schools get extra money if they have special education and disadvantaged students--just like typical public schools. In states like Massachusetts and Michigan, where charter schools are generously funded, charter schools have a revenue advantage over public schools. In some states, charter schools get services from public schools, such as business services and transportation, that are not reflected in their budget.

Arizona. Building on a base funding amount of \$2,480, an extensive student weighting system incorporating school size adjustments yields charter school per-pupil funding amounts ranging from \$3,299 in elementary charter schools with more than 600 students to \$4,545 in high schools of less than 100 students. Additional weights procure substantial funding for at-risk and special education students. Charters get the same state-funded facilities aid that school districts get. The average cost per pupil in Arizona is about \$4,400, and after making cost adjustments highlighted in table 1, charter school overfunding is about \$1,000 per pupil.

Arizona						
1996-97						
	Elementary			High School		
Students:	100	250	600	100	250	600
Base support	2,460	2,460	2,460	2,460	2,460	2,460
Size adjustments	1.419	1.371	1.178	1.599	1.483	1.268
Total base support	3,491	3,373	2,898	3,934	3,648	3,119
Student count add-ons*	0	0	0	0	0	0
Transportation**	0	0	0	0	0	0

Capital Outlay	273	263	226	329	313	268
Revenue Limit						
Capital Levy	212	205	175	212	205	175
Revenue Limit						
Textbooks	0	0	0	70	70	70
Total Charter Funding	3,976	3,841	3,299	4,545	4,236	3,632
Federal including Title I	0	0	0	0	0	0
State Average Cost	4,400	4,400	4,400	4,400	4,400	4,400
Adjusted @ 60 %	2,640	2,640	2,640	2,640	2,640	2,640
Capital Costs @ 10%	440	440	440	440	440	440
of State Average Cost						
Overfunded Net of	896	761	219	1,465	1,156	552
Capital Costs						
***Includes 02 estimated adjustment for K-3 students						
** Transportation aid at \$174 can be used for regular instruction.						
Other weights						
Vocational education		0.07				
Hearing impairment		2.70				
Limited-English proficient		0.06				
Special ed. resource		1.29				
Special ed. self-contained		2.95				
Special ed-severe		4.47				
Orthopedic resource		1.09				
Orthopedic self-contained		3.23				
Visual impairment		3.53				

Last Update: 3/14/97

Minnesota. A student weighting system adds to the base support of \$3,546 to yield per-pupil charter school funding of \$3,759 for K-6 students and \$4,610 for high school students. Student weights for AFDC families are not counted. Since most charter schools in Minnesota are

conversion schools, facility costs are not factored into the charter school calculations. Charter schools can get tuition for special education students or in-kind services from school districts. Overfunding ranges from about \$200 in elementary schools to \$1,000 in high schools.

<b>Minnesota</b>		
<b>1996-97</b>		
	<b>Grades</b>	
	<b>1 to 6</b>	<b>7 to 12</b>
Base support	3,546	3,546
Pupil weights	1.06	1.30
Total base support	3,759	4,610
Student count add-ons (a)	0	0
Transportation (b)	0	0
Special education (c)	0	0
Other categorical	0	0
Total Charter Funding	3,759	4,610
Federal including Title I	0	0
State Average Cost	5,780	5,780
Adjusted @ 60 %	3,468	3,468
Capital costs (d)	0	0
Excess Revenue	291	1,142
for charter Schools		
(a) AFDC weights can increase revenue by as much as 67 percent per AFDC child.		
(b) \$170 to \$217 (depending on sparsely) if charter provides transportation.		
(c) Must reach tuition agreement with district		
(b) Usually provided in-kind by district		

Last Update: 3/14/97

Colorado. Like Minnesota, most charter schools are conversion schools with facilities provided in-kind by the district. Charter schools can get tuition for special education students or in-kind services from school districts. While the base support level is 80 to 100 percent (depending on negotiate chargebacks to the school district) of \$3,658, a number of adjustment for district characteristics involving at-risk students, cost-of-living and size effectively raise

this amount to a range of \$4,200 to \$10,000 with an average of about \$5,000. Overfunding is about \$1,200 a pupil.

<b>Colorado</b>				
<b>1996-97</b>				
		<b>Guaranteed</b>		<b>Hypothetical</b>
		<b>Minimum</b>	<b>Typical</b>	<b>Maximum</b>
Base Support		3,658	3,658	3,658
	Personnel costs factor	0	average	high
	Cost of living factor	0	average	high
	Nonpersonnel cost factor	0	average	high
	Size factor	0	average	high
	Size factor	0	average	high
	At-risk pupil factor	0	average	high
Minimum per-pupil funding		4,305		
Average per-pupil funding (a)			4,965	10,338
Charter school @ 80%		3,444	3,972	8,270
Charter school @ 100%		4,305	4,965	10,338
	Capital costs (b)	0	0	0
State Average Cost		5,500	5,500	5500
Adjusted @ 60 %		3,300	3,300	3,300
Overfunded				
	Charter school @ 80%	144	672	4,970
	Charter school @ 100%	1,005	1,665	7,038
(a) Estimated at 10 percent of state average cost.				
(b) Provided in-kind by district				
Note: Special education worked out with sending school districts.				

Last Update: 3/14/97

California. With respect to facilities and special education, California is like Minnesota and Colorado. Funding ranges from about \$3,200 in elementary districts to \$4,200 in small high school districts. Charter schools in average unified districts get about \$3,330. Since per pupil spending is so low in California, overfunding is only about \$500.

<b>California</b>							
	<b>1993-94</b>						
		<b>Elementary</b>		<b>High School</b>		<b>Unified</b>	
	<b>Students in district:</b>	<b>&lt;100</b>	<b>&gt;100</b>	<b>&lt;300</b>	<b>&gt;300</b>	<b>&lt;1,500</b>	<b>&gt;1,500</b>
Funded Revenue Limit		3,652	2,951	4,046	3,622	3,335	3,130
	Apportionment						
Special Education		0	0	0	0	0	0
Categorical (a)		200	200	200	200	200	200
Other Categorical (b)		0	0	0	0	0	0
Facilities (c)		0	0	0	0	0	0
Total Charter		3,852	3,151	4,246	3,822	3,535	3,330
State Average Cost		4,660	4,660	4,660	4,660	4,660	4,660
	Adjusted @ 60%	2,796	2,796	2,796	2,796	2,796	2,796
Overfunding		1,056	355	1,450	1,026	739	534
(a) Categoricals every school qualifies for.							
(b) Categoricals that depend on specific student types or grant applications.							
(c) Most facilities belong to sponsoring school districts.							

Last Update: 3/14/97

Massachusetts. The average charter school got \$6,067, with highest funded charter school at \$7,604 in Boston. However, charter schools must provide their own facilities. After making this adjustment, overfunding to the average charter school reached \$1,307. Massachusetts charter schools get no extra funding for special education students, and to the extent that charters have special education students, the overfunding estimate is too large.

<b>Massachusetts</b>			
<b>1995-96</b>			
	<b>Cost Per Student</b>		
	<b>Lowest:</b>	<b>Average</b>	<b>Highest:</b>
	<b>Franklin</b>		<b>Boston</b>
Actual Tuition	4,164	6,067	7,604
(includes transportation)			
Special education (a)	0	0	0
At-risk students (b)	0	0	0
State Average Cost	6,800	6,800	6,800
Adjusted @ 60 %	4,080	4,080	4,080
Overfunded	84	1,987	3,524
Capital Costs @ 10%	680	680	680
of State Average Cost			
Overfunded Net of	(596)	1,307	2,844
Capital Costs			
(a) Small amounts of categorical funding available to charter schools for special education (averages 6 percent of state aid).			
(b) Small amounts of categorical funding available to charter schools for at risk children (averages 4 percent of state aid)			

Last Update: 3/14/97

Michigan. Michigan is very much like Massachusetts with respect to facilities and special education. After making the facilities adjustment, overfunding is about \$600.

<b>Michigan</b>			
<b>1994-95</b>			
	<b>State Foundation Allowance</b>		
		<b>Basic State</b>	
	<b>Lowest:</b>	<b>Foundation</b>	<b>Highest:</b>
State Foundation Allowance	4,200	5,000	6,660

Charter School Funding	4,200	5,000	5,500
Special education (a)	0	0	0
At-risk students (a)	0	0	0
State Average Cost		6,300	
Adjusted @ 60 %		3,780	
Overfunded		1,220	
Capital Costs @ 10%		630	
of State Average Cost			
Overfunded Net of		590	
Capital Costs			
(a) Small amounts of categorical funding available to charter schools.			

Last Update: 3/14/97

## Conclusion

The prophecies of charter school advocates can come true. Public school districts could be "taxed" in a zero-sum game to pay for all charter school costs. Even the private school students switching to the publicly funded charter schools can be funded by taxing public school districts. Considerable evidence has been presented in this paper demonstrating that charter schools are generally overfunded after carefully matching expenditure categories, and controlling for student characteristics. Therefore, the important issues relate to efficiency and equity.

On the efficiency side, like small schools and small school districts, charter schools lead to a diversion of resources from instruction to administration and facilities. Public schools surrender money at average costs with little ability to realize marginal cost savings since charter schools draw students from all over the district at many different grade levels. Public schools have to make up for revenue loss through traditional means: early retirement, raising class size, cutting staff, and deferring maintenance. Charter schools, on the other hand, get average per-pupil revenue even if students are only filling empty seats in a classroom. Charter schools can control enrollment and obtain exactly the right class size, grad by grade.

Is the charter school concept hopeless from the perspectives presented in this paper? Some charter school laws are better than others. First, converting existing public schools eliminates many of the problems associated with establishing new autonomous charter schools with separate facilities and administrators. Second, funding should closely match the particular kinds of students in a charter school. Otherwise, there is a tremendous incentive to obtain funding from average cost calculations and spend it on low cost pupils. If local school districts are themselves the chartering agency or are required to work with charter schools on issues of facilities, financial accountability and services for special needs students, many other problems will be avoided.