2. Charter School Funding

Eric Osberg

Among the many debates among charter school supporters and their opponents, perhaps none is more contentious than that over funding. Charter school leaders and their advocates claim that charters receive less than their fair share of education funds—that is, less than district schools receive. Opponents counter that charters actually receive more funding than their district counterparts, and in the process strain district budgets. Questions about whether charter and district schools serve similar students and incur similar expenses further complicate these arguments. Where does the truth lie? This chapter examines charter school funding nationwide in an attempt to separate fact from fiction.

Previous Research

There has long been anecdotal evidence of a disparity in funding between charters and traditional district schools. Charter leaders have occasionally complained of perceived shortfalls, though perhaps few have listened. Private foundations working with charter schools have noticed great need among their grantees, as have others working with charters, and see that they often operate on

shoestring budgets. However, only a smattering of research reports has confirmed that district schools receive more funding, per pupil, than do charter schools.

In 2003, the American Federation of Teachers (AFT) released a large report covering eleven states, entitled *Paying for the Vision: Charter School Revenues and Expenditures*. It found that the gap between charter and district school funding ranged from $549 to $1,841 per pupil (based on data from 1997–98 and 1998–99, depending on the state).[1] In that same year, RAND studied California charters, and while they did not offer much comparative data on funding, they provided insights nonetheless, reporting that "[c]harter schools have significantly lower participation than conventional public schools in categorical aid programs outside the block grant," and "[t]he majority of charter schools are struggling with acquiring and financing facilities."[2]

In 2004, researchers at New York University's Steinhardt School of Education concluded that a typical charter school in New York State serving a typical set of students might receive 7.2 percent less funding than traditional public schools (and 14.5 percent less in revenue per se, excluding "in-kind" services received from the school district). Among elementary schools this gap reached 9.5 percent, and among schools educating full-time special education students it amounted to as much as 24.2 percent. The authors aptly concluded, "If charter schools are to have a fair opportunity to provide new, high quality educational alternatives for the public school students of New York State, these differences should be eliminated."[3]

1. "Paying for the Vision: Charter School Revenues and Expenditures," F. Howard Nelson, Edward Muir, and Rachel Drown, American Federation of Teachers, May 2003.

2. "Charter School Operations and Performance," RAND Education, 2003, pps. 113–114. http://www.rand.org/publications/MR/MR1700/.

3. Robin Jacobowitz and Jonathan S. Gyruko, *Charter School Funding in New*

Finally, in 2004 the Thomas B. Fordham Institute—sister organization to the Thomas B. Fordham Foundation—commissioned a study from Public Impact's Bryan Hassel and Michelle Terrell. Their short analysis found that Dayton's charters in 2001–02 received $7,510 per pupil, compared to $10,802 for district schools—a shortfall of 30 percent.[4] A small portion of this $3,300 gap—$421—is attributable to differences in the types of students served by district and charter schools in Dayton. However, the bulk of the gap cannot be explained by any such reason—district schools simply received more funding than charters.

However, none of these studies, or the few others not mentioned above, could be called definitive on the question of whether charter schools receive less funding than district schools. Several of them are purely regional in emphasis, so one might learn about Ohio or California but not about Arizona, Michigan, or other states with significant numbers of charter schools. Others, such as NYU's study of New York and the AFT's *Venturesome Capital* (the precursor to its 2003 report mentioned above), study charter laws and funding formulae to determine how much funding one would *expect* charters to receive. As explained below, reality does not always meet expectations in charter funding, so it is important that studies be based on funding data, not funding formulas.

Given the growth of the charter school movement, it is also important to base any study on data that are as current as possible. What was true at the beginning of the charter school movement may not be applicable today, as the charters blossomed and

York: Perspectives on Parity with Traditional Public Schools, Institute for Education and Social Policy, Steinhardt School of Education, New York University, March 2004.

4. Bryan C. Hassel and Michelle Godard Terrell, *School Finance in Dayton: A Comparison of the Revenues of the School District and Community Schools* (Chapel Hill: Public Impact, March 2004). http://www.edexcellence.net/foundation/publication/publication.cfm?id=330.

school funding in general grew. The largest study to date—the AFT's—used data from 1997–98 and 1998–99. Certainly much could have changed since that time.

Recent Research

A clear picture of charter school funding emerges when one examines some of the most recent data available—for the 2002–03 school year—in sixteen prominent charter school states and the District of Columbia (selected for either the number of charter students in that state or the quality of their charter school law).[5] These states, including D.C., for these purposes, contained over 2,200 charter schools in 2002–03, far more than any prior study has included. According to the Center for Education Reform's statistics, these states enroll 84 percent of American's charter school students.

These funding data include all revenues received by both district and charter schools in 2002–03 regardless of their sources—federal, state, local, or even philanthropic funds—and regardless of their purpose—for daily operations, facilities, or start-up costs. In this way no receipts are uncounted and one can fairly compare charter and district school funding. These data also include all charter and district schools in operation in those seventeen states, even though the presence of some charter schools in their first year of operations might skew the results—for example, if a re-

5. The data analyzed here were predominately collected for a project of the Thomas B. Fordham Institute: "Charter School Funding: Inequity's Next Frontier," by Sheree Speakman, Bryan Hassel, and Chester E. Finn, Jr., published by the Thomas B. Fordham Institute, August 2005. The study covered 2002–03 data, the most recent year available, and unless otherwise indicated all the figures discussed here refer to that year. In five states, reliable statewide figures on both charter and district revenues were unavailable. In those states, the study relies on more reliable numbers from the state's large districts to estimate the charter-district differential. See http://www.edexcellence.net/institute/charterfinance/ for additional details.

Table 2.1 State Disparities between Charter and District Funding, 2002–03

Gap/State	*District PPR*	*Charter PPR*	*Variance*	*Percent Variance*
Approaching Parity				
Minnesota	$10,056	$10,302	$245	2.4%
New Mexico	$9,020	$8,589	($430)	−4.8%
Moderate				
North Carolina	$7,465	$7,051	($414)	−5.5%
Florida	$7,831	$6,936	($896)	−11.4%
Michigan	$9,199	$8,031	($1,169)	−12.7%
Texas	$8,456	$7,300	($1,155)	−13.7%
Large				
Colorado	$10,270	$8,363	($1,908)	−18.6%
Arizona	$8,503	$6,771	($1,732)	−20.4%
New York	$13,291	$10,548	($2,743)	−20.6%
Washington, D.C.	$16,117	$12,565	($3,552)	−22.0%
Illinois	$8,801	$6,779	($2,023)	−23.0%
Severe				
Missouri	$12,640	$9,003	($3,638)	−28.8%
Wisconsin (estimated*)	$10,283	$7,250	($3,034)	−29.5%
Georgia (estimated*)	$7,406	$5,125	($2,281)	−30.8%
Ohio (estimated*)	$8,193	$5,629	($2,564)	−31.3%
California (estimated*)	$7,058	$4,835	($2,223)	−31.5%
South Carolina (estimated*)	$8,743	$5,289	($3,453)	−39.5%
State Average (weighted by charter enrollment)	$8,504	$6,704	($1,801)	−21.7%

*In five states, we were unable to obtain statewide data on charter and/or district revenues. In those states, we used data from large districts as a proxy. Full details on this calculation appear in the methodology section and the state chapters.

cently-opened school received a start-up grant but had few students. The only schools excluded are those without reliable data.

The results of such an analysis are striking (table 2.1). In these seventeen states, charter schools faced an average funding shortfall of $1,801 per pupil in 2002–03. While a district school could expect to receive $8,504 per student, a charter could only count on $6,704, a difference of 21.7 percent. Nine states faced much worse shortfalls, ranging as high as $3,638 per pupil in Missouri.

The most egregious gaps, in percentage terms, existed in

Georgia, Ohio, California and South Carolina, where charter schools could expect to receive only two-thirds of the resources of district schools. The gaps occurred in large charter states like Arizona, with 457 charters operating in 2002–03, and small charter states like Illinois, with just twenty-two charter schools. In only two states did funding approach "parity" between charter and district schools, and in those (Minnesota and New Mexico) non-recurring start-up funds for charter schools may have contributed to the results. Nowhere can one safely conclude that a state funded charters perfectly fairly. Indeed, the pattern is clear—inequity was the norm.

The situation appears even worse when one examines the large urban districts within those seventeen states, suggesting that the neediest of students are (perhaps not surprisingly) subject to the greatest hardships (table 2.2). Among twenty-seven large districts, the average funding gap between charter and district schools in 2002–03 was $2,256 per pupil, or 23.5 percent. Charters in Atlanta, San Diego and Greenville, South Carolina—cities with the largest gaps—were expected to make do with only three-fifths of the per pupil revenue of a typical district school. In Albany, charters received nearly $5,000 less per pupil than their district counterparts.

Since charter-district comparisons within a single district are more likely to be among similar types of schools, serving comparable types of students (whereas comparisons within a state as a whole can encompass diverse areas, such as urban and rural districts), it appears fair to conclude that this larger district-level gap of 23.5 percent is most indicative of the degree to which charter schools are shortchanged nationwide.

In absolute dollars, the funding a charter school can expect to receive varies greatly from state to state. But funding gaps create significant challenges for charter schools everywhere. They must buy goods and services in the same local economy as do

Table 2.2 State Disparities between Charter and District Funding, 2002–03

Gap/District	*District PPR*	*Charter PPR*	*Variance*	*Percent Variance*
Approaching Parity				
Albuquerque, NM	$7,745	$8,511	$766	9.9%
Moderate				
St. Paul, MN	$11,876	$10,800	($1,076)	−9.1%
Denver, CO	$9,954	$8,755	($1,199)	−12.0%
New York City, NY	$12,505	$10,881	($1,624)	−13,0%
Dallas, TX	$8,300	$7,125	($1,174)	−14.2%
Large				
Detroit, MI	$9,899	$8,395	($1,504)	−15.2%
Minneapolis, MN	$13,701	$11,575	($2,127)	−15.5%
Houston, TX	$7,724	$6,382	($1,341)	−17.4%
Broward Co., FL	$7,669	$6,273	($1,396)	−18.2%
Miami-Dade, FL	$7,971	$6,465	($1,506)	−18.9%
Fulton Co., GA	$11,748	$9,325	($2,423)	−20.6%
Washington, D.C.	$16,117	$12,565	($3,552)	−22.0%
Buffalo, NY	$13,197	$10,211	($2,986)	−22.6%
Chicago, IL	$8,907	$6,847	($2,060)	−23.1%
Severe				
Maricopa Co., AZ	$8,743	$6,389	($2,354)	−26.9%
Colorado Springs, CO	$8,401	$6,100	($2,301)	−27.4%
St. Louis, MO	$12,531	$9,035	($3,495)	−27.9%
Cleveland, OH	$10,732	$7,704	($3,028)	−28.2%
Los Angeles, CA	$7,960	$5,653	($2,307)	−29.0%
Milwaukee, WI	$11,267	$7,944	($3,323)	−29.5%
Wake Co., NC	$9,237	$6,510	($2,727)	−29.5%
Kansas City, MO	$12,795	$8,990	($3,806)	−29.7%
Albany, NY	$15,226	$10,235	($4,991)	−32.8%
Dayton, OH	$11,498	$7,614	($3,884)	−33.8%
Atlanta, GA	$12,766	$7,949	($4,818)	−37.7%
Greenville, SC	$8,477	$5,126	($3,351)	−39.5%
San Diego, CA	$8,333	$4,964	($3,369)	−40.4%
District Average (weighted by charter enrollment)	$9,604	$7,348	($2,256)	−23.5%

much better-funded district schools. Charters in San Diego, for example, made do with just $4,964 per pupil in 2002–03, (compared to district schools' $8,333) while their counterparts in Washington, D.C. received a relatively generous $12,565 per pupil (compared to district schools' $16,117). The higher absolute

amount in Washington helps explain its wealth of charter schools—in 2005–06, it has fifty-two schools serving 24 percent of the District's public school students.[6] Thus it is important to evaluate charter funding not simply relative to district funding, but also in terms of differentiations in absolute amounts provided. States that provide charter schools the least money cannot expect national charter management organizations—source of many charter success stories—to develop large numbers of schools there.

Critics have argued that the data showing charter funding disparities are misleading because districts sometimes provide services to charters, such as transportation or the central administration of a special education program, and pay for these services from their own budgets. In some instances, this does happen. But it is also true that districts can withhold funds from charters for services they do not need (more on this below). In some states charters must pay a fee to their authorizers. Thus the fundamental conclusion that charter schools are inequitably funded relative to district schools is unchanged.

A funding gap of $1,800 per pupil is large enough to affect the operations of a school. Consider a typical 250-student charter school. It could expect to receive $450,000 less than a similar district school—each year. After a few years, such a school would find itself cumulatively behind by millions of dollars. One can imagine what a charter school might do with such funds—hire ten teachers, create a science lab, stock its library shelves, start an after-school program. The list is endless, but it is clear that this gap is significant—and that closing it even partially might make a difference in the achievement of the students attending these schools.

6. Jay Mathews, "Why Did I Ignore Charter Schools?" *Washington Post*, September 27, 2005, http://www.washingtonpost.com/wp-dyn/content/article/2005/09/27/AR2005092700603.html.

What Explains These Results?

One must consider the possibility that differences in the students served by charter and district schools explain the funding disparities. If district schools serve proportionally more poor students, special education students, or high school students, then they would be justified in receiving more funding. Such students are more expensive to educate, and most funding formulae give them greater weight. However, closer examination shows that student characteristics could not have explained these large gaps—though they could account for part of the disparity in some states.

To understand the potential impact of serving poor students, one can examine free lunch eligibility. In most of these seventeen states in 2002–03, charter and district schools served comparable percentages of poor students. In a few, such as Arizona, D.C., Michigan, New York and Texas, charters served considerably more, and in these states charter schools received less funding despite serving a more needy (and expensive to educate) population.

Only in Colorado, Florida, South Carolina and Wisconsin did district schools serve proportionally more free-lunch eligible students, and analysis shows that these discrepancies could only marginally affect the funding gaps we found. For example, in 2002–03 South Carolina exhibited large differences in the percentage of students eligible for free and reduced price lunch, with 36.2 percent of district students and just 10.7 percent of charter students eligible. Comparing two hypothetical 250-student charter and district schools, the district school is likely to serve approximately sixty-four more free-lunch eligible students than the charter school. If these students each carried an additional $2,000 in funding, the district school would receive $128,000 more than the charter. However, the real funding gap is $863,000 with district school's failure. Student poverty accounts for less than 15

percent of the total funding gap between the two schools. In other words, the more needy population in district schools can account for less than one-sixth of the funding gap.

Similar conclusions arise when glancing at grade levels served, though this is more difficult to analyze because so many charter schools operate non-traditional grade configurations (such as K–12 or K–8). Finally, though special education data were not available on a state-by-state basis for 2002–03, SRI has shown that charter schools typically serve a lower percentage of special education students than do district schools—9 percent versus 12 percent.[7] Such a difference would affect funding, but should not account for more than a slight portion of the funding gaps described above. Consider again two 250-student schools. If 99 percent of the charter students and 12 percent of the district students were classified special education, the difference would be eight students. If each special education student received an additional $8,000 in funding (a reasonable approximation of the additional funding available to special education students),[8] the per-pupil funding for the district school as a whole would rise by $256, or

7. "Evaluation of the Public Charter Schools Program: Final Report," SRI International, July 2004; http://www.sri.com/news/releases/12-09-02.html.

8. In 2002 the President's Commission on Excellence in Special Education reported that in 1999–2000, "total spending used to educate the average student with a disability was an estimated $12,639. This amount includes $8,080 per pupil on special education services, $4,394 per pupil on regular education services and $165 per pupil on services from other federal, special needs programs." (See "A New Era: Revitalizing Special Education for Children and Their Families," President's Commission on Special Education, July 1, 2002, p. 30. http://www.ed.gov/inits/commisionsboards/whspecialeducation/index.html.)The Commission also reported that "the U.S. Department of Education now estimates that, as a nation, we are spending about 90% (1.9 times) more on the average eligible student for special education than we do on the average general education student with no special needs." (p. 31) Ninety percent of the average charter school per-pupil funding ($6,704) would be $6,034 and of the average district per-pupil funding ($8,504) would be $7,654. Thus $8,000 is an appropriate approximation for the simple analysis presented above.

just 14 percent of the $1,801 funding gap observed between charter and district schools.

Thus one can be skeptical of claims that district schools deserve greater funding than charter schools because of differences in students served. On average, charters are overwhelmingly under-funded in comparison to district schools, even when considering the types of students they serve.

Why is this so? There are a number of important reasons, many of them rooted in state policy. The most important reasons are examined below.

Local Funding

It is essential to compare charter and district funding by source—that is, according to whether the funds come from the state (by formulas or programs), federal government programs, private philanthropy, or local sources of revenue. Comparison makes it clear that local funds are an important contributor to the charter school funding shortfall. Generally speaking, district schools receive a full "share" of local funds while charter schools receive considerably less. Districts can, and often do, levy taxes to pay for parts of their operations, and these funds are not all shared with charters. In many of the seventeen states in table 2.1, this is the primary cause of the discrepancy between district and charter funding.

To illustrate this point, one can plot the relationship between the share of local funding in a state—that is, the percentage of school funding supported by local dollars—and the gap between district and charter funding. The resulting graph (fig. 2.1) reveals a powerful relationship.

Though this analysis is admittedly based on a small number of observations, a pattern is evident. It indicates that 73 percent of the gap between charter and district funding is related to the

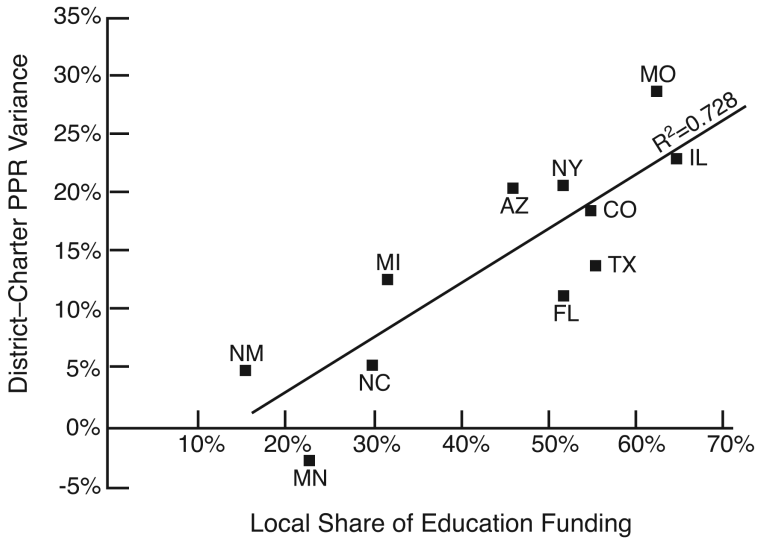

Fig. 2.1 Relationship between Local Funding and the Charter Funding Shortfall

Each state is represented by a point, with the state's charter funding shortfall (as a percentage) on the vertical axis and the portion of school funding that comes from local sources on the horizontal axis.

state's reliance on local funding of education. In Missouri and Illinois, for example, district schools relied on local funding for over 50 percent of their funding, and the charter funding shortfalls were 29 percent and 23 percent, respectively.

States often recognize this problem and attempt to rectify it; in about half of these seventeen states, charters received a greater share of state funding than did district schools. For example, in 2002–03 Arizona offered district schools between $3,208 and $3,390 per pupil in state funding (varying depending on enrollment and grade level), which, when added to certain program grants, brought total state funding for district schools to $3,770 per pupil on average. Recognizing that district schools received more local funding (about $3,000 per pupil more) than charters, Arizona offered charter schools about $5,400 per pupil—an ad-

vantage of $1,600 per pupil. However, this additional state funding only offsets half the shortfall in local funding, ultimately leaving charter schools about 20 percent poorer than district schools.

Similar situations occur in other states, and the example of North Carolina shows that it is possible to minimize the impact of local revenues on the charter funding gap. There, policymakers have addressed the problem, as the state requires local districts to pay charters their *full* share of local funding. The process appears to work reasonably well; charters received just $200 less in local funding per pupil than district schools, and the total funding gap was just 5.5 percent (about $400).

Facilities Funding

Most charters are denied facilities funding. This problem is intertwined with their lack of access to local funding, because facilities funding often derives from local sources. Only seven of the seventeen states had laws on the books in 2002–03 providing charters access to facilities funding sources enjoyed by districts. In only five of these did charters receive such funds in practice, and never in amounts equal to that received by district schools.

The District of Columbia, however, demonstrates that solutions to the facilities funding challenge are possible. D.C. offers charters a facilities allotment that is designed to mirror the amount given to district schools. It is not necessarily perfect—it calculates the charter funding amount based on a rolling five-year average of district funding, so if district spending rises over time charters will lag behind—but it is a reasonable solution.[9] Other states are improving charter facilities funding, to varying degrees. Minnesota, for example, offers charter schools substantial "lease

9. In 2002–03, per-pupil charter facility funding in the District of Columbia trailed the district school amount, as facility funding for district schools that year exceeded the average of the five prior years.

aid" to cover the costs of renting buildings. California earmarked $400 million from a state facilities bond for charter schools (though as of 2002–03, charters had received none of these funds). New York City recently released a five-year capital plan that includes $350 million for charter schools.[10] Georgia created a needs-based facilities fund for charter schools that it funded with just $500,000 for 2005–06. Obviously such a small amount cannot fund the needs of an entire state; yet Georgia's offering is more than most states provide. More legislators should follow the lead of policymakers like those in D.C. and aim for parity in facilities funding between charter and district schools.

Local Education Agency Status

Many federal and certain state education funding programs are designed to route money through a Local Education Agency (LEA)—that is, the school district. Districts apply on behalf of their schools and control the funds they receive. Such a process can easily exclude charter schools. Only four of these seventeen states had the foresight to designate charter schools as LEAs for the purpose of receiving federal funds. Seven other states treat their charters as LEAs in some circumstances but not in others; Texas, for example, allows its charters to apply as LEAs for federal funds but not for certain state funds (such as "Small District Adjustment" funds, for which charters are typically small enough to otherwise qualify). Charters without LEA status rely on the local district to apply on their behalf for certain funds, and districts can often retain a portion of the funding to cover their administrative expenses (whether or not the charters benefited from any services).

This seemingly minor administrative detail has big conse-

10. 2005–2009 "Children First" Five-Year Capital Plan Overview, available at http://www.nycsca.org/pdf/capitalplanoutline.pdf.

quences. Among the states that grant full LEA status to charters are Minnesota (where charters received $1,083 per pupil in federal funding) and the District of Columbia ($1,448); those states which do not do so include Colorado ($273), Florida ($463), and Illinois ($395), among others.

A charter school (or district) with LEA status does take on a greater responsibility to educate special education students, as the Individuals with Disabilities Education Act (IDEA) tasks the LEA with the responsibility to ensure that all students receive a "free appropriate public education" (FAPE).[11] Thus one might argue that the fact that some charter schools are not considered LEAs, and thus face fewer IDEA obligations than their district counterparts, justifies a difference in funding between district and charter schools. However, as the hypothetical situation discussed earlier demonstrates, differences in special education populations can account for only a small portion of the funding gap observed in these seventeen states.

Circuitous Funding of Charter Schools

These funding challenges are exacerbated when charters do not receive their revenues directly from the state, but rather have it channeled through the district first. Only four of the seventeen states avoid this problem; charters in the remaining states face this situation to a certain extent (the specifics of which vary from state to state). New Hampshire, though not among the states in table 2.1, offers a vivid example. In the summer of 2005, one of the Granite State's original charter schools was told it could not reopen because the local district had decided to withhold its funding. As the *Portsmouth Herald* reported, "Under the state's charter school law, the only funds the state is mandated to pro-

11. For an explanation of these responsibilities see, for example, http://www.uscharterschools.org/cs/spedp/view/sped_aud/3?x-t=bkgd.view.

vide for a school is the $3,340 per student allotted for an 'adequate education.' The funds pass through local school districts to the charter schools. But the school district, and later the Franklin City Council, refused to pass on the money," with "the Franklin City Council . . . saying it is needed for local public schools."[12] The school is now closed for at least a year. Though the state has ordered the city council to send the funds owed to the charter school, it has yet to do so.[13] In another case in Kansas City, a judge must rule on the district's decision to withhold $45 million in funding that charter schools claim is due to them. The district argues it needs the funds to improve its facilities, in accordance with a desegregation ruling, and a resolution is still pending.[14]

Violations of Legislative Intent

Even when legislators appear to have intended for charters to receive their fair share of funding, they can be denied dollars in practice. Fifteen of the seventeen states specify in their statutes that charters should have access to federal funds, but in practice charters in only seven of these states get access to the same federal dollars as their district counterparts. Similarly, every state law indicates that charters should receive state funding, but in eight of the states charters did not have the same access as district schools. And as described above, the problems are most pronounced with local and facilities funding. In no state do charters receive their fair share of either, though nine of seventeen states

12. Kathleen D. Bailey, "Charter schools minus one in New Hampshire," *The Portsmouth Herald*, July 17, 2005. http://www.seacoastonline.com/news/07172005/news/53167.htm.

13. Melanie Asmar, "Voters pick four newcomers," *Concord Monitor*, October 5, 2005. http://www.concordmonitor.com/apps/pbcs.dll/article?AID=/20051005/REPOSITORY/510050365/1001/NEWS01.

14. Deanne Smith, "Judge rejects most of KC schools' case," *Kansas City Star*, July 27, 2005.

intend, through state law, for charters to receive local funding, and seven states allow for facilities funding.

Georgia provides a good example of how actual funding practices can stray far from the intent of the charter law. The Georgia Charter Schools Act specifically states that, "The local board and the state board shall treat a start-up charter school no less favorably than other local schools within the applicable local system with respect to the provision of funds for instruction and school administration and, where feasible, transportation, food services, and building programs."[15] Unfortunately, in reality, "this clause has allowed districts to fund charter school expenses on a selective basis. Most districts withhold a portion of per-pupil dollars to pay for central administration, school nutrition, transportation, and other expenses, whether or not a charter schools requires (or wants) these services."[16]

Complexities of School Funding

Some of the under-funding of charter schools occurs because state finance systems are complex and have existed for years to serve a system of school districts, not an innovation like charter schools. Charters, which by their nature are designed to exist outside the school system, can only integrate seamlessly if legislatures take care to ensure that *all* relevant laws and regulations are adapted as necessary to accommodate these new organizations. Arizona's experience with the federal Department of Education offers an example of this problem. Due to a definition of a "public" school that precludes those operated by for-profit organizations, as is

15. Georgia Charter Schools Act of 1997, http://www.legis.state.ga.us/legis/1997_98/leg/fulltext/hb353.htm.

16. Sheree Speakman, Bryan Hassel, and Chester E. Finn, Jr., "Charter School Funding: Inequity's Next Frontier," Thomas B. Fordham Institute, August 2005, p. 56.

common in Arizona, the Department of Education ruled in March, 2005, that such charters in that state were ineligible for federal funds.[17] Bureaucratic rules sometimes trump common sense.

Many charters are overwhelmed by the paperwork and compliance challenges of applying for federal funds. RAND's 2003 study of California charter schools noted that "Charter school operators are often unsophisticated in completing the forms and carrying out the procedural activities that have taken districts years to master," and that charter schools may not have the "economies of scale" that districts enjoy.[18] A 2003 study by Policy Analysis for California Education (PACE) illustrates the results: 43 percent of charter students in 1999 were eligible for free or reduced-price lunch, though only 4.5 percent of them actually received "support funded through federal Title I dollars."[19] Certainly not all of this difference is due to thoughtless rules or laws that advantage district schools over charters. School funding systems nationwide set up many hoops through which all public schools—both district and charter—must jump, but such rules of the game particularly hamper charter schools, which are less experienced, smaller, and often grappling with the challenges of starting up. They advantage district schools, experienced in the mazes of bureaucracy. Education financing is in drastic need of a major simplification for the benefit of all schools, but especially for charter schools.

17. Editorial, "Educrats in Washington Take a Shot at School Choice," *East Valley Tribune*, June 26, 2005. http://www.edreform.com/index.cfm?fuseAction=document&documentID=2096&sectionID=58.

18. "Charter School Operations and Performance," RAND Education, 2003, p. 91. http://www.rand.org/publications/MR/MR1700/.

19. "Charter Schools and Inequality: National Disparities in Funding, Teacher Quality, and Student Support," Policy Analysis for California Education, April 2003.

Tactics of Charter Opponents

Many of charter schools' funding ills arise neither from bureaucratic hassles nor well-intentioned but poorly implemented laws. Charter opponents work to ensure that charters will be weak, and they fight vigorously against any reforms that might make charter schools a greater threat to them. Districts themselves are complicit as well, and not just by participating in some of the funding shenanigans described above. When charter laws are debated, districts often complain loudly that "their" funds will be sent to charter schools. Sometimes such complaints result in "hold harmless" clauses, whereby the financial impact of charters on districts is diminished or phased in over time. In Illinois, for example, the state reimburses districts for the impact of charter schools on a graduated scale—offering them 90 percent of the funds used by charters in their first year, 65 percent in their second and 35 percent in their third. Such arrangements prevent funding from truly following the student and perpetuate the gap between charter and district schools.

Worse still, when charters act rationally in response to tight budgets—perhaps hiring younger, less expensive teachers—they are subject to criticism for shortchanging their students. Charter schools have not typically been well organized to respond. Though charter leaders and their associations bemoan the lack of funding, they often lack specific data to bolster their claims, and their pleas can be denigrated as self-interested. Hopefully shedding light on the charter school funding problem will clarify this debate and enable decisions about school finance to be based on facts rather than hyperbole.

Overcoming Funding Inequities

The gap in funding between charter and district schools is significant and has many roots, but many charters do their best to make up the gap. Some seek private funding for facilities, but banks often view them as risky—particularly because, unlike their district counterparts, charter schools can be closed. In its report debunking this perception of risk, the Kauffman Foundation laments that "Low-cost, charity-rate loans and mortgages for large amounts are scarce. And on the conventional market, charter schools tend to encounter additional charges rather than discounts."[20]

Others seek philanthropic support for their schools. The funding disparities in table 2.1—an average gap of over $1,800 per pupil—exist even *after* factoring in charters' ability to find private donors willing to supplement public funding. It is inconceivable that charters could raise sufficient additional grants, beyond the philanthropy they already receive, in order to eliminate their shortfalls. In the seventeen states for which we have data, philanthropy is limited; in 2002–03, it totaled less than $100 million,[21] quite a small portion of the $1 billion dollar gap that existed that year—or the nearly $2 billion gap that likely exists in 2005–06 across all charter states (assuming the charter-district funding gap remains at $1,800 per pupil and using the generally accepted estimate of one million charter students).

Even if fundraising could substantially reduce the funding gap, it would be an imperfect solution. Raising money is time

20. "Debunking the Real Estate Risk of Charter Schools," Ewing Marion Kauffman Foundation, 2005.

21. Researchers for "Charter School Funding: Inequity's Next Frontier," could not entirely separate philanthropic funds from certain "other" revenue sources, so an exact total is unavailable. Total "other" sources, including philanthropy, amounted to $93 million in those 17 states in 2002–03.

consuming, distracting school leaders from their priorities. It can also corrupt, causing a school to shift its priorities merely to accommodate the whims of a funder. Perhaps most importantly, it is unreliable—though some funders do offer multi-year grants, donations are inevitably short-lived and cannot be counted on to sustain a school's operations forever. Managing a school under such uncertainty adds to the challenges charters school leaders face.

Changes to state laws represent the only viable long-term solution to these funding problems. Fortunately, some states are improving their policies. California, for example, passed Assembly Bill 740 in September of 2005, combining twenty-eight categorical programs, for which charter schools previously had to apply one by one, into a single block grant. This followed the recommendation of the Legislative Analyst's Office that combining these programs "would result in charter schools being able to access more categorical funding" and "would thereby address the current discrepancy in state funding between charter schools and other public schools."[22] Charter supporters in California doubt that this will be enough to level the playing field between charter and district schools,[23] and it remains to be seen whether it works in practice as intended. However, it is encouraging that policymakers in California have taken a step to address this longstanding problem.

One can hope that all states will gradually improve their charter laws; perhaps funding gaps are merely growing pains for the charter school movement, and they will narrow over time. Unfortunately, the data provide no evidence of this. If we plot state-level funding gaps against the years in which each state passed its

22. "Assessing California's Charter Schools," Legislative Analyst's Office, January 20, 2004.

23. Kenneth Todd Ruiz, "Charter School Funding Simplified," *Inland Valley Daily Bulletin*, October 6, 2005.

initial charter school law, no discernable pattern emerges. Minnesota was the first charter state, in 1991, and its funding is more equitable than most. Georgia and Wisconsin, which followed shortly thereafter in 1993, still provide 30 percent less funding to their charter schools than to their district schools. Other early adopters such as Michigan (1993, 12.7 percent gap), Colorado (1993, 18.6 percent gap), and Arizona (1994, 20.4 percent gap) show similar inertia toward eliminating their funding gaps.[24]

State Policies Must Change

The lesson for charter supporters is clear: they need to become actively involved in designing and championing improved charter laws in their states. As shown above, there are numerous improvements that would help reduce the funding gap between charter and district schools. Facilities funds could be provided to charter schools, on par with district schools. Financing arrangements could be designed to be more direct, with money flowing straight to charters rather than through district schools. And charter schools could more often be given the opportunity to apply directly for all state and federal programs available to district schools.

However, as helpful as these solutions would be, they would be mere band aids on the problem of charter funding. To eliminate existing inequities, two fundamental improvements to school funding are needed. First, when funding education, states must reduce their reliance on local property taxes and increase the state-funded share. Such a change would reduce inequities between rich and poor districts, and it would also minimize the greatest source of inequity between charter and district schools: districts' unique ability to supplement their state and federal dol-

24. Center for Education Reform "Ranking Scorecard," http://www.edreform.com/_upload/ranking_chart.pdf.

lars with local tax revenues. Such revenues need not disappear—local citizens should have the right to bear new tax burdens for the benefit of their district schools—but state policy cannot be blind to this funding when establishing charter schools. States can and must design their charter funding policies so that charters either receive a full share of local funds or receive an additional amount to offset the local funding received by nearby district schools.

The second fundamental change is one that would benefit many constituencies, such as poor and disadvantaged students, as well as address charter funding inequities: states must begin to transform their finance systems to truly fund *the student*, rather than district arrangements, entrenched educational programs, or even schools. Old methods of funding no longer suffice in the education marketplace of today, where virtual schooling, inter-district choice, and charter schools are just a few of the innovations states have created to coexist with the ancient district-centered model of schooling. Today we need funding systems that allocate money by first taking into account each student's needs—i.e., adjusting a base amount of per-student funding to account for the additional expense of students with underdeveloped skills or requiring special education or English language instruction—and then ensuring that this funding *fully* follows the student to the school he or she attends, whether it be the neighborhood public school, a district option across town, or even a charter school. Much would need to change—no longer would a school be able to depend on a fixed amount of funding regardless of its enrollment, and as a result principals would be forced (and empowered) to think flexibly about the programs they offer. But the benefits would be tremendous, as resources would be allocated efficiently—to the schools that need them most, based purely on the students who attend. Some cities, such as Cincinnati, Houston and Seattle, have worked on this type of weighted-student

funding, but this practice needs to transcend the district and form the core of state funding policies. Charter schools would receive fair funding as a result, as would schools of all kinds.

Conclusion

Some might argue that charters do not deserve to be funded on par with district schools: they were designed to show the way toward a better education system, with higher achievement and, ideally, less waste. Furthermore, the link between funding and educational performance is weak, at best. So cannot charter schools operate more efficiently, on less funding? Perhaps in time that will prove to be the case. Today, however, charter schools are paying high start-up costs and often must put resources into overcoming resistance from unions and school districts. It is unreasonable to expect them to both carry those burdens and provide better instruction with less money than other public schools. As this volume shows, charter opponents are well-organized and determined to end charter schools—or at least sharply contain their growth. They fight to keep charter laws weak, the regulatory burden heavy, and the caps tight. Charters are striving to prove they can out-perform traditional schools, but they start at a great disadvantage. Only if charter schools are allowed to compete on a level playing field, including fair levels of funding, will we ever know if they can out-perform traditional public schools. If policymakers don't fix the inequity in charter school funding, this promising reform is at risk.

The education of millions of children is at stake. It has long been held that all children have the same right to a high quality education, and that children in poor neighborhoods deserve no less of an education than those in better-off parts of the same district. Unfortunately, charter schools have been excluded from this reasoning. From coast to coast, they receive less funding than

district schools, an inequity even more alarming given that they serve so many disadvantaged and minority children. This inequity must end, whether through improved laws, fine-tuned formulas, or even legal actions. Charter leaders and their teachers, students and parents are doing their part to reform our public school system. Now it is time for policymakers to respond in kind and ensure that charter schools remain a viable option for America's neediest students.