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ABSTRACT

This report examines the laws, regulations, and practices governing charter-school finance during the 1998-99 school year. The 23 states and 2 cities surveyed here had operative charter schools during 1997-98, and thus had a least one year of experience in implementing laws and developing financial practices. The report includes an estimation of the actual dollar amounts that states allocate to charter schools based on the types of students enrolled, and discusses numerous other factors central to charter-school funding. The analysis outlines the range of per-pupil funding that charter schools can expect to receive in each state. Issues regarding school-district fidelity to state law are not addressed in the report. After an introduction, a review of previous research on charter-school finance is provided. This is followed by a description of the methodology used to collect data, including the procedures used to create the hypothetical charter schools that underlie the funding comparisons in the report. The next chapter gives an overview of funding and includes sections on base per-pupil funding and funding linked to student characteristics or geographic location. The report also discusses startup funding, facilities funding, and transportation funding. The last chapter examines the comparability of charter school and school-district funding. (RJM)

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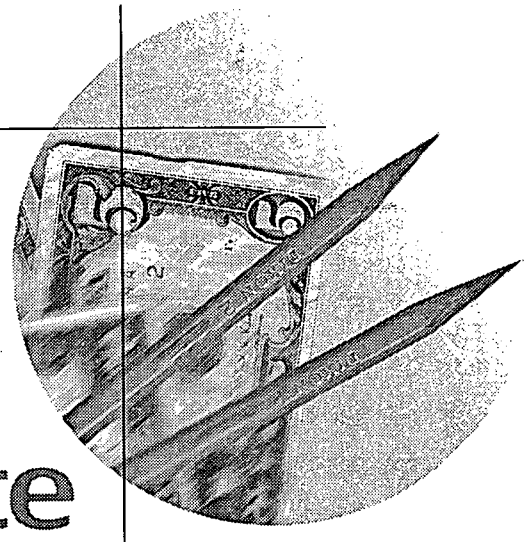

Venturesome Capital: State Charter School Finance Systems

NATIONAL CHARTER SCHOOL FINANCE STUDY

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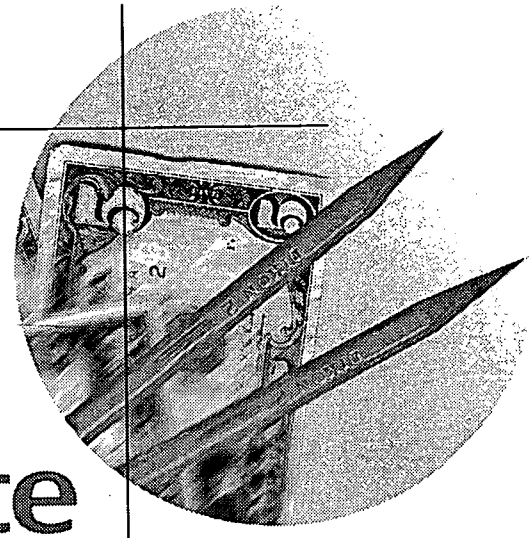

Venturesome Capital: State Charter School Finance Systems

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Executive Summary

The First Report of the National Charter School Finance Study examines the laws, regulations and state practices governing charter school finance during the 1998-99 school year in 23 states and two cities. These states and cities had operative charter schools during 1997-98, and thus had at least one year of experience in implementing laws and developing financial practices. In addition to describing finance laws and practices, our report includes an estimation of the actual dollar amounts that states allocate to charter schools based on the types of students enrolled, and numerous other factors central to charter school funding.[1] Our report also assesses comparability of charter school funding to other public schools with similar students and education programs.

Structure of Funding. Charter school funding policies vary from state to state, but they share many of the same components.

- At the heart of charter school funding systems is per-pupil base funding. In some cases, this funding is based on a state average per-pupil expenditure (e.g., Minnesota); in others it is based on district average revenue or expenditures (e.g., Massachusetts); and in still others, the amount is negotiated between charter schools and the chartering agency (e.g., Colorado). (See Table 2.)

- Per-pupil base funding is only one component of an eclectic financing system involving numerous state and federal revenue sources, and frequently, negotiations between charter schools and school districts.

- Per-pupil funding includes some funding for facilities in Arizona, the District of Columbia, Florida, Massachusetts, Milwaukee, Minnesota and Rhode Island, but charter schools in many states receive no specific financial assistance for facilities. Authorizing

[1] Subsequent reports of the National Charter School Finance Study will examine the actual amounts of funding received by charter schools and schools districts in six states and probe the financial effects charter schools and school districts have on each other.

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school districts generally provide facilities in Georgia, Hawaii, Kansas, New Mexico and Wisconsin. (See Table 23.)

- 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 provide funding for the specific needs of charter schools including higher costs associated with particular programs, grade levels or student populations.

- Negotiations between school districts and charter schools play a major role in funding in Alaska, California, Colorado and Illinois. However, negotiation also plays a role in most other states, usually in cases where school districts provide legally mandated services such as transportation or special education assessment.

- Location is a critical financial issue for charter schools. Charter school funding varies with the financial characteristics of the school district in which it is physically located, or the school districts in which charter school students reside. Connecticut, Minnesota and a majority of schools in Arizona are exceptions. (See Tables 8 and 9.)

- Most or all per-pupil funding flows with students from school districts to charter schools in almost all states. Whether charter schools are funded through state appropriations, or payments directly from school districts, makes little difference in regard to school district revenue transferred to charter schools.

- About half of the states in our study fund elementary students in charter schools at the same level as high school students, even though high school students probably cost more to serve. This policy encourages the development of elementary charter schools. (See Table 4.)

- Special education remains a contentious funding issue. Six 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 windfall. Other states link special education funding to the actual cost of special education students, either through a pupil weighting formula or negotiations. Like school districts, charter schools still need to draw on general operating revenue to fund some special education. (See Table 5.)

- A majority of states provide additional funding to charter schools for at-risk students either directly, or through school district negotiations. (See Table 6.) Funding varies widely, ranging from $220 per at-risk pupil in some states, up to nearly $900 in one state. (See Table 7.) Seven states base funding for at-risk students on school district averages, rather than the specific at-risk population in the charter school. This system discourages charter schools from serving at-risk students. Several states grant preference to charter school applicants seeking to serve at-risk children. While this preference increases the enrollment of at-risk children in charter schools, it does not ensure adequate funding.

- Charter schools are eligible for federal and state categorical program funding to help meet the needs of high-cost students (e.g., Title I or special education), or to promote specific educational programs (e.g., technology literacy or Goals 2000). (See Table 1.) Excluding programs for special education students, at-risk students and transportation, only four states provided "other categorical funding" exceeding $50 per pupil. (See Table 13.) A few states average categorical program funding into base per-pupil funding even if charter schools do not provide qualifying programs.

- Federal planning and implementation grants provide several hundred dollars per pupil during a charter school's first two or three years of operation. (See Table 15.) Nine states provide additional start-up support for charter school programs through either grants or revolving loans. (See Table 14.)

- Transportation is a very complicated funding issue. Most states either provide funding comparable to school districts or mandate that school districts provide service at no cost. (See Tables 11 and 12.) Four states provide transportation funding for charter schools, but allow the funding to be used for other purposes.

- In California and Texas, charter school funding is based on daily attendance, as opposed to enrollment. This policy discourages the creation of charter schools serving low-income and other at-risk students. School districts located in low-income areas suffer the same financial deficit.

Amount and Range of Funding for Charter Schools. Our study created three hypothetical charter schools in each state to demonstrate the range of funding within a state and standardize comparisons across states. The charter school finance laws, regulations and administrative practices in each state were applied to each of the three hypothetical charter schools to illustrate base funding, student weightings, school/district size adjustments, the role of negotiations, special education funding, at-risk funding, transportation funding and federal funding. The appendix contains the detailed breakdown of revenue for each state for the three hypothetical charter schools.

Basic Elementary School—an elementary school with no at-risk or special needs students located in a school district with state average spending, wealth and taxing characteristics.

— Half of the 23 states and two cities would receive at least $4,600 per pupil from all revenue sources.
— Total funding would fall below $4,000 per pupil in five states.
— Total funding per pupil would exceed $6,000 in eight states and the District of Columbia.

Middle Cost K-12 Charter School—a K-12 charter school with student demographics (special education, free-lunch eligibility and bilingual students) resembling the state

average for public schools. This charter school is also located in a school district with state average spending, wealth, and taxing characteristics.

— Half of the 23 states and two cities would receive at least $5,500 per pupil from all revenue sources.
— Total funding would fall below $5,000 per pupil in four states.
— Total funding per pupil would exceed $7,500 in five states and the District of Columbia.

At-Risk Upper Grade School—an upper grade school with a high concentration of at-risk students. Generally, the state average concentration of special education, low-income and bilingual students is doubled. The at-risk hypothetical is assumed to be located in a central city.

— At-risk charter schools would generate less than $500 in extra funding per pupil—compared to a middle cost charter school—in seven states.
— At-risk charter schools would generate more than $1,000 in extra funding per pupil—compared to a middle cost charter school—in seven states.

Comparability of Charter School and School District Funding. A number of factors support claims that charter schools obtain less funding than school districts: Charter schools sometimes receive less than 100 percent of operating revenue. Charter schools usually do not receive funding to finance facilities and debt equivalent to districts. 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, however, benefit charter schools when judging funding comparability. Charter schools may receive "in-kind" services directly from school districts (e.g., oversight, transportation, special education services, personnel services, or facilities) that are not reflected in superficial revenue calculations. 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 also configure their grade level structure, waiting lists and enrollment to generate optimal class size, staffing and funding. In some states, charter schools with few special needs students get funding equivalent to school district special education funding.

As summarized in Table 26, our study finds that:

- Funding comparability issues focus primarily on start-up charter schools. Conversion of pre-existing schools to charter school status, a model that predominates in Georgia, Hawaii, Kansas and Wisconsin, and is common in California, usually results in funding comparability.

- In general, charter schools and school districts have comparable base funding (excludes special education and compensatory education, transportation and funding for programs that charter schools normally would not be expected to provide—such as services to private schools, adult education, community outreach, etc.). In Minnesota and Connecticut, charter schools funding is comparable to the state average school district. In Michigan, base funding comparability exists only up to $6,000 per pupil, which is approximately the state average expenditure per pupil.

- Comparisons of school districts and charter schools need to take into account the value of the direct services that charter schools receive from school districts—especially in Alaska, Colorado and Illinois—where negotiations between charter school and district play a significant role in funding.

- Arizona is the only state where charter schools consistently generate more per-pupil base funding than the school district in which they are located, primarily because charter schools are funded like very small school districts.

- In 1998-99, 14 states provided no significant funding for charter school facilities. Arizona provides more charter school facilities funding per pupil than the state provides 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.

- A charter school's student population usually is the deciding factor in determining whether or not the school receives funding similar to school districts:

  — 12 states provide the same funding for elementary schools as high schools, even though high school students are more costly to educate.
  — 11 states provide funding advantages to charter schools with low special education populations.
  — Nine states provide funding advantages to charter schools with few low-income or at-risk children.

- Transportation *funding comparability* exists in all but four states, but the high costs of transporting students from dispersed locations to charter schools remains a significant problem.

Accountability and Other Financial Issues. While financial accountability and other issues do not directly affect funding levels in the 23 states and two cities in our study, together they influence charter school operations, and determine the information that policymakers and the public need for financial evaluation.

- About half of the states provide some accelerated funding for charter schools to help address cash flow difficulties. Advance funding could be part of the charter agreement in most of the other states. (See Table 16.)

- Collecting financial data over time in a uniform format allows policymakers and researchers to consider issues such as how charter schools differ from other public schools and whether charter schools are fairly funded. Only 14 states require uniform financial reporting for individual charter schools. Eight states blend charter school data with district data, and four states had no uniform financial reporting. (See Table 17.)

- If other states follow the path of Michigan, schools operated by *private* management contractors may be exempted from important aspects of uniform financial reporting that are normally required of *public* schools.

- Except in Milwaukee, all charter schools are subject to an independent financial audit either on its own or as an entity of a school district. The lack of uniformity and detail in independent financial audits, however, seriously limits their usefulness for many aspects of financial accountability. (See Table 18.)

- Charter schools may acquire debt in all states except Hawaii, Kansas, New Mexico and Wisconsin—states where school districts charter schools and generally provide facilities. (See Table 19.)

- The disposition of assets of closed charter schools represents an issue not clearly addressed in many charter school laws. Four states do not allow charter schools to own assets. In nine states, assets revert to the school district or to the state. In the remaining states, assets disposition is left to the charter school's governing board. In most states, management companies will probably be allowed to keep assets that had been used to operate the closed charter school. (See Table 21.)

- Charter schools must participate in the state teacher retirement system in 12 states, and participation exceeds 75 percent in all remaining states except Arizona, the District of Columbia, Florida, Michigan and North Carolina. (See Tables 24 and 25.)

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CHAPTER 1

Introduction

Charter school legislation seeks to grant greater fiscal and educational autonomy to schools in exchange for greater accountability for student achievement. Charter school concepts also include empowering teachers or parents within schools, decentralizing and redemocratizing local education, reinvigorating community structures and creating competitive institutions that will bring market forces to bear on other public schools.

The survival and health of the charter school movement, however, may be determined more by questions about financing than by issues of autonomy or student achievement. More charter schools have failed for financial reasons than academic ones. Funding partly determines who wants charters, who gets charters and what charter schools do. Inadequate resources wound charter schools in the competition to succeed, but if charter schools are funded too well compared to other public schools, competition with other public schools can also be viewed as unfair. If the market model becomes the dominant paradigm for charter schools, then charter schools and school districts need to follow the same rules (Arsen, Plank and Sykes, 1999).

Most research reveals that the charter school community believes that financing represents the greatest obstacle to their success. Each year, the report of the National Study of Charter Schools (RPP, 1997, 1998, 1999,2000), commissioned by the U.S. Department of Education, has found that three of the top four significant barriers charter schools reported facing all relate to finances: lack of start-up funds, inadequate operating funds, and inadequate facilities. A Hudson Institute study (Finn, et al., 1996) found, "[R]esource woes are the greatest single barrier to establishment of a large number of flourishing charter schools—and the one that state policymakers could do the most about."

To address problems with charter school financing, policymakers need to understand how their decisions affect charter schools' financial stability and educational quality. Among the questions of concern are (1) whether charter schools receive resources for their educational programs that are at least comparable to those resources that other public schools receive for similar programs; and (2) whether charter schools have spending patterns that differ from those of traditional public schools. The development of a

broader understanding of these issues is among the goals of the National Charter School Finance Study.

Our report, which is the first component of this study, summarizes and analyzes charter school finance laws, regulations and practices in 23 states, the District of Columbia and Milwaukee. The research generally focuses on charter school finance systems in place during the 1998-99 school year. The analysis includes a determination of the range of per-pupil funding that charter schools should expect to receive in each state. While our report examines the financial practices adopted by state funding agencies needed to implement state finance laws and regulations, it does not address the implementation practices of school districts. Issues regarding school district fidelity to state law, or unilateral actions taken by school districts, are not addressed in this first report. Subsequent reports of our study will collect and analyze revenue data for charter schools and school districts in most states and expenditure data in Arizona, Colorado, Florida, Massachusetts, Michigan and Texas. Intensive financial analysis and qualitative case study work in selected charter schools and school districts will also be conducted for these six states. These subsequent reports of our national study will address important implementation issues regarding, among other things, the extent to which school districts share revenue with charter schools as required by state law.

Much of the previous research on charter school funding is based on opinions from surveys. The actual relationship between charter school funding and school district funding is systematically studied in our report. The technical provisions relating to the financing of charter schools and the oversight of their financial activities are still not clearly understood even by some charter school operators and state officials. Understanding the technical relationship between charter school and school district finance is an essential preliminary step toward understanding how state and local policies affect the provision of services by charter schools and the effect that charter schools have on school districts.

Although the systems established to finance charter schools vary from state to state, they share many of the same components. At the heart of these is the base amount of funding for each student enrolled. In some cases, amounts are based on a state average per-pupil expenditure (e.g., Minnesota), in others a district average (e.g., Massachusetts); and in still others the amount is negotiated between charter schools and the authorizing school district (e.g., Colorado). Many states also provide charter schools with additional funding for special education and low-income or at-risk students on the same basis as other public schools. Charter schools are eligible for federal and state categorical program funding to help meet the needs of high-cost students (e.g., students eligible for services under Title I or special education laws) or to promote specific educational programs (e.g., technology literacy or Goals 2000). Finally, the amount and type of fiscal autonomy and financial reporting given to charter schools vary from state to state, as do procedures to monitor financial management and stability.

Our report identifies potential financial incentives in state charter school finance systems. Subsequent reports of the National Charter School Finance Study will examine the impact of these incentives. An assessment of the impact of financial incentives on the adequacy

and distribution of resources—as well as educational programs—constitutes an important component of any school finance study. Federal start-up grants, for example, encourage the development of charter schools by providing additional resources. Program requirements attached to federal funding also advance the goals of federal legislation by mandating procedures such as admission to charter schools only by lottery. One could argue that financial incentives would have more impact on market-oriented charter schools than on other public schools. Prospective charter schools are free to develop unique missions and specialized curricula in response to financial incentives. The growing influence of for-profit management companies magnifies the need to pay close attention to financial incentives because that is what market forces are all about. However, the importance of financial incentives should not be overstated. Parents, teachers and community groups create charter schools for specific educational purposes—not to maximize funding. Chartering authorities in many states also give preference to charter schools serving at-risk children, even when no financial incentive exists to serve high-cost children.

Chapter 2 of our report reviews previous research on charter school finance. Chapter 3 describes methodology, including the procedures used to create the hypothetical charter schools that provide the basis for funding comparisons in our report. The overview of charter school funding in Chapter 4 includes sections on base per-pupil funding and funding linked to student characteristics or geographic location. Other chapters address start-up funding, facilities funding and transportation funding. Finally, Chapter 9 briefly examines the comparability of charter school and school district funding.

Our report also includes a breakdown of the actual dollar amounts that states could provide to charter schools based on the types of students enrolled and on the financial characteristics of host school districts and other factors that influence charter school funding levels in most states. Appearing in the appendix, these state-by-state analyses constitute the backbone of our study. In order to provide context, and to address issues in state policy regarding flexibility and accountability, our report also examines a number of other special topics related to charter school finance on a state-by-state basis. Issues such as oversight, financial reporting, asset ownership and debt are pertinent to understanding the fiscal environment in which charter schools operate.

Companies are less likely than independent charter schools to enter the charter school business for altruistic reasons. Management fees are linked to revenue and usually to the surplus (the difference between revenues and expenditures) so, companies have an incentive to maximize revenues and reduce costs.

CHAPTER 2

Research on Charter School Finance

No rigorous analysis of state charter school funding systems currently exists. As one study notes, "the disparate formulas utilized state by state in financing public schools make studying the finances surrounding charter school initiatives extremely challenging" (Rofes, 1998, p. 4). Existing research can be classified into three broad categories: (1) actual data analysis; (2) reviews of laws and policies; and, (3) general research on charter schools that touches on finance questions as a collateral issue.

Together these studies reviewed in this chapter paint a confusing picture. Charter holders report having trouble with financial matters or underfunding compared to other public schools, but the studies that examine comparable data reveal a more complex picture. The literature highlights more questions about finance than it answers. In addition, charter school finance legislation is a moving target; by now, state and federal legislation already may have addressed some of the concerns unearthed by early charter school finance research.

Financial Data Analysis

The most comprehensive of the few existing statewide studies of charter school finance have been conducted in Michigan (Arsen, 1999; Prince, 1997, 1999a, 1999b; PSC/MAXIMUS, 1999; Horn and Miron, 1999). Other statewide research has been completed in Massachusetts (KPMG-Peat Marwick, 1998) and Colorado (Berk, Augenblick and Myers, 1998). These studies compared charter schools to public school districts. WestEd's (1998) evaluation of charter schools in Los Angeles focused primarily on comparing three independent charter schools to 10 dependent charter schools.

Prince (1997, 1999a) examined operating fund spending patterns in Michigan's charter schools and compared the patterns to public school districts using data from the state uniform financial reporting forms.[2] When a subset of local districts with similar enrollment

[2] Michigan officially refers to its charter schools as "public school academies." For consistency, the generic term "charter school" is used throughout this report.

and similar foundation allowances was used for purposes of comparison, charter schools spent more money per pupil than comparable districts.[3] Prince found that charter schools spent more on administration and less on special needs students. Charter schools with K-12 enrollment, in particular, spent more on basic education than regular school districts, which spent more of their money on special education and transportation. Prince noted that only 40 charter schools were studied and many of these were in their first year of operation, so the results were not definitive.

In a more recent paper on Michigan, Prince (1999b) found that while small elementary school districts spent $38 per pupil on business office expenses, charter schools averaged $435 to $628 per pupil. However, much of this difference is explained by the inclusion of facility leases in the business office category. In Michigan, there are a number of entities that can authorize charter schools. These entities collect an administrative fee of up to 3 percent of revenue, which is classified as a school administrative expense for charter schools.[4] School districts spent $300 per pupil more on transportation than charter schools. According to Prince, charter school class sizes were about the same as in other Michigan elementary schools. Over time, spending on operations and maintenance in charter schools increased. This finding, Prince noted, is counterintuitive. On the other hand, administration expenses in charter schools declined over time, as did spending on instruction. "Firm-managed"[5] schools do not have to provide contributions to the teacher retirement system, and Prince believes that this accounts for some of the lower spending on instruction. "Mom and pop" charter schools spent less on administration and business office expenses than firm-managed schools, an "efficiency" Prince found surprising.

Two comprehensive evaluations of charter schools commissioned by the Michigan Department of Education also contain financial information. The PSC/MAXIMUS (1999) evaluation examined 58 charter schools in the Detroit metropolitan area operating in 1997-98. A Western Michigan University (WMU) study by Horn and Miron (1999) covered a comparable number of charter schools in the rest of the state.

PSC/MAXIMUS found that the proportion of funding for both administration (25 percent of spending compared to 11 percent in surrounding school districts) and operations and maintenance were higher in charter schools compared to traditional public schools. Older charter schools carried larger end-of-year fund balances than new schools. Schools operated by "management chains" also had larger fund balances. Schools open for at least three years averaged a 13 percent fund balance, and the chain schools averaged 17 percent. Chain schools used only 35 percent of the budget for instruction compared to 51 percent in

[3] The foundation allowance is the funding guaranteed by the state that is comprised of a combination of local and state revenues.

[4] Some analysts argue that the administrative fees of state chartering authorities should not be accounted for as administration costs of charter schools. A similar accounting issue arises in some states over administrative fees assessed by school districts that authorize charter schools.

[5] Nonprofit charter school boards often contract with private management firms. Researchers use a wide variety of terms to describe these schools, e.g., firm-run schools, business-run schools, education management organizations (EMOs), and chain schools.

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other charter schools and 54 percent in surrounding public school districts.[6] Administration consumed 32 percent of the chain school budget compared to 11 percent in surrounding public schools. Michigan provides no facilities assistance, and 89 percent of charter schools said they leased their facilities. Charter schools averaged only $34 in federal aid per pupil compared to $661 in surrounding districts. While the authors attributed this gap to lack of administrative staff and experience, other data in the report show that charter schools provided almost no targeted federal programs for special education and at-risk students. Another factor contributing to the gap may be a reluctance to participate in the bureaucratic and oversight processes entailed in federal programs.

In addition to the lack of facilities funding, charter schools received a maximum of $5,962 per pupil in operating funds, which is less than most Detroit-area school districts spent. However, PSC/MAXIMUS identified several cost advantages enjoyed by charter schools, including the ability to control enrollment in order to optimize staffing and facilities usage, the lower costs inherent in operation of elementary charter schools; the money saved by not providing transportation; the use of inexperienced teachers (85 percent with no more than three years of experience) and almost no special education programs. The WMU study identified similar cost advantages.

Although the WMU study provided less information than the PSC/MAXIMUS on charter school finance, it focused on the importance of loans. Because the state's fiscal year starts on Oct. 1, almost all charter schools need loans to finance the first month of the school year. Management companies are in a stronger position to survive the annual cash crunch. WMU concluded that operating income from the state seemed to be sufficient, and some charter school directors reported that schools could be operated with a $1,000 per student profit. Most charter schools were low-cost elementary schools, and teacher salaries averaged less than starting salaries in surrounding school districts.

In a report reacting primarily to the WMU and PSC/MAXIMUS studies, Wolfram (1999) argued that Michigan charter schools have similar expenditure patterns to equally situated regular public schools. Further, Wolfram pointed out that Michigan charter schools served more minority and at-risk children compared to state averages.[7] Wolfram's calculations showed no statistical correlation between charter school status and such factors as per-pupil expenditures for basic instruction, current operations, or the total general fund. In effect, charter schools spend at the same level as school districts. According to Wolfram, other studies erred due to incorrect use of financial reporting data collected by the state and

[6] This conclusion may be compromised by problems with the way management companies report financial data to the state. Charter school facility costs and payments to private contractors for instructional support are misleadingly classified as business and administration expenditures (Wolfram, 1999).

[7] According to the National Charter School Study (RPP, 1999), 34 percent of Michigan charter school students qualified for federal free-lunch programs compared to the 29 percent state average. About 5 percent of charter school students qualified for special education services compared to about 11 percent statewide. Some argue that charter schools should be compared to surrounding school districts. Since Michigan charter schools tend to be located near urban areas, charter school populations probably reflect student characteristics in surrounding school districts.

reported in Bulletin 1014.[8] Wolfram's study reiterates Prince's (1999b) point that charter school facilities, leases and payments to private contractors for instructional support are misleadingly classified as business and administration expenditures. Wolfram suggests that it is possible for schools to report their payments to contractors using categories consistent with school district reporting, but that this is not happening. Wolfram also challenges the classification of the mandatory 3 percent payment to chartering authorities as an administrative expense for charter schools.

In Massachusetts, charter schools are financed through "tuition" or payments attached to students from their district of residence. The KPMG-Peat Marwick (1998) study, financed by the state legislature, reviewed charter school tuition payments, but in addressing the intricate issues of the Massachusetts system, this study has broader implications for charter school finance. KPMG-Peat Marwick found that the tuition calculation includes about two-thirds of school district capital expenditures. KPMG-Peat Marwick also found that charter schools served fewer high-cost special education students. Yet the tuition calculation system provided funds as if charter schools served the same high-cost special education population as the sending school districts. Nevertheless, the study argued that simplicity was an advantage in the current tuition calculation. The report also observed that charter schools were not required to submit financial data to the state in the same uniform accounting format as school districts, which complicated the analysis.

In a paper prepared for the Colorado Association of School Executives, Berk, Augenblick and Myers (1998) studied three charter schools and the districts that chartered them. The impact of a charter school on a school district depended on district enrollment, the number of private school students transferring to charter schools, whether the charter school used an existing facility, and the number of schools in the district from which the charter school drew pupils. The authors estimated that it could require as much as a 30 percent reduction in the revenue provided to a charter school for a district to fully recoup losses, with the amount depending primarily on school district size and charter school size. Another important finding: It costs more per pupil to run a small charter school than to run a school district. To improve efficiency, charter schools opt to purchase services from either school districts or private entities. The Colorado study recommended that school districts receive funds as if their charter schools were school districts in order to get funding in line with funding that small school districts in the state receive. With added funding, the charter schools would be in a better position to buy back services from the host school district.

WestEd's (1998) evaluation of 13 Los Angeles charter schools considered finance issues, especially for the three independent charter schools that operate an outside the district structure. The independent charter schools were better funded primarily because they qualified for revenues targeted at high concentrations of economically disadvantaged and special needs students. The study found that independent charter schools used their budget flexibility to implement changes quickly. One limitation of this study is that it compared independent charter schools to dependent charter schools, not to regular public schools.

[8] Information on Form B, the financial report school districts and charter schools file with the state, is available at http://www.state.mi.us/mde/forms/. Bulletin 1014, which summarizes information from Form B is posted at http://www.state.mi.us/mde/reports/B1014/index.html

Because the financial practices of regular public schools were not examined, some practices described as innovations in charter school finance may actually be common practices in some other public schools. For example, the food service programs in two independent charter schools were privately contracted at virtually no cost (about $19 per student per year at each school), and the contractor provided an array of benefits (e.g., low contractor food prices, a nutritionist, auditing for compliance with federal school lunch funding). Savings were used for capital improvement. However, food service programs in most school districts are financially self-supporting, provide the same services as a contractor and often yield "profits" to finance capital improvements.[9] Furthermore, school districts regularly contract with private companies for food service.

Analysis of Finance Policy

An Education Commission of the States policy brief (Bierlein and Fulton, 1996) illustrates the general thinking on the subject of charter school finance in early 1996 when only 240 charter schools were operating and 22 states had charter school laws. The brief drew a distinction between state and local funding and described charter schools as not having full access to local funds. Lack of facilities funding was described as the most significant cost issue facing charter schools. The brief asserted that charter schools are frequently ineligible for state and federal categorical funding. Without describing how special education funding flows to charter schools, the authors described the potential problem of high-cost special education students "breaking the budget." The brief identified funding-related paperwork as especially burdensome in small charter schools. School district financial issues such as school district fixed costs that are not reduced when students move to charter schools and the cost to the district of monitoring charter schools were also addressed.

The Center for Education Reform (CER) maintains one of the most widely used compilations of charter school laws. The center prefers finance systems that give charter schools the maximum freedom from regulation and access to funding, and it rates the laws accordingly. The center examines whether charter holders are allowed to earn profit, how transportation services are provided, and the extent to which charters receive facilities assistance. The section on teachers contains information on retirement, and the student section examines whether the law contains specific provisions regarding service to children at risk. While providing a framework for overview and cross-state comparison, the CER analysis is limited by its focus on laws rather than on regulations, practices, procedures and other details that give life to the laws.

The *California Charter School Finance Manual* (Premack, 1999) provides an insightful examination of California school finance and how charter schools fit into it. The manual is intended as an aid to charter applicants and holders. The discussion of issues involved in negotiating fiscal matters with sponsoring school districts has broad applicability to any charter schools that must negotiate with school districts. The information on conversion schools' financing, which involves budget allocation formulas, staffing rules and district level changes, is especially useful.

[9] Protheroe, (1997) found that the net cost of food service to school districts was $13 per pupil per year or 0.2 percent of expenditures.

In work for the Charter Friends National Network Hassel (1999) prepared a comprehensive study of charter school facilities financing. According to the study, most states do not provide financing for charter school facilities. This problem is compounded by the low supply of suitable facilities. Charter schools generally do not benefit from the low-cost financing and favorable tax status enjoyed by school districts. In addition to suggesting equitable capital funding, Hassel offers a number of examples and suggestions on how to gain access to low-cost financing.

Research with Collateral Information on Charter School Financing

Several studies of charter schools that do not primarily focus on finance nevertheless contain important observations about finance issues. A series of studies by the Hudson Institute concludes, "most charters do not receive their share of public education funds" (Finn, Manno and Bierlein, 1996, p. 6). Finance issues are described as often being "the greatest concern facing charter schools, particularly at the outset." In addition, the authors write that "the great majority of charter schools truly must make do with less money than conventional public schools, while being expected to produce superior results." They argue that state finance systems often do not provide funding early enough in the school year for charter schools, which lack the credit or cash reserves possessed by school districts. They also point out that school finance structures may not be flexible enough to deal with issues pertaining to certain idiosyncratic charter schools, e.g., how to determine "attendance" in a distance learning facility.

Similar to the findings of the Hudson Institute study, the Little Hoover Commission (1996) in California found that schools faced uncertainty regarding funding. "In many instances, the complexity of education funding drags charter schools back into the red tape and bureaucracy that the concept is designed to avoid." The report also found that charter schools experience significant cash flow problems.

Some research into the use of management contractors is beginning to emerge. These companies have become a major part of the charter school movement. A study released by the Charter School Friends National Network (Hassel and Lin, 1999), aimed at improving contractual relationships between nonprofit charter school boards and management contractors, finds evidence that some charter school boards are dissatisfied with some aspects of the contract and support received from their service providers. A review of 20 contracts with 8 private firms and 2 nonprofit providers revealed that no contractor charged a simple fixed fee. Some contracts simply allowed management companies to keep the surplus. Other contractors charged a percentage of revenues or expenditures, usually in the 7 percent to 12 percent range. A few contracts had incentive bonuses of 2.5 percent to 3.5 percent for improving student achievement or meeting other performance standards. The Charter School Friends study points out that under the surplus method, management companies earn money by cutting costs. Private grants and contributions may simply go to the company's bottom line.

A report by the Massachusetts inspector general (Cerasoli, 1999) examined the business operations of 24 charter schools opened in 1997-98. Some trustees (including 29 trustees

employed as teachers or administrators) had financial interests that required them to restrict their actions as trustees in order to comply with state conflict of interest laws. The report concluded that the lack of uniformity in financial statements reduced their usefulness as a monitoring tool. More than half of the charter schools lacked written procurement procedures, and only two required advertised competitive bids, a practice described as inconsistent with the intent of the charter school movement to promote competition. The Massachusetts report raised several issues regarding management contractors. Some contracts had unclear management fees, and other privately managed schools paid contractors more than called for in the contract. Four of 11 management contracts contained no performance provisions regarding student academic achievement. Five contracts restricted public use of educational curricula. The report found that loan agreements between charter schools and their management contractors could render the schools excessively dependent on their management contractors while reducing schools' contracting leverage. The inspector general noted that both charter schools and the state board of education were undertaking corrective actions to address many of the report's concerns.

A field study of the impact of charter schools on school districts by Eric Rofes (1998) used an interview methodology to examine perceptions of the financial impact of charter schools in 25 districts. Rofes found that 14 of the districts did not feel a noticeable financial loss as the result of charter schools. Eleven districts reported financial impacts, and five of these said the impact was substantial. The impact of displaced funds may be ameliorated by a rising tide of students; districts with enrollment growth appear to be less likely to feel they were affected. Rofes also found that small districts were more likely to feel affected than larger ones. Another important finding from the interviews was that many school leaders had insufficient understanding of the school finance system to determine the impact charter schools had on their budgets. 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.

In a study of impediments facing Illinois charter schools, Beckwith, Bradley and Price (1998) found that 72 percent of the applications denied by local school boards were at least partially based on financial grounds. This includes 9 of the 11 proposals appealed to the state board of education. Facilities were less of a problem, being a factor in only 40 percent of the denials, ranking behind education program and governance issues. Problems centered on budgets submitted with the application, not school district financial issues. The study also indicated that charter schools are dependent on private sector contributions. For charter schools operating in 1997-98, grants, fees, fundraising and donations accounted for 19 percent to 60 percent of operating budgets.

In a similar study of early implementation in Massachusetts, Millot and Lake (1997) found that next to facilities, finances were the biggest obstacle reported by charter schools. University- and business-run charter schools had resources to deal with the up-front costs of opening a charter school, but charter schools operated by community service organizations and grassroots groups had to seek outside sources. The authors attributed the failure of the legislature to provide start-up funding to several different views on

chartering: (1) some advocates intended to expose public education to the discipline of the marketplace; (2) other advocates envisioned a system made up of only the most capable institutions; (3) opponents wanted to diminish the chance of success; and (4) others simply failed to consider the cash requirements of start-up.

Part of another paper on Massachusetts charter schools, by Anthony, Scarpati and Bukowick (1996), described charter school financing as "eclectic" because it involved tuition from local sending districts, state start-up monies, federal Goals 2000 funding and private donations. The paper highlighted the financial impact school districts faced when losing students to charter schools or paying for students moving from private schools to charter schools. It describes the Massachusetts provision of temporary compensation for school districts after they lose students to charter schools.

An evaluation of the Wisconsin charter school program (Wisconsin Legislative Audit Bureau, 1998) found that charter schools were equitably funded when compared to host districts. Wisconsin has dependent charter schools chartered by local districts, although a newer law, affecting only Milwaukee, provides for independently chartered schools in that city. Complete budget and expenditure information was not available for most charter schools because school districts' budgeting and cost accounting systems typically do not reflect total costs incurred by individual schools. However, available information indicates general education charter schools spent an average of $4,458 per enrolled pupil during the 1997-98 school year, compared to $4,918 per pupil for all schools in their districts. Charter schools serving students at risk of failing or dropping out spent $5,966 per pupil, which reflects the higher cost associated with educating children who require greater attention and special services in order to be successful in school.

A study of voucher and charter schools' potential financial impact on the Milwaukee public schools (Moore, 1998) identified the complexities of the revenue shifts. The revenue outflow to charter schools is mitigated, in part, because charter school students are counted as enrollees in the regular public school system for state aid purposes. Thus, the per-pupil wealth of the district does not increase as charter school students leave, preventing a further loss of funds.

Special education has been a concern of a number of researchers (e.g., Finn et al. 1996), mainly echoing charter operators' fears that a high-cost student could undermine a small charter school's financial position. A recent study of the special education practices of Massachusetts charter schools employing for-profit management contractors has important finance implications (Zollers and Ramanathan, 1998).[10] The study found a number of practices designed to discourage enrollment of students with expensive individual education programs. Companies profit because Massachusetts allocates special education revenues as part of the base funding that follows each student to a charter school, rather than following special education students.

[10] This article generated a series of responses, replies and rejoinders. In particular, see Zigmond (1999) for a defense of the quality of special education service in one for-profit school and the response by Ramanathan and Zollers (2000).

A small part of the recent Arizona State University (Mulholland, 1999) evaluation of Arizona charter schools focused on funding and facilities. The need for facilities led charter schools to forge strong ties both with local governments and with community groups. In some areas, charter schools were able to make good use of public libraries, for example. Some "stakeholders" surveyed as part of the study complained about a 1996 Arizona law that allowed charter school operators to retain ownership of property purchased with public funds. Some also expressed fear that the exemption from state facilities standards, which was intended to offer flexibility, might instead lead to unsafe schools or to schools not accessible to disabled students.

The first major evaluation of the Texas charter school system (Texas Education Agency, 1998) also contained some information related to financing. The percentage of low-income students was almost twice the state average in charter schools than in traditional schools. Charter schools, however, enrolled special education students at one-third the rate of school districts and limited-English proficient students at one-half the rate. Texas does not require certified teachers for its charter schools, and more than half were not certified to teach. The report concludes that so far, charter schools spend a smaller proportion of expenditures on instruction and instructional-related services than school districts and more on administration.

Finally, the analysis of charter schools by a UCLA team headed by Amy Stuart Wells (1998) examined 17 schools in 10 California districts.[11] The researchers concluded that private resources were usually necessary for the operation of a charter school. The study also found that schools operating independent of their home district were most in need of outside support. One of the key fundraising techniques was to ask potential donors to serve on the schools' governing bodies (to which members are generally appointed, not elected). Private support of charter schools appeared to be uneven, with greater financing available to schools that serve predominantly middle class or white students. Parents' contributions, either financial ones or volunteering their time, also emerged as important in operating the schools. Some of the charter schools had "contracts" with parents that mandated involvement in the school, which raised questions concerning the accessibility of charter schools to all parents and children regardless of their wherewithal in either time or money. The UCLA charter school study found that school boards are more likely to hold charter schools accountable for their fiscal responsibilities than for their academic ones.

Charter Schools and Federal Funding

Federal involvement in charter schools has grown substantially in the last several years, which has raised a number of issues. Three General Accounting Office (GAO) reports pertain to charter school finance issues.

In *Charter Schools: Issues Affecting Access to Federal Funds* (U.S. GAO, 1997), the GAO noted that Title I funds for low-income children and special education funds are allocated to schools that meet established federal, state and local demographic criteria. Although charter schools treated as school districts avoid having to meet additional criteria used to

[11] For a critique of the UCLA study see Premack (1998). None of the financial issues raised in our review of the UCLA study are directly addressed in Premack's review.

distribute funds within school districts, these charter schools were no more likely to have received Title I and special education funding than were the charter schools that are treated as components of existing school districts.[12] Barriers included a lack of enrollment and student eligibility data to submit to states before funding allocation decisions are made, and the time and costs involved in applying for such funds given the amount of funds available. A similar GAO report *Charter Schools: Federal Funding Available but Barriers Exist* (U.S. GAO 1998a) found that most charter school operators believed that Title I and federal special education funds are fairly allocated, but that there are some barriers to obtaining funds. Recommendations included more state and district planning to help ensure that federal program resources are directed to eligible students enrolled in charter schools.

In a third report, released in 1998, *Charter Schools: Recent Experiences in Accessing Federal Funds* (U.S. GAO 1998b), the GAO found that slightly more than half of the schools surveyed received fiscal year 1996 start-up grants ranging from $7,000 to more than $84,000. The average grant was $36,000. About two-fifths of the charter schools the GAO surveyed received Title I funds, and slightly more than half of the schools received either direct federal special education funds or federally funded special education services.

[12] 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.

CHAPTER 3

Methodology

Like many other studies, our report analyzes and summarizes charter school finance provisions in state charter school laws and regulations. It also takes the next step by examining the procedures and "practices" developed by state finance officials that help determine the amount of funding and when that funding gets to the schools. Our report, however, does not systematically address the implementation practices of school districts. No two charter schools ever receive exactly the same funding. Consequently, this review breaks down the actual dollar amounts that states could give to charter schools based on the types of students enrolled and other features of the charter school funding formulas. This chapter describes the terminology employed as well as the protocol used to: (1) calculate state and local per-pupil allocations to charter schools and (2) allocate state and federal categorical funding to charter schools.

Terminology

This study uses the term "charter school" throughout, even though some states use different names for charter schools, e.g., in Michigan they are called public school academies. "School district" describes public school districts as both geographic areas and administrative units. Our report does not use the term LEA (local education agency) to describe school districts as administrative or governance units for several reasons. Many states treat charter schools as LEAs. It is also confusing to distinguish between school districts as geographic areas where charter schools are located and school districts as LEAs, where they have administrative authority over charter schools. School districts authorize and oversee charter schools in some states, but the same charter schools sometimes qualify for state categorical funding as if they were LEAs. In other states, school districts generally have no administrative connection to charter schools, but they may be the administrative unit for a specific service such as transportation or special education assessment.

This study frequently compares charter schools to "host school districts" which our study defines as the school district in which the charter school is physically located. The relationship between a host school district and charter school ranges from chartering

authority to simply the geographic area in which the charter school is physically located. Among the charter school states in this study, only state-authorized schools in Arizona are totally independent of any school district characteristic or service. For example, the very independent charter schools in Michigan still receive funding in accordance with the school district in which the charter school facility is physically located. In Massachusetts, funding is based on characteristics of those school districts "sending" children to charter schools. Although not always the case, the school district in which the charter school is located usually sends the most students.

Hypothetical Charter Schools

While occasionally examining actual charter school funding data, most attention focuses on the allocation of revenues to three *hypothetical* charter schools in each state.[13] The hypothetical constructs help facilitate comparisons to traditional public schools within a state, as well as standardizing comparisons across states. The state-by-state analysis appears in the appendix, and it constitutes the basis for much of the analysis in Chapter 4.

- **Basic Elementary Charter School**—an elementary school with no at-risk students located in a school district with state average spending, wealth and taxing characteristics. When charter school funding is directly linked to characteristics of the local public school district, spending differences generated by disparities in property wealth and tax effort are also reflected in charter school revenues. In such cases, calculations for charter schools located in a low-spending school district and a high-spending school district are incorporated into the analysis and the calculations are presented in a footnote or the state narratives.

- **Middle Cost K-12 Charter School**—a K-12 charter school with student demographics (special education, free-lunch eligibility, and bilingual students) resembling the state average for public schools. This charter school is also located in a school district with state average spending, wealth and taxing characteristics. This model should characterize the average public school, but probably not the actual average charter school. In most states, the demographic and location characteristics of the average charter school rarely match the average public school. Nevertheless, funding for the hypothetical middle cost charter school can be fairly compared to state average funding for traditional public schools after making a number of other assumptions carefully detailed in other parts of this chapter.

- **At-Risk Upper Grade Charter School**—an upper grade school with a high concentration of at-risk students. Generally, the state average concentration of special education, low-income and bilingual students is doubled. Unlike the other two hypothetical models, which are located in school districts with state average wealth and taxing characteristics, the at-risk hypothetical is assumed to be located in a central city. Generally, an at-risk school in a central city represents the high range of charter school funding. In some states, however, big cities get less funding than other school districts, and the

[13] In subsequent reports, the National Charter School Finance Study will collect and analyze revenue data in all states with charter schools operating in 1997-98. Detailed expenditure data will be collected in Arizona, Colorado, Florida, Massachusetts, Michigan and Texas.

hypothetical at-risk charter school can end up receiving less funding than the middle cost charter school.

These three constructs provide a range of cost structures and student types generally sufficient to illustrate how charter school funding works, even though any specific charter school would seldom fit exactly into one of these categories.

The charter school finance laws, regulations, provisions and administrative practices in each state are applied to each of the three hypothetical charter schools. Generally, these calculations are intended to be illustrative and not based on actual data from specific charter schools or school districts. However, there may be instances where the practices of specific charter schools or school districts have been used as models in the calculations, particularly when dealing with problems presented by the provision of in-kind services resulting from local negotiations between school districts and charter schools.

Components of Revenue

Revenues from several possible sources are studied in each state.

Base funding. Coming through the state or local school districts, this revenue source is commonly referred to as per-pupil funding. In some states, the base funding is a minimum amount, and the other revenue sources identified below are added to it. In other states, the base funding received by charter schools incorporates some or all of the following revenues obtained individually by school districts. In either case, the individual sources of revenue are identified as well as possible.

Revenues derived from student weightings. Usually based on student characteristics such as special education disabilities or free-lunch eligibility, additional weight allows some students to generate more state aid. For example, a student qualifying for free lunch may generate 10 percent more base funding than an average student. The revenues generated by student weightings are similar to categorical program revenues but generally do not require that the funding flow to specific programs for the individual students generating the revenue.

Student counts. As in public school districts, the details of enrollment and attendance calculations play a role in determining aggregate funding. These issues include time of year when membership is calculated and whether average daily attendance is a funding factor.

Effect of geographic location and school or district size. State aid formulas for traditional public schools sometimes contain adjustments for cost-of-living differentials, the high cost of rural districts, the high cost of urban districts, the high cost of small districts and numerous other factors. Usually, a charter school inherits the extra funding from the school district in which it is located through its per-pupil funding allocation. Sometimes a characteristic of the charter school itself, e.g., small size, generates the extra funding. In Arizona, for example, small charter schools located in urban areas benefit from the same extra funding that small rural school districts receive.

Effect of school district financial characteristics. In many states, the local funding of traditional public schools partly depends on local property tax wealth or the willingness of school district residents to tax themselves at higher rates. In some states, the revenues generated by this ability or willingness to support traditional public education are passed on to charter schools. In other states, however, charter schools are funded based on a state average (e.g., Connecticut) or are denied access to all of the revenues generated by high district wealth (e.g., Michigan).

Role of negotiations and the in-kind provision of services by school districts. In states where charter schools are more dependent on school districts and where funding is a result of negotiations with the school district, it is particularly difficult to estimate the amount of funding that charter schools can expect to receive. In these instances two approaches were used. Sometimes the actual practices of selected charter schools in particular school districts (e.g., an at-risk urban charter high school or a basic elementary charter school in an average school district) were used as the basis for calculations. In a few states, where charter schools are very dependent on school districts (e.g., Kansas, Georgia or Wisconsin), it is not possible to untangle charter school costs or revenues from school district costs and revenues. In these instances, the revenues generated for the district by students enrolled in the hypothetical charter schools are described.

Special education funding. Calculations include such easily identifiable revenue as weightings in the general state aid formula applying to charter schools, state categorical aid and federal funds. In addition, our analysis usually incorporates: (1) special education costs in school districts' general operating funds passed on to charter schools and (2) mandated or negotiated in-kind provision of special education services by school districts for charter schools. State and federal funding for special education seldom covers all—or even most—special education costs. Consequently, special education spending from local operating revenue amounts to special education funding for charter schools. In a few states, due to the absence of special education cost data, highly simplified estimates of the cost of providing special education are employed.

Transportation funding. These issues resemble the special education issues. In concept, all transportation revenues available to charter schools are identified, whether charter schools provide transportation on their own or through a school district. Transportation revenue includes such easily identifiable revenue as weightings in the general state aid formula applying to charter schools, and state categorical aid. In addition, this analysis usually incorporates: (1) transportation costs in school district general operating funds passed on to charter schools in the basic per-pupil funding and (2) mandated or negotiated school district provision of transportation for charter schools. In some states, it is necessary to place a value of in-kind transportation services. In the absence of better information, the state average cost per pupil enrolled (not transported) is used as a rough estimate of the value.

Other state categorical funding. Calculations are generally based on the state average for major programs for which charter schools are likely to qualify other then special education

and transportation. Some charter schools may be more aggressive in providing programs qualifying for state categorical funding, and there is significant evidence that charter schools for at-risk children have been successful in obtaining competitively awarded funding. Other charter schools may have difficulty working through school districts for their share of categorical funds, or may find it not worth the effort to seek money from small categorical programs.

Federal Funding

In addition to federal start-up funding considered separately in Chapter 5, charter schools are eligible for most federal funding including programs for compensatory education, education reform, special education and bilingual education. The calculations in our report assume that charter schools get their fair share of federal funds either from a school district or by qualifying on their own as if they were their own school district. The GAO reports discussed at the end of Chapter 2 indicate that, for the most part, charter schools are receiving federal funds for which they are eligible but that some barriers still remain. One problem has been that in many instances, charter schools are unable to qualify for Title I and special education funding during their first year of operation. Legislation enacted in 1998 and regulations issued by the U.S. Department of Education the following year are expected to rectify this problem.

The federal aid calculations for the three hypothetical charter schools are described in Table 1. The per-pupil amounts apply to total enrollment, not just the students generating the aid. Title I qualifying students, for example, can generate over $500 each, and special education students also each get several hundred dollars. It is assumed that Title I includes only the appropriation designated for pass-through to school districts. Special education aid corresponds to 75 percent of the basic state grant (the other 25 percent remains under the control of state plans). Infant and toddler special education, preschool special education, Medicaid and vocational rehabilitation funding are not included because few charter schools are likely to enroll students served by these federal programs. "Other" federal funding includes only the following programs: comprehensive school reform, class size reduction, education improvement, Eisenhower professional development, Goals 2000 and the technology literacy challenge fund. Funding will vary based on a number of factors including student population characteristics.

The majority of the federal aid follows pupils with specific characteristics and requires schools to offer specific programs or provide qualifying services. Consequently, the three hypothetical charter schools, constructed to illustrate how state charter school funding works generate different federal funding.

- All schools get the same amount of "other" aid.
- Basic elementary charter schools only get "other" federal aid.
- Middle cost charter schools are assumed to get the average federal aid for Title I, bilingual, special education.
- At-risk upper grade charter schools are assumed to get double the average aid for Title I, bilingual and special education.

Charter schools for at-risk students sometimes receive federal funding through competitive federal grants, which is not reflected in the tables.

TABLE 1

Average 1998-99 Federal Aid Per Pupil (Programs Applicable to Charter Schools)

	Title I Grants to School Districts	Special Education State Grant (75%)	Bilingual/ Immigrant	Other Federal	Total Federal
Alaska	$125	$51	$9	$91	$276
Arizona	127	36	11	49	224
California	134	38	14	52	239
Colorado	98	40	7	48	193
Connecticut	123	59	4	58	244
Delaware	151	53	2	100	307
District of Columbia	268	33	21	134	456
Florida	137	54	7	58	256
Georgia	135	39	1	52	228
Hawaii	96	32	6	57	192
Illinois	161	52	6	64	283
Kansas	113	46	3	54	216
Louisiana	238	45	3	74	360
Massachusetts	147	65	5	64	280
Michigan	195	46	1	68	309
Minnesota	102	47	2	53	204
New Jersey	123	63	4	60	250
New Mexico	172	54	20	64	310
North Carolina	106	47	0	51	204
Pennsylvania	175	46	1	65	288
Rhode Island	152	63	10	84	308
South Carolina	139	53	0	59	251
Texas	155	45	6	57	263
Wisconsin	147	51	1	63	263

Source: Federal Funds Information Service

Revenues and Expenditures Excluded from State Profiles

The following items are generally excluded from the state profiles in the appendix for both charter schools and school districts:

Food service. In school districts, food service generally accounts for approximately 4 percent of total spending, but food service programs are generally self-funded by state and

federal assistance combined with meal charges. The programs are self-sufficient even without free- and reduced-price lunch and breakfast programs (which essentially provide assistance for meal charges). Food service programs are accounted for by a restricted, segregated, revolving enterprise or proprietary fund. The funds are easy to identify and separate from educational expenditures. This study found no state that automatically passed along to any charter schools food service funding or funding based on food service costs. Charter schools charge students for meals just as school districts do, but like other state and federal categorical programs, the administrative burden of state and federal categorical funding is a problem for small charter schools.

Many charter schools contract with school districts or private providers able to provide self-funding food service programs. Food service could be a focal point of cooperation between charter schools and school districts. Chicago, for example, recommends that its charter schools choose school district food service, which is provided at no charge. Many charter schools provide no food service program whatsoever, and many other charter schools pay for food service programs from general operating revenue. Other work of the National Charter School Finance Study will explore the frequency and cost of this practice.

Federal and state vocational education funding. Charter high schools providing vocational education are eligible for significant amounts of state and federal vocational education assistance. Because a specialized charter is generally required, this funding source is not fully explored in this study.

Federal start-up funding. The hypothetical charter schools are assumed to be fully operational schools that are not dependent on state or federal start-up funding. Our report addresses federal start-up funds in Chapter 5. Sometimes, the individual state narratives address start-up funding, although only a few states now provide such funding. The individual state reports also address issues related to start-up such as revolving loan funds for cash flow assistance and the timing of state and local payments to charter schools.

CHAPTER 4

Overview of Charter School Funding

The casual observer probably assumes that providing charter schools with state and local funding should be relatively simple. One determines the funding children receive in traditional public schools and transfers this amount on a per-pupil basis to charter schools. However, wide variations across states exist in how students are counted and how their educational needs are determined. Revenue for school districts is also distributed differently in every state. These differences have a major impact on the amount of funding charter schools receive compared both to school districts and to other charter schools. In addition to a description of the basic funding structure, this chapter examines three factors that determine charter school revenue variations within and across states:

- **Pupil Characteristics.** As a result of disability, poverty, limited-English proficiency or other factors, some children face greater educational challenges. School finance systems generally take this into account and assign additional funds to students with greater need. More resources may be allocated to children in specific grade levels— such as the early grades or at the high school level. Another important difference across states is whether funding is based on student enrollment or attendance. One common method of making adjustments for pupil characteristics uses a weighting system correlated with the cost of educating a particular kind of student. If a basic student has a weight of 1.0 and a special education student has a weight of 2.4, the special education student would receive 2.4 times the funding of the basic student. In some states, students generate flat grants, where the amount of the grant for each need or disability is the same across all districts and charter schools.

- **Geography.** Most states provide funding for charter schools based on the revenue generated in either the school district the charter school is located in or the school district a charter school student is coming from (sometimes called the sending district or the district of residence). Charter schools inherit some or all of the funding differences among school districts within a state. There are two general sources of interdistrict variation based on geography. The first is based on differences in local wealth or tax effort. The second is

based on efforts by states to provide more resources to school districts that face financial challenges such as urban density, rural sparsity, size, or cost of living.

- **Categorical Funding and Mandated and In-Kind Services.** States supply some funding to school districts with the expectation that it will be used for specific purposes. In addition to funds based on student characteristics such as special education and low-income students, such categorical programs typically include transportation, textbooks, libraries, professional development, technology programs and a variety of competitive grants. States provide this categorical funding for charter schools in various ways. Many states treat charter schools as if they were school districts, while a few states automatically include some categorical funding in the base per-pupil allocation. State law or the charter agreement may also require school districts to provide specific services (e.g., transportation) to charter schools. State mandates for charter schools range from requiring charter schools to serve a particular type of student (e.g., at-risk students) to requiring participation in public retirement systems. In states where school districts negotiate funding with charter schools, the provision of school district services varies charter by charter.

After outlining the basics of charter school financing, the remainder of this overview describes each of these issues in detail, starting with funding based on student characteristics.

Charter School Funding Structure

One of the basic precepts of charter school finance is that resources should follow children from school districts to charter schools. But understanding how students generate funds, how resources are expended on students, how resources are defined and even how students are counted is essential in order to evaluate how money follows children to charter schools. If states fund charter schools in more than one way, it is important to know some of the details of each system. Should we care whether school districts or the state pays for charter schools? Our study suggests that this question is not very important despite all of the attention paid to it. Funding flows from school districts to charter schools in different ways, but the effect on district and charter school finances varies little across the different methods. Funding issues surrounding the movement of private school students into publicly funded charter schools raise similar issues that are equally misunderstood.

Basis of Per-Pupil Funding

A majority of states provide funding to charter schools either by calculating revenue according to the same formula as school districts, or by calculating a school district per-pupil expenditure, which is then shifted to the charter school. Under both the revenue- and expenditure-based approaches, charter schools inherit funding generated by the wealth, tax effort and geographic characteristics of the school districts in which the charter school is located or in which its students reside. Under the revenue-based funding approach, however, charter schools get some funding based on the grade level, special needs or low-income characteristics of students actually enrolled in the school. Under the expenditure approach, charter schools receive funding based primarily on the student characteristics of the school district, usually with the expectation that each charter school will enroll a

student population similar to the district's. If the charter school population is dissimilar, charter schools receive either generous or insufficient funding.

TABLE 2

Basis of Per-pupil Funding

Revenue of District	Spending of District	State Average	District Budget Formula
Alaska,[1] Arizona,[2] California, Colorado,[1] Florida, Michigan, New Jersey,[5] New Mexico,[6] North Carolina, Texas	Delaware, District of Columbia, Illinois,[3] Louisiana, Massachusetts, Milwaukee, Pennsylvania, Rhode Island,[5] South Carolina	Connecticut, Minnesota	Connecticut,[4] Georgia, Hawaii, Kansas, Massachusetts,[4] Wisconsin

[1] In Alaska, charter schools negotiate with school districts over indirect costs, which can range from 0 to 22 percent. Charter schools in Colorado are guaranteed 80 percent of school districts' per-pupil operating revenue, but the guarantee increases to 95 percent in 2000-2001. The range of funding varies considerably, with more than a third of charter schools receiving more than 100 percent funding.

[2] District-authorized schools; state-authorized schools treated as independent school districts.

[3] In Illinois, negotiated funding ranges between 75 percent and 125 percent of per-capita tuition.

[4] Horace Mann charter schools in Massachusetts and district-sponsored charter schools in Connecticut.

[5] New Mexico charter schools are guaranteed state revenue. Local revenue is subject to district allocation.

[6] Charter schools receive 95 percent of spending in Rhode Island and 90 percent of revenue in New Jersey.

Expenditure-based states usually refine the calculation of per-pupil expenditure through regulatory and administrative procedures to promote funding fairness. Pennsylvania subtracts special education expenditures and adds them back based on the actual enrollment of special needs students in charter schools. Other expenditure items usually excluded from base funding calculations include transportation, community service, adult education, most programs with other school districts and private schools, school lunch and federal programs.

In a number of states, school districts have some control over the amount of funding that charter schools receive, or the funding is subject to negotiations between school districts and charter schools. School district discretion could lead to the underfunding of charter schools—a persistent complaint of charter school operators. However, such funding arrangements also give school districts flexibility in providing funding for the specific needs of charter schools including higher costs associated with particular programs or student populations. In states where school districts negotiate base funding with charter schools—most notably Alaska, Colorado and Illinois—the provision of school district services varies charter by charter, making it difficult to use basic revenue totals to compare charter schools. For example, a charter school that received $4,000 per pupil from a school district may be no better funded than one that received $3,000 from a school district, if in the latter case the district was responsible for providing transportation, professional development and special education.

Only two states base funding on state averages. Minnesota uses a revenue-based model, where charter schools build funding driven by a student-weighting system around the state average foundation level. Connecticut sets base funding at an even $6,500 (by coincidence, approximately equal to the state average general fund expenditure per pupil) including local option taxes.

Several states leave charter school funding decisions to the school districts that charter them. Sometimes, state law guarantees charter schools the same funding they would receive as regular district schools through the district's budget allocation formula. Since many district-authorized charter schools serve at-risk children or offer specialized programs, negotiations between school districts and charter schools are often a big part of the funding process.

Dual Funding Systems

Of the 23 states examined in this study, seven fund charter schools in more than one way.

- **Connecticut.** The formula for state-authorized charter schools provides about $6,500 per pupil. District-authorized charter schools are funded uniquely according to arrangements specified in the charter.

- **Massachusetts.** Commonwealth schools receive a preset "tuition" based on average school district spending that follows pupils from their district of residence. Chartered by school districts, Horace Mann schools receive funding on the same basis as any other school in the district or as otherwise specified in the charter. Horace Mann charter schools may appeal school district funding decisions to the state board of education.

- **Wisconsin.** Milwaukee is covered under a separate state law that allows universities, technical colleges and the city of Milwaukee to grant charters. Funding in Milwaukee is based on per-pupil "average shared cost," which is determined by taking the total operating cost, subtracting state and federal restricted program funding and adding district debt retirement costs. In the rest of Wisconsin, school districts grant charters and fund charter schools on the same basis as the funding of any other school, or as otherwise specified in the charter.

- **Arizona, Louisiana, Michigan and Texas** also provide for district-authorized charter schools funded under arrangements agreed to in the charter. In Arizona, school districts authorize autonomous charter schools located outside of the district boundaries similar to the autonomous charter schools authorized by the state.

To simplify the exposition of findings, this study ignores district-authorized charter schools in Michigan and Texas where the number of such schools remains small. Horace Mann charter schools and district-authorized charter schools in Connecticut and Louisiana are treated separately from state-authorized charter schools.

Path of Funding

Whether a charter school receives its funding from school districts or from the state has been the focus of much of the research on charter school finance. The second report of the National Charter School Study (RPP, 1998), for example, contains only one table (Exhibit 2-10) on charter school finance. This table differentiates funding "directly from the state treasury" from funding that is first directed to school districts and then to charter schools. The table only describes which government(s) sends the check to charter schools. For example, Massachusetts is described as a state-funded system. However, school districts in Massachusetts 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. The school district payment flows to charter schools through the state deduction of the full tuition—not just the average state aid per pupil—from its state aid payment to the school district.

The Massachusetts example illustrates that whether funds flow directly from school districts or indirectly through a system of state aid additions and subtractions has no effect on charter school revenue or school district loss of revenue. The path of funding is an important issue primarily as a result of misunderstandings that in turn lead to misleading conclusions.

The most common misunderstanding about the flow of funds is that when the state pays charter schools directly the funding comes from "new money," not from revenue following students as they transfer from school districts to charter schools. A related misunderstanding is that school districts lose only the average state aid per pupil when the state pays charter schools directly, and not any local property tax revenue. The district is mistakenly viewed as better off in a "state-funded" system because it loses no local revenue. This misconception implies that direct payments from school districts to charter schools are composed of both general state aid and local property tax revenue. In most states, however, funding moves with students in the same amount from school district to charter school whether or not the state directly pays charter schools.[14]

Another common mistake is the belief that school 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 misconception is common in states where charter school students are included in the school district pupil count such as Massachusetts or in states like California, Colorado and Florida where school districts authorize charter schools. In fact, new public school students generate new state aid for school districts, equivalent to the entire foundation level, which is then paid to charter schools, leaving host school districts financially unaffected. Presuming a fixed amount of K-12 education aid for all school districts in a state, all districts lose state aid on a per-pupil basis as a result of students moving from private schools to either school districts or charter schools.[15]

[14] This generalization does not apply to the District of Columbia and some school districts in Connecticut. In 1998-99, a separate appropriation from Congress supported a majority of District of Columbia charter school funding. A system of state aid minimums protects most Connecticut schools from losing state aid for any reason.

[15] The only exceptions to this generalization among the states examined in this report are the District of Columbia and Hawaii, where there is only one school district in the state, and North Carolina and Delaware,

For states with foundation funding (all except Delaware, the District of Columbia, Hawaii and North Carolina), charter schools' base per-pupil funding flows from school districts to charter schools in one of two different ways:

Method 1: Charter school students are counted in the enrollment of the school district for state aid purposes, and

- The district pays the full amount of charter school base per-pupil funding to charter schools, or

- The state subtracts the full amount of charter school base per-pupil funding from state aid payments to the school district, and then pays charter schools, or

- The state subtracts the average state aid per pupil from state aid payments to the school district, and sends the subtracted amount to charter schools. School districts pay charter schools the average local revenue per pupil. The two payments together equal the full amount of per-pupil funding.

Method 2: Charter school students are no longer counted in the enrollment of school districts. State aid to school districts is reduced, generally by the full amount of the foundation allowance.[16] The state then provides the full amount of charter school base per-pupil funding to charter schools, usually on the same basis as it guarantees a foundation level of spending for school districts.

Under either method, transition aid for school districts (e.g., Massachusetts) or state aid minimums or guarantees (e.g., Connecticut) may temporarily stem the outflow of funds from school districts. The impact of the two methods on school districts and charter schools ultimately turns out to be quite similar. A closer look at how funding works for students transferring from school districts to charter schools under Method 1 and students transferring from private schools to charter schools under Method 2 will illustrate this point.

In California, Colorado, Florida, Massachusetts, and several other states, charter school students are still counted as pupils of their school districts for purposes of calculating state aid (Method 1), and then all charter school base per-pupil funding moves with the students to charter schools. In California, Colorado, Florida and a few other states, the school district directly pays charter schools. In New Jersey and Rhode Island, charter schools receive separate aid payments from the state (representing average state aid per pupil) and

states without foundation funding formulas. In North Carolina, school districts pay charter schools the average local revenue while states pay the average state aid for the school district in which the charter school is located.

[16] Under Method 2, school districts surrender only the foundation allowance. Local revenues in excess of those included in the foundation allowance, such as local option taxes and most debt retirement levies, remain with the school district. Very wealthy districts that receive no state aid do not lose any revenue to charter schools.

school districts (representing average local revenue per pupil). In all of these states, private school and home school children choosing to attend charter schools are first counted as school district students. New state aid pays 100 percent of the foundation allowance for these new students. This new revenue helps pay for funding transfers to charter schools.[17]

In states like Arizona, Michigan, Minnesota and Texas, students moving to charter schools are no longer counted in school districts for state aid purposes (Method 2). As a result, the district loses state aid equal to the foundation level, which is approximately the full amount of state and local per-pupil funding

An understanding of foundation funding formulas is the key to comprehending both why states recapture from school districts all or most of the funds paid to charter schools under Method 2, and why charter school students coming from private schools do not impose significant new costs on school districts in states employing Method 1. Under foundation funding programs, the state guarantees a foundation amount for each student. The amount is composed of local tax revenue and state aid, with the relative proportions of each varying according to the per-pupil tax base. Local property tax revenue is first determined by applying a required tax rate to the tax base. Student enrollment is not a factor in local revenue calculation. Local revenue does not vary with enrollment. The state then provides enough aid to ensure that each student generates funding equal to the foundation level or allowance. Because the local tax contribution does not depend on enrollment, new students are always 100 percent state funded, and enrollment decreases always result in 100 percent state savings.[18]

An equivalent, alternative explanation may help some readers. The *addition* of a child to the district membership roll means that the district has less wealth per student. Because state equalization formulas give more funding to school districts with less wealth per pupil (in order to bring them up to the foundation amount), there will be a slight increase in state aid for all students in the district. To the extent that the state has a fixed amount of foundation funding for all students and schools districts, however, additional students could lead to a lowering of the state foundation level for all students in the state. In effect, all districts in the state are absorbing the added expense through reduced state aid.[19]

Under Method 2, private school and home school students choosing to enroll in charter schools are funded 100 percent by the state because they never generated state aid in a school district. Assuming a fixed amount of state funding, however, the statewide foundation level must be reduced, and all students and school districts surrender state aid.

[17] State aid is sometimes based on enrollment from the previous year as in Illinois and Massachusetts. Thus, for one year, there would be no new state 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. In Illinois, the school district absorbs the one-year loss of revenue.

[18] Some very wealthy school districts may receive no state foundation aid, so changes in enrollment do not generate revenue gains or losses. Other conclusions reached in this section may not apply to wealthy school districts receiving no state foundation aid.

[19] Florida adjusts its foundation level four times a year based on changes in total state enrollment. Rapid enrollment gains in Miami during the school year, for example, are financed by reducing the foundation level and state aid for all students in the state.

Similarly, when a student *leaves* a district for a charter school in Minnesota or another state using Method 2, that child no longer counts in the school district's enrollment. Because student enrollment does not affect total local revenue, the departure of a child means that the school district has more wealth per remaining student. Since state equalization formulas give less funding to school districts with greater wealth per pupil, a child's exit to a charter school causes a slight reduction in state aid for all remaining students. In the end, an amount equal to the foundation level or amount leaves with that student.

Funding Based on Student Characteristics

Taxpayers, educators and legislators all care deeply about disadvantaged and special needs students. These students cost more to educate. High school students also generally cost more. In an efficient charter school funding system, the resources needed for high-cost students should flow with them to charter schools. Simple fairness prescribes that charter schools with high-cost students should get better funding than charter schools with low-cost students. Simple fairness also dictates that funding for high-cost students in school districts should not be diverted from them to charter schools through an ill-conceived funding strategy. Charter schools and school districts are unlikely to compete on a level playing field unless funding directly or indirectly matches the special needs of individual students.

Student Counts

Even before looking at how the characteristics of students generate funding, one must first consider how students are counted. The most common way to count the number of students for funding purposes is either the average daily membership (ADM) over time or the enrollment or head count on a particular day. As of 1994, 34 states used membership in one form or another (Gold, et al.1995). The second most common practice for counting students is average daily attendance (ADA). As of 1994, seven states used this method. Another seven states based their school funding on staff counts rather than on pupil counts.[20] The techniques used by states in counting charter school students, shown in the table below, match the methods used for funding school districts. Only two states use daily attendance figures rather than enrollment.

[20] Delaware is one of the these states, but because the state formula uses pupil enrollment to determine staff counts, it is included in Table 3 as an ADM/enrollment state.

TABLE 3

Basis of Student Count for Charter School Funding

Enrollment/ADM	Attendance/ADA
Alaska, Arizona, Connecticut, Colorado, Delaware, District of Columbia, Florida, Georgia, Hawaii, Illinois,[1] Kansas, Louisiana, Massachusetts, Michigan, Milwaukee, Minnesota, New Jersey, New Mexico, North Carolina, Pennsylvania, Rhode Island, South Carolina, Wisconsin	California, Texas

[1] School district funding in Illinois is based on ADA.

ADA funding raises important equity issues because poor and at-risk students generally have higher rates of absenteeism than other students. Charter schools with disadvantaged children are likely to generate fewer dollars than average schools. In California and Texas, the ADA equity problem is offset to some degree by extra funding for at-risk students. In Texas, for example, compensatory education students generate 20 percent extra funding compared to regular students. Assume in a particular school that compensatory students attend school 80 percent of the time and that regular students have a 95 percent attendance average. This would mean that the funding per compensatory pupil (1.2 x .80 or 96 percent) is just one percentage point greater than the funding generated for regular pupils (95 percent). While the at-risk funding helps negate the ADA problem, it leaves no money for the extra educational needs of at-risk students. The penalty imposed on at-risk charter schools by basing funding on attendance is not a problem unique to charter schools. All school districts serving disadvantaged children in these states face the same problem. Illinois funds school districts based on ADA but funds charter schools based on membership, thus mitigating the negative effects of ADA funding on charter schools for at-risk children.[21]

Grade Level Funding Adjustments

A number of states use weights in their funding formula to reflect the higher costs of education at some grade levels. A higher weight for primary students could reflect an emphasis on early education and class size reduction. More commonly, states give high school students more weight because they require a greater range of specialized courses and facilities including science labs.

[21] In effect, charter schools receive funding based only on the overall attendance rate of the school district. In Texas and California, charter school funding also varies with the charter schools' own attendance figures.

TABLE 4

Grade Level Funding Adjustments for Charter Schools

Subject to Negotiation	Varies By Grade Level	No Grade Level Adjustment
Colorado,[1] Georgia, Hawaii,[1] Illinois, Kansas,[1] Wisconsin[1]	Arizona, California,[2] Delaware, District of Columbia, Florida, Minnesota, New Jersey, New Mexico, South Carolina	Alaska, Connecticut, Louisiana, Pennsylvania, Massachusetts, Michigan, Milwaukee, North Carolina, Rhode Island, Texas

[1] Funding formula for school districts does not use grade level weights.

[2] The state class size reduction program, which provides extra funding for grades K-2.

Grade level weightings for school districts do not necessarily mean that charter schools receive commensurate funding on a per-pupil basis. For example, Massachusetts supplies school districts with more funds for high school students, but charter school students generate only the school district average funding regardless of grades actually served. In effect, charter high school students generate less funding than students in traditional high schools. Conversely, students in charter elementary schools generate more funding than do students in traditional elementary schools. In fact, the 10 states that do not use grade level weights probably overfund charter elementary schools and underfund charter high schools. Some states, such as California, Illinois and Massachusetts, have separate elementary and secondary school districts as well as K-12 districts. This arrangement obviates the need for grade level adjustments in elementary and high school districts.

A charter school funding system based on negotiation also offers an opportunity for appropriate grade level adjustments. In Illinois, where charter schools receive 75 percent to 125 percent of school district spending, charter high schools in K-12 districts could be funded above the 100 percent level, while elementary schools might be funded at less than 100 percent. This practice does not occur in Chicago, however, where most charter schools are located. Similar negotiated arrangements could be reached in Colorado.

Special Education

One of the most sensitive topics in school finance is special education funding. Systemic reforms of special education finance have been made or considered in almost every state in the past decade (Parrish and Wolman, 1998). Underlying this turmoil is the need for school districts to pay for a significant share of special education costs from general operating funds. In effect, districts could be viewed as diverting base funding from general education students in order to meet their underfunded special education mandates. Charter school special education funding needs to be analyzed in this framework.

State special education funding systems for charter schools vary along a continuum in the extent to which funding matches the specific educational needs of special education students actually enrolled in charter schools. At one end of the continuum, states match funding to the specific disabilities of the children in charter schools through:

- Actual costs;
- Pupil weights based on student disability;
- Categorical funding based on student disability.

Minnesota bases funding on the actual cost of services provided and on the concentration of special education students in a school. Special education students in Hawaii, Kansas and Wisconsin charter schools get services and funding on the same basis as other district schools. In these states, funding is also based on actual costs, but targeted state funding pays for only a portion of actual special education costs. The rest of the funding comes from general operating revenues consisting of local revenues and general state aid.

Most of the other states at this end of the continuum use funding systems driven by student weights seeking to match funding with particular categories of special needs including Arizona, Delaware, Florida, South Carolina, Washington, D.C., and Texas. California and New Jersey attach specific dollar amounts to different categories of special education students. The weights or targeted categorical aids are based on a projection of the cost of the particular child, as opposed to the actual expense. Charter schools and school districts that provide more efficient or less costly services get the same revenue as schools that are either less efficient or spare less expense. As a result, weighting systems create incentives to contain costs. In a system based on actual costs, however, special education revenue declines as spending declines.

TABLE 5

Special Education Funding

Based on Disabilities of Students Enrolled In Charter School	Based on Negotiations with School District	Matches School District's Special Education Spending or Revenue
Arizona,[1] Delaware, District of Columbia, Florida, Georgia,[2] Hawaii,[2] Kansas,[2] Michigan, New Jersey, New Mexico,[2] Minnesota,[5] 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

[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.

States in the middle of this continuum leave special education funding to negotiations or other arrangements between charter schools and school districts. In Illinois and Connecticut, school districts are responsible for either providing or funding the additional special education services needed by children, but they are also responsible for assessment. By controlling assessment, these districts in these states have an assurance of how the costs

will be determined. If charter schools provide services in these two states, school districts provide funding based on actual costs and therefore the disabilities of specific students. Overall, Illinois school districts pay charter schools 75 percent to 125 percent 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 percent to 120 percent of district spending.[22] Charter schools often get less than 100 percent funding if they attract fewer special education students, or if the school district provides special education services at no cost. Fieldwork and more research are necessary to determine the degree to which special education funding matches specific pupil needs in these states.

The other end of the continuum includes states such as Louisiana, Massachusetts, Pennsylvania, North Carolina and Rhode Island. Special education funding is based not only on host school district special education costs or revenue, but also on the characteristics of the host district's special education population, as opposed to special education students actually enrolled in the charter school.[23] These systems should work perfectly if charter school special education populations exactly mirror host school district special education populations. But as the number of special education students and the severity of their disabilities deviate from school district averages, the potential emerges for overfunding (for charter schools with low special needs populations) and underfunding (for charter schools serving high numbers of special education students).

North Carolina and Pennsylvania base revenue for every special education student on the average expenditure (Pennsylvania) or revenue (North Carolina) per special education pupil in the student's district of residence. Thus, every special education student in a charter school gets district-average funding regardless of the cost of services or the severity of the disability. This funding strategy provides charter schools with a strong financial incentive to enroll special education students, but to enroll those with the least costly disabilities. The finance systems in Louisiana, Massachusetts, Milwaukee and Rhode Island create an even stronger financial incentive to avoid special education altogether.[24] In these states, charter school funding is based on the host school districts' total operating costs (including special education) divided by district enrollment (including special education). No matter how many special education students a charter school serves, it receives special education funding as part of its per-pupil allotment as if it were serving a special needs population exactly matching the school district average.

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[22] Colorado mandates that charter schools receive at least 80 percent of the school district average per-pupil operating funds, but about one-third receive more than the district average (the ones that get capital outlay funding), and at least one charter school is receiving 120 percent funding.

[23] Massachusetts however, specifically excludes school district special education for preschool, hospital services and tuition.

[24] This is not to say that all charter schools will respond primarily to financial incentives. The funding systems in these states are generous enough to allow special education programs. School profiles in Massachusetts, for instance, show that a number of charter schools are providing special education for a considerable number of students. However, the number of costly students served by charter schools is, on average, not in proportion to the size of the special education population in sending districts (KPMG-Peat Marwick, 1998).

Regardless of the charter school issues, controversies swirl over special education finance largely because of ever-increasing costs that arguably come at the expense of regular education spending. According to one longitudinal study, the share of district budgets devoted to special education during the past 25 years has increased from 4 percent to 17 percent (Rothstein, 1992; 1997). In New York state, between 1979 and 1992 the share of the budget devoted to special education increased from 5 percent to more than 11 percent, and the increase in regular teaching expenditures was about half that of the increase in special education expenditures (Lankford and Wykoff, 1999).

Against this backdrop, the issue of charter school special education finance needs to be considered carefully. Parents of students with disabilities have started a number of charter schools. In several states, charter schools report serving a higher percentage of students in special education than the state average. Nationwide, however, charter schools serve fewer handicapped children than do all public schools (RPP, 1997, 1998, 1999). In several states, however, charter schools report serving a higher percentage of students in special education than the state averages. Charter schools in Massachusetts with for-profit managers have also been charged with systematically "counseling out" students with the most costly disabilities (Zollers and Ramanthan, 1998). Studies in Michigan (Horn and Miron, 1999, and PCS/MAXIMUS, 1999) indicate a dramatic difference between charter schools and host districts in spending on added needs students.

The most commonly expressed concern within the charter school community is that a high-cost special education student could outstrip a charter school's financial ability to meet that student's educational needs (Bierlein and Fulton, 1996). Part of the problem is size. Small charter schools are unable to spread the high costs of a severely handicapped child among all students without having an impact on the education offerings for other students. The funding system may also be part of the problem. States that provide significant extra funding for high-cost children help to protect charter schools from this financial burden. States relying only on an average funding concept (i.e., charter schools get the average expenditure per pupil regardless of the number of special needs students and the cost of their disabilities) fail to protect charter schools from the financial burden of high-cost children. Some states use other strategies. Pennsylvania has a separate contingency fund for ultra-high-cost special education students to which all of it its public schools have recourse. Massachusetts specifically excludes charter schools from paying for high-cost private and residential placements. Many charter schools in Colorado pay the school district the average cost of district special education and in return get district special education services including protection against high-cost special education students. In a sense, this system "insures" charter schools from high special education costs.

Charter schools also argue that they provide special education both more efficiently in regular education settings and with less harm to students. Categorizing students for funding purposes, it is argued, constitutes a "labeling" of students that may result in low expectations and low self esteem or lead to increased regulatory requirements (Finn et al. 1996). Some parents choosing charter schools seek to escape or remove special education labels, or come to the charter school for an alternative to services provided in the previous

school. The obvious merits of these arguments need to be weighed against possible abuses. Offering no specific special education program, or one specifically limited to inclusion in regular classroom settings, may deter students with disabilities from enrolling in charter schools and may diminish needed services to charter school students with special needs.

Charter schools also maintain that federal and state special education funding is insufficient to provide a panoply of special education services. School districts, however, face exactly the same problem. In most states, if not all, special education expenditures exceed state and federal funding specifically designated for special education. General operating revenues make up for the resulting revenue gap. In Wisconsin, for example, state categorical aid funds about 40 percent of special education costs. In California, the state funds about 50 percent. Some analysts view the use of general operating revenue for special education as a transfer from regular education programs to special education, but there is nothing inherently wrong or inequitable about funding special education from general revenues. It means only that federal and state special education revenue streams fail to fund all special education costs.

Low-income and At-risk Students

Most states provide more funding for the higher costs of educating at-risk students. While states define at-risk status in various ways, poverty is generally the major determinant. Most commonly, enrollment in free- and reduced-price lunch programs is used to determine at-risk status. Some states use qualification for federal programs such as Aid to Families with Dependent Children to define poverty.

Some argue that charter schools "cream" the easiest students to educate. To prevent creaming based on income, Louisiana mandates that charter schools have a proportion of at-risk students that is at least 85 percent of the proportion of at-risk students within the district as a whole. Colorado, Illinois and Texas give preferences in granting charters to those seeking to serve at-risk populations, and Texas has developed a large number of charter schools for at-risk children. However, little of the discussion about the selectivity issue centers on funding. Additional funding attached to at-risk youth may create powerful incentives for potential charter holders to create programs serving these children. Without extra funding, charter schools have less incentive to serve high-cost students. A great deal of variation exists in the degree to which charter schools receive extra state and local funds specifically for the education of at-risk youth, as shown in Table 6.

TABLE 6

State Funding for At-risk or Low-income Students

Yes	Negotiated or Allocated by School district	No
Alaska, Arizona, California, Delaware, Florida, Illinois,[1] Michigan, Milwaukee, Minnesota, New Jersey, Texas	Colorado,[2,3] Georgia, Hawaii, Illinois,[2] Kansas,[3] New Mexico,[3] South Carolina, Wisconsin	Connecticut, District of Columbia, Louisiana,[4] Massachusetts,[5] North Carolina,[5] Pennsylvania,[5] Rhode Island[5]

[1] Yes, for Chicago charter schools.

[2] Charter schools can negotiate for more than 100 percent of average district funding.

[3] At-risk students are weighted in state aid formula generating funds for the school district.

[4] No, for schools chartered by school districts; yes for a few state-authorized schools.

[5] Charter schools receive school district average for at-risk or low-income students as part of base funding.

In Colorado, Georgia, Illinois, New Mexico and other states that leave funding decisions up to negotiations between school districts and charter schools, more dollars may follow an at-risk child, but this extra funding is not guaranteed. States such as Hawaii, Kansas and Wisconsin may provide extra funding for at-risk students through the normal school district budget allocation procedure. Most of the other states that provide more funding for at-risk or low-income students use a weighting system. In Texas, at-risk students receive an extra weighting of 20 percent. In Michigan, the additional weight is 11 percent. Other states fund low-income students as a categorical program. New Jersey, for example, provides $436 per at-risk student. Minnesota provides at-risk funding that is partially based on a concentration factor. As the proportion of at-risk students increases in a school, the per-pupil funding grows larger. Table 7 contains information on the amount of funding that follows an at-risk student to a charter school in a number of different states. It also contains a column "amount per member" which describes at-risk funding per member (not per at-risk student) in schools with an at-risk population equal to the state average.

Funding the higher costs of educating at-risk youth raises many of the same concerns as the funding of special education. States failing to provide extra funds for special needs and high-cost students create financial incentives for charter holders to avoid high-cost students. The lottery-driven, open admissions process required of charter schools in most states mitigates the impact of these incentives. Conversely, charter schools serving at-risk students face substantial economic obstacles.

TABLE 7

At-risk and Low-income Funding for Charter Schools, Selected States

	Weighting Factor	Amount Per At-risk Pupil	Amount Per Member
California[1,2]	na	$200	$40
Colorado[3]	na	500	142
Illinois[4]	na	767	613
Kansas	0.080	300	100
Michigan	0.115	685	206
Minnesota[3]	na	490	133
New Mexico[5]	0.080	na	185
South Carolina	0.260	450	181
Texas[2]	0.200	867	416
Wisconsin[6]	na	250	12

Source: Based on middle cost K-12 charter school profiled in the appendix.

[1] Compensatory education.

[2] California and Texas base funding on ADA, which offsets at-risk funding by the extent to which at-risk students have lower attendance rates.

[3] State average; actual amount varies.

[4] Supplemental general state aid in Chicago. No other districts with charter schools currently qualify for supplemental general state aid.

[5] Based on school district index.

[6] At-risk and low-income pre-K to grade 5 programs.

Funding Based on Geography

In most states, charter school revenues vary based on the specific district in which the school is located. In states where charter schools serve students across school district lines, funding is generally based on the students' district of residence. Minnesota and Connecticut are exceptions to this rule, with most charter schools receiving funding from the state funding formula regardless of their locations. Michigan charter school funding matches the school district's foundation allowance up to a maximum of about $6,000.

The desirable linkage between charter school and school district funding helps charter schools benefit from state efforts to adjust school district funding for isolation, small size and cost of living. If charter school funding were not linked to school district funding, then charter school operators would be encouraged to search for locations with a financial advantage over other public schools. On the other hand, tax effort and wealth inequities among school districts are also passed on to charter schools. Under this equally onerous incentive system, families in the most disadvantaged school districts may be the least likely to find a charter school alternative if charter schools are congregated in better-financed school districts.

Wealth and Tax Effort

Some school districts are wealthier than others, which usually translates into higher spending. State equalization formulas attempt to level the playing field among school districts, but some wealth advantage almost always remains. In addition to variations in levels of wealth, some school districts devote more of the community's resources to education through higher local taxes. Increased tax effort could increase the funding of a poorer school district relative to more affluent districts. State funding formulas often encourage local tax effort by supplying incentives and matches geared to reward high tax effort. The states where charter school funding is linked to school district wealth and tax effort are highlighted in Table 8.

TABLE 8

Charter School Funding Based on Host School District Wealth or Tax Effort

Yes	No
Alaska, Delaware, Florida, Georgia, Illinois, Kansas, Louisiana, Massachusetts, Michigan,[3] Milwaukee, New Jersey, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas, Wisconsin	Arizona, California,[1] Colorado,[2] Connecticut,[4] District of Columbia,[5] Hawaii,[5] Minnesota, New Mexico

[1] School district funding in California is not based on wealth or a tax effort.

[2] Some charter schools may get levy override funds if agreed to in the charter.

[3] Per-pupil funding capped at about $6,000.

[4] State-authorized schools only.

[5] Not applicable because only one school district exists.

The District of Columbia and Hawaii, as single school districts, naturally do not have geographic variation in local wealth and tax effort. Minnesota gives all charter schools the same base aid per pupil, but total funding varies considerably due to a weighting system based on student characteristics. In Connecticut, state-authorized charter schools receive a flat $6,500, approximately equal to the state average. For Connecticut and Minnesota this centralized state funding raises an incentive issue. Charter schools in the two states are better funded than local school districts when the schools are located in low-spending districts. This situation may create incentives for charter school operators to locate in school districts that receive less funding to obtain a competitive advantage. In Connecticut, Michigan and Minnesota, charter schools located in high-spending school districts suffer a resource deficit compared to the local school districts.

In the other states, the incentive system is reversed. Charter schools located in, or enrolling students from, poorer school districts with lower tax effort receive fewer dollars. Charter schools have an incentive to shop from district to district, looking for those with the highest revenue or spending levels. On the other hand, the impact of the location incentive is mitigated if families in high-spending school districts are satisfied with their public education and therefore less likely to seek charter school alternatives.

Geographic State Aid Adjustments

Many states adjust the general state aid formula for school districts that are, in a sense, geographically challenged. Charter schools generally benefit from these adjustments as well. Table 9 identifies states that make some of these adjustments.

TABLE 9

Funding Adjusted for Small School/District Size or Cost of Living

Yes	No
Alaska, Arizona, Colorado, Florida, Kansas, Louisiana, Massachusetts, New Mexico, Texas	California, Connecticut, Delaware, District of Columbia, Georgia, Hawaii, Illinois, Michigan, Milwaukee, Minnesota, New Jersey, North Carolina, Pennsylvania, Rhode Island, South Carolina, Wisconsin

A number of states provide extra funding for small school districts to compensate for diseconomies of small scale. In Louisiana, this "economy of scale" funding helps offset the inefficiency created by small schools and small school districts. Small school district size is also a factor in Colorado, Kansas, New Mexico and Texas. Some states recognize the high cost of urban education. Colorado gives a little more money both to very small and to very large school districts. Illinois and Minnesota indirectly help urban districts by providing more funding to school districts with high concentrations of low-income students. Colorado, Florida and Texas provide more money to school districts where the cost of living is high. Massachusetts has a small adjustment for inter-area wage differentials.

Arizona is the only state that provides incentives to create small charter schools by allocating state aid to charter schools as if they were small school districts. These provisions apply to state-authorized charter schools only. A small charter school of fewer than 100 students in Phoenix gets 20 percent more per-pupil funding than an elementary school of 600 students. This provides one possible reason for the large number of small schools and multi-campus schools in Arizona.[25] Many charter operators centralize administration and in effect create mini school districts containing several small schools. District-authorized charter schools operating outside the district's boundaries get funding based on district size rather than on charter school enrollment.

Intrastate Variation in Charter School Revenue

One way to highlight the effect of geographic differences on funding is to compare how a hypothetical charter school would generate revenue in high- and low-spending school districts within a state. The hypothetical charter school in Table 10 enrolls 100 students (except Alaska and Arizona—see tables in the appendix) none of whom are low-income or special needs students. Given data constraints, it was not practical to pick high- and low-revenue school districts on precisely the same criteria consistently across states. In most instances, the low-revenue school district is at approximately the 10th percentile of funding, and the high revenue school district is at approximately the 90th percentile.

[25] An inspection of charter school names in the Common Core Data (CCD) of the U.S. Department of Education reveals at least 25 multi-campus charter schools in Arizona for school year 1997-98.

TABLE 10

Estimated Revenue for a Basic Elementary Charter School Located in High-, Average- and Low-revenue School Districts

	High-Revenue District	Average District	Low-Revenue District	Difference
Alaska	$11,800	$6,719	$5,500	$6,300
Arizona	4,450	4,450	4,450	0
California	5,200	4,350	4,250	950
Colorado	4,800	3,750	3,480	1,320
Connecticut	6,900	6,900	6,900	0
Delaware	9,550	8,900	8,800	750
Florida	4,040	3,840	3,540	500
Georgia	4,050	3,870	3,350	700
Illinois	5,300	4,900	3,600	1,700
Kansas	5,700	4,500	4,100	1,600
Louisiana	5,200	4,800	4,000	1,200
Massachusetts	8,750	7,500	6,400	2,350
Michigan	6,000	5,900	5,200	800
Milwaukee	6,100	6,100	6,100	0
Minnesota	4,700	4,700	4,700	0
New Jersey	9,250	7,150	6,350	2,900
New Mexico	5,800	3,500	3,200	2,600
North Carolina	5,200	4,530	3,900	1,300
Pennsylvania	8,000	6,200	5,600	2,400
Rhode Island	7,250	6,750	6,650	600
South Carolina	6,000	4,864	4,000	2,000
Texas	5,100	4,200	3,800	1,300
Wisconsin	7,600	6,400	6,300	1,300

Note: In Kansas, Florida, Massachusetts and Michigan, the range of funding is based only on school districts in which charter schools are located. All amounts include facilities funding. There are large variations in funding in Alaska due to the presence of many small rural schools. Data for Illinois apply only to K-12 districts. The range of spending between high- and low-revenue districts captures spending in about 80 percent of school districts. See text for a fuller explanation.

No geographic variation in revenue exists in four states and two cities. Hawaii and the District of Columbia have only one school district. Charter school funding in Minnesota and Connecticut (state-chartered schools) and Arizona is not linked to school district revenues. The average difference between a high and low revenue school district is around $1,700 per pupil in the states where such funding differences exist. In six states, the difference is $2,000 or greater. These revenue differences may provide incentives for charter schools to locate in areas with high- spending school districts. The highest

spending school districts—the top 10 percent—are not even included in Table 10. On the other hand, high revenue school districts may also experience higher costs due to rural or urban location and cost-of-living differences.

Categorical, Mandated and In-kind Services

In addition to basic instructional services for regular students, school districts provide a number of other supplemental educational and non-instructional services. In many states, funding is contained in separate categorical budget lines, generally because states seek to ensure that funding goes to particular programs. Functions most often funded in this manner include student transportation, student health, after-school programs, professional development of faculty, technology and instructional materials. In some states, school districts are supposed to pass along funds for these functions to charter schools, while other states directly fund charter schools for categorical programs. In some instances, school districts provide the services directly to charter schools.

School districts in some states are responsible for providing services to persons not regularly enrolled in their schools, such as transportation and textbooks for private schools, and adult education. Before analyzing charter school funding issues, it is important to examine the educational goals of the charter. For example, should a charter school receive adult education, special education or preschool funding if its mission (as expressed in the charter) relates only to elementary education? This section of Chapter 4 provides an in-depth look at how these issues play out in transportation funding. A brief overview of other categorical funding concludes this section.

Transportation

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 serving 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.

Transportation generally emerges as the single largest categorical funding item unless special education is funded as a categorical program. For example, using 1994 data, state transportation funding in Connecticut averaged $36.4 million, covering approximately 30 percent of the transportation costs of school districts. All other state categorical programs, including aid to parochial schools was less than $14 million (Martin and Brewer, 1995). A major charter school issue centers on whether school districts or charter schools are responsible for providing these services. Questions sometimes arise as to how funding for transportation works for students traveling across school district lines to attend charter schools. Poor children are more likely to depend on bus transportation for a variety of reasons. Subtle issues of charter school selectivity become important when no transportation, other than car pools, is available to charter school students. Several states have directly addressed the issue of transporting low-income children to charter schools. In

some areas, mass transportation is available and charter schools provide funds for students to use it.

TABLE 11

Responsibility for Transportation

School Districts Provide Charter School Transportation[1]	Charter Schools Have Specific Transportation Responsibilities	No Transportation Required
Connecticut,[2] District of Columbia,[3] Hawaii,[3] Kansas,[3] Massachusetts,[2] New Jersey, New Mexico,[3] Pennsylvania, Wisconsin[3]	Delaware,[4] Florida,[5] Illinois,[5] North Carolina,[5] South Carolina[5]	Alaska,[6] Arizona, California, Colorado, Georgia,[6] Louisiana, Michigan, Milwaukee, Minnesota, Rhode Island, Texas

[1] Either mandated by state at request of a charter school, or funded by school district.

[2] Charter schools can provide transportation, or they can request that the school district provide it.

[3] Same as any other school in the district.

[4] At the request of the charter school, school district provides transportation.

[5] Must provide a transportation plan for low-income or at-risk students or in North Carolina a plan for all students.

[6] When convenient or feasible.

The actual responsibility (if any) for providing transportation services or funding rests on school districts in 12 states.[26] Additionally, Georgia and Alaska require school districts to provide charter school transportation "to the extent feasible." In many other states, school districts provide charter schools with transportation services in lieu of operating revenue. In other states, charter schools buy transportation from school districts. Table 11 shows which states mandate school districts to provide services directly to charter schools.

Although state law often does not require charter schools to provide transportation, many do so anyway. Charter schools frequently contract with school districts, contract with commercial providers or provide their own transportation. However, many charter schools depend on parents to provide transportation, most commonly in states where school districts do not have a mandated role. Parental provision of transportation constitutes a cost shift from charter schools to parents both in terms of time and money spent on carpooling. The cost shift could be viewed as desirable since parent-provided transportation frees money to spend elsewhere in the school. However, providing no transportation may deter some parents from enrolling their children. Evidence shows that families from ethnic minority groups are more likely to see transportation as a barrier to public school choice (Bauch and Goldring, 1995). For this reason, states like Florida, Illinois and South Carolina require a transportation plan for low-income students. Depending on the stringency of regulatory oversight, the transportation plan approach constitutes a minimal safeguard.

[26] Includes the nine listed in the first column plus Delaware, Alaska and Georgia.

In states where school districts are required to provide transportation, the degree of service varies. In most states, the school district transportation obligations are confined to the school district in which the students and charter schools are located. In Washington, D.C. (where charter school students are eligible for reduced fares on mass transportation) and Hawaii, for example, "yellow-bus" transportation across the entire school system is generally available only to special education students for charter schools and other public schools. Pennsylvania, on the other hand, requires school districts to transport charter school students up to 10 miles over school district lines. The extra state funding for out-of-district transportation usually does not match school district costs.[27] Some school districts have resisted paying for transportation services to charter schools for which they have no legal authority. One charter school (with assistance from the state) was forced to sue the Philadelphia school district over this issue. Philadelphia contends that since it does not bus elementary students to traditional public schools, the charter school transportation mandate represented an unfair additional cost.

TABLE 12

State Funding of Transportation for Charter School Students

Get State Aid Even If No Transportation Provided	State Aid and General Operating Revenue[1]	No State Transportation Funding Available
Arizona, North Carolina,[2] Rhode Island,[2] Louisiana[2]	Alaska, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Illinois, Kansas, Massachusetts, Minnesota, New Jersey, New Mexico, Milwaukee, Pennsylvania, Texas, Wisconsin	Michigan,[3] South Carolina

[1] State aid generated for school district or charter school, depending on who provides transportation.

[2] State transportation aid incorporated into base per-pupil funding.

[3] School districts get no state transportation funding.

Transportation funding for school districts varies considerably across states as shown in Table 12. Michigan and South Carolina provide school districts with no financial assistance for transportation. As in special education, states generally provide extra funding for transportation but school districts also pay for transportation from general operating funds. When school districts provide transportation to charter school students, both state transportation aid and general operating revenues are generally necessary. In some states, charter schools not providing any transportation still get a portion of what the school district spends on transportation funding through the per-pupil funding formula.

Charter school transportation funding should be conceptualized as the total cost of transportation, not just the state aid. In some states, school districts may be providing

[27] Charter school transportation is similar to the funding that districts provide for parochial school transportation. See the appendix entry for Pennsylvania. Some school districts report that the extra state funding for the transportation of charter school students is sufficient in their districts.

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double transportation aid, first when the school district provides transportation services, and second, when local transportation expenditures are included in the per-pupil funding formula for charter schools. Massachusetts and Pennsylvania prevent duplication of aid by clearly subtracting transportation costs from tuition calculations. However, in Connecticut some of the general operating revenues typically used by school districts for transportation are included in the base funding for charter schools, even though school districts are also providing the service.[28] In New Jersey, charter schools receive only 90 percent of school district spending (including transportation), but school districts provide transportation at no cost.

In a similar vein, a number of states require that school district revenue typically used for transportation go to charter schools while not mandating that charter schools provide transportation. In these states, transportation is typically a service that school districts are expected to pay for entirely out of their general state aid, such as Louisiana and Michigan. Some states provide dedicated transportation funds to charter schools, but then do not require them to use the funding for transportation, as in Arizona. Delaware has tightened its law in this regard, although it still provides transportation funds based on membership, not on the number of students transported. This means that a school providing limited transportation services (Delaware charter schools must provide transportation) would have a windfall, and a school providing more comprehensive services might have to supplement transportation out of its general operating revenues.

In Arizona, state-authorized charter schools get $174 per member (not pupils transported) for transportation. District-authorized charter schools claim reimbursement for miles that parents drive their children to school. The charter school gets $1.95 or $1.59 per mile (depending on the ratio of pupils to route miles), pays parents 10 cents to 25 cents a mile and is allowed to use the difference for other expenses of the school. Because there are so many miles involved when parents drive their own kids to school, district-authorized charter schools generate hundreds of dollars in extra revenue per pupil. For example, the Arizona Joint Legislative Budget Committee has computed that one charter school gets $12,080 per pupil for transportation. Another gets $5,668. The average cost of transportation per member (not students transported) for district-authorized charter schools for 1998-99 was $2,144. This unintended "loophole" arises from provisions in the Arizona transportation law intended for isolated school districts, which are allowed to pay parents to bring their children to a bus route. The Arizona Legislature has had difficulty closing the loophole because it is the way school districts are funded; but after 1999-2000, district-authorized charter schools will get the same $174 per member for transportation that other charter schools get.[29] State-authorized charter schools have not benefited from lucrative transportation funding, but district-authorized charter schools do not get the small district weights in the general state aid and facilities funding formula benefiting most state-authorized charter schools.

[28] State-sponsored charter schools in Connecticut get approximately the state average general operating revenues and therefore receive approximately the state average transportation funding paid from general operating revenues. Charter school students residing in the same district in which the charter school is located are also entitled to district-provided transportation.

[29] Another suggestion for reforming the loophole is to reimburse charter schools for parent transportation at the same level as the IRS mileage deduction, now about 32.5 cents a mile.

The discussion above does not describe the adequacy of funding for charter school transportation, regardless of whether it is provided by the school or district. Due to geographic dispersion, charter school students are probably more expensive to transport than regular students. Magnet schools in public school districts also carry these higher transportation costs, as do desegregation plans. If charter schools provide or contract for transportation, the school absorbs the higher transportation cost. Allowing charter schools a choice about providing transportation is partly an acknowledgment of the potential impracticality of providing transportation through traditional means both for charter schools and for school districts.

Other State Categorical Programs

Although a source of controversy and uncertainty, "other state categorical" programs generally represent very small pools of money. Among all of the charter school states studied, California distributed the most money through other state categorical programs, averaging about $520 per pupil.[30] On the other hand, all but four charter school states distributed less than $50 per pupil in other state categorical aid as listed in Table 13. The table includes only those categorical programs for which charter schools should routinely get funding. Funding for adult education, preschool and like programs is not included. "Other" state categorical funding also excludes special education, low-income, transportation, vocational education and food service funding.

TABLE 13

Other State Categorical Funding[1]

More than $50	Less than $50	Integrated Into Per-pupil Funding Calculation
California ($520), Florida ($200), Georgia ($160), Illinois ($180)	Alaska, Arizona, Colorado, Connecticut, Delaware, Kansas, Louisiana, Michigan, Milwaukee, Minnesota, New Jersey, New Mexico, South Carolina, Texas, Wisconsin	District of Columbia,[2] Hawaii,[2] Massachusetts, North Carolina, Pennsylvania, Rhode Island

[1] "Other" excludes special education, low-income, transportation, vocational education, adult education, preschool and food service funding.

[2] Only one school district in state.

Categorical funding questions resemble those arising in federal funding for charter schools. Can a charter school qualify for funding on its own, or does it get a share of the local school district's allocation? Is there enough funding to justify the effort needed to get it and the accountability that may go with the funding? Because the awarding of grants is discretionary, controversy engendered by the outsider status of charter schools may arise as well. In Louisiana, for instance, a district-chartered school's competitive grant application

[30] Includes school improvement program, LEP, instructional materials, class size reduction, mentor teacher state compensatory education and others. Excludes lottery funds, COLA and economic impact aid, funds for which charter schools may also qualify.

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has to pass through the school district to be considered by the state. This has been a source of concern, because some charter holders feel that school district officials will favor applications from other public schools in the district.

Charter schools in some states capture a share of the host district's categorical funding whether or not they provide the specific programs generating that funding. North Carolina, Pennsylvania, and Rhode Island all include state-funded categorical programs in the calculation of per-pupil base funding. Other states disqualify charter schools from receiving funding through certain categorical programs. Minnesota prohibits its charter schools from applying for grants for which a local levy is required, such as integration, community and adult education programs.[31]

Whether charter schools should be required to use categorical funding for the specific program purposes of the funding stream raises both philosophical and financial questions. The crux of the issue is the trade-off between flexibility for charter schools and the desire of states to see that particular educational priorities are addressed. Categorical dollars generally come with strings, and schools using this funding usually are expected to meet certain goals such as installation of new computer software or the provision of mentors for new teachers. In many instances, categorical funding promotes the redirection of other school funds to a specific program. Yet, the charter school concept is generally antithetical to the rules and regulations that go with categorical funding. In addition, the reporting requirements for grant applications might be onerous for small charter schools operating with minimal administrative support.

[31] These programs amount to less than 2 percent of total state and local funding (Mueller et al., 1995). In 1999 the law was changed to give charter schools access to the state share.

CHAPTER 5

Start-up Assistance

Many studies identify inadequate start-up funding as a barrier for charter school creation. Some of the oldest charter schools obtained no start-up funding from state or federal sources. The advent of federal planning and implementation funds alleviated some of the concern over start-up funding. Despite substantial federal financial assistance, the most recent national survey of charter schools (RPP, 2000) reports that the lack of start-up funds remains the number one implementation difficulty of start-up charter schools, followed by inadequate operating funds, lack of planning time and inadequate facilities.

Even in an otherwise well-conceived and fairly funded charter school finance system, the absence of start-up funding for textbooks, computers and equipment quickly disadvantages charter schools. On the other hand, it may be smart to require prospective charter schools to acquire external support as evidence of their viability (Millot and Lake, 1997). Start-up funding issues are probably more of an obstacle to one-of-a-kind charter schools started by teachers, parents or community groups than for better-financed private management companies. One reason for the growth of management companies is the ability to finance school start-up.

State Start-up Assistance

Some states provide start-up funding or assistance. During the first two years of operation, Minnesota charter schools are eligible for aid to pay start-up costs and additional operating costs in the amount of $500 per pupil, with a minimum of $50,000 per school. In Arizona, the charter school stimulus fund provided assistance for both start-up costs and the renovation of facilities. With the availability of federal start-up funding, however, the legislature appropriated no funding for 1999-2000. Pennsylvania rolls state funding into the federal start-up grants for charter schools. Pennsylvania also awards additional funding to charter schools as their enrollment grows. This strategy allows charter schools to start small and grow at an efficient pace, avoiding the incentive to front-load enrollment in order to receive maximum start-up grants. Rhode Island provides start-up assistance if no federal money is available.

TABLE 14

State Start-up Funding

Yes	No
Arizona, California, Connecticut,[1] Illinois,[1] Louisiana,[1] Massachusetts,[1] Minnesota, Pennsylvania, Rhode Island	Alaska, Colorado, Delaware, District of Columbia, Florida, Georgia, Hawaii, Kansas, Michigan, Milwaukee, New Jersey, New Mexico, North Carolina, South Carolina, Texas, Wisconsin

[1]Some assistance with cash flow problems through loans and/or advance aid payments.

Other states established low- or no-interest lines of credit. In Louisiana, start-up funds could be provided through a revolving loan fund. This fund, however, has been unsuccessful in attracting applicants, in part, because it is privately managed, and charter holders have to provide detailed background information and collateral for some types of funding. In Illinois, the charter school law authorizes a $500,000 revolving loan fund, but the fund is not yet in operation. On its own, the Chicago school district established a $2 million revolving loan fund administered through the Illinois Facility Fund, a nonprofit community development loan institution. California also has a $5.5 million revolving loan fund offering loans up to $50,000 per school. Another way that states have attempted to deal with cash flow problems is to advance the schedule of payments to first-year charter schools, a topic addressed fully in Chapter 6.

Federal Start-up Grants

The Federal Public Charter School Program (ESEA Title X, Part C) provides federal funding to assist with costs for opening and starting a charter school. Usually awarded through a competitive process, individual charter school developers use the funding for the planning, design and implementation of charter schools. Generally, a state education agency (SEA) applies to the federal government for the funds, which are awarded on a competitive basis. Charter school developers then apply to the state for the sub-grant. If a state application is rejected, or does not apply, charter schools apply directly to the federal government. In Arizona, for example, new and prospective charter school operators apply directly to the federal government even though Arizona has more charter schools than any other state.[32]

[32] Under the original state legislation, Arizona created a "stimulus fund" earmarked for start-up and facility costs. The upper limit for state start-up grants was up to $100,000, but the average grant size was $21,000. The state legislature has not appropriated state start-up funds since 1997. In 1995, Arizona received a three-year federal start-up grant. After the initial grant period, the state chose not to reapply for this federal start-up grant in response to a court case brought by the Bureau of Indian Affairs (BIA) against the state. The BIA-funded schools challenged a state statute that authorizes the state to deduct federal start-up funding from the basic state aid for BIA-funded schools. The state won the case. State-authorized charter schools now apply directly to the federal government for start-up funds. Under some district contracts, however, the district applies on behalf of the charter schools, whereas in other authorizing districts individual charter schools apply separately.

Federal start-up grants, which are awarded for a period of up to three years, are restricted to certain kinds of expenditures. Qualifying expenditures include refinement of the desired educational results and the methods for measuring those results; implementation costs; informing the community about the charter school; and acquiring the necessary equipment, materials, supplies and other operational needs that cannot be met from state and local revenues. By helping to cover costs charter schools would have faced without federal funding, the start-up funding also helps charter schools establish fund balances and relieves pressure on the general operations budget.

Of the 24 states with charter schools open in 1997-98, 20 states obtained start-up grants. The SEA determines eligibility requirements in order to make subgrants to authorized public chartering agencies in partnership with local developers of charter schools. SEAs also establish guidelines for distributing funds and annual reporting requirements. Typically, reporting requirements consist of an annual progress report that includes budget information and progression toward goals. Participating SEAs can keep up to 5 percent of the total grant to account for administrative costs. In many states, the 5 percent holdback provides the major source funding for state charter school offices.

Three main types of allocation processes have emerged from the states. In some states, Pennsylvania and North Carolina for example, funding is based on a per-pupil amount.[33] In others, like Alaska and Georgia, equal-sized block grants go to each charter school. States like California and Massachusetts determine the amount of the grant on an individual basis. In California, where school districts authorize most charter schools, districts may retain a portion of the grant to cover indirect costs for distributing the grant to charter schools. In Connecticut and Massachusetts, the amount of the grant is based on a formula and takes into account many factors including ethnicity and growth rate. In most states, start-up funds are awarded on a competitive basis, but the District of Columbia and a few states like Delaware have non-competitive programs where all qualified applicants receive funds.

Federal start-up funds typically cover a one year of planning grant followed by two years of implementation. In all states, except Delaware, charter developers are eligible to receive planning funds before formal approval of a charter. Illinois and Louisiana use both pre-charter or stimulus grants and post-charter planning grants that entitle charter developers to more planning funds once the charter has been approved. Implementation grants range from $40,000 to $200,000. Charter schools must already be in operation to receive implementation funds. Connecticut and Louisiana provide smaller implementation grants for conversion schools.

[33] In Pennsylvania, state funding is mixed with the federal grant program.

TABLE 15

Federal Start-up Grants

	Competitive Grants	Planning Amount	Implementation Amount
Alaska	Yes	$20,000	$125,000
Arizona[1]	Yes	At least $34,000	Up to $156,000
California	Yes	$10,000 - $35,000	Up to $150,000
Colorado	Yes	At least $23,000	Up to $197,000
Connecticut			
State-authorized	Yes	$50,000	$50,000; per-pupil grants with the balance
District-authorized	Yes	$20,000	$20,000; per-pupil grants with the balance
Delaware	No	$35,000	$100,000
District of Columbia	No	Up to $110,000	Up to $95,000
Florida	Yes	$10,000	$55,000
Georgia	Yes	Pre-charter: $5,000	$100,000 first year; $60,000 second year
Hawaii[1]	Yes	At least $34,000	Up to $156,000
Illinois	Yes	Stimulus: $5,000-12,000 Planning: $25,000-75,000	$50,000 - $100,000
Kansas	Yes	$35,000	Phase 1: $25,000 Phase 2: $77,000 - $170,000
Louisiana			
Start-up	No	Pre-charter: $5,000 Post-charter: $20,000	$50,000 first year; $40,000 second year
Conversion	No	Pre-charter: $5,000 Post-charter: $15,000	$40,000 first year; $30,000 second year
Massachusetts	Yes	$115,000	$103,000 - $186,000
Michigan	Yes	At least $40,000	Up to $100,000
Minnesota	Yes	At least $40,000	Up to $60,000
New Jersey	Yes	Up to $50,000	Up to $75,000
New Mexico[1]	Yes	At least $34,000	Up to $156,000
North Carolina	No	At least $34,000	Up to $156,000
Pennsylvania	Yes	$10,000 - $25,000	$800 per pupil
Rhode Island[1]	Yes	At least $34,000	Up to $156,000
South Carolina	Yes	$15,000 - $40,000	Up to $15,000
Texas	No	$60,000 maximum	$60,000 maximum
Wisconsin	Yes	$25,000	$96,000-200,000 (averaging about $100,000)

Source: Telephone interviews with state departments of education and state charter school offices.

[1] Charter schools apply directly to U.S. Department of Education.

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In the states where charter school developers apply directly to the federal government, start-up grant amounts are determined on an individual basis. Planning and implementation grants are available, and grant competition is based on the strength of the application and need. Four states did not receive federal grants for various reasons in 1998-99. Arizona decided not to apply, in part, due to controversies over schools that were receiving other forms of federal funding and therefore were being "double funded." In Hawaii and Rhode Island there were so few charter school developers that it made little economic sense for the SEA to apply for the funds and as a result the developers applied directly to the federal government. New Mexico's charter school law did not meet federal requirements.

CHAPTER 6

Charter School Financial Structure and Accountability

In addition to determining funding levels, charter school finance systems address a number of other financial and accountability issues. These issues include requirements for audits, participation in the uniform financial data reporting system, ownership of charter school assets, responsibility for debt and bankruptcy, and the timing of revenue allocations to charter schools. While none of these provisions affect the actual dollar amounts that flow to charter schools, together they have an important impact on how charter schools operate and the information that policymakers and the public need to evaluate these schools. Some of these issues are of major importance to charter schools, particularly the timing of revenue allocations. Others issues, such as ownership and disposition of assets purchased with public funds, represent important long-term concerns for taxpayers.

Timing of Payments and Cash Flow Assistance

An issue related to start-up, the timing of per-pupil payments has understandably been an issue of concern to charter schools. Expenditures are larger at the beginning of the school year for both charter schools and school districts. The inflow of revenue also varies over the course of the year. Thus, straightening "out the kinks in the channels and cycles by which cash flows to charter schools" is one of the fiscal recommendations of the Hudson Institute report (Finn et al. 1996). School districts deal with their cash flow needs by engaging in short-term borrowing and investing. Charter schools engage in the same strategy if they qualify for a line of credit from a private institution or a state-sponsored revolving loan fund. Not all charter schools, especially new ones, can get lines of credit. Some alternatives exist. The Massachusetts Industrial Finance Agency, for example, provides partial guarantees for cash flow loans for several charter schools. In any event, the short-term interest rates for charter schools are greater than for public school districts.

The timing of charter school payments varies across states. States such as Massachusetts and Rhode Island pay quarterly. Pennsylvania pays monthly. Minnesota uses biweekly

installments. In New Jersey, separate aid payments from the state and school district arrive at charter schools at different times.

TABLE 16

Provisions for Speeding Up Payments to Charter Schools

Yes	No	Discretion of District or in Charter Agreement
Arizona, Connecticut, Delaware, District of Columbia,[1] Illinois, Louisiana,[2] Massachusetts,[3] Minnesota, New Jersey, North Carolina,[4] Rhode Island, South Carolina, Texas	Alaska, California, Florida, Milwaukee	Colorado, Georgia, Hawaii, Kansas, New Mexico, Wisconsin

[1] New schools can get loans secured by first payment in October.

[2] In practice.

[3] In first year only.

[4] Contingent on a facility being secured.

In several states, charter school dollars arrive before the school year begins. In Texas, two of the 13 installments arrive in the first month children attend school. North Carolina schools receive funding beginning July 1. Minnesota and New Jersey provide funds beginning July 15. When a school is in its first year of operation in Minnesota, the payment formula is skewed to deliver more funding in that first payment. Similarly, in Massachusetts, payments are made at the end of each quarter except for the first year of charter school operation, when the first payment arrives 45 days after the beginning of the first quarter.

Some states advance considerable funding to charter schools. Connecticut provides 25 percent of funding in July and another 25 percent 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 percent of the anticipated state per-pupil funding at the beginning of each fiscal year. The District of Columbia advances 75 percent of funding in October, with the remainder paid the next spring. Other states expect charter schools to have good credit or capitalization as a precondition to receiving a charter. In Florida, for example, school districts are not allowed to advance funds to charter schools. Some school districts in Florida require charter schools to secure a line of credit for start-up purposes before a charter is granted.

In addition to these timing issues, some states also have provisions to recapture excess pupil funding. In Minnesota, for example, the final payment for a year is given in October of the subsequent year. Payments later in the school year are adjusted to reconcile charter school funding with the school's actual enrollment or attendance. Similarly, the District of Columbia reconciles enrollment-driven funding changes in its spring payment.

Uniform Financial Reporting

Uniform financial reporting is important for fiscal accountability and for data-based analysis of charter schools as instruments of policy innovation. Collecting data over time in a consistent format allows policymakers and researchers to consider questions such as how do charter schools differ from other public schools, and are charter schools fairly funded? In California, for example, the absence of uniform financial reporting for charter schools hampers the efforts of charter school operators to verify persistent complaints about underfunding by school district authorities.

All states collect school district data in a uniform format for student enrollment and finances. These data, which are available to the public, provide the foundation for financial accountability. Examples of these data-collection systems include the Program Cost Reports in Florida, Form B in Michigan, and the Public Education Information Management System (PEIMS) in Texas. In about half of the states, charter schools report financial data in a uniform format as if they were school districts. In other states, charter school finances are blended into school district uniform financial reporting. A few states have no uniform financial reporting requirements for charter schools, requiring only audited financial statements (see Table 18). The following table provides a breakdown.

TABLE 17

Uniform Financial Reporting Required

Yes	No—Blended With District	No
Arizona, Connecticut, Delaware, District of Columbia, Florida, Louisiana, Massachusetts,[2] Michigan, Minnesota, New Jersey, North Carolina, Pennsylvania, South Carolina, Texas	Alaska, Arizona,[1] California, Colorado, Hawaii, Kansas, New Mexico, Wisconsin	Georgia,[3] Illinois, Milwaukee, Rhode Island

[1] District-authorized charter schools report to the school district, not the state.

[2] Beginning in 1998-99.

[3] Subject to the charter, school districts may require reporting.

Some states, such as Florida, Massachusetts and Texas, have modified their uniform financial reporting specifically for charter schools. The modifications help address the contentions of many charter school administrators that state financial reporting requirements designed for school districts with full-time compliance staff are unduly burdensome for stand-alone charter schools. The states that do not require charter schools to complete state financial reporting forms generally include charter schools in the authorizing school district's financial reports as a matter of practice or as part of the charter agreement. Charter schools in Michigan run by independent management companies do not have to comply with several parts of the state's Freedom of Information Act, which has

sharply limited the usefulness of uniform financial reporting. (See discussion in Chapter 2.)

Independent Audit

Almost every public dollar going to a charter school is subject to an independent financial audit. The only exception is Milwaukee where no independent audit or uniform financial reporting is currently required. In a few states, charter schools are audited as a component of the school district, but like other district schools, charter schools may not be presented as separate entities. For the most part, standards developed by the accounting profession should govern the conduct of audits.

TABLE 18

Independent Financial Auditing of Charter Schools

Separate Audit	Part of School District Audit	Not Required
Arizona,[1] Connecticut, Delaware, District of Columbia, Florida, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas	Alaska, California,[2] Colorado,[2] Georgia, Hawaii, Kansas, Louisiana,[3] New Mexico, Wisconsin	Milwaukee

[1] Only state-authorized charter schools must provide audit.

[2] Independent audit can be negotiated in charter.

[3] State-authorized charter schools must have separate audits.

Independent audits have at least three objectives:

- **Financial statements.** Present the school's financial position (assets and liabilities) and results of operations (revenue and expenditures) at the end of the fiscal year.

- **Internal control system.** Assess the school's implementation of internal controls (e.g., who can sign checks) for authorizing financial transactions and safeguarding assets.

- **Compliance.** Determine the school's compliance with applicable laws, regulations, administrative rules and guidelines governing the school.

Audits usually present revenues and expenditures in a highly aggregated form. In Florida for example, audits of charter schools conducted by the state's auditor general aggregate all federal funds, so it is impossible, for example, to distinguish start-up funds from Title I funds. In Massachusetts, one school financial statement presented 75 percent of expenditures in a single line item for its payment to a management company (Boston Renaissance Charter School, 1997). Traditional public schools (and some charter schools) are almost always audited as *components* of school districts. In this sense, independently audited charter schools are subjected to a higher level of accountability than traditional schools, because they undergo an individual school-level audit. The presentation of

independent audits varies greatly from one charter school to another. Lack of detail and/or lack of uniformity seriously limit the usefulness of financial audits for research and policy analysis purposes.

Debt

An essential financial question is whether charter schools can acquire debt for start-up, cash flow or facilities acquisition. The following discussion focuses on laws, regulations and practices specifically addressing charter school debt. In states with very independent charter schools, however, issues of charter school debt may be determined as much by the laws governing nonprofit corporations as by charter school laws.

The table below indicates the states where charter schools are not allowed to go into debt. Many states where school districts award charters—such as California, Colorado and Florida—also allow charter school indebtedness.

TABLE 19

Charter School Acquisition of Debt

Allowed	Not Allowed
Alaska, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia,[1] Illinois, Louisiana, Massachusetts,[2] Michigan, Milwaukee, Minnesota, New Jersey, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas	Hawaii, Kansas, New Mexico, Wisconsin

[1]The law is silent on this issue, but in practice, short-term borrowing occurs.

[2]Horace Mann schools may also acquire debt with school district's permission.

Another important financial issue related to debt is whether school districts or state education agencies, rather than charter schools, are ultimately responsible for charter schools' fiscal decisions. Ability to incur debt brings freedom and flexibility to charter schools, but lenders probably prefer that the state or a school district have responsibility for charter school debt. The table below indicates whether the charter school or the school district is responsible for the debt.

TABLE 20

Responsibility for Charter School Debt

School District or State	Charter School Corporation or Board	No Debt Allowed	Not Addressed
Alaska,[1] Massachusetts[1]	Arizona, California, Colorado,[2] Connecticut, Delaware, District of Columbia, Florida, Illinois, Massachusetts, Michigan, Milwaukee, Minnesota, North Carolina, Pennsylvania, South Carolina, Rhode Island, Texas	Hawaii, Kansas, New Mexico, Wisconsin	Georgia, Louisiana, New Jersey

[1] School districts are responsible for any debt incurred by Horace Mann charter schools in Massachusetts and Alaskan charter schools.

[2] School districts may voluntarily acquire responsibility for debt.

Only two of the states allowing charter school debt also make the school district or state responsible for this debt. Like churches, community organizations and most other nonprofit organizations, the charter school's governing board is responsible for debt in most cases.

Ownership and Disposition of Assets Including Fund Balances

Some analysts portray the closure of charter schools for educational and economic reasons as the ultimate measure of accountability. So far, charter schools have closed in a relatively small number of cases. Nevertheless, the disposition of assets of closed charter schools represents an issue not clearly addressed in a number of the charter school laws.

School districts do not go out of business, which is one reason school districts can borrow money at low interest rates, but charter schools can dissolve like any other small business. One school of thought holds that as public schools, charter schools' assets purchased with public funds belong to the public. Donated facilities and equipment remain the property of the nonprofit corporation. Florida operates this way, and the state requires charter school property records that clearly identify property purchased with public funds. Another school of thought contends that asset ownership is essential for charter school independence and flexibility. Public funding belongs to charter schools whether directly expended on instruction or invested in physical assets such as textbooks, buildings or equipment. Some charter schools also express a fear that if their assets revert to a school district in the event of closure, an incentive exists for school districts to sabotage or close their school to get the resources.

TABLE 21

Ownership of Assets Purchased with Public Funds of Closed Charter Schools

Revert to School District or State	Unclear, Not Addressed, or Left to Charter School	Charter School Does Not Have Assets
Alaska, Colorado, Delaware, Florida,[1] Illinois,[2] Massachusetts, Minnesota,[1] New Jersey, North Carolina, Pennsylvania	Arizona, California, Connecticut, District of Columbia, Georgia, Louisiana,[3] Michigan, Milwaukee, South Carolina, Texas	Hawaii, Kansas, New Mexico, Wisconsin

[1] Assets purchased with public funds.

[2] Law clear only on unspent fund balances.

[3] Left to the charter school, although in state-authorized charter schools, assets revert to the state.

Michigan is typical of many states. Property purchased by a charter school remains the property of the charter school, but no specific rules exist for disposing of property for failed charter schools. Illinois is a little more specific. In the event of closure, charter schools in Illinois would also be required to refund to the local school board any unspent funds received from the local school board. The Illinois law is silent with respect to the ownership of property paid for with public funds. As in North Carolina, some state laws clearly indicate that asset reversion applies to "net assets" or the remaining assets after the claims of creditors have been satisfied, which may help overcome the reluctance of some lenders to make loans to charter schools.

Why are charter school laws so unclear on the issues of asset disposition? While focusing on establishing charter schools, perhaps legislators overlooked the asset disposition issue and other matters related to shutdown. On the other hand, maybe the disposition of assets is not unclear. In the absence of legislation, assets belong to the nonprofit corporation or entity holding the charter, and the laws governing nonprofit corporations guide the issue of asset disposition. In essence, funds awarded to charter schools are no longer public funds, and the nonprofit's governing board has the power to disburse assets in the event of school closure.

Another issue related to asset ownership is whether charter schools are allowed to carry a positive or negative fund balance from year to year. In most states, charter school ownership of unspent funds rewards frugality, helps solve cash flow problems and represents a major component of financial autonomy. A large, positive fund balance makes it easier for charter schools to secure facilities or loans at lower interest rates. Other public schools do not need a fund balance because school level cash flow is irrelevant. Instead, school districts accumulate fund balances. Especially in environments where charter schools are unable to obtain credit at reasonable rates, healthy charter schools could be expected to carry large fund balances compared to school districts. Fund balance accumulation also allows charter schools to create building funds.

TABLE 22

Charter Schools Allowed To Maintain a Positive Fund Balance

Yes	At Discretion of District
Alaska, Arizona, California, Colorado, Connecticut,[1] Delaware, District of Columbia, Florida, Illinois, Massachusetts, Michigan, Milwaukee, Minnesota, New Jersey,[1] North Carolina,[2] Pennsylvania, Rhode Island, South Carolina, Texas	Georgia, Hawaii, Kansas, Louisiana,[3] New Mexico, Wisconsin

[1]Some limitations exist.

[2]State funds must be spent, but local funds from school districts can be carried over.

[3]State-authorized schools can maintain positive fund balances.

Many states have policies seeking to minimize excessive charter school fund balance accumulation. In Connecticut, for example, up to 10 percent of current year reserves can be used for next year's expenses, and 5 percent can be used as a reserve to finance a specific capital or equipment purchase. New Jersey allows charter schools to maintain positive fund balances, but also empowers school districts to request an adjustment in the funding provided to charter schools. In states where charter schools receive funds in the same way as other schools—such as Georgia, Hawaii, Kansas, New Mexico and Wisconsin—fund balances may be carried over at the discretion of the school district according to the terms of charter.

CHAPTER 7

Facilities and Capital Outlay Financing

Funding adequate facilities—after start-up funding and operations funding—ranks as the biggest implementation problem for start-up charter schools (RPP,2000). Aggravating the problem, charter schools in many areas are viewed as a partial solution to an already existing shortage of space in other public schools. While district schools generally have dedicated funding sources for capital, charter schools with insufficient public funding for facilities pay for facilities out of regular operating funds or raise money from private sources. As a result, the capital funding issue is not just a matter of bricks and mortar—it has implications for the quality of education. Class size may be higher, teacher salaries lower or instructional materials lacking. Or schools may have to eschew services such as transportation.

Charter schools that lease facilities through commercial landlords usually pay property taxes to local school districts as part of the rent. Lenders, investors and property owners often regard charter schools as risky and charge a premium, or refuse to do business altogether. The private sector capital supporting management companies helps company-run schools on the facilities issue, but it puts parent-run and grassroots charter schools at a disadvantage. Capital provided by management contractors may also endanger the independence of nonprofit charter school boards to monitor and enforce contracts. One of the stronger arguments for public and private conversion schools is that they do not face the daunting facilities problem.

Charter schools in many states are unable to take advantage of the low-cost financing available to school districts through tax-exempt bonding authority. Tax-exempt financing of charter school facilities, however, is rapidly spreading in Michigan and Colorado, and Texas. Although tax exempt, the higher risk carried by charter school securities results in interest rates substantially higher than those obtained by school districts.

While most states attempt to provide operating funds to charter schools on the same basis as school districts, states have been reluctant to provide comparable capital financing.

Facilities for charter schools represent new costs in all but the fastest growing states, where new schools would have needed to be built anyway. States enacted the first charter school laws in the early 1990s during an economic recession. Viewed as a no-cost reform, operating funds followed students from school districts to charter schools. New facilities complicated the cost neutrality, especially if vacant space existed in school districts. There also may have been expectations that charter schools had an obligation to bring private sector resources with them, especially facilities. The ability to procure facilities was seen in part as an acid test of an individual charter school's viability. Today, with state coffers full, the "no cost" approach to charter schools now proves less compelling, and legislative action in many states seeks to provide more capital financing for charter schools; some states in fact provide charter schools with substantial capital funds.

Capital Spending in School Districts

As a rule of thumb, school districts devote about 10 percent of education spending to debt retirement and capital outlay for equipment and renovation. In fast-growing states and school districts, capital expenditures usually exceed this level, and in low-growth states and mature cities, capital spending consumes a smaller share of the budget. The fiscal health of a community or state also determines spending on capital facilities. States and school districts often allocate general operating funds to equipment and renovation during periods of revenue growth. Similarly, capital expenditures fall to the budget axe during periods of fiscal decline. The variation in facilities funding over time, among states, and among school districts within states makes it difficult to determine what comparable capital financing for charter schools would look like.

In 1997-98, Connecticut spent about $550 per student on debt retirement or about 8 percent of total spending. In Massachusetts, state and local spending on capital averaged $750, about 9 percent of total spending. Minnesota calculates school district average spending on debt retirement as $465, or roughly 7 percent of total spending. In Pennsylvania, debt service consumes about 8 percent of total spending, with another 1.1 percent devoted to capital outlay. On the other hand, a fast growing state like Florida devoted about 14 percent of total spending to facilities construction in 1997-98. Across the country in 1996-97, the average school district spent 6.2 percent of revenue on long-term debt. (Protheroe, 1997).[34]

These state averages, however, belie great variation between school districts. In 1997-98, according to the KPMG–Peat Marwick (1998) study of charter school tuition, debt retirement spending per pupil in five large Massachusetts school districts varied considerably: Boston,$184; Fall River, $115; Lawrence, $520; Springfield, $573; and Worcester, $353. A study of eight school districts in Pennsylvania found that debt service costs ranged from 2.9 percent to 14.8 percent of spending, and capital projects expenditures ranged from nothing to 3.4 percent (Hartman and Keller, 1999). A city like Washington, D.C., over time, demonstrates great variability in capital spending. Under pressure from a court order after years of neglecting its school facilities, the District spent about $600 per pupil, roughly 8 percent of total spending, on capital projects in 1996-97.

[34] When debt is refinanced to obtain a lower interest rate, the amount refinanced is often counted as debt retirement. Consequently, the figures in this paragraph may be inflated.

In 1997-98, capital spending increased to about $1,000 per student, roughly 13 percent of total spending.

If charter schools receive capital funding based on spending in the host district, funding will seldom exactly match the charter school's needs. If the host district has greater capital needs than charter schools, a charter school will receive more funding than necessary. If the host district has lower capital needs than charter schools, charter schools receive less funding than needed.

Facilities Funding for Charter Schools

About half of the charter school states either provide facilities as part of the conversion process or directly provide some facilities funding as shown in the following table.

TABLE 23

Facilities Funding

Some Facilities Funding Provided	Some Assistance Possible	No Funding or Assistance	Provided by School Districts
Arizona, District of Columbia, Florida, Massachusetts,[1] Milwaukee,[5] Minnesota, Rhode Island[6]	Colorado,[2,4] Connecticut,[3] Illinois,[3] North Carolina,[4] Michigan,[7] Texas[3, 7]	Alaska, California,[1] Louisiana, New Jersey, Pennsylvania, South Carolina	California,[1] Georgia, Hawaii, Kansas, Massachusetts,[1] New Mexico, Wisconsin

[1] Horace Mann schools in Massachusetts and conversion schools in California use district-provided facilities.

[2] About one-third of school districts provided about $200 for capital, and some districts provided facilities for charter schools at no charge. School districts must allow charter schools to use surplus school property at no charge.

[3] Revolving loan funds.

[4] Empower bonding authorities to issue tax-exempt securities behalf of charter schools through conduit financing.

[5] Under $100 per pupil.

[6] On case-by-case basis.

[7] Charter schools allowed to issue tax-exempt securities

States Providing Facilities Funding

For most of its charter schools, Arizona provides more facilities funding than surrounding school districts. The District of Columbia provides facilities funding approximately comparable to public schools, as did Massachusetts in 1998-99. Minnesota provided 80 percent funding for lease payments, up to the state average expenditure for debt redemption and capital ($465 per pupil in 1998-99). In 1999-2000, lease aid increases to 90 percent of approved costs up to $1,500 per pupil. Florida and Rhode Island provide facilities funding for some schools. Both Florida and Minnesota improved charter school facilities funding in 1999-2000. In Florida, Minnesota and Rhode Island, funds are narrowly restricted to capital purchases. In Arizona, Massachusetts and the District of Columbia, funds provided for capital can be used for general operating expenditures. School districts, on the other hand, are almost always restricted from using capital funds for general operating purposes. The flexibility offered to charter schools in those states is

often portrayed as an incentive to provide facilities efficiently, but it also raises questions about whether the facilities issue is exploited simply to improve funding.

In Arizona, the state provides generous funding for capital outlay and capital levy expenditures. Some of the funding for state authorized charter schools depends on grade level and school size.[35] The capital outlay revenue limit program provides $195 (large elementary schools) to $330 per pupil (small high schools). The capital levy revenue limit program, which depends on school size but not grade level, provides $195 (large schools) to $300 per pupil (small schools). Regular and charter high schools get $70 per pupil for textbooks, which in Arizona is considered a capital expense. The third capital assistance program ($496 to $569 per pupil) is available only to charter schools. Under the new school capital finance system, school districts get state funding based on need. Average funding totals about $400 per pupil. With voter approval, however, school districts can issue bonds, and several fast-growing school districts have debt retirement costs of $800 to $1,000 per pupil. In addition to extra funding provided by the weighting system, charter schools enjoy more flexibility. School districts can use the capital levy only for equipment. Charter schools get an equal amount and can spend it for any legitimate purpose.

Charter schools in the District of Columbia received a facilities allowance of $617 per pupil in 1998-99. The use of the funds is not limited to capital. The facilities allowance for 1999-2000 increased to $1,058 per pupil, approximately the average per-pupil capital expense in other public schools for the prior fiscal year. Almost all capital improvement programs in other District of Columbia public schools are devoted to the repair of leaky roofs, broken windows, lead paint and asbestos removal, poor lighting, inadequate heating, inoperable bathrooms and other repairs. Some charter schools occupy former district schools and use facility funds for exactly the same purposes.

In Massachusetts, all debt service in excess of State Building Assistance Bureau (SBAB) grants for debt retirement enters the charter school tuition calculation. SBAB funds up to 90 percent of the debt retirement cost of new facilities in cities where facilities construction is an integral component of a racial desegregation plan; otherwise SBAB funds about half of debt retirement costs for qualifying projects, or no funding at all. A KPMG-Peat Marwick study of 33 school districts sending students to charter schools found that two-thirds had some capital expenditure for facilities included in tuition. On average, 63 percent of long-term debt was included in the tuition calculation. In 1998-99, a one-time state appropriation gave charter schools an additional $260 per pupil for facilities funding—approximately equivalent to the annual SBAB average grant. Therefore, total facilities funding for the average charter school approximated the state average in 1998-99. Charter schools can use capital funding for general operating expenditures in Massachusetts.

In 1999, the Florida Legislature established a separate capital outlay trust fund for charter schools with its own annual appropriation. Beginning in their third year of operation, charter schools receive the state's share of the 30-year amortized cost of a "student station"

[35] Charter schools authorized by school districts do not benefit from grade level and size weightings, but they benefit from lucrative transportation funding not available to state-authorized charter schools.

in annual installments. In 1998-99, that annual figure amounted to $387 for each elementary school student, $443 for each middle school student and $587 for each high school student. Charter schools can use capital outlay funds only for capital expenses. Significant, one-time capital funding has also been available for established charter schools through Florida's School Infrastructure Thrift Fund (SIT). This program rewards school districts for finding alternatives to building new facilities. The district in which a charter school had been operating in non-district facilities for at least a year was eligible for one-time payments of $5,800 (elementary) to $8,800 (high school) per pupil attending the charter schools. If the charter school's enrollment grew, the district received additional payments corresponding to the enrollment increase. The state department of education requires districts and charter schools to submit a joint application for SIT funds, with most districts splitting the funds evenly with their charter schools. SIT funds will be available until the one-time appropriation is exhausted, which could occur in 1999-2000.

In Milwaukee charter schools, capital outlay and debt service of the school district are included in the base charter school funding (about $90 per student). Most public school facilities however, are owned and financed by the municipal government. In Washington, D.C., the District government also owns and finances most school district facilities. In Hawaii, all school building and capital improvement projects are financed with cash and must be approved by the legislature as part of the state's capital improvement appropriations (Thompson, 1995).

Rhode Island adopted a more deliberative approach to providing capital funding for charter schools. Considered on a case-by-case basis, a minimum of 30 percent funding of capital costs is guaranteed to those schools deemed to be in need. It is expected that a majority of capital funding will come from private sources and that the public funding will go primarily to the neediest charter schools. The law is so new that funds have yet to be allocated.

Equipment and Capital Outlay in General Fund

School districts typically spend 1 percent to 2 percent of their general operating funds on equipment, furniture and minor renovations. A study of eight school districts in Pennsylvania found capital projects expenditures ranged from nothing to 3.4 percent, averaging 1.1 percent (Hartman and Keller, 1999).

Although clearly insufficient for start-up purposes, most of the resources for capital outlay financed from general operating funds in school districts are passed on to charter schools. In most states, capital outlay funded by general operating revenue is included in the base revenue calculations. In addition to the facilities allowance in Washington, D.C., another $150 per pupil, representing equipment purchases, is imbedded in the base funding formula. North Carolina and Rhode Island also include some capital outlay spending in the average per-pupil cost used to derive charter school funding. The tuition calculation in Massachusetts includes school district costs for acquisition, improvement and replacement of fixed assets (primarily equipment, furniture and minor repairs), as well as expenditures for rent and instructional equipment, averaging about $400 per pupil.

Programs To Improve Access to Capital

While falling short of direct financial assistance for facilities, several states and private entities help improve access to capital, lower the cost of borrowing or provide technical assistance.

Access to Low-cost Financing. Two states empowered existing bonding authorities to issue tax-exempt securities on behalf of charter schools through conduit financing (Hassel, 1999; Caldwell and Arrington, 2000). The Colorado Educational and Cultural Facilities Authority (CECFA) expanded the list of eligible beneficiaries to include organizations that "provide an educational program pursuant to a charter from a school district." North Carolina expanded the mandate of the Educational Facilities Finance Agency to include any "nonprofit institution within the State of North Carolina authorized by law and engaged or to be engaged in the providing of kindergarten, elementary, or secondary education, or any combination thereof." To date, the North Carolina authority has not been willing to actually issue any securities for charter schools.

The CECFA issues the bonds and loans the proceeds to Colorado charter schools after charging transaction fees of $20,00 to $30,000. The bonds issued are "non-course" to CECFA, which means that responsibility for repayment is limited to the charter school and investors will focus on creditworthiness of the charter school rather than the CECFA. Six charter schools have already obtained tax-exempt financing to refinance, purchase or build facilities (Caldwell and Arrington, 2000) Together, the six schools raised over $23 million in financing at an interest rate between 6 percent and 7 percent, cutting borrowing costs in half compared to commercial lenders.

While no state facilities assistance is provided, the Michigan charter school law specifically allows charter schools to issue tax-exempt securities. Based on an Internal Revenue Service ruling that did not specifically disallow the practice, numerous charter schools have successfully obtained tax-exempt financing to purchase or build facilities. Typically, an investment company secures financing for the charter school for which it earns a fee. In addition to interest, the lender receives points and holds a reserve of about 10 percent. The fees and reserve are capitalized into the financing so no down payment or other up-front money is required. The universities that authorize charter schools usually must agree to forward payments directly to lenders on behalf of the charter school.

In 1999, the Texas legislature specifically allowed charter schools to issue tax-exempt securities. North Hills Prep became the first charter school in Texas to secure tax-exempt financing. Charter schools directly issue the securities with the help of investment banking firms as in Michigan, rather than through a conduit bonding authority as in Colorado.

Revolving Loan Funds for Charter Schools. In Connecticut, the Health and Educational Facilities Authority makes direct loans to Connecticut charter schools in amounts up to $150,000. The five-year loans carry interest rates of 5.9 percent. The privately established Financial Foundation for Texas Charter Schools provides working capital rather than facilities. With an interest rate of 4-5 percent, the loans are administered by a national bank. The Chicago school district established a $2 million revolving loan fund

administered through the Illinois Facility Fund, a nonprofit community development loan institution. Revolving loan funds also exist in California and Louisiana.

Incentive To Supply Facilities. Some states encourage local school districts, other governmental entities, property owners, employers and real-estate developers to provide facilities for charter schools. In Washington, D.C., charter schools can bid on favorable terms when vacant schools go on the market. If school districts provide vacant facilities to charter schools in Colorado, no rent can be charged. Florida allows employers to establish charter schools and to reserve school seats for children of employees if the employer invests substantially in school facilities. Only excess seats are available for other students. Arizona has considered legislation that would allow developers to claim a substantial tax credit for subsidizing charter school facilities and then give admissions preference to development residents.

Lengthening Term of Charter. Investors called upon to make 15- to 30-year commitments to charter schools are often concerned about charter renewals every 3 to 5 years. Arizona lengthened the term of charters to as many as 15 years. Florida recently enacted legislation that allows school districts to issue 15-year charters. Policymakers in other states may regard such long terms as antithetical to the accountability of charter schools.

CHAPTER 8

Other Financial Issues

A number of other financial issues need to be addressed in order to create a complete picture of charter school finance. These issues include private funding of charter schools and charter schools participation in teacher retirement systems.

Teacher Retirement

Teacher retirement systems represent an important component of the teaching profession. They predate teacher unions by several decades and are important to maintaining a stable, experienced workforce. If charter schools are prohibited from participation, or choose not to participate based on short-term financial incentives, the effectiveness of charter schools in obtaining a stable teaching force may be compromised.

Of the 23 states and two cities examined, 11 states mandate that all certified teachers must participate in the appropriate public employee retirement system. Twelve states and two cities specifically exempt charter schools from participation in at least some circumstances.

TABLE 24

Participation of Certified Teachers in Teacher Retirement System

Mandatory	Not Mandatory in Some or All Situations
Alaska, Colorado, Hawaii, Illinois, Kansas, Massachusetts, Minnesota, New Jersey, New Mexico, Rhode Island, South Carolina	Arizona, California,[1] Connecticut,[1] Delaware, District of Columbia, Florida, Georgia,[3] Louisiana,[2] Michigan,[3] Milwaukee,[4] North Carolina, Pennsylvania,[5] Texas,[3] Wisconsin[4]

[1] Teachers decide.

[2] All but one school currently participate in Louisiana, and all currently participate in Delaware.

[3] Exemptions for management contractors only.

[4] Charter schools that are not an instrumentality of a school district are excluded. Only one of 40 Wisconsin schools outside of Milwaukee is not an instrumentality. Most Milwaukee charter schools are not instrumentalities.

[5] Must have some kind of retirement plan.

The states without mandatory pension coverage deal with the issue in a variety of ways. Louisiana guarantees that teachers on leave from public schools will be able to maintain their membership in the state retirement system. The charter school itself must address the issue of whether new hires will be covered by the state system. Only one school in Louisiana currently provides an alternative plan for new employees. This charter school pays for Social Security. Louisiana is one of several states where all public school teachers are exempt from contributing to Social Security if they participate in a state teachers retirement plan. As shown in Table 25, exemption from Social Security predicts high charter school participation in state retirement systems.

The governing board of charter schools in Florida decides whether its employees will participate in the state retirement system. In Pennsylvania, employees must participate in the appropriate state system unless the nonprofit corporation holding the charter has an alternative plan. No requirements exist for what this plan must do. In Texas, employees who work directly for charter schools are considered public employees who must be enrolled in the appropriate plan. However, if charter schools contract for personnel with an employment agency, staff are not considered public employees and are left to whatever arrangements the private agency chooses to make. In Michigan, the exemption of private contractors from participation in the state retirement system resulted in several schools switching to management companies.

TABLE 25

Participation of Charter Schools in Teacher Retirement System, 1998-99

	Participation of Schools		Participation of Schools
Alaska[1]	all	Louisiana[1]	all but one
Arizona	about 25 %	Massachusetts[1]	all
California[1]	most	Michigan	50 of 141
Colorado	all	Minnesota	all
Connecticut[1]	12 of 16	New Jersey	all
Delaware	all	New Mexico	all
District of Columbia	none	North Carolina	16 of 57
Florida	none	Pennsylvania	28 of 31
Georgia	all	Rhode Island	all
Hawaii	all	South Carolina	all
Illinois[1]	all	Texas[1]	82 of 87
Kansas	all	Wisconsin[2]	about 80%

Source: Telephone survey of retirement systems.

[1]Public school teachers exempted from old-age assistance portion of Social Security.

[2]Includes Milwaukee.

The actual participation rate of charter schools is shown in Table 25. Florida, Arizona, the District of Columbia and North Carolina have the lowest participation rates. Reflecting the high percentage of private management contracts in Michigan, only 50 of 141 charter schools participate. On the other hand, some states allowing exemptions such as California, Connecticut, Pennsylvania and Texas experience a high rate of charter school participation in state retirement systems. Among the states without mandatory charter school inclusion in state retirement systems, California, Connecticut and Texas are states where public school teachers participating in the state retirement plan are exempted from the old-age portion of Social Security. Teachers play key roles in making decisions about retirement systems in California and Connecticut.

Some evidence indicates that charter schools opt out of state retirement systems for financial reasons. Exemption from the state retirement system is a frequently mentioned explanation for the growth of private management contractors in Michigan (Horn and Miron, 1999; Prince, 1999b). Where charter schools can choose to opt out, the retirement plan participation rate remains high in states where all public school teachers are exempted from Social Security by participating in the state teachers retirement plan. On the other hand, opting out of conventional retirement systems allows charter schools to offer innovative retirement plans. Individual charter schools may offer more generous employer contributions. Exemption from the one size fits all statewide plans may lead to retirement plans that are more appealing to charter school teachers. Innovations could include portability across state lines, shorter vesting periods and ability to borrow against savings.

Opting out of state retirement systems may lead to financial savings. However, the resulting reduction in contributions to a retirement system is not necessarily more efficient for employees, the larger community or the state. While some may argue that retirement benefits are peripheral to the question of educational costs, reductions in retirement benefits may impede the ability of charter schools to attract a stable teaching staff over time.

Private Funding

The primary goal of our report is to investigate state charter school funding laws and practices. Yet private funding plays an integral role in the charter school concept. Beckwith, et al., (1998) found that fundraising was essential in Illinois. The UCLA study of charter schools in California (Wells, 1999) found that not only was fundraising essential in California but that some charter schools had clear advantages over others in their ability to generate private funds.

Some research shows a growing trend toward private contributions to traditional public schools. Although foundations created specifically to support school district activities are becoming more common, the average amount raised by school district foundations is only 0.3 percent of the school district's total budget according to Merz and Frankel (1997). In Michigan, Adonizio (1999) found that the number of public school district foundations grew from five to 153 between 1981 and 1997. In 1995, the average amount raised by a

district foundation was $17,024. Private foundations also provide funding directly to school districts with first being channeled through a school district foundation.[36]

Analysis of the extent to which charter schools and school districts rely on private fundraising may be impeded by limited reporting requirements for private contributions. Massachusetts and Minnesota require that financial statements include information on private contributions in the annual report. In other states, gift giving reported in financial statements may underestimate the amount of private fundraising both for school districts and for charter schools. In school districts, donations to school foundations, which are incorporated as nonprofit foundations and booster clubs, generally do not have to be included in school district financial reporting. Since nonprofit boards generally govern charter schools, private fundraising of the board may not be accounted for in the charter school's financial statements. Many charter schools have their own nonprofit foundations created to raise funds.

In order to help readers evaluate the role that private funding plays in charter school financing, a review of the 1996-97 annual reports of 10 Massachusetts charter schools was conducted.[37] The reports indicate major differences in fundraising but that overall, the reliance of charter schools on private funding may be overstated. One of the schools aggregated private giving with restricted federal funds, making analysis impossible. One charter school raised revenues from private funds equal to 25 percent of the tuition it received from the state. The administration at the Academy of the Pacific Rim, according to its annual report, made a conscious decision not to do extensive fundraising; and overall, four of nine schools with data raised revenue from private sources equal to less than 2 percent of the tuition received. Three other charter schools raised funding from private sources equal to between 5 percent and 12 percent of tuition revenue.

A review of six audits conducted in Florida revealed a similar range of private support.[38] Two schools reported receiving no private funding. One small school for at-risk students reported private funding amounting to 17 percent of revenues. The other three reported private fundraising amounting to between 2.7 percent and 5.5 percent of total revenues, again showing that the reliance of charter schools on private funding may be overstated.

Private funding may help knit communities to schools, which is sometimes mentioned as an important goal of the charter school experiment. Yet the issue of private financing for

[36] Private funding from individuals or foundations is not separately reported in federal data collections and is usually recorded as local or miscellaneous revenue. Information is available for Massachusetts from preliminary work on subsequent tasks of the National Charter School Finance Study. Based on state uniform financial reporting, we calculate that "private funding" totaled $8 per pupil in the host school districts of charter schools in 1997-98. Based on audited financial statements, charter schools averaged $147 in private foundation funding and $140 from fundraising and donations.

[37] The schools examined were the SABIS International School, Neighborhood House Charter School, Lawrence Family Development Charter School, Francis W. Parker Charter School, Community Day Charter School, City on a Hill Charter School, Chelmsford Public Charter School, Atlantis Charter School, Boston Renaissance Charter School and the Academy of the Pacific Rim.

[38] The Florida schools examined were the Orange Avenue Charter School, Rays of Hope Charter School, Okaloosa Academy, Micanopy Charter School, Academie Da Vinci Charter School and the One Room School House.

charter schools raises many public policy questions. When charter schools rely on private funding to be successful, it may signal that too few resources are devoted to traditional public education. Reliance on private financing could also indicate that charter schools receive insufficient public funds or that charter schools are not financially viable when supported solely by public funds. The concept of public education itself may be threatened when private funding brings private advantages. Such an arrangement exists in Florida where employers that provide facilities can reserve slots for children of their employees. This increasingly controversial issue affects all aspects of public education, not just charter schools, as reflected in debates over corporate sponsorships, vending rights, advertising in educational programming, and the conflict over school to work programs.

CHAPTER 9

Comparability of Charter School and School District Funding

At a superficial level, it is relatively easy to compare charter school and school district finances. For example, in New Jersey a charter school receives 90 percent of the per-pupil operational revenue in the district sending a student to the charter school and none of the capital funding. In Colorado, some charter schools receive 80 percent of the per-pupil operating revenue. In a majority of states, charter school students do not bring capital funding with them. These comparisons indicate that charter schools are generally funded at a lower rate than school districts.

Without an understanding of the specific educational tasks that charter schools undertake, including the types of students they seek to educate, it is difficult to assess funding comparability with school districts. Each comparison of a charter school to a school district running several schools will be somewhat different. A number of factors support the observation that charter schools receive less funding than school districts:

- Charter schools sometimes receive less than 100 percent of operating revenue.

- Charter schools usually do not receive funding to finance facilities and debt in a manner equivalent to district resources.

- Charter schools do not necessarily have equal access to all of the revenue streams school districts have access to.

- Charter schools may be required to pay administrative fees either to school districts or to chartering authorities without receiving offsetting services.

- Charter schools focused exclusively on special needs and at-risk students may be substantially underfunded.

However, several mitigating factors need to be considered in judging funding comparability.

- Charter schools may receive services (e.g., oversight, transportation, special education assessment and financial services) "in-kind" from school districts. The value of these services may not be measured in charter school revenue calculations.

- School districts may fund preschool programs for at-risk children, private school services, community outreach, adult education and other activities, funding for which may be justifiably withheld from charter schools providing basic K-12 education.

- Charter schools can configure their grade level structure and enrollment in order to generate optimal funding. They can set limits on enrollment and use waiting lists to maximize funding efficiency (e.g., optimal class sizes and staffing ratios) by quickly replacing students leaving the school.

- Charter schools usually serve a smaller proportion of special needs students compared to host districts, but in some states the charter schools may receive revenues based on an assumption that their special education population will match the school district average.

- Many states allow charter schools to avoid expenditures for such items as transportation or teacher retirement without compensating decreases in revenues.

Previous chapters of our report examined these complex issues. The information in Table 26 summarizes many of the findings and also draws on information from the state profiles in the appendix. The rows in Table 26 describe the comparability of specific features of charter school funding to school district funding. *Less* or "L" indicates that charter schools have a funding disadvantage for a particular feature of the funding system relative to the host school district. *Comparable* or "C" indicates that the funding is comparable relative to the host district for a particular aspect of the funding system. *More* or "M" indicates that charter schools receive more funding than the host school district to accomplish the same task. "M" also indicates that charter schools get funding for services they may not provide such as adult education, preschool and payments to private schools for special education. The degree to which charter schools get less or more funding requires more detailed analysis; for this, the reader is referred to the state profiles in the appendix.

A common table entry is L/C/M, indicating that a comparability assessment depends on the specific characteristics of the charter or the school's students and programs. Financial comparability is uncertain in states like Colorado where negotiations over financial issues represent an important aspect of the charter. Uncertain comparability also arises in several states that fund charter schools based on average school district costs or revenues. Charter school funding in these states is comparable to host districts only when the student body resembles the host district's student body. Otherwise, inequities emerge regarding revenue for special education, at-risk students, transportation and other funding designated for students or specific purposes. Charter schools with high-cost students and programs are not funded equitably.

TABLE 26
Funding of Charter Schools Compared to Host School District

	AK	AZ	CA	CO[a]	CT	DC	DE	FL	IL[b]	LA	MA	MI	Milw	MN	NJ	NC	PA	RI	SC	TX
Base funding	C	C	C	L/C/M	L/C/M	C	C	C	L/C/M	C	C	L/C[c]	C	L/C/M	L/C[d]	C	C[k]	C	C	C
Elementary and middle[e]	M	C	M	M	M	C	C	C	M	M	M	M	M	C	C	M	M	M	C	M
Secondary	L	C	L	L	L	C	C	C	L	L	L	L	L	C	C	L	L	L	C	L
Size/sparsity/cost	C	M	C	C	L/C/M	C	C	C	C	C	C	C	C	L/C/M	C	C	C	C	C	C
Few special needs pupils	M	M	C	C/M	M	C	C	C	M	M	M	C	M	C	M	M[f]	M[f]	M	C	C
Average special needs	C	C	C	C	M	C	C	C	C	C	C	C	C	C	C	C[f]	C[f]	C	C	C
Many special needs pupils	L	L	C	L/C	M	C	C	C	L	L	L	C	L	C	L	L[f]	L[f]	L	C	C
Few low-income pupils	C	M	C	C/M	M	M	C	C	[g]	C/M[h]	M	C	M	C	C	M	M	M	C	C
Average low-income pupils	C	C	C	C	C	C	C	C	[g]	C	C	C	C	C	C	C	C	C	C	C
Many low-income pupils	C	L	C	L/C	L	L	C	C	[g]	L	L	C	L	C	C	L	L	L	C	C
Transportation	C	C/M	C	L/C	C	C	C	L	L	C	C	C	C	C	C	C	M	C	L	C
Capital and facilities	L	L/C/M	L	L/C	L	C	L	L/C[j]	L	L	L/C[j]	L	C[j]	L/C[j]	L	L	L	L/C[j]	L[i]	L
Teacher retirement	C	C/M	C/M	C	C/M	C/M	C/M	C/M	C	C/M	C	C/M	C/M	C	C	C/M	C/M	C	C	C/M

L = Less, C = Comparable, and M = More funding for charter schools relative to host school districts.
Excludes GA, HI, KS, NM and WI (except Milwaukee) because charter schools are funded on the same basis as traditional public schools.

[a] Table entries (except base funding in first row) based on 100 percent funding. Funding can vary from 80 percent to more than 100 percent.
[b] Table entries (except base funding in first row) based on 100 percent funding (e.g., Chicago). Funding can vary from 75 percent to 125 percent.
[c] Comparable (C) up to about $6,000, then less (L).
[d] Charter schools in New Jersey receive 90 percent of base funding, but the base includes transportation (5.4 percent) and private school support (1.4 percent).
[e] Assumes that elementary and middle schools have same cost because there is no consistency among states as to which costs more.
[f] Low-cost special needs students get average special needs funding.
[g] In Chicago, funding is comparable. All school districts can adjust charter school funding in the 75 percent to 125 percent range to achieve comparability.
[h] All charter schools in Louisiana are required to have concentrations of low-income students equal to at least 85 percent of the district average.
[i] Many charter schools are housed in public school facilities and therefore get comparable facilities.
[j] Gets significant, but not necessarily comparable, capital funding (see text).
[k] Base funding does not include transportation, private school services, adult education and other expenditures not normally provided by charter schools.

Federal funding is not assessed in this table because federal funding for charter schools should be comparable to public school districts under federal law. The only source of variation among states in federal funding comparability would depend on whether charter schools qualify for funding as part of a district or as an LEA. A GAO report indicates no difference.[39] Some charter schools may not find it worthwhile to seek small amounts of federal funding. Other charter schools may reject federal funding in order to avoid reporting requirements. These issues are more fully discussed in Chapter 3 on methodology. Funding comparability is not assessed for Hawaii, Kansas, New Mexico and Wisconsin because charter schools in these states are funded on the same basis as other public schools as determined locally by authorizing school districts.

In the first row, "base funding" is an estimate of the degree to which charter schools receive 100 percent of the base operating revenue or expenditures obtained by the school district in which the charter school is located. Base funding excludes capital, transportation and programs for students with special needs. These issues are addressed elsewhere in the table. A majority of states adhere to the 100 percent funding concept. Colorado and Illinois allow funding of varying percentages to account for the unique circumstances of charter schools. Some schools are funded at less than 100 percent, and some are funded at higher levels. 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 percent of base funding, but the base includes transportation (5.4 percent) and private school support (1.4 percent).[40] Charter schools can also appeal to the state commissioner of education to increase the percentage above 90 percent. So in New Jersey, base funding can be rated as comparable.

The next two rows address the question of grade level funding. By definition, K-12 charter schools are funded comparably to K-12 school districts.[41] Most experts agree that elementary school students are less expensive to educate than high school students.[42] Thus an elementary charter school receiving funds based on K-12 averages has an advantage compared to a regular elementary school. Charter high schools face a funding disadvantage. Hence, the table gives an "M" rating to elementary charter schools and an "L" rating to charter high schools. States that use grade level weights for charter schools receive a "C" rating even though it is unclear whether the state weightings for grade level

[39] In Charter Schools: Issues Affecting Access to Federal Funds (U.S. GAO, 1997), the GAO noted that Title I funds for low-income children and special education funds are allocated to schools that meet established federal, state and local demographic criteria. Although charter schools treated as school districts avoid having to meet additional criteria used to distribute funds beyond the district level, these charter schools are no more likely to have received Title I and special education funding than are the charter schools which are treated as components of existing school districts.

[40] Districts provide transportation services directly to charter schools, so including transportation in the allocation as well would be a double payment. The percentage data for New Jersey are from Wynn (1995).

[41] In states, like California, Illinois and Massachusetts, some K-12 charter schools may get funding from elementary school districts or high school districts. These situations are not considered.

[42] See for example Levin, 1999. There may well be instances, however, where elementary programs are more expensive because of lowered class sizes and intensive education programs.

accurately account for all the additional costs of educating particular grade populations in school districts.

The next row contains a rating of how charter school funding matches up to its host district as a result of geographic variations in funding. Such variations include those based on local wealth and tax effort, as well as those based on formula adjustments for factors such as cost of living, school/district size and sparsity. Arizona is the only state that gives charter schools an advantage over school districts. Small charter schools, including those schools in large urban areas, receive significant small-school funding adjustments normally intended for small school districts. In Connecticut and Minnesota, charter school funding is not linked to local school districts, so comparability varies with characteristics of the host district.

Special education funding comparability is evaluated for charter schools that have either fewer special needs students than school districts, a comparable special needs population or more special needs students than school districts. Many states, such as Massachusetts, and Rhode Island, pass along all or almost all special education funding to charter schools whether or not charter schools enroll more or fewer special education students than school districts. Charter schools with higher percentages of special needs students get insufficient funding, while charter schools with few special needs students are able to divert special education funding to other areas. In states where the special education weightings or categorical funding is insufficient and a significant amount of general operating funds are used for special education, the same dynamics apply, albeit to a lesser degree. States that specifically fund special education costs, such as Delaware, the District of Columbia, and Florida, either through an adequate weighting formula or through reimbursement, are rated as comparable in the table. States where school districts either pay for or provide special education services to charter schools are also classified as comparable states. In North Carolina and Pennsylvania, school district average spending on special education follows special education students regardless of the cost of services for the disability. Thus, high-cost special needs students are not comparably funded, and low-cost students are more than comparably funded.

The three rows following special education address funding comparability for low-income students broadly defined to include programs and weightings for at-risk students and compensatory education. The dynamics are similar to those discussed for special education and grade level adjustments. If states provide charter schools with extra funding for low-income students, the charter school funding system is judged as comparable. States using low-income weightings or categorical funding—such as California, Florida or Michigan—are generally labeled as comparable if charter schools generate funds based on their own enrollment. When charter schools simply get the low-income funding incorporated in school district averages, the problem of underfunding for charter schools with high numbers of at-risk students emerges.

Transportation funding comparability is judged on whether charter schools get transportation funding approximating the school district average, or directly receive district-provided transportation. In some states, such as Arizona, transportation funding can

be used for any legitimate purpose. In states like Michigan and Louisiana, school districts provide all transportation funding from general operating revenues. Consequently, charter school transportation funding is comparable in Michigan and Louisiana even if there is no special revenue stream for transportation and even if transportation is not provided. About 75 percent of states provide comparable transportation funding or services. Pennsylvania is the only state where charter school students clearly get more transportation services because they are entitled to transportation outside school district lines in some circumstances. District-authorized charter schools in Arizona get lucrative transportation funding, but state-authorized charter schools do not. In Connecticut and several other states, charter schools get transportation from school districts, so funding is judged as comparable even though state aid covers only part of the cost.

The second to the last category concerns capital funding comparability. Arizona is the only state where charter schools get more capital funding than equivalent public schools, primarily because charter schools are funded like small school districts, not like the school districts in which they are located. A footnote identifies states where charter schools have access to some capital funding, but not necessarily to the entire range of capital funding available for school districts. About half of the states provide no financial assistance for facilities.

The final row addresses the issue of charter school payments to the public employee retirement systems. Teacher retirement system payments are similar to school district transportation and special education costs paid from general operating funds. In states where charter school teachers must belong to the state teacher retirement system, funding is judged comparable. In states where charter schools can opt out of the retirement system, charter schools can divert revenue typically used for employee benefits to other purposes.

Reading across the rows provides a good summary of how the bulleted points included at the start of this chapter play out across the states. When differences in responsibilities are taken into account, base per-pupil revenue is essentially comparable between charter schools and school districts. Grade level funding is skewed to give charter elementary schools an advantage over traditional elementary schools in 13 states. These same 13 states place charter high schools at a disadvantage. A dozen of the states provide comparative funding disadvantages to charter schools with higher concentrations of special education students or with special education students with greater degrees of disability. These same systems provide charter schools with funding advantages when they have fewer special education students than the district average or have fewer students with greater degrees of disability. The one area where charter schools are consistently left at a disadvantage compared to traditional districts is capital finance. Only Arizona provides more generous funding to charter schools, and 14 systems leave charter schools with less funding per pupil for capital than found in school districts.

Placing a dollar value on how much funding charter schools receive compared to school districts is a difficult task without detailed revenue allocation figures for school districts and charter schools. The state profiles in the appendix contain more precise estimates.

Future reports of the National Charter School Finance Study will contain comprehensive revenue and expenditure data that will make it easier to assess comparability issues.

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Appendix

This appendix contains the state profiles that formed the basis of the analysis provided in this report. They detail each state's finance system as well as information on expected funding levels for charter schools in a variety of circumstances. The tables provide a breakdown of how different pupil characteristics affect overall funding and how funding varies across type of school. State officials were consulted during this process, and they reviewed each profile.

The text entries describe funding practices and issues related to finance such as financial reporting, participation in state retirement systems, and asset ownership issues. The tables illustrate how charter schools generate a per-pupil amount of funding (expressed as funding per member rather than funding per pupil served by a specific program) in a variety of circumstances that depend primarily on variations in the type of students enrolled. Each table provides funding estimates for three hypothetical charter schools (described fully in the methodology section of this report). The hypothetical **basic elementary charter school** enrolls no special needs or at-risk students and is generally located in a district with state average geographic and financial characteristics. The hypothetical **middle cost K-12 charter school** is located in the same district as the basic elementary charter school, but has a population closely matching the state average student population regarding grade level, at-risk and special needs characteristics. In most instances, the hypothetical **at-risk upper grade charter school** has double the state average enrollment of special needs and at-risk students and is located in a big city.

Generally, each hypothetical charter school has a population of 100 students (a number that allows easy conversion to percentages). In instances where funding varies by school size, the population sometimes varies from 100 students to highlight the impact of school size on funding levels. Arizona, for example, has 500 students enrolled in the hypothetical basic elementary school. In the first section of each state table, the column FTE (full-time equivalent) or WFTE (weighted full-time equivalent) provides an enrollment breakdown by student type. Because FTE students are sometimes counted twice (e.g., first as a regular student and then as a special education student), the breakdown of FTE students does not necessarily add up to 100.

Subsequent sections of each state table provide information on base funding and categorical funding expressed as dollar amounts per FTE pupil ($/Member) – including states with a pupil weighting system of funding – averaged across the entire membership rather than pupils served in specific programs. In the New Jersey middle cost K-12 charter school, for example, four Tier II special education students each generate $3,024 in state categorical aid for combined additional funding of $12,100. Averaged over the entire membership of 100 students, the additional funding is $121 per member. Table entries are always expressed in "per member" amounts. Federal funding includes the average dollar per member that each school's population should generate for Title 1, limited English proficient, and special education students as explained fully in the methodology section of the report. Start-up funds and food service revenue are not included. Capital funding is a table entry, but not a component of "total revenue."

Alaska

Base Funding: Authorized by school districts, charter schools are entitled to 100 percent of state operations funding based on average per-pupil revenue. School districts, however, can charge for indirect or administrative costs approved by the state for an amount up to 22 percent of funding. Charter schools are classified as either alternative schools or independent schools. Alternative schools enroll fewer than 200 students and are considered a part of the district school with the largest average daily membership (ADM). Independent schools enroll more than 200 students and exist as their own entity. As a result, independent charter schools benefit from increased funding weights associated with school size.

Adjustments for School Size and Cost Differentials: An area cost differential accounts for regional cost-of-living differences. The index averages 1.27 with Anchorage's index at 1.00. A school size factor allows more funding for smaller schools to account for higher costs in low populated areas. Independent charter schools (more than 200 students) benefit from greater funding due to the adjustment for size. The very small dependent schools benefit from the size adjustment only to the extent that the district school with which it is associated belongs to generates small school funding. The state department of education specifically designed this incentive to encourage charter schools to reach a certain efficiency level.

Categorical Funds Including Special Education and Bilingual Education: Categorical funds are folded into a single block grant under the umbrella of "special needs." Charter schools are eligible for these funds if they provide required services for special needs students. ADM adjusted for size and cost differential is multiplied by the special needs factor of 1.20. Funding is the same no matter how many students are served or how many programs are provided. This 20 percent funding includes dollars for vocational education, special education (except intensive special education), gifted and talented programs, and bilingual/bicultural services.

Low-Income Students: Alaska has no low-income, at-risk or compensatory aid program.

Transportation: Charter schools are not required to provide transportation to students. Some charter schools receive *incidental* transportation service from the state if the student lives within the attendance center. These students do not cost the state any additional money, and the state does not establish any additional routes for charter school students.

State Start-Up Assistance: None.

Capital Outlay and Facilities Assistance: None.

Timing of Payments: Charter schools maintain their financial accounts with the school districts and receive funding monthly from the general operating budget.

Financial Reporting: Financial reporting is blended with school district reporting. No independent audits are required.

Acquisition of Debt and Disposition of Assets: Charter schools may acquire debt, but assets revert to the school district if the charter school dissolves.

Correspondence Schools: An exception to funding rules is made for schools not following traditional models including cyber-schools and home schooling. In these situations, schools are funded at what has been determined as a "correspondence school level" equal to approximately 80 percent of the base student allotment. Thus, funding for fixed costs in regular schools is not available to correspondence schools.

Property Issues: A charter school recently attempted to build its own building using private funds and then lease the building back to the school district. This request was denied because the state department of education viewed the arrangement as a conflict of interest.

Alaska	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations						
Basic K-12	200	200.0	200	200.0	200	200.0
School size factor[a]		+ 72.0		+ 72.0		+ 72.0
subtotal		272.0		272.0		272.0
District cost factor[b]		x 1.237		x 1.237		x 1.000
Special needs factor[c]		x 1.0		x 1.2		x 1.2
Subtotal		336.5		403.8		326.4
Special education	0	0.0	36	0.0	72	0.0
Bilingual	0	0.0	25	0.0	50	0.0
Vocational/gifted	0	0.0	10	0.0	20	0.0
Enrolled in Title I	0	0.0	19	0.0	38	0.0
Total weighted FTE[d]		336.5		403.8		326.4
1. Basic need[e]	$ 6,628	$ 3,940	$ 7,954	$ 3,940	$ 6,430	$ 3,940
2. Transportation[f]	$ -		$ -		$ -	
3. Federal funding						
Other federal programs	$ 91		$ 91		$ 91	
Title I	$ -		$ 125		$ 250	
Special education	$ -		$ 51		$ 101	
Bilingual and immigrant	$ -		$ 9		$ 18	
Total revenue	$ 6,719		$ 8,230		$ 6,890	

ASSUMPTIONS: All schools enroll 200 students (independent schools). Basic elementary charter school has no special needs program. Middle cost K-12 charter school population reflects the state average. At-risk upper grade charter school has twice the state average concentration of special needs students and is located in Anchorage.

[a] In a 200 student school, small size adds about 72 students to the WFTE.
[b] District cost factor accounts for disparity in cost of living across the state. State mean is 1.237.
[c] Special needs factor is equal to 1.20. This factor accounts for all categorical programs including special education (except intensive special education), gifted and talented, vocational education, and bilingual education. Middle cost school enrolls 30 special education students, 25 bilingual students and 19 qualify for Title I programs. At-risk school has twice the concentration of these students.
[d] FTE plus school size factor, multiplied by district cost factor, multiplied by special needs factor.
[e] Basic need factor includes required local contribution, Title VIII Impact Aid and state aid.
[f] Charter schools receive transportation funding in-kind from the state if the state decides to provide it. Average state transportation funding is about $725 per member.

Arizona

Arizona charter schools obtain funds in two ways. State-authorized (including both the state board of education and the state charter school board) charter schools get base support, transportation and capital funding as if they were school districts. School districts also authorize charter schools that are independent of the school district and funded under almost the same formula as state-authorized charter schools. With district-authorized charter schools, school size weightings are based on district characteristics, and transportation funding is significantly higher than for state-authorized schools. These schools generally are not located in the authorizing district.

Base Funding: Arizona basic support for school districts and charter schools alike started with a foundation of $2,533 in 1998-99. Funding for maintenance and operations, transportation and capital expenditures is added to the base funding. With the exception of some capital funds, state funds are considered block grants to districts. School districts are not required to direct funding to any specific programs; as a result, capital outlay monies can be budgeted for maintenance and operations. Beginning in 1999-2000, charter schools will be able to spend capital funding for any purpose.

Grade Level Weights and Adjustments for School Size: Small school districts in Arizona get more funding. High school students also generate extra funds. Funding for state-authorized charter schools is adjusted for individual school size. The weighting ranges from as high as an additional 50 percent of the base support level for a small (less than 100 students) high school to no increase in the base support level for a large (more than 600 students) elementary school. Arizona provides less funding for large charter schools to account for expected efficiencies of larger schools.

Special Education and Bilingual Programs: Special education and bilingual education are accounted for in the basic formula through add-on weights (see table for weights). A weight for high-incidence lower-cost handicaps such as learning disabilities, mental retardation and the emotionally disturbed is applied to all students (not just the handicapped) ranging from approximately 16 percent of funding for elementary students to 27 percent for high school students. Charter schools receive this funding whether or not they enroll special needs students or provide services. High-cost handicaps and residential

and private school placement are funded through additional add-on weights.

At-Risk Funding: Discretionary grants are available for K-3 at-risk programs.

Adjustment for Longer School Day: Charter schools are eligible for an additional 3 percent of funding (increasing to 5 percent in 1999-2000) for school years of more than 200 days.

Transportation Support: Transportation funding for charter schools can be spent for any legitimate purpose. State-authorized charter schools received a flat $174 per member in 1998-99. A district-authorized charter school's transportation allowance is based on the approved daily route-miles for school transportation and the number of eligible students transported. For 1998-99, district-authorized charter schools received $1.59 -$1.95 per mile (depends on ratio of pupils to route miles) and paid parents 10 cents or 25 cents per mile to drive their children to school. Charter schools can use the difference (about $1.50 per mile) to spend on programming. School districts get the $1.50 - $1.92 per mile reimbursement mostly for school buses, but because so many miles are involved when parents drive their own children to a charter school, thousands of dollars per pupil are generated. The Arizona Joint Legislative Bureau computed that one charter school was receiving $12,080 per member for transportation. The average transportation cost for district-authorized charter schools in 1998-99 was $2,144.

Capital and Facilities Assistance: All charter schools receive capital and facilities funding: District-authorized charter schools are funded based on characteristics of the sponsoring school district; state-authorized charter schools are funded based on characteristics of the school itself. Some capital funding depends on grade level and school size. The capital outlay revenue limit program provides $195 (large elementary schools) to $330 per pupil (small high schools). The capital levy revenue limit program, which depends on school size but not grade level, provides $195 (large schools) to $300 per pupil (small schools). Regular and charter high schools get $70 per pupil for textbooks, which in Arizona is considered a capital expense. A third capital assistance program, providing $496 per pupil for K-8 schools and $569 per pupil for high schools, is available only to charter schools. School districts get funding under the new school construction program. Based on need, funding for school districts averages only about $400 per pupil per year. With voter approval, however, school districts can also sell tax exempt bonds to finance construction. Overall, facilities funding for charter schools ranges from $900 to $1,300 per student. Since charter schools qualify for capital funding as if they were small school districts, charter schools get better funding than the larger surrounding school districts in which they are located. Additionally, charter schools are granted flexibility with facilities funding and may spend the money on any legitimate purpose. School districts must spend the money on capital outlay and construction.

Charter School Stimulus Fund: Under the original state legislation, Arizona created a "stimulus fund" earmarked for start-up and facility costs. The upper limit for state start-up grants was up to $100,000, but the average grant size was $21,000. Arizona terminated the state stimulus funds in the 1997-98 school year in response to a court case brought by the Arizona Department of Education against former Bureau of Indian Affairs (BIA) schools

that had converted to charter schools. The state argued that former BIA schools should not continue to receive both state stimulus and BIA-federal funds. Thus, it argued Arizona should be exempt from its responsibility to fund BIA's charter schools through the state stimulus fund, or the state should be able to deduct the amount of state start-up funding from the federal start-up grants. The state won the case and Arizona has decided not to apply for federal start-up monies. Instead, state-authorized charter schools may apply directly for federal start-up funds.

Timing of Payments: For state-authorized charter schools, new charter schools are paid one-third of the total apportionment on July 1 and then one-twelfth of the total amount in eight monthly payments from Oct. 15 through June 15. In subsequent years, charter schools are paid in 12 monthly installments.

Uniform Financial Reporting: All state-authorized charter schools take part in the state's uniform financial reporting system. Charter schools may seek exemption from this requirement. District chartered schools are exempted from uniform financial reporting as individual schools.

Auditing Practice: Independent financial audits are required of state-authorized charter schools. District charter schools are included in the district's budget where the charter school is located and audited as a part of that district.

Ownership and Disposition of Assets: All property accumulated by charter schools, including property purchased with public schools, remains property of the charter school.

Teacher Retirement: A charter school is eligible to participate in the Arizona state retirement system, but most choose not to participate.

Arizona

	Basic Elementary Charter School			Middle Cost K-12 Charter School			Urban At-Risk Upper Grade		
	Weight	FTE	WFTE	Weight	FTE	WFTE	Weight	FTE	WFTE
Grade/school size weights[a]									
Basic K-8	1.28	500.0	639.00	1.39	132.0	183.22	1.4	0.0	0.00
Basic 9-12	1.40	0.0	0.00	1.56	68.0	106.01	1.5	99.0	154.34
Student count add-ons[b]									
Hearing impairment	3.34	0.0	0.00		0.2	0.67		0.4	1.34
K-3	0.04	0.0	0.00		60.0	2.40		0.0	0.00
LEP	0.06	0.0	0.00		8.0	0.48		16.0	0.96
MD-R, AR, and SMR-R	2.00	0.0	0.00		0.0	0.04		0.0	0.08
MD-SC, A-SC, and SMR-SC	5.02	0.0	0.00		0.4	2.01.		0.8	4.01
Multiple disabilities	6.03	0.0	0.00		0.1	0.43		0.1	0.87
Orthopedic (resource)	1.74	0.0	0.00		0.1	0.17		0.2	0.35
Orthopedic (self-contained)	5.64	0.0	0.00		0.1	0.45		0.2	0.90
ED, MIMR, SLD, SLI and OHI	0.00	0.0	0.00		7.0	0.02		14.0	0.04
ED (private)	2.63	0.0	0.00		0.1	0.16		0.1	0.32
Moderate MR	2.81	0.0	0.00		0.2	0.56		0.4	1.12
Visual impairment	4.83	0.0	0.00		0.1	0.68		0.3	1.35
Total		500.0	639.00		200.0	297.30		99.0	165.68
1. FY 1998-1999 base[c]		$3,237	$2,533		$3,765	$2,533		$4,239	$2,533
2. State transportation aid[d]		$ 174			$ 174			$ 174	
3. Federal funding									
Title I		$ -			$ 127			$ 254	
Special education		$ -			$ 36			$ 72	
Bilingual and immigrant		$ -			$ 11			$ 22	
Other federal programs		$ 49			$ 49			$ 49	
Total revenue		$3,460			$4,162			$4,810	
4. Capital outlay revenue limit									
K-8 support level[e]		$ 249	$ 195		$ 271	$ 195			
9-12 support level[e]					$ 329	$ 211		$ 329	$ 211
9-12 textbook[f]					$ 70			$ 70	
5. Capital levy revenue limit[e]		$ 248	$ 194		$ 281	$ 194		$ 302	$ 194
6. Additional capital Assistance									
K-8 support level[f]		$ 496			$ 496				
9-12 support level[f]					$ 569			$ 569	
Facilities percent of current revenue		29%			25% per K-8 30% per 9-12			26%	
Total revenue with facilities		$4,453			$5,209 per K-8 $5,411 per 9-12			$6,081	

ASSUMPTIONS: Table applies to state-sponsored charter schools. Basic elementary charter school is a 500 student elementary school with no special populations. Middle cost K-12 charter school is a 200 student high school and elementary school with the state average special populations. At risk upper grade charter school has 99 high school students with twice the state average concentration of special needs students.

[a] Support level weight of .0.159 (K-8) or 0.279 (K-12) is incorporated into grade level/school size weight.
[b] MD-R (Multiple Disabilities-Resource), AR (Autism-Resource), SMR-R (Severe Mental Retardation-Resource), MD-SC (Multiple Disabilities-Self Contained), A-SC (Autism-Self Contained), SMR-SC (Severe Mental Retardation-Self Contained), ED (Emotional Disability), MIMR (Mild Mental Retardation), SLD (Specific Learning Disability), SLI (Speech/Language Impairment), and OHI (Other Health Impairments).
[c] Add 3 percent for a school with a 200 day school year.
[d] District-sponsored charter schools get significantly more transportation funding, but not school size weights (see text).
[e] WFTE calculations based only on school size and grade-level weights.
[f] Funding based on FTE count, not WFTE.

California

Base Funding: School districts authorize charter schools, but students are allowed to cross district lines to attend charter schools. Charter school and school district funding comes from the base revenue limit program and an extensive system of categorical funding averaging about $1,000 per student.[1] For the 1997-98 school year, the base revenue limit averaged about $4,040 per pupil with most districts spending within $300 of the average. Although this money is considered general purpose funding, school districts typically spend approximately 8 percent of the base revenue limit on special education and transportation. Charter schools are not automatically entitled to the full amount of base revenue funding. School districts frequently charge administrative fees and subtract amounts to cover district-provided services.

Pupil Count: Unlike most states, California charter school funding depends on *average daily attendance* (ADA). Charter schools with low attendance rates experience reduced funding. The alternative method, *average daily membership* (ADM) is used in all states with charter schools except Texas and California. Low-income and at-risk students usually have the highest absence rates. ADA funding discourages the establishment of charter schools serving these high-cost children and contributes to funding problems for charter schools that choose to do so.

[1] A new funding system effective in 1999-2000 simplifies the current system by giving charter schools "block grants" composed of revenue limit resources and most state categorical programs. Block grants are fixed for all charter schools and vary only by grade level. Transferring funding from categorical programs into block grants releases charter schools from regulatory strings typically attached to state categorical programs. Some categorical programs (e.g., teacher salary bonuses, English language acquisition programs and all federal programs) are not included in the block grant, and charter schools may apply for them individually. The state apportions funds directly to charter schools unless individual schools choose to get funding through their sponsor districts. As in the original funding system, block grants are apportioned based on average daily attendance.

Categorical Funding: Charter schools are entitled to state discretionary and categorical funds if they have eligible students. Charter schools negotiate for categorical funds with the school district. No statutory requirements specify that charter schools must expend funds received from a particular state-funded categorical program for that particular purpose. Charter schools can receive categorical funding for the following programs: lottery funds, school improvement programs, desegregation funding, state instructional materials, class size reduction, special education, transportation, gifted and talented, economic impact aid, mentor teacher and state compensatory education. Prior to 1999-2000, California law did not clearly entitle charter schools to lottery funds. Some school districts did not pass lottery funds on to charter schools because the funds were considered neither base revenue limit funds nor categorical funds. Table 1 shows district average categorical funding per member.

Special Education: Charter schools are entitled to special education funding to the extent that the pupils in their schools are entitled to special education services. Special education used to be funded through a complex reimbursement model, but the state has implemented a per capita funding model. Based on the assumption that children with disabilities are uniformly distributed among districts, funding is based on total enrollment rather than on the district's special education population. Charter schools must negotiate for funding with either their authorizing district or the Special Education Local Planning Area (SELPA). District special education funding formulas call for a fixed contribution of approximately 6 percent from the district's general purpose aid.

Limited-English Proficiency: Accounted for as a categorical program.

Low-Income Students: Accounted for as a categorical program based on student eligibility for free- and reduced-price lunch.

State Desegregation Funding: Charter schools can receive funding if the charter school agrees to participate in the state plan. The Edison Schools, Inc. charter school in San Francisco received approximately $680 per pupil in 1998-99 for this program.

Transportation: Transportation plans are detailed in the charter. The California Department of Education ruled that charter school students are entitled to state categorical aid for transportation, which averages about $40 per student (not per user).

State Start-Up Assistance: A small revolving loan fund with $5.5 million offers $50,000 loans with a two-year repayment schedule.

Capital Outlay and Facilities Assistance: None.

Timing of Payments: Apportionment to charter schools is on the same schedule as apportionment to district schools.

Facility Ownership: Since the charter school is a part of the district, a facility owned by a charter school still belongs to the district. The charter needs to spell out responsibility for

maintenance and insurance on the facility, as well as any other financial arrangements regarding facilities that may arise. In the case of start-up schools, charter schools are able to purchase property.

Uniform Financial Reporting: None.

Auditing Practice: The charter specifies whether the charter school is part of the school district audit or has its own audit conducted by an independent auditor in accordance with Generally Accepted Auditing Standards. The charter school component of a school district audit could be as simple as one line titled, "payment to charter school," or it could treat charter schools like other district schools.

Teacher Retirement: Teachers are eligible to participate in the state retirement system. Charter school teachers, not the governing board of the charter school, choose whether to participate, and most charter schools do.

Administrative Fees: School districts, county departments of education or the state board of education (all chartering agencies) may charge for the actual costs of supervisory oversight of a charter school, not to exceed 1 percent of the revenue of the charter school. If the charter school is receiving rent-free facilities from the chartering agency, then the chartering agency can charge 3 percent of the charter school revenue for supervisory oversight. A local agency that is providing supervisory oversight and administrative costs necessary to secure charter school funding may charge 3 percent of total charter school revenue.

California	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
Average daily attendance (ADA)[a]	95		95		80	
Revenue limit per ADA		$ 4,031		$ 4,031		$ 4,031
1. Revenue limit per FTE	100	$ 3,829	100	$ 3,829	100	$ 3,225
2. State categorical funds[b]						
Lottery funds		$ 105		$ 105		$ 105
School improvement program		$ 93		$ 93		$ 93
Limited-English proficiency	0	$ -	25	$ 180	50	$ 360
Desegregation		$ -		$ -		$ 680
State instructional materials		$ 31		$ 31		$ 31
Class size reduction		$ 150		$ 150		$ 150
Special education	0	$ -	10	$ 222	20	$ 444
Transportation		$ 41		$ 41		$ 41
Mega item growth & COLA		$ 12		$ 12		$ 12
Gifted and talented		$ 7		$ 7		$ 7
Economic impact aid		$ 6		$ 80		$ 190
Mentor teacher		$ 16		$ 16		$ 16
State compensatory education	0	$ -	20	$ 40	40	$ 80
3. Federal funding						
Title I		$ -		$ 134		$ 268
Special education		$ -		$ 38		$ 76
Bilingual and immigrant		$ -		$ 14		$ 28
Other federal programs		$ 52		$ 52		$ 52
Total revenue		$ 4,342		$ 5,044		$ 5,858

ASSUMPTIONS : Basic elementary charter school enrolls students with no special needs. Middle cost charter school has students with special needs reflecting the state average. At-risk upper grade charter school is in an urban area with twice the concentration of special needs students as the state average.

[a] Funding in California is based on average daily attendance rather than membership. Basic elementary and middle cost charter schools are assumed to have a 95 percent attendance rate, while the upper grade urban at-risk school is assumed to have an 80 percent attendance rate.
[b] Categorical aid estimates are based upon 1996-97 per pupil revenues adjusted for inflation. Charter schools are eligible for all 60 categorical programs if they document their eligibility. The categorical chosen above represent the programs for which most charter schools could receive funding

Colorado

Base Funding: A charter school's base budget in 1997-98 was at least 80 percent of the school district's per-pupil operating revenue. The remaining 20 percent *or more* is negotiated over such issues as the purchasing of services from the school district or the receipt of in-kind services from the district. The average charter school receives approximately 95 percent of per-pupil operating revenue, and some receive up to 120 percent. The base amount of funding for each pupil was $3,667 in budget year 1997-98, but adjustments for several school district characteristics add considerably more funding. A few districts have additional local option taxes that are sometimes shared with charter schools. In 1998-99, "override revenue" averaged $224 per pupil in school districts where charter schools are located, although half of the charter schools are in districts with no override revenue.

Funding Based on School District Characteristics: Several adjustments are made to the school district base funding level including:

Cost-of-Living Factor: The cost-of-living factor reflects the differences in the costs of goods and services among each of the 176 school districts in Colorado. This factor ranged from 1.004 to 1.630 for the 1997-98 budget year.

Personnel Costs Factor: The personnel costs factor is based on enrollment and is used to adjust for cost differentials in employee salaries. This factor ranged from 79.9 percent to 90.5 percent in budget year 1997-98.

Non-Personnel Costs Factor: The non-personnel costs factor accounts for expenditure differentials other than personnel.

Size Factor: This factor provides more funds for both larger districts and smaller districts to adjust for the high cost of urban education or the diseconomies of small scale.

At-Risk Funding: Colorado uses participation in the federal free lunch program as the measure of an at-risk population. For each at-risk pupil, a district receives funding equal to at least 11.5 percent but no more than 30 percent of its total per-pupil funding. A district receives funding for the greater of (1) each pupil eligible for the federal free lunch program; or (2) a calculated number of pupils based on the number of grade 1-8 pupils eligible for the federal free lunch program as a percentage of the total population. The at-risk adjustment is automatically included in the per-pupil funding calculation for charter schools. Charter schools serving large numbers of at-risk students do not automatically get better funding, although these schools may negotiate a higher funding rate with the school district.

Special Education: Charter schools negotiate with school districts for special education funding or the in-kind provision of special education services. A school district is entitled to a base amount of state funding for special education equal to the amount of state funding received the preceding budget year. Once the base amount is determined for all districts, remaining state monies are distributed to districts servicing more special education students than the preceding budget year. State funding is insufficient, so most special education services are financed by general operating revenues.

Bilingual Education: Charter schools negotiate with districts for bilingual education funding, which is about 20 percent of the state average per-pupil operating costs for each bilingual student.

Transportation: Like school districts, charter schools are not required to provide transportation to students. State transportation for school districts is funded at a rate in cents per mile, plus 34 percent of the amount by which the costs exceed the mileage reimbursement. General operating revenues finance most transportation costs. Charter schools can negotiate for services or funds, and can use funds to reimburse parents for car-pool costs.

Capital Outlay and Facilities Assistance: School districts are required to budget at least $216 per pupil (1997-98 budget year) out of their equalized formula funding for capital outlay, insurance and risk management. This amount was not automatically included in per-pupil operating revenue, the basis of charter school funding. Many school districts funded charter schools at 105 percent, an amount that incorporates per-pupil operating and capital outlay funding. Charter schools operating their own facilities were more likely to get 105 percent funding. The 1999 legislature raised per pupil funding to a minimum of 95 percent of per pupil revenue (PPR), a figure that includes funding for capital outlay, insurance and risk management. Approximately 25 percent of Colorado charter schools are housed in school district facilities (Caldwell and Arrington, 2000).

The charter school law requires districts to provide vacant facilities to charter schools free of charge. Partly because of this provision, about 25 percent of Colorado charter schools are housed in school district facilities. Charter schools are not entitled to proceeds of the local bond redemption fund mill levies of school districts used to pay off debt incurred for constructing school facilities. In rapidly growing Jefferson county, for example, charter

schools do not receive the $717 per student raised through the levy (Caldwell and Arrington, 2000).

The Colorado Educational and Cultural Facilities Authority (CECFA) serves as a "conduit" for obtaining tax-exempt financing for organizations that "provide an educational program pursuant to a charter from a school district." CECFA issues the bonds and loans the proceeds to the charter school after charging transaction fees of $20,000 to $30,000. The bonds issued are "non-course" to CECFA, which means that responsibility for repayment is limited to the charter school and investors will focus on creditworthiness of the charter school rather than the CECFA. Six charter schools have already obtained tax-exempt financing to refinance, purchase or build facilities (Caldwell and Arrington, 2000) Together, the six schools raised over $23 million in financing at an interest rate between 6 percent and 7 percent, cutting borrowing costs in half compared to commercial lenders.

Administrative Fees: Administrative fees are allowed and specified in the charter.

Uniform Financial Reporting: Charter school financial reporting is blended with the district's reporting, but the reporting is not uniform. State officials expect to provide some comparable charter school data for the 1998-99 school year.

Auditing Practices: Charter schools are required to describe the manner in which an annual audit of financial and administrative operations is conducted. Most charter schools appear as an entity in the school district's audit.

Responsibility for Debt and Disposition of Assets: School districts are responsible for charter school debt. Some districts allow charter schools to form nonprofit corporations that can acquire debt and purchase property. Other school districts allow no debt. Issues about the disposition of assets from a closed charter school are currently unresolved, but because charter schools are entities of the schools district, districts are probably responsible.

Teacher Retirement: All charter schools participate in public employee retirement systems.

Colorado

	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
Per pupil funding calculation						
FY98 base funding		$ 3,667		$ 3,667		$ 3,667
Cost-of-living factor		1.124		1.194		1.236
Personnel costs factor		0.865		0.905		0.9050
Non-personnel costs factor		0.135		0.095		0.0950
Size factor		1.051		1.032		1.0342
Per pupil funding (PPF)		$ 4,268		$ 4,450		$ 4,462
At-risk funding (ARF)[a]	0	$ -	28	$ 142	56	$ 284
Per pupil operating revenue[b] (PPOR)= [PPF+ ARF]-216		$ 4,052		$ 4,375		$ 4,530
Percent of PPOR negotiated[c]		90%		100%		120%
1. Categorical funds[d]						
Transportation payments[e]		$ -		$ -		$ 55
Bilingual education		$ -		$ 4		$ 8
Special education	0	$ -	10	$ 106	20	$ 212
Gifted/talented	0	$ -	7	$ 7	7	$ 7
2. Federal funding[d]						
Title I		$ -		$ 98		$ 96
Special education		$ -		$ 40		$ 80
Bilingual and immigrant		$ -		$ 7		$ 14
1. Total negotiated revenue	100	$ 3,647	100	$ 4,375	100	$ 5,436

ASSUMPTIONS: Basic elementary charter school receives 90 percent of PPOR, and its students generate no state or federal categorical funding for the school district. Data are reflective of Moffat school district. Middle cost K-12 charter school receives 100 percent of PPOR, and its students generate the average state and federal categorical aid for the school district. Data are reflective of El Paso school district. At-risk upper grade charter school receives 120 percent of PPOR and has twice the state average in state and federal categorical funding. Data are reflective of Denver.

[a] At-risk funding expressed as the average amount per pupil, not per at-risk student.
[b] $216 per student is earmarked for capital reserves and insurance. Beginning in 1999-2000, charter schools will receive this amount automatically.
[c] District and charter school negotiate the percent of PPOR to account for in-kind provision of services. Beginning in 1999-2000, minimum funding is set at 95 percent.
[d] Categoricals are state per pupil averages in 1997-98. Few Colorado charter schools directly received state categorical aid or federal aid. Categorical and federal aid are reflected either in the negotiated adjustment of the percentage of PPOR, or is received "in-kind" through district provision of the service.
[e] Some districts provide transportation at no charge to charter schools.

Connecticut

Base Funding: Funding depends on whether charter schools are authorized by a school district or the state board of education. Of the 12 original charter schools, only two were authorized by school districts.

Local district charter school. Charter school students are counted in the school district's enrollment. All payments to the charter school are negotiated locally. The state-mandated minimum expenditure, or foundation level, was $5,775 in 1998-99. However, the typical school district added an extra 15 percent to the foundation through local tax levies for general operations, bringing total base revenue to an average of about $6,500 per pupil.

State charter school. State-authorized charter schools receive a flat $6,500 per pupil. Consequently, funding does not depend on the location of the charter school or the resident school districts of their students. Although approximately equal to the state average sum of the foundation level and local option property taxes for general operations, the relationship is coincidental. Charter school students are not counted in the district of residence for equalization aid purposes, so school districts could lose about $5,775 in state equalization aid when a student attends a state-sponsored charter school.[2] A majority of school districts in Connecticut, however, are protected from state aid reductions due to an elaborate system of constraints on growth and reductions in state aid.

Funding Based on School District Characteristics: Local district charter schools have access to funding based on all of the unique characteristics of the local school district including higher revenues associated with high wealth and tax effort. State-chartered school funding corresponds only to the state average.

[2] Even though state aid supports only about one-third of the foundation level in the average school district, losing students to charter schools increases the wealth-per-pupil component of the state aid formula. Mathematically, the result is the loss of the entire foundation level, not just the state aid component.

Special Education: Most school district special education costs are financed from general operating revenue. Consequently, the $6,500 base funding for charter schools includes most of the money an average school district spends on special education. In the most recent revision of the Connecticut charter school law, students identified as needing special education services in a charter school are entitled to a planning and placement team meeting held by the school district in which the student resides. The school district also pays the charter school "reasonable" costs in excess of $6,500 (plus other state, federal and private resources if any) for special education services. Most observers interpret this provision of the charter school law as making special education the responsibility of the school district. If special education costs comprise 18 percent of a school district's budget (the state average), this in-kind service amounts to $1,000 per member (not just students served) after accounting for state aid ($85 per member) and federal aid ($60 per member).

Transportation: School districts in which a charter school is located, including state-authorized charter schools, provide transportation in-kind for students residing in the district. The state provides equalization aid for transportation averaging about $85 per pupil (across total enrollment, not pupils transported). State transportation aid ranges from nil to 60 percent of actual costs depending on district wealth. Total state and local transportation costs per-pupil amounts to about $380 per pupil.

Categorical Programs: Charter schools are eligible for competitive grants and other categorical aids as if the charters were a school district.

Limited-English Proficiency: Regular schools with more than 20 LEP students are required to have a bilingual program. The state provides about $150 per bilingual pupil.

Low-Income Students: Connecticut's foundation funding formula provides more state equalization aid for school districts with large numbers of children from families receiving Aid for Families with Dependent Children (AFDC). Charter schools authorized by a school district could benefit from this extra funding. The flat $6,500 payment for state-chartered schools, however, has no adjustment for low-income students.

Capital Outlay and Facilities Financing: Connecticut school districts spend about $550 per pupil on capital facilities and debt repayment. Charter schools have no access to this funding. Charter schools may apply for low interest loans from the state Health and Educational Facilities Authority, which makes direct loans up to $150,000 to Connecticut charter schools. Up to 5 percent of unexpended funds each year can be contributed to a reserve to finance a specific capital or equipment purchase.

Timing of Payments: Early state aid payments assist charter schools with cash flow. For state-chartered schools, 25 percent of funding is transferred to the charter school in July and another 25 percent in September.

Uniform Financial Reporting: Charter schools are required to complete a modified form of the state uniform financial reporting required of school districts.

Auditing Practice: All charter schools must submit a certified audit statement of revenues and expenditures to the chartering authority.

Responsibility for Debt: The governing body of a state-authorized charter school is responsible for debts. School districts do not have to assume the debts of a charter school unless it is part of an agreement or contract.

Ownership and Disposition of Assets: Charter schools can purchase, own and convey real property.

Unexpended Funds: Up to 10 percent of such funds can be used for next year's expenses, and 5 percent can be used as a reserve to finance a specific capital or equipment purchase.

Teacher Retirement: Qualified school professionals may participate, and the charter school makes payments under the same terms and conditions as school districts will. About 75 percent of Connecticut charter schools participate.

Connecticut	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Foundation allowance[a]		$ 6,500		$ 6,500		$ 6,500
2. Special education[b]						
District provided	0	$ -	12	$ 1,000	24	$ 2,000
State categorical		$ -		$ 85		$ 170
3. Low income[c]	0	$ -	24	$ -	48	$ -
4. Limited-English proficient[d]	0	$ -	12	$ 18	24	$ 36
5. Student transportation[e]		$ 380		$ 380		$ 380
6. Federal funding						
Title I		$ -		$ 123		$ 246
Special education		$ -		$ 59		$ 118
Bilingual and immigrant		$ -		$ 4		$ 8
Other federal programs		$ 58		$ 58		$ 58
Total revenue		$ 6,938		$ 8,227		$ 9,516
Without special education		$ 6,938		$ 7,083		$ 7,228

ASSUMPTIONS: Each school is sponsored by the state chartering authority. Basic elementary charter school enrolls only elementary students who generate no extra funds. Middle cost K-12 charter school has the same student population characteristics as the average Connecticut district. At-risk upper grade charter school has twice the concentration of special education and at-risk students as the state average.

[a] Most special education costs are financed from general operating revenue (state special education aid averages about $85 per pupil).
[b] School districts either pay charter schools for the extra costs of special education or provide the services "in-kind." Special education costs average 18 percent of spending in Connecticut. The estimated value of federal, state and district-provided special education is about 18 percent of expenditures.
[c] Unlike school districts, state charter schools receive no funding adjustment for low income pupils.
[d] $150 per bilingual pupil when schools have more than 20 pupils needing a bilingual program.
[e] Estimated state average cost per student enrolled (not per student transported) for 1998-99. Includes both state and local sources.

Delaware

Base Funding: Per-pupil funding is based on expenditures in the home districts of charter school students. Per-pupil revenue is calculated separately for regular and special education based on school district expenditures. The state funding formula assigns different unit amounts, usually teachers, to pupils of various grade levels and special education categories. It also provides differentiated funding based on staff experience and credentialing. Charter schools receive staff experience funding based on the characteristics of their own staff.

Funding Based on School District Characteristics: Charter school funding varies with school district spending. This small state relies heavily on state funding, so there is little variation in spending among school districts based on wealth, tax effort or geography. About 80 percent of school districts spend between $8,730 and $9,270 per pupil excluding federal funds, special education and other categorical programs.

Grade Level Funding: The formula contains very small adjustments for grade level cost differentials based on standardized pupil to teacher ratios. In effect, pupils in grades 1-3 receive 5 percent greater funding because one teacher is funded for every 19 students instead of one teacher for every 20 students. There is no adjustment for high school grades.

Special Education: Funding for special education is based on the average school district spending for special education students.

Limited-English Proficiency: No separate state funding provided.

Low-Income or Compensatory Education: Programs for compensatory education are rolled into the state aid formula, so there is no separate per-pupil funding for at-risk children. In effect, school districts receive district average funding regardless of their actual at-risk population.

State Categorical Aid: Charter schools are eligible to receive other state categorical aids as though they were school districts. These programs include the Delaware Mentor Teacher

Program and programs for gifted and talented children. Funding amounts to less than $50 per child enrolled.

Transportation: Charter schools can elect to have the school district in which they are located provide transportation for students residing in the district. Families outside of the school district are responsible for transportation to a bus route within the district. Charter schools can also elect to provide transportation themselves, either directly or through a contract. Funding is provided up to the contracted amount as if the charter were a vocational school district (up to $600-$700 per pupil transported). If a charter school supplies the services directly, it is funded like a vocational school district and can keep any excess transportation revenue.

Capital Outlay Funding and Facilities Financing: None provided. The state's Minor Capital Improvement Fund expressly omits charter schools.

Timing of Payments: Charter schools get advance funding. Based on a student roster submitted in May, the state and district advance a portion of estimated revenue during the summer. The remaining funding is provided in the middle of the school year.

Uniform Financial Reporting: Charter school annual reports must follow a uniform format and contain information related to revenues, expenditures, assets and liabilities. Before a charter school can operate outside of the state's accounting, payroll, purchasing, compensation, pension and/or benefits systems, a specific memorandum of understanding has to be developed. One reason for this procedure is to ensure that the state's financial reporting requirements are satisfied.

Auditing Practice: The state auditor conducts annual financial audits of all charter schools just as it conducts audits on regular school districts. The state or the chartering agency can also conduct financial, programmatic or compliance audits of a charter school. In cooperation with the state education department, the chartering authority must conduct such audits at least every three years.

Responsibility for Debt: Charter schools can incur debt. Since charter school boards have the power of a local school board, they also bear responsibility for the debt.

Ownership and Disposition of Assets: Charter schools can acquire assets including real property. Assets revert to the state if a charter school closes.

Teacher Retirement: A charter school may choose to be covered by the state retirement system or choose another retirement system in lieu of the state retirement system. If the charter school chooses another retirement system, a memorandum of understanding must be executed. All charter schools in 1998-99 participated in the state retirement system.

Delaware	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment						
Basic 1 - 3	0		27		20	
Basic 4 - 6	60		27		21	
Basic 7 - 12	40		37		41	
EMH students	0		3		6	
SED students	0		3		6	
LD students	0		3		6	
Total FTE	100		100		100	
1. Base funding[a]						
State average teachers		$ 8,844		$ 8,992		$ 9,277
Charter average teachers		$ 8,635[b]		$ 8,777		$ 9,048
Entry-level teachers		$ 8,191		$ 8,317		$ 8,558
2. Special education[c]		$ -		$ -		$ -
3. Low-income[c]		$ -		$ -		$ -
4. Other state categorical[d]		$ -		$ -		$ -
5. Transportation[e]		$ 215		$ 215		$ 215
6. Federal funding						
Title I		$ -		$ 161		$ 302
Special education		$ -		$ 52		$ 104
Bilingual and immigrant		$ -		$ 6		$ 12
Other federal programs		$ 64		$ 64		$ 64
Total revenue[a]						
State average teachers		$ 9,123		$ 9,490		$ 9,974
Charter average teachers		$ 8,914		$ 9,275		$ 9,745
Entry-level teachers		$ 8,470		$ 8,815		$ 9,255

ASSUMPTIONS: Basic elementary charter school has no at-risk or special needs pupils. Middle cost K-12 school has the same student characteristics as the average Delaware district. At-risk upper grade charter school has twice the concentration of special education and at-risk students as the Delaware average. All hypothetical charter schools are located in an average wealth and tax effort school district.

[a] "State average" funds charter schools as if their staff had state average characteristics regarding experience and credentialling. "Charter average" reflects the lower experience and credential levels of current charter schools. "Entry-level" reflects funding for a school staffed entirely by entry-level personnel.
[b] Represents a K-12 district with state average expenditures (80 percent of districts spend between $8,636 to $9,278), excluding special education and other categorical programs.
[c] incorporated into base funding calculation.
[d] Amounts total to less than $50.
[e] Assume that 33 students are transported at a cost of $650 per pupil (see text).

District of Columbia

Base Funding and Grade Level Weights: Both the school district and a newly created public charter school board authorize charter schools. In concept, D.C. charter schools receive the average basic cost per pupil, adjusted for grade level. They also get their share of money for special needs pupils. As operationalized in 1998-99, charter schools receive a base funding per pupil of $5,500 in grades 6-8. In grades K-5, students get 5 percent more, and in high school, students are weighted 20 percent more, or $6,600. Charter schools with pre-kindergarten or preschool programs get 16 percent extra, and summer school programs could add another 10 percent. A majority of charter school funding came from "new money" in 1998-99, rather than diverting funds from other public schools. Local funding provided only $12.2 million for charter schools in 1998-99. The U.S. Congress appropriated $16.8 million to make up the shortfall.

Special Education and Limited-English Proficiency: Special education students are divided into four categories that generate extra funding:

	Weight	Per-pupil Supplement
Special Education		
Level 1	+0.22	$1,210 All services in regular classroom
Level 2	+0.80	$4,400 Student leaves classroom (less than 25% of day)
Level 3	+1.13	$9,515 Student leaves classroom (more than 50% of day)
Level 4	+1.73	$9,460 Self-contained classroom
Residential	+1.70	$9,350 Student resides at school facility
LEP	+0.40	$2,200

In 1997-98, D.C. public schools served only about 10 percent of students in special education programs, but the district has a reputation for procedural delays in assessing children—delays that can last for years. Eventually, the District expects about 14 percent of students to need special education services. Currently, special education accounts for 20 percent of the school district budget when special education transportation is included. The charter school weightings clearly reflect that the average special education student costs well over twice as much as the average regular student.

Categorical Programs: This concept is not applicable to D.C. because it is both a state education agency and a school district. To the extent that the central administration allocates categorical-type funding to individual schools, these monies are already averaged into charter school funding.

Low-Income Students: As with regular public schools, the income or poverty status of students is not a specifically identifiable factor in the charter school funding formula.

Transportation: Charter school students are entitled to transportation, including reduced fares on D.C. public transportation systems on the same basis as regular students. The D.C. transportation program is driven primarily by special education transportation, which accounts for 95 percent of expenditures.

Capital Finances: Charter schools in Washington, D.C., received a facilities allowance of $617 per pupil in 1998-99. The funds can be spent for any purpose, not just for facilities. The facilities allowance for 1999-2000 increases to $1,058 per pupil, approximately the average per-pupil capital expense in other public schools for the prior fiscal year. Almost all capital improvement programs in traditional District of Columbia public schools are devoted to the repair of leaky roofs, broken windows, lead paint and asbestos removal, poor lighting, inadequate heating, inoperable bathrooms and other repairs. Some charter schools occupy former district schools and are using facility funds for exactly the same purposes. Public schools already have excess property for sale, and many schools are underutilized. Charter school operators are allowed to purchase or lease (including lease with option to purchase) public school facilities at a 15 percent to 25 percent discount.

Federal Funds: The weighting system incorporates federal funding for special education and bilingual education. Charter schools get Title I funding from the D.C. public schools as if they were traditional public schools. For competitive federal grants, charter schools are treated like independent school districts.

Timing of Payments: Charter schools receive 75 percent of funding in October (the beginning of the federal fiscal year) based on initial enrollment. The other 25 percent is paid in the spring based on subsequent enrollment counts. Funding can decrease in the spring, but not increase. New schools can get a loan based on projections of the first payment.

Mandated Administrative Fees: Charter schools are required to pay for any mandated district-wide assessments. Both the D.C. school board and the public charter school board charge an administrative fee of 0.5 percent.

Uniform Financial Reporting: Required.

Auditing Practice: The school must undergo an independent financial audit using government auditing standards.

Responsibility for Debt and Ownership of Assets: As a nonprofit corporation, charter school governing boards own assets and are responsible for debt. The chartering authorities monitor the disposition of assets in the event of school closure.

Teacher Retirement: Only teachers who taught in other D.C. public schools are eligible to continue participation in the teacher retirement system. Otherwise, charter schools are not involved in the main D.C. public employee retirement systems.

Dist. of Columbia	Cost Factor	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	Weight	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations							
Basic K-5	1.05	100	105.0	42	44.1	0	0.0
Basic 6-8	1.00	0	0.0	25	25.0	50	50.0
Basic 9-12	1.20	0	0.0	33	39.6	50	60.0
Special education level 1	0.22	0	0.0	3	0.7	6	1.3
Special education level 2	0.80	0	0.0	3	2.4	6	4.8
Special education level 3	1.13	0	0.0	2	2.3	4	4.5
Special education level 4	1.73	0	0.0	2	3.5	4	6.9
Limited-English proficient	0.40	0	0.0	4	1.6	8	3.2
Total weighted FTE			105.0		119.1		130.8
1. Local funding		$ 5,775	$ 5,500	$ 6,549	$ 5,500	$ 7,192	$ 5,500
2. Transportation[a]		$ -		$ -		$ -	
3. Summer school[b]		$ -		$ -		$ -	
4. Other state categorical[c]		$ -		$ -		$ -	
5. Federal funding							
Title I		$ -		$ 268		$ 335	
Special education		$ -		[d]		[d]	
Other federal programs		$ 134		$ 134		$ 134	
Bilingual and immigrant		$ -		[d]		[d]	
Total revenue		$ 5,909		$ 6,951		$ 7,661	
Facilities allowance		$ 617		$ 617		$ 617	
Total revenue with facilities allowance		$ 6,526		$ 7,568		$ 8,278	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school has no pupils generating program cost weightings. Middle cost K-12 charter school has the same student population as the average D.C. public school. At-risk upper grade charter school has twice the concentration of students at each special education level as the D.C. average, and all students qualify for federal Title I funding.

[a] About 95 percent of transportation costs in D.C. are for special education.
[b] Charter schools providing qualifying summer school programs get an extra 10 percent, or $550.
[c] Categorical-type funding to individual public schools is averaged into the per-pupil allocation for charter schools.
[d] Federal special education funding incorporated into student weightings.

Florida

Base Funding: Although school districts authorize charter schools, Florida's charter schools tend to function independently. Charter school students generate revenue for their schools in almost the same way that students generate funding for their school district. In 1998-99, base student funding in grades 4 to 8 was approximately $3,223 per student. An elaborate system of weighting for high-cost pupils raises base funding by an average of 30 percent to about $4,200 per pupil. A cost-of-living differential ranges from 0.91 in counties with the lowest cost of living to 1.07 in high-cost counties.

Grade Level Funding: Compared to students in grades 4 to 8, students in grades 1 to 3 obtain 6 percent extra funding and high school students receive about 14 percent more funding.

Funding Based on School District Characteristics: The base funding formula for school districts accounts for declining enrollment, sparsity, cost-of-living and similar factors. These adjustments are passed on to charter schools.

Special Education: Special education students generate funding through the base funding formula in five categories ranging from nearly 35 percent more for mild exceptionalities to approximately 700 percent more for the most complicated special needs.

Categorical Programs: Charter schools are entitled to their share of state discretionary (including lottery funding) and categorical funds averaging about $200 per pupil.

Limited-English Proficiency: LEP students generate 20 percent extra funding through the weighting system.

Low-Income Students: Not specifically accounted for in the weighting system.

Transportation: Charter schools are responsible for transportation within a reasonable distance of the school and must show that transportation is not a barrier to equal access. However, they do not necessarily have to provide transportation. Extra funding, averaging $160 a student is available for this specific purpose under the same formula applicable to school districts. Charter schools may contract with the school district or private contractors.

Capital and Facilities Financing: Total school district capital spending from all state and local sources in Florida is about $1,000 per pupil (14 percent of total). Some charter schools in Florida are housed in school district facilities; but since Florida is desperately short of classroom space, most charter schools find their own facilities. School districts are not required to share the proceeds of discretionary local tax levies raised for school construction. Significant, one-time capital funding has been available for established charter schools through Florida's School Infrastructure Thrift Fund (SIT).[3] A district in which charter schools had been operating in non-district facilities for at least a year was eligible for one-time payments of $5,800 (elementary) to $8,800 (high school) per pupil attending the charter school.[4] If the charter schools' enrollment grew, the district received additional payments corresponding to the enrollment increase. The state department of education requires districts and charter schools to submit a joint application for SIT funds, which has resulted in shared allocations. The percentage of SIT funds that districts share with charter schools ranges from 40 percent to 95 percent, with most districts splitting the funds evenly with their charter schools. SIT funds will be available until the one-time appropriation is exhausted, which could occur in 1999-2000.

The 1999 Florida Legislature established a separate capital outlay trust fund for charter schools with its own annual appropriation. Beginning in their third year of operation, charter schools that did not use SIT funding, receive the state's share of the 30-year amortized cost of a "student station" in annual installments. In 1998-99, that figure amounted to $387 for each elementary school student, $443 for each middle school student, and $587 for each high school student. Charter schools can use capital outlay funds only for capital expenses.

Cash Flow Assistance: None available. School districts are not allowed to advance funds to charter schools. Some school districts require charter schools to secure a line of credit for start-up purposes before a charter is granted.

Administrative Fees: School districts can charge administrative fees of up to 5 percent, not to exceed the actual cost. Contract administration includes technical assistance, monitoring compliance, processing financial records, processing student records, special education administration, test administration and processing of staff certification records.

Uniform Financial Reporting: Beginning in 1997-98, charter schools were included in Florida's Program Cost Reports submitted by school districts to the state. Charter school information is prepared in the same format and submitted as a separate exhibit in school district audits. Both the Program Cost Report and school district audits are only available from local school districts, a practice which seriously compromises the usefulness of uniform reporting.

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[3] The program, funded by a one-time appropriation of $200 million, rewards school districts for finding appropriate alternatives to building new facilities by paying them half of the cost of building a "student station." Charter schools that are not located in public facilities constitute one alternative to building a new facility.

[4] The estimated per-pupil cost of a new school in 1998-99 was $11,600 for elementary students and $17,600 for high school students. SIT pays out half of the estimated cost.

Governmental Funds Accounting: Charter schools are required to use a governmental funds accounting model, and it is suggested that this model align with Florida's "Red Book" accounts. Schools run by pre-existing nonprofit organizations may use the accounting model of the parent organization.

Auditing Practice: Independent financial audits are required and are paid for by charter schools. Charter schools operated by a pre-existing nonprofit organization can be audited as part of the organization's financial statements.

Federal Funds Accounting: School districts are responsible for oversight and accounting. School districts can provide services directly to charter schools or provide the funding and require the charter school to account for funds as if the school district spent the money.

Responsibility for Debt: The governing body of charter schools is responsible for debt. School districts are prohibited from assuming the debts of charter schools.

Ownership and Disposition of Assets: Charter schools are required to keep property records that clearly distinguish between property purchased with government funds and other property. If a charter is not renewed or terminated, the public assets revert to the school district.

Teacher Retirement: Governing boards of charter schools may participate in the state teacher retirement system, but almost all have chosen not to do so.

Florida	Cost Factor	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	Weight	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations							
Basic K-3	1.057	50	52.9	25	26.4	0	0.0
Basic 4-8	1.000	50	50.0	23	23.0	0	0.0
Basic 9-12	1.138	0	0.0	19	21.6	36	41.0
Exceptional level 1	1.341	0	0.0	11	14.8	22	29.5
Exceptional level 2	2.072	0	0.0	5	10.4	10	20.7
Exceptional level 3	3.287	0	0.0	2	6.6	4	13.1
Exceptional level 4	4.100	0	0.0	1	4.1	1	4.1
Exceptional level 5	6.860	0	0.0	1	6.9	1	6.9
Dropout prevention	1.399	0	0.0	4	5.6	8	11.2
Ed alternatives 9-12	1.138	0	0.0	1	1.1	2	2.3
ESOL	1.201	0	0.0	4	4.8	8	9.6
Voc-Ed 6-12	1.240	0	0.0	4	5.0	8	9.9
Total		100	102.9	100	130.2	100	148.3
1. State and local base funding		$ 3,315	$ 3,223	$ 4,196	$ 3,223	$ 4,780	$ 3,223
District cost differential[a]		x 1.00		x 1.00		x 1.05	
Adjusted for cost differential		$ 3,315		$ 4,196		$ 5,018	
2. Other equalized funding							
Discretionary lottery		$ 62		$ 78		$ 89	
Program related[b]		$ 27		$ 34		$ 39	
All other		$ 29		$ 37		$ 42	
3. Categorical aid							
Instructional materials		$ 78		$ 78		$ 78	
Public school technology		$ 34		$ 34		$ 34	
Student transportation[c]		$ 160		$ 160		$ 160	
Other state categorical[d]		$ 85		$ 85		$ 85	
4. Federal funding							
Title I		$ -		$ 137		$ 264	
Special education		$ -		$ 58		$ 116	
Other federal programs		$ 54		$ 54		$ 54	
Bilingual and immigrant		$ -		$ 7		$ 14	
Total revenue		$ 3,843		$ 4,958		$ 5,993	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school has no pupils generating program cost weightings. Middle cost K-12 charter school has the same student population as the average Florida district. At-risk upper grade charter school has twice the state average concentration of students generating program weightings.

[a] District cost differential corresponds to the cost of living and ranges from .91 to 1.07.
[b] Charter school must provide qualifying programs. Includes safe schools, dropout prevention and remediation.
[c] Average state aid per pupil. Actual amount is determined by formula. Cost probably exceeds aid.
[d] Florida state average assumed for each charter school. Must have qualifying programs.

Georgia

Base Funding: School districts authorize and fund charter schools. Support includes transportation and capital when feasible. A pupil weighting system drives the school district funding formula. Funding for charter schools is not required to follow exactly the state funding formula for school districts.[5]

Grade Level Funding: The formula uses high school general education as a base and offers slightly higher weights (about 1.02 or 2 percent extra) for grades 4-8. Grades K-3 have larger weights (1.34 for FTE kindergarten students and 1.26 for grades 1-3). Categorical programs that only serve particular grade levels add to grade level differences.

Special Education: The pupil weighting system ranges from 2.2 (120 percent more funding) to 5.3 for the more severely handicapped children. Districts are under no requirement to pass along the exact amount of extra funding to charter schools, but they are required to fund charter schools with special education needs as they would any other school.

Gifted and Talented: As part of the pupil weighting system, these students are weighted at 1.6 and generate 60 percent extra funding.

Limited-English Proficiency: This categorical program is less than 1 percent of total state aid. In Atlanta in 1999, LEP funding generated $16 per pupil enrolled (not pupils receiving services).

[5] Rather than calculate funding estimates from the formula for school districts, the following table is based on state aid allotments from the state funding formula for 1998-99. These amounts incorporate the locally funded part of the allotment called "fair share." Based on data from Georgia's Financial Data Collection System, an estimate of additional local revenue is derived. It is assumed that the proportion of local to state revenue is the same in 1998-99 as in 1996-97. The school finance office of the Georgia Department of Education adjusted the special education numbers for Atlanta.

Compensatory Education: A weight for remedial education in the base funding formula helps fund programs for students performing below benchmarks on standardized tests. In addition, there is a compensatory education program for students in grades K-5 who have developmental lags. Charter schools should receive funds for qualifying students.

Other State Categorical Programs: A charter school is eligible to receive other aid, grants and revenue on the same basis as any other school. Programs include professional development ($30 to $50 per pupil) and media centers ($135 to $150 per pupil).

Transportation: To the extent feasible, school districts are obligated to provide charter school transportation. In the estimate in the accompanying table, the school district is assumed to spend its average per-pupil transportation revenue on the charter students.

State Start-Up Assistance: None available.

Capital Outlay and Facilities Funding: Charter schools are not guaranteed a separate flow of capital funding. School districts are, however, obligated to share capital funding when possible. Given that almost all charter schools use preexisting school district buildings, facilities have not been a major issue.

Timing of Payments: Charter schools receive funding on the same schedule as other schools in their district.

Uniform Financial Reporting: Not required. Financial reporting requirements are determined in the charter agreement.

Auditing Practice: Blended with school district, although a charter agreement could contain a provision for an independent financial audit.

Responsibility for Debt: In practice, school districts are assumed to be responsible for debt, although this issue is not addressed specifically in the law.

Ownership and Disposition of Assets: Not specifically addressed in law or regulation. In the event of a charter school failure, it is assumed that assets revert back to the district.

Unexpended Funds: Charter schools can carry fund balances from year to year if the school district chooses to allocate funds in this manner.

Teacher Retirement: All charter schools currently participate in the state teacher retirement system, but participation is not mandatory. Charter school teachers employed by a local school board are eligible. Charter schools contracted to private management will probably be allowed to opt out.

Georgia	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Formula funding[a]						
Grades 1-3	60	$ 2,315	19	$ 733	0	$ -
Grades 4-5	40	$ 1,168	13	$ 380	0	$ -
Grades 6-8	0	$ -	19	$ 574	0	$ -
Grades 9-12	0	$ -	25	$ 749	52	$ 2,950
Special education level 1	0	$ -	1	$ 80	2	$ 303
Special education level 2	0	$ -	3	$ 288	6	$ 1,092
Special education level 3	0	$ -	5	$ 627	10	$ 2,377
Remedial	0	$ -	9	$ 373	30	$ 2,110
Gifted	0	$ -	6	$ 314	0	$ -
2. Categorical funding[b]						
Middle school		$ -		$ 64		$ -
Special assistance		$ -		$ 153		$ -
Media center		$ 95		$ 95		$ 98
Staff development		$ 27		$ 27		$ 26
In-school suspension		$ 25		$ 25		$ 21
Limited-English proficiency		$ -		$ 5		$ 22
Grade 4-5 counselors		$ 68		$ 68		$ -
Technology training		$ 8		$ 8		$ 9
3. Transportation		$ 187		$ 167		$ 54
4. Federal funding						
Title I		$ -		$ 135		$ 270
Special education		$ -		$ 39		$ 2
Bilingual and immigrant		$ -		$ 1		$ 78
Other federal programs		$ 52		$ 52		$ 52
Total revenue	100	$ 3,925	100	$ 4,957	100	$ 9,464

ASSUMPTIONS: Basic elementary charter school enrolls only elementary students who generate no extra funds. Middle cost K-12 charter school has the same student population characteristics as the average Georgia district. Basic and middle cost schools are located in Pickens, an average spending school district. At-risk upper grade school has twice the number of special education and at-risk students as the state average and is located in Atlanta.

[a] Estimates use per pupil revenues rather than formula funding calculations. Local revenues are included and total revenues are extrapolated from state allotments. See text for details.
[b] Categorical aids based on average amount per pupil enrolled, not served in a program.

Hawaii

Base Funding: Similar to the District of Columbia, Hawaii has a single statewide school system. Charter schools receive funding equivalent to other public schools. No constitutionally or legislatively prescribed formula allocates funding to any district schools. The state board of education has no independent authority to raise funds or borrow money, which all come through the state legislature. Historically, the budgetary process has been a top-down, tri-level process. Legislation in 1994 shifted more authority for programs, curriculum and educational needs to the school level, and charter school legislation is one component of this shift. The original charter school legislation specified that each school should receive the statewide per-pupil (ADA) expenditure, listed as $5,400 in the legislation. However, the $5,400 figure was probably incorrect and contained legally restricted state and federal funding such as federal programs for low-income students, children with disabilities, and school lunch funds. In practice, Hawaii's two charter schools get funding equivalent to other schools similarly situated.

Central Administration: Central administration costs (not to exceed 6.5 percent of the board of education budget) are funded by a separate appropriation. Like other public schools, charter schools do not include any of this appropriation in the local school budget.

Special Education: For special education students, charter schools should receive the same supplemental funding or services as other public schools. The state spends about $4,000 per special education student (averaging $300 per enrolled student); and only 7.5 percent of students are identified as students with disabilities.

Compensatory Education and Bilingual Education: Programs for these students average about $100 per member. A program for low-achieving schools also exists.

Transportation: Only about 5 percent of Hawaii's students are transported, most for special education purposes. Transportation is provided directly by the state, not through the board of education and averages about $130 per student (not user).

Capital Outlay and Facilities Financing: All charter schools are conversion schools. All school building and capital improvement projects in Hawaii are financed with cash and must be approved by the legislature as part of the state's capital improvement appropriations bill. In 1993-94, capital spending averaged about $500 per student (Thompson, 1995).

State Start-Up Assistance: None.

Uniform Financial Reporting and Auditing Practice: Same system as other public schools.

Responsibility for Debt: No debt allowed. Even the board of education cannot hold debt.

Ownership of Assets: Facilities and assets belong to the state of Hawaii as do school facilities for regular schools.

Unexpended Funds: All unexpended funds revert to the central budget at the conclusion of the fiscal year.

Teacher Retirement: Same employee retirement systems as all public school employees.

Hawaii	Basic Elementary Charter School		Middle Cost Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
FTE enrollment						
Grades K-5	100		100		0	
Grades 9-12	0		0		100	
Special education	2		8		11	
Summary of total spending						
General		$ 2,733		$ 3,213		$ 3,793
Special funds[a]		$ 49		$ 28		$ 183
Central administration[b]		$ 260		$ 260		$ 260
Transportation[c]		$ -		$ -		$ -
Federal funding[d]						
Title 1		$ -		$ 96		$ 192
Special education		$ -		$ 32		$ 64
Other federal programs		$ 32		$ 57		$ 57
Bilingual and immigrant		$ -		$ 6		$ 12
Total revenue		$ 3,073		$ 3,692		$ 4,561

ASSUMPTIONS: Each school has 100 students. Data are reflective of 1997-98 school year. Basic elementary charter school (modeled after Waialae charter school) enrolls few special education students and does not qualify for Title I funding. Middle charter school (modeled after Lanikai charter school) is an elementary school with a special education population matching the Hawaiian average and gets Title I funding. At-risk upper grade charter school (modeled after a regular high school in Honolulu) has a high special education population and is assumed to receive twice the state average Title I allocation.

[a] Excludes restricted federal and state categorical funds.
[b] Estimated central administration costs per pupil in the state.
[c] Approximately 95 percent of Hawaiian students do not receive transportation services.
[d] Based on methodology applied to all other states. Current charter schools do not have Title I programs and do not get federal funding in the amounts listed in the table.

Illinois

In 1997-98, six of the seven operating charter schools were located in Chicago. While funding generally flows through local school districts, new legislation in 1998 allows rejected applicants to appeal to the state board of education, and if approved by the state board, funding is deducted from state aid payments to the host school districts.

Base Funding: School districts pay charter schools 75 percent to 125 percent of the school district's "per-capita tuition." The specific amount within that range is specified in the contract.[6] Per-capita tuition, a very specific calculation uniquely derived from each school district's annual financial report, represents the cost of education for a regular student averaged across all grade levels. Charter schools aside, per-capita tuition plays a key role in special education funding when students are served by another school district. The tuition calculation starts with total district expenditures and then subtracts about 100 specific expenditure or revenue items, including revenue from other districts, adult education, preschool, most state categorical aid, special education, federal funding, community services, school lunch, capital expenditures, debt costs, student activities, local fees and revenues, and transportation.

Grade Level Funding: The general state aid formula for school districts gives students in middle schools 10 percent more funding; and in grades 9 to 12, students garner 30 percent more aid. Grade level weights are not a factor in the charter school tuition calculation. The absence of grade level funding adjustments could lead to overfunding elementary charter schools and underfunding charter high schools if both elementary and charter high schools receive the same funding—as in Chicago in 1997-98. A system of separate K-8 elementary

[6] The initial charter school legislation called for funding in the range of 95 percent to 105 percent of per-capita tuition. Chicago interpreted the law as allowing differential funding for different types of students. In particular, Chicago withheld special education funds. The most recent legislation expanded the range from 75 percent to 125 percent, which allows greater funding for specialized charter schools serving more costly students.

and 9-12 high school districts exists in many parts of the state, which renders grade level weights irrelevant in those districts. The 75 percent to 125 percent range of funding flexibility could be used by K-12 unit districts to differentiate between elementary and high schools, or provide more funding for specialized schools whose higher costs may not be fully funded by state and federal categorical programs.

Funding Based on School District Characteristics: Despite an equalization formula that substantially improved in 1997, Illinois is a state with major spending inequities based on property wealth and tax effort. High-spending wealthy school districts generate more funding for all their students, including those in charter schools, than impoverished school districts generate. In 1998-99, per-capita tuition averaged about $5,500 in elementary districts, $4,900 in K-12 districts, and $8,900 in high school districts. The lowest per-capita tuition in Illinois is about $3,000 in elementary districts, $3,300 in K-12 districts, and $4,500 in high school districts. The highest per-capita tuition in Illinois is about $18,000 in an elementary district, about $10,000 in a K-12 district, and $16,000 in a high school district.

Special Education: The contract between a charter school and the school district delineates special education funding and services. Chicago generally retains all special education services and centrally funds and provides personnel and resources to charter schools as needed. After consultation with the school district and the families involved, charter schools may choose not to serve individual special education students at that school if it cannot accommodate their needs consistent with the charter. However, enrollment cannot be denied based on disability.

Transportation: The charter school proposal must delineate plans for transportation of low-income and at-risk students, but otherwise charter schools are not required to provide transportation. The local school district is not required to provide transportation other than services similarly provided to nonpublic school students, unless it agrees to provide it as part of the charter agreement. State transportation aid for school districts amounts to about $95 per pupil (averaged over all pupils, not pupils transported) and is allocated through an equalization formula.

Categorical Programs: Charter schools are entitled to their proportionate amount of federal and state categorical funding available for eligible students who enroll in the charter school. Averaged across all students enrolled, categorical aid amounts to about $150 per pupil.

Limited-English Proficiency: Regular schools with more than 20 LEP students are required to have a bilingual program. Chicago allocates about $450 in state funds per qualifying bilingual education pupil in charter schools.

Low-Income Students: Supplemental general state aid (also known as state Chapter 1 funding) provides substantial extra resources for schools with low-income students. Charter schools in Chicago get $767 from these funds for each low-income student. Approximately 80 percent of Chicago students qualify.

Capital Outlay and Facilities Assistance: None provided in FY 1999. The Illinois Facilities Fund (IFF), a nonprofit community development loan institution, works with nonprofit organizations statewide to address capital needs.

Federal Funds: School districts are required to allocate a portion of their federal dollars to charter schools on the same basis that a district allocates federal aid to other district schools.

State Start-Up Assistance: The charter school law authorizes a $500,000 revolving loan fund. On its own, the Chicago school district established a $2 million revolving loan fund administered through the IFF.

Timing of Payments: School districts must pay tuition funds in four equal quarterly payments beginning no later than July 1. By Oct.1, charter schools have received half of their base funding.

Financial Reporting: Independent annual financial audits are required. Other financial reporting is blended with school district reporting.

Debt Acquisition and Responsibility for Debt: The nonprofit corporation that runs a charter school is allowed to incur debt and is responsible for paying off the school's debt to the extent possible. The district is not responsible for any debt incurred by the charter school.

Ownership and Disposition of Assets: In the event of closure, a charter school would also be required to refund to the local school board any unspent funds received from the board. The law is silent with respect to the ownership of property paid for with public funds.

Teacher Retirement: Personnel certified in Illinois, including administrators, must participate in teacher retirement plans. Charter schools do not have to pay pension pickups in school district labor contracts (Chicago, for example, picks up 7 percent of the 8 percent employee contribution). Like school districts in Illinois, charter schools pay only the Medicare portion of Social Security for employees already participating in state retirement systems.

Illinois	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Tuition per FTE member	100	$ 4,900[a]	100	$ 4,900[b]	100	$ 4,200[c]
State Chapter 1 (low income)[d]		na		na	100	$ 767
Total tuition		$ 4,900		$ 4,900		$ 4,967
2. Special education[e]	0	$ -	12	$ 600	24	$ 1,200
3. LEP/bilingual[f]	0	$ -	8	$ 36	15	$ 68
4. Other state categorical[g]		$ 150		$ 150		$ 150
5. Transportation		$ -		$ -		$ -
4. Federal funding						
Title I		$ -		$ 161		$ 302
Special education		$ -		$ 52		$ 104
Bilingual and immigrant		$ -		$ 6		$ 12
Other federal programs		$ 64		$ 64		$ 64
Total revenue (100% funding)		$ 5,114		$ 5,969		$ 6,867
Without special education				$ 5,317		$ 5,563

ASSUMPTIONS: Basic elementary charter school enrolls only students who are not at risk and have no special needs. Middle cost K-12 charter school has the same student characteristics as the average Illinois district. At-risk upper grade charter school is in Chicago with twice the concentration of special education students as the Illinois average, and all students qualify for state Chapter 1 (low income). ADA is assumed to average 95 percent in the basic and middle cost charter schools and 90 percent in the at-risk school.

[a] Column represents a K-12 district with state average per capita tuition (elementary districts average a per-capita tuition of about $5,500).

[b] Column represents typical K-12 district.

[c] Column represents funding for a typical charter school in Chicago. The highest per capita tuition in an Illinois high school district is $16,000.

[d] Also called supplemental general state aid, the state low income weighting applies primarily to Chicago, where the low-income weighting is treated as a separate component of the tuition calculation for charter school funding.

[e] Assumed that school districts either pay charter schools for the extra costs of special education or provide the services in-kind. The estimated value for the middle cost schcol is about 10 percent of the state average operating cost. In the at-risk school, the estimated value is about 20 percent of operating costs.

[f] $423 per bilingual pupil when schools have more than 20 pupils needing a bilingual program.

[g] Estimated state average of major categorical programs not otherwise listed in table.

Kansas

School districts approve charter schools. The state board also approves each charter, which allows the board to approve specific waivers from state regulations. The three-year federal charter school grant played a strong role in developing the current 15 charter schools, the maximum allowed by state law. None of the big cities in Kansas has charter schools. Enrollment in school districts with charter schools ranges from 700 to 5,000 students. About half of the charter schools enroll students from nearby cooperating school districts. Regional service centers helped develop about half of the charter schools. Six of the 15 schools serve at-risk high school students.

Base Funding: Charter school funding flows through the school district in an amount determined in conjunction with the district. This section describes how students generate funding for school districts, not the funding entitlement for charter schools. The ability of school districts to support charter schools varies widely; big differences in per-pupil spending exist from one district to another. Operating expenditures average about $4,700 per pupil, but the high-cost structures of small, rural districts add to expenditure variation. Among the 15 districts hosting charter schools, per-pupil operating expenditures range from about $4,000 to nearly $6,000, with the typical district spending about $4,800. Districts with the lowest enrollment spend the most, and big cities spend substantially less than the state average.

A system of pupil weights leads to much of the dispersion in the basic spending guarantee.

Transportation	Based on density and cost analysis.
Low-enrollment	For districts with fewer than 1,750 students. Linear transition schedule based on historical costs of districts of fewer than 100 students with declining weights as district size increases. The weight for a 1,200-student school is about 0.15 or 15 percent extra funding. The minimum weight or "correlation adjustment" is 0.054 and applies to all school districts.
Vocational	0.50 extra FTE
Bilingual	0.20 extra FTE
At-risk	0.08 extra FTE
New facilities	0.25 first two years students are in a new facility.

School districts may adopt local option budgets adding up to 25 percent of base funding, some of it matched with state aid. School districts with local option budgets tend to be larger ones with below average spending levels.

Special Education: No specific formula guarantees a charter school's special education funding. State categorical aid funds approximately 80 percent of added costs for special education.

Low-Income and Bilingual Education: Low-income and bilingual students get extra weights in the general state aid formula as specified above.

Categorical Aid: Two small categorical programs, which are awarded to host districts and should get to charter schools, are: (1) in-service grants averaging about $5 per pupil, and (2) educational excellence grants awarded on a competitive basis that average about $3 per pupil statewide.

Transportation: School districts in which a charter school operates must provide transportation for pupils who qualify for free meals under the national school lunch act and who live at least 2.5 miles from the school. State transportation aid is part of the equalization formula described above.

Capital Outlay and Facilities Financing: Charter schools are generally housed in existing public school facilities.

State Start-Up Assistance: None.

Uniform Financial Reporting: Part of school district financial reporting, so it is not possible to separate charter schools from spending by other schools in the district.

Auditing Practice: Charter specifies manner in which annual financial audits will be conducted. At a minimum, charter schools are a component of the school district independent financial audit, which may or may not separately report the financial results of a charter school.

Ownership of Assets and Responsibility for Debt: No debt allowed because school districts are not allowed to incur debt except for repayment of bonds. School district owns all assets.

Teacher Retirement: All employees who are participating in the operation of a charter school and who qualify for membership in the Kansas public employees retirement system remain members of the system. Currently, all Kansas charter schools participate. However, if a charter school is deemed not to be an instrumentality of the government—perhaps through a private management contract—participation may not be mandatory.

Kansas	Cost Factor (Weight)	Basic Elementary Charter School FTE	Basic Elementary Charter School WFTE	Middle Cost K-12 Charter School FTE	Middle Cost K-12 Charter School WFTE	Urban At-Risk Upper Grade FTE	Urban At-Risk Upper Grade WFTE
Weighted FTE calculations							
Basic K-12	1.00	100	100.0	100	100.0	100	100.0
Transportation	[a]	35	5.8	35	5.8	0	0.0
Low-enrollment	[b]	na	15.0	na	15.0	na	5.4
Bilingual	0.20	0	0.0	3	0.6	6	1.2
At-risk	0.08	0	0.0	32	2.6	64	5.1
Vocational	0.50	0	0.0	4	2.0	8	4.0
New facilities	0.25	0	0.0	0	0.0	0	0.0
Total weighted FTE			120.8		126.0		115.7
1. Base state and local funding		$ 4,494	$ 3,720 [c]	$ 4,686	$ 3,720	$ 4,305	$ 3,720 [d]
2. Special education categorical[e]		$ -		$ 281		$ 517	
3. Other state categorical[f]		$ 8		$ 8		$ 8	
4. Federal funding							
Title I		$ -		$ 113		$ 226	
Special education		$ -		$ 46		$ 92	
Bilingual and immigrant		$ -		$ 3		$ 6	
Other federal programs		$ 54		$ 54		$ 54	
Total revenue		$ 4,556		$ 5,191		$ 5,207	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school has no pupils generating weightings except for low enrollment and transportation. Middle cost K-12 charter school has the same student population as the average Kansas public school. At-risk upper grade charter school has twice the concentration of at-risk, bilingual and vocational students as the Kansas average and is located in Wichita.

[a] Based on $618 per student transported.
[b] Represents the weight for a 1,200 student district except the urban district, which has the minimum weight.
[c] Represents basic elementary charter school in average district. Lowest spending district with a charter school averages $4,100 per unweighted pupil.
[d] Represents at-risk school in Wichita. Highest spending district with a charter school averages $5,700 per pupil.
[e] Estimated at 6 percent of general operating revenue.
[f] In service and educational excellence grants.

Louisiana

Base Funding: Of the four types of Louisiana charter schools, school districts authorize three.[7] District-authorized schools receive a per-pupil amount based on the average revenue of the authorizing district excluding capital funding.[8] Grade level funding and weighted funding based on various student characteristics are part of the funding calculation for school districts but not charter schools. The weighting system for school districts includes adjustments for at-risk students, vocational education, special education, gifted and talented, and a weight for smaller districts to offset their loss of economies of scale. The total school district revenue produced by the weighted formula is then used to calculate an *average* student revenue amount for charter schools.[9] Each student brings to a charter school the average revenue of the school district rather than the funding actually generated by the student. A state-authorized school (Type 2) receives all of its funds directly from the state, but it generally mirrors the amount of funding for Type 1, 3 and 4 schools.[10]

Geographic Adjustments: School districts with fewer than 5,000 students receive an economy-of-scale adjustment. The maximum adjustment generates 12.5 percent more revenue per pupil and is calculated by taking the difference between district enrollments

[7] Type 1 charters result from an agreement between a nonprofit corporation and a local school board. Type 2 charters result from an agreement between a nonprofit corporation and the state board of elementary and secondary education. Type 3 is a conversion school that is the result of an agreement between a local board and a nonprofit corporation. Type 4 is a conversion school resulting from an agreement between a local board and the state board.

[8] Louisiana law states that schools of Types 1, 3 and 4 receive "an amount for each pupil based on average daily membership in the charter school that is equal to the average current operating expenditure per pupil received by the local school board pursuant to the most recent legislative approved minimum foundation program formula, including appropriate weighted factors."

[9] The range of basic revenue available to charter schools varies substantially. Using 1997 data, St. Landry Parish ranked at the lower end (approximately 10th percentile of parishes). Its average funding was $3,870 per pupil. Red River was ranked as a middle range parish, with revenue of $4,395. Ascension was ranked as a high revenue parish (approximately 90th percentile), with revenue of $5,088.

[10] These funds come from a separate state appropriation and are not billed back to the district. However, the state recoups most of this funding because charter school students no longer count as funded students in the parish.

and the 5,000 student ceiling.[11] Organized on a parish (county) basis, few school districts qualify for the economy-of-scale adjustment.

Special Education Revenue: The law reads: "For each pupil who is entitled to special education services, the state and federal funds for special education for that pupil that would have been apportioned for that pupil to the school system shall be apportioned to the charter schools." In practice, charter school special education students do not directly receive the funds commensurate to the state weighting. Instead those funds are incorporated into the per-pupil *average* revenue calculation used to fund each charter school student. A charter school with a similar percentage of special education students as the district would receive similar state special education funding.

At-Risk Student Funding: School districts obtain a 0.17 additional funding weight (17 percent more) for at-risk students. Folded into the average revenue calculation, the extra funds do not specifically follow children to charter schools. Louisiana, however, requires that the proportion of at-risk students in charter schools be at least 85 percent of the proportion of at-risk students in the district. As a consequence, charter school funding based on average revenue includes at-risk funding that is somewhat the same as the school's at-risk population. A charter school with very high concentrations of at-risk students, however, does not receive the at-risk funding generated for the school districts by its students.

Gifted and Talented: The funding weight of 0.68 for gifted and talented children generates extra funding for school districts, but gifted charter school students do not bring this revenue with them since charter school funding already incorporates the average amount of all revenues in the school district.

Other State Categorical Aid: Charter schools can apply for any state funds that other public schools apply for. In the competitive grant category, district-authorized charter schools submit applications through the school district.

Transportation: School districts pay for transportation from general operating funds, so revenues typically used by districts for transportation are included in charter school funding. Charter schools routinely contract with the local school district for transportation. They are under no mandate, however, to supply transportation with the exception of special education.

State Start-Up Assistance: A revolving loan fund allows charter schools to borrow up to $100,000 interest free. These funds must be paid back over three years. No charter school has applied for funding. The contractor that manages the fund requires financial statements from charter school board members, and collateral for loans made for repairs.

[11] If the district had 1,000 students, then the difference from the 5,000 ceiling is 4,000. Dividing 4,000 by a constant of 40,000 equals 0.10 or a 10 percent added weight.

Capital Outlay and Facilities Financing: Use of pre-existing public school facilities may be negotiated with the local school board. Only five schools were using such facilities in 1998-99.

Federal Funds: Charter schools are not school districts for purposes of federal funding, but the state works to ensure that charter schools receive their share of federal funding through school districts.

Timing of Payments: Charter schools receive their enrollment-based funds in July, with a projection governing the precise amount paid. In the subsequent winter, funding is adjusted based on actual pupil counts.

Uniform Financial Reporting: Charter schools need to complete the standard annual financial report (AFR). Even district-authorized charter schools file a separate AFR, a practice put into place by the state department of education.

Independent Financial Audit: The state department of education audits district-sponsored charter schools as an entity of the school district. An annual independent financial audit is required of state-authorized charter schools.

Responsibility for Debt: The law is silent on this issue.

Ownership and Disposition of Assets: The charter document makes provisions for the disposition of assets. For state-authorized charter schools, assets purchased with state funds revert to the state.

Unexpended Funds: State-authorized charter schools are able to build fund balances. Unexpended funds in the other types of charter schools revert to the district unless an exception is made in the charter.

Teacher Retirement: Employees on leave from school districts must be allowed to maintain their status in their retirement system. Otherwise, charter schools can provide another retirement option. Only one charter school has exercised the alternative retirement option.

Louisiana	Cost Factor	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	Weight	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations							
Basic K-12[a]	1.00	100	100.0	100	100.0	100	100.0
Special education[b]	1.50	0	0.0	11	16.5	22	33.0
At-risk	0.17	44	7.5	52	8.8	78	13.3
Gifted and talented	0.60	0	0.0	3	1.8	0	0.0
Small district weight[c]	na	0	0.0	0	0.0	0	0.0
Total weighted FTE			107.5		127.1		146.3
Total FTE enrollment		100		100		100	
1. Base funding[d]		$ 4,527		$ 4,527		$ 4,422	
2. Special education[e]		$ -		$ -		$ -	
3. At-risk[e]		$ -		$ -		$ -	
4. Limited-English proficient[e]		$ -		$ -		$ -	
5. Other state categorical[e]		$ -		$ -		$ -	
6. Student transportation[e]		$ -		$ -		$ -	
7. Federal funding							
Title I		$ 238		$ 238		$ 476	
Special education		$ -		$ 45		$ 90	
Bilingual and immigrant		$ -		$ 3		$ 6	
Other federal programs		$ 74		$ 74		$ 74	
Total revenue		$ 4,839		$ 4,887		$ 5,068	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school enrolls 44 at-risk students (mandated minimum of 85 percent of district average) but no other students with special needs. Middle cost K-12 charter school has the same student population characteristics as the average Louisiana district. The basic and average schools rely on 1997-98 revenue estimates for Red River Parish (increased by an estimated 3 percent to reflect 1998-99 revenue). At-risk upper grade charter school has twice the concentration of special education and at-risk students as the Louisiana average and the same average revenue as Orleans Parish.

[a] The weighted FTE calculation shows how Louisiana charter schools generate revenue for a school district. However, average school district revenue per FTE is the basis for funding charter schools, not the pupil weighting system.
[b] All special education students are weighted the same.
[c] Applies only to a few parishes with fewer than 5,000 students.
[d] Based on estimated average school district expenditures for 1998-99. The lowest expenditure for a school district is about $3,840 in Acadia Parish and the highest is $5,600 in Cameron Parish.
[e] Funding is incorporated into average cost based on characteristics of the school district. Funding for grade level cost differences, special education, at-risk programs, transportation and other programs is effectively equivalent to the school district average no matter what special needs students enroll in charter schools.

Massachusetts

There are two types of charter schools in Massachusetts. Chartered by the state board of education, the independent "commonwealth" charter schools receive "tuition" based on average school district spending that follows pupils from their district of residence. "Horace Mann" charter schools chartered by the state but must be approved by a local school committee, the local teacher's union president and the state board of education. Horace Mann charter schools are exempt from state rules and regulations to the same extent as commonwealth charter schools. Horace Mann charter schools may also be exempt from local collective bargaining agreements, provided that employees of the charter school remain members of the collective bargaining unit, continue to accrue seniority and receive, at a minimum, the salary and benefits established by the local collective bargaining agreement.

Commonwealth Charter Schools

Base Funding: Charter schools get "tuition" for enrollees that is uniquely calculated for each "sending" school district (i.e., the school district in which the student resides). Some charter schools enroll students from as many as 20 school districts. For students residing in school districts above the foundation budget (high-spending ones), the tuition is the lower of the sending district's tuition or the tuition of the district in which the charter school is physically located.

Although the legislation simply calls for charter schools to get the average cost per student, administrative rules carefully define costs included in the tuition calculation. Excluded costs are ones charter schools do not normally incur. Based on school district budgets included in the year-end annual financial report, the following types of costs are excluded: (1) transportation, (2) community service and adult education, (3) long-term debt service for construction financed by the State Building Assistance Bureau, (4) most programs with other school districts and private schools, (5) special education costs involving private school placements, hospital teaching and preschool programs, (6) school lunch and (7) federal programs.

Funding Based on School District Characteristics: Despite an equalization formula, Massachusetts has substantial spending inequities based on property wealth and tax effort. High-spending wealthy districts generate more funding for charter schools than poor school districts. In addition, charter schools inherit most of the funding that goes with the enrollment characteristics of the sending school districts whether or not the charter schools have the same kind of enrollment. These categories include: (1) preschool, (2) kindergarten, (3) elementary, (4) middle school, (5) high school, (6) special education, (7) bilingual, (8) vocational and (9) low-income. State foundation funding also contains a factor intended to compensate for the difference in wage levels around the state. As described below, some kinds of special education and preschool spending are subtracted from the tuition calculation.

Grade Level Funding Adjustments: Although school districts generate funding based on grade level, charter school funding does not distinguish between grades. Some evidence indicates that charter high schools or middle schools may be underfunded compared to regular high schools and elementary charter schools. In six cities studied by KPMG-Peat Marwick (1998), high schools spent between $500 (Worcester) and $1,500 (Springfield and Lawrence) more per pupil at the high school level. The state has chartered schools in a way that ensures a balance among elementary and high school charter schools, thus minimizing the impact of the incentive to operate elementary charter schools.

School District Transition Aid: To help ease the financial loss of enrollment shifts to charter schools, and to assist school districts in paying charter school tuition for students who had been in private schools, school districts are partially "reimbursed" for tuition increases. "Tuition increase" is the aggregate increase in tuition generated by all students attending charter schools. The reimbursement is 100 percent during the first year in which the increase occurs, 60 percent in the second year, and 40 percent in the third year. This transition aid amounted to more than $2,000 per enrolled charter school pupil in 1998-99.

Special Education: Except for federal funding, the cost of private placements for severely handicapped students, hospital teaching and special education preschool, all of the special education *spending* supported by state and local revenues is passed on to charter schools in the tuition calculation. Therefore, charter schools get most resources devoted to the special education in the sending districts regardless of the actual number of special needs students or the severity of their handicaps. State law exempts charter schools from paying for private placements, and special education preschool (prototypes 502.5 and greater). This system works equitably if charter school special education enrollment approximates school district populations. The effects of financial incentives are mitigated by the lottery admission system, and charter schools cannot refuse to admit special education students. Charter schools collectively enroll slightly fewer students with individualized education plans (IEPs), but these students tend to have low-cost handicaps requiring only resource teachers. (KPMG-Peat Marwick, 1998).[12] Students requiring self-contained classrooms almost always stay in school districts.

[12] In 1996-97, according to KPMG-Peat Marwick, the state average special education enrollment (prototypes 502.1 to 502.4) was 15.2 percent compared to 11.1 percent in charter schools. Almost the entire differential

Categorical Programs: Most programs, such as special education, bilingual education and compensatory education, are factored into one or more of the 11 enrollment categories included in the foundation funding formula of the school districts. Subsequently, charter schools get most of this money through the tuition calculation. This funding is based on demographic characteristics of the sending schools district, not the enrollment characteristics of the charter school.

Bilingual Education: Bilingual education is an enrollment category in the general state aid formula, and the expenditures are passed on to charter schools in the tuition calculation based on the bilingual programs and students of the sending school district.

Low-Income Students: Low-income and compensatory education students are included in two of the 11 enrollment categories in the foundation formula. Based on the low-income characteristics of the sending school districts, funding is passed on to charter schools at the same rate.

Transportation: Students who reside in the district in which the charter school is physically located are entitled to transportation on the same basis as other public school pupils. School districts must accommodate all charter schools—even those having school days and school years that are different from the district's. If a charter school provides its own transportation, it gets the average cost per student (not user) from the sending district for students actually transported.

Capital Outlay and Facilities Financing: In Massachusetts, only debt service in excess of State Building Assistance Bureau (SBAB) grants for debt retirement enters the charter school tuition calculation. SBAB funds up to 90 percent of the debt retirement cost of new facilities in cities where facilities construction is an integral component of a racial desegregation plan; otherwise SBAB funds about half of debt retirement costs for qualifying projects, or no funding at all. A KPMG-Peat Marwick study of 33 school districts sending students to charter schools found that two-thirds had some capital expenditure for facilities included in tuition. On average, 63 percent of long-term debt was included in the tuition calculation. In 1998-99, a one-time state appropriation gave charter schools an additional $260 per pupil for facilities funding—approximately equivalent to the annual SBAB average grant. Therefore, total facilities funding for the average charter school approximated the state average in 1998-99. Charter schools can use capital funding for general operating expenditures in Massachusetts.

State Start-Up Assistance: As with school districts, payments are made to charter schools at the end of each quarter, except for the first year of operation when the charter school's first payment is 45 days after the beginning of the first quarter. Certification for advance

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occurred in the two most involved and expensive categories where the state average is 4.5 percent of enrollment, and the charter school average is 1.8 percent. The 1998 annual report of the state charter school office reports that 13 percent of charter school students had IEPs compared to the 16 percent state average. The National Charter School Survey (RPP, 1999) reports a 9.9 percent special education population in Massachusetts charter schools.

funding may also be obtained. The Massachusetts Industrial Finance Agency has provided partial guarantees for cashflow loans for several charter schools.

Uniform Financial Reporting: Beginning in 1998-99, charter schools will provide uniform financial reporting in a format customized for charter schools.

Independent Financial Audit: Required.

Responsibility for Debt: Charter school board is responsible for debt.

Ownership and Disposition of Assets: Charter school governing boards own assets. If a charter school is dissolved, the state would assume control of all assets that belong to the school, would liquidate those assets, and then address the claims of creditors.

Teacher Retirement: Certified teachers must participate in the state retirement system. All charter schools participate.

Massachusetts	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Tuition		$ 7,000[a]		$ 7,000[a]		$ 8,200[b]
2. Special education[c]	0	$ -	17	$ -	34	$ -
3. Low income[c]	0	$ -	30	$ -	60	$ -
4. Bilingual[c]	0	$ -	5	$ -	10	$ -
5. Other state categorical[c]		$ -		$ -		$ -
6. Student transportation[d]		$ 190		$ 190		$ 190
7. Federal funding						
Title I		$ -		$ 147		$ 294
Other federal programs		$ 65		$ 65		$ 65
Special education		$ -		$ 64		$ 128
Total revenue		$ 7,255		$ 7,466		$ 8,877
One-time facilities funding[e]		$ 260		$ 260		$ 260
Transition aid for districts (sending districts)[f]		$ 2,170		$ 2,170		$ 2,542

ASSUMPTIONS: All schools are commonwealth charter schools. Basic elementary charter school enrolls only students who are not at risk and have no special needs. Middle cost K-12 charter school has the same student population characteristics as the average Massachusetts district. At-risk upper grade charter school has twice the concentration of special education and at-risk students as the Massachusetts average and the same tuition as Boston.

[a] Based on actual average charter school tuition for 1998-99. The lowest average tuition for a charter school is about $5,700, and the lowest payment by a sending district is $4,460 per pupil.

[b] Based on tuition in Boston The highest average tuition for a charter school is $10,400, and the highest payment from a sending district is $12,250 per pupil.

[c] Incorporated into tuition based on characteristics of the sending districts. Categorical-type programs are included in the 11 enrollment categories that are part of the general state aid formula. Special education costs average 18 percent of operating costs statewide. Bilingual costs average 3 percent of operating costs statewide.

[d] Estimated state average transportation costs per enrolled pupil (not user).

[e] One-time appropriation of state building funds for 1998-99. Not included in revenue total.

[f] Received by school districts, not charter schools. Estimated to average 31 percent of tuition for 1998-99.

Horace Mann Charter Schools

Horace Mann charter schools are chartered by the state, but must approved by a local school committee, the local teacher's union president and the state board of education. Horace Mann charter schools are exempt from state rules and regulations to the same extent as commonwealth charter schools. They may also be exempt from local collective bargaining agreements, provided that employees of the charter school remain members of the collective bargaining unit, continue to accrue seniority and receive, at a minimum, the salary and benefits established by the local collective bargaining agreement.

Base Funding: Although funding is reached through a combination of negotiations and implementation of the regular school district budget allocation formula, Horace Mann schools cannot receive less than they would secure under the standard school district budget allocation procedure. A school can appeal a disproportionately small budget to the Massachusetts Department of Education.

Special Education, Limited-English Proficiency, and Low-Income Students: Horace Mann charter schools are likely to get funding specifically for special needs students in the school. Exact funding levels are the product of a combination of negotiations and implementation of the regular school district budget allocation formula.

Transportation: Transportation is provided to Horace Mann charter schools on the same basis as regular distinct schools, but the law does not prevent alternative arrangements.

Capital Outlay and Facilities Financing: School districts are responsible for facilities. Horace Mann charter schools are often housed in existing public school facilities, but they may also acquire property with the permission of the local school committee.

Federal Funding: Depending on the agreement with the school district, a Horace Mann school could apply for and receive its federal funding directly from state and federal authorities. Otherwise, federal funding flows through the regular budgeting process in the district. Horace Mann schools also qualify for federal start-up funding.

State Start-Up Assistance: None from state sources.

Uniform Financial Reporting and Auditing Practice: Like Commonwealth charter schools, however, Horace Mann schools must complete an annual report and an independent financial audit. School districts are likely to incorporate Horace Mann schools into the school district reporting and auditing process, although other arrangements are possible.

Responsibility for Debt and Ownership of Assets: Resides with school district.

Michigan

Base Funding: School district funding is driven by the "foundation allowance," a per-pupil guaranteed funding level determined uniquely for each school district. The proceeds of an 18 mill local property tax levy are subtracted from the guaranteed funding level and the balance of school district funding comes from state revenue. The 1998-99 foundation allowance for most school districts is based on the 1993-94 (the year before a major state school finance overhaul) foundation allowance as updated on an annual basis. The legislature allowed the foundation allowance of several low-spending school districts to increase at a faster rate in order to reduce spending disparities among school districts. High tax effort and high wealth school districts, usually located in suburban areas, had the highest foundation allowances in 1998-99, as was the case in 1993-94.

Charter schools, which can only operate as a single-site facility, receive the per-pupil foundation allowance of the school district in which they are physically located, not to exceed $5,962 in 1998-99 (coincidentally, this figure is about the same as the state average). Approximately 100 of the state's 140 charter schools receive the maximum amount. Two charter schools receive the minimum allowance of $5,170, the same as the school districts in which they are located. Unless chartered by a school district, charter schools can enroll students outside the boundaries of the school district in which the charter school is physically located.

Funding Based on School District Characteristics: Variations in school spending have narrowed since 1993-94. Low-spending districts are allowed to increase their funding at a rate faster than the average, so charter schools in low-spending school districts also show more rapid revenue growth. Charter school funding is based on the geographic location of the school building, creating an incentive to locate charter schools in school districts that spend at least $5,962, the state maximum charter school payment. Not surprisingly, 70 percent of charter schools get maximum funding.

Special Education: Charter schools are eligible for special education categorical funding on the same basis as school districts. Some special education costs in school districts come from foundation allowance funds. About $150 per enrolled pupil (not per handicapped student) is available through state categorical aid (a two-year funding lag exists) as well as

$50 per enrolled pupil through federal funding. The state also provides about $350 per pupil (averaged across all pupils in the state) directly to intermediate service districts. ISDs are also allowed to levy a property tax. Overall, state support for special education averages about 8 percent of the foundation level; charter schools without special education students receive none of this funding.

Limited-English Proficiency: The state has a small appropriation ($4.2 million) to partially reimburse school districts and charter schools based on a per-pupil application.

Low-Income Students: Like school districts, charter schools receive a payment equal to 11.5 percent of the foundation allowance for each student eligible for free breakfast, lunch or milk.

Categorical Programs: Charter schools are eligible for state categorical support (in the same manner as local school districts) for vocational education, gifted and talented, professional development, school-to-work transition, and other small programs. Charter schools must provide qualifying programs.

Transportation: No state transportation aid is available to either school districts or charter schools, so transportation is financed entirely from the foundation allowance. Like school districts, charter schools do not have to provide transportation. Most charter schools do not provide transportation, while most school districts do. In effect, charter schools get transportation funding whether or not they provide transportation.

Capital Outlay and Facilities Financing: While no state facilities assistance is provided, the state charter school law specifically allows charter schools to issue tax-exempt securities. Based on an Internal Revenue Service ruling that did not specifically disallow the practice, numerous charter schools have successfully obtained tax-exempt financing to purchase or build facilities. Typically, an investment company secures financing for the charter school and gets a fee of approximately 5 percent of the amount financed. In addition to interest, the lender receives "points" approximating 5 percent. Typically, the lender holds a "reserve" of 10 percent. The fees and reserve are capitalized into the financing so no down payment or other up front money is required. In order to build a $1.0 million facility, a charter school would obtain tax-exempt financing for $1.2 million. The universities that authorize charter schools usually must agree to forward payments directly to lenders on behalf of the charter school. Although tax exempt, the higher risk carried by charter school securities results in interest rates substantially higher than those obtained by school districts.

State Start-Up Assistance: None.

Administrative Fees: Charter authorizers can collect 3 percent of funding to cover monitoring and administrative expenses.

Uniform Financial Reporting: Charter schools submit Form B, the uniform financial reporting form used by all school districts. Private management companies are exempt

from many aspects of Michigan's Freedom of Information Act, which limits the usefulness of Form B reporting limited due to lack of detail. Form B reporting is also misleading because facility leases are categorized under the broader category of administrative costs.

Auditing Practice: Every charter school is required to have an annual independent financial audit, which are subject to accounting standards approved by the Michigan Department of Education.

Responsibility for Debt: Charter schools can incur debt and use general school aid revenue to acquire buildings or pay debt.

Ownership and Disposition of Assets: Property purchased by a charter school remains the property of the charter school. No specific rules exist for disposing of property for dissolved charter schools.

Teacher Retirement: Participation is required unless private contractors manage schools. Reflecting the high percentage of private management contracts in Michigan, only 50 of 141 charter schools participate.

Michigan	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Foundation allowance[a]		$ 5,962		$ 5,962		$ 5,962
2. State special education aid[b]	0	$ -	11	$ 155	22	$ 310
3. At-risk @11.5%[c]	0	$ -	30	$ 206	60	$ 411
4. LEP[d]	0	$ -	3	$ 2	6	$ 5
5. Other state categorical[e]		$ -		$ 24		$ 24
6. Student transportation[f]		$ -		$ -		$ -
7. Federal funding						
Title I		$ -		$ 195		$ 390
Special education		$ -		$ 46		$ 46
Other federal programs		$ 69		$ 69		$ 69
Total revenue		$ 6,031		$ 6,659		$ 7,217

ASSUMPTIONS: Basic elementary charter school enrolls only students who are not at risk and have no special needs. Middle cost K-12 charter school has the same student characteristics as the average Michigan district. At-risk upper grade charter school, located in Detroit, has twice the concentration of special education and at-risk students as the Michigan average. Host district foundation level is at least $5,962.

[a] Maximum foundation allowance (received by 70 percent of charter schools). Lowest possible foundation allowance (received by two charter schools) in 1998-99 is $5,170.
[b] The state allocates another $350 per member (not handicapped pupils served) to intermediate school districts (ISDs) to provide special education. ISDs also benefit from a property tax levy. Charter schools are eligible to use IDS special education services. School districts also expend part of the foundation allowance for special education.
[c] Each at-risk child generates $657. The entry is total school at-risk funding divided by 100 students.
[d] Michigan appropriated $78 per child for limited-English proficiency.
[e] Includes gifted and talented and vocational categoricals.
[f] For both charter schools and school districts, transportation costs come from the foundation allowance. On average, Michigan schools spend about $275 of the foundation allowance for transportation.

Minnesota

Base Funding: Based on state averages, charter schools receive the same base funding regardless of their location. The funding system resembles the one for school districts except that charter schools have an option on transportation services. In 1998-99, schools received basic state aid of $3,530 per pupil plus an amount equal to the average state funding for:

- Training and experience—provides more state aid for school districts with mature teaching staffs.
- Operating capital—a separate component of the general aid formula.
- Sparsity—provides more aid for sparsely populated school districts.
- Graduation standards funding.[13]

Per-pupil base funding totaled $3,759 in 1998-99.

Grade Level Funding: Per-pupil base funding is multiplied by a weighting formula that counts elementary school students at 1.06 and middle and high school students at 1.30.

Special Education: The state funds about two-thirds of special education costs. School districts may levy local property taxes for the remainder. If so, charter schools allocate their special education population back to their resident districts for levy purposes and then bill the district for its share of the levy funding as if the district were participating in a Board of Cooperative Educational Services.[14] Funding is based on the second prior year's expenditures. The state pays additional money for 68 percent of the actual salary of each person providing special education instructional services and 47 percent of the cost of

[13] Graduation standards funding ($84.37 per pupil) must be spent on a number of specific purposes including technology and gifted and talented education.

[14] Estimates for special education in the middle cost charter school in the following table begin first by taking the cost of a full time teacher and paraprofessional (estimated at $50,000) and multiplied by .68. This is the salary base of $34,000 supported by the state, totaling $3,191 per pupil. The state funds an additional $47 per pupil for materials. No costs for contracting out are included. Calculations are similar for the school for at-risk students. With twice as many students, costs are doubled.

supplies and equipment, not to exceed $47 per disabled student. The state also covers 52 percent of the additional cost of a contract for instruction and supplemental services.[15]

Limited-English Proficiency: LEP funding is based both on the number of LEP students and the concentration of LEP students in a school district or charter school. Basic LEP funding is either: (1) 68 percent of one-half the salary of each teacher for every 40 LEP pupils, or (2) 68 percent of one-half the salary for a teacher in a district with 20 or fewer LEP pupils. The state also pays for 47 percent of the costs of supplies and equipment not to exceed an average of $47 per pupil. As in special education, school districts can use a levy for the LEP costs not funded by the state. Charter schools allocate their LEP populations to the resident districts of the pupils attending the charter school for levy purposes and bill the school district. LEP concentration revenue is based on a formula.[16] The maximum concentration revenue is $149 per LEP pupil.

Low-Income or Compensatory Education: Charter schools, like school districts, may qualify for compensatory education money, which is a component of Basic Skills Revenue. To qualify, charter schools have to meet reporting requirements for basic skills expenditures. The basic revenue is $3,530 multiplied by a concentration percentage, which is then multiplied by the number of students qualifying for free or reduced-price lunch. Finally this amount is multiplied by .6.[17] There also is a basic skills match of up to $22.50 in state aid per student.

Categorical Funding: Charter schools are eligible to receive other aids, grants and revenue as though it were a school district. These include: Secondary Vocational Students with Disabilities revenue, Secondary Vocational revenue, Teacher Education Improvement grants, Teacher Mentorship grants, First Grade Preparedness (full-day kindergarten),

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[15] "Additional" cost is determined by subtracting the regular classroom cost of a student from the special education contract for the fraction of the school day that the student receives services.

[16] The middle cost charter school in the following table is assumed to get $47 per pupil for material. The school also gets one-half of 68 percent of the estimated $30,000 salary of one FTE teacher (.5 x .68 x $30,000) or $10,200. This is $3,447 per LEP pupil. In addition there is concentration revenue. The concentration percentage of 3 (which is 100 x LEP/ADM) is divided by the constant 11.5 for a quotient of .261. This quotient is multiplied by the number of LEP students and the concentration revenue amount ($149 in 1998-99) yielding $117 dollars or $38.89 per LEP child. Since the at-risk school with six LEP students will have the same amount of staff as one with three LEP students, per-pupil funding drops. The $10,200 for staff equals only $1,700 per LEP pupil. Funding for materials adds $1,747 per pupil. There is slightly more concentration funding, however (6/11.5 x 6 x 149), coming to $467 in total concentration revenue, or $78 per pupil. Total additional funding is $1,825 per LEP pupil.

[17] In the middle cost charter school in the following table, 26 students qualify for compensatory education (19 for free lunch and 7 for reduced-price lunch). The concentration percentage is 22.5 (100 percent of free lunch, plus 50 percent reduced lunch, divided by school enrollment and multiplied by 100). The pupil weighting factor is the concentration percentage divided by 80, or .281. This weighting is multiplied by the pupil count (22.5) and .6 for a total of 3.7969. This amount is then multiplied by $3,530. Total compensatory education funding is $13,403, or $513 for each of the 26 compensatory education students. Since compensatory education is based on a concentration formula, the per-pupil funding will be higher for a disadvantaged school. The concentration percentage for the at-risk charter school in the following table is .45. The pupil weighting factor is .5625. This amount is multiplied by the pupil count (45) and .6 for a total of 15.1875, which is then multiplied by $3,530. Total compensatory education funding is $53,611. Dividing among the 52 students yields $1,031 additional per student.

Family Connections Program, Wide Area Transportation, Advanced Placement and International Baccalaureate, Violence Prevention grants, Family Service Collaboratives, and a number of technology programs. However, charter schools may not receive funds for which a levy is required.

Transportation: If a charter school provides transportation, then the charter school has a base funding adjustment of $171 per *weighted* student. High school students generate 130 percent of this revenue, and elementary school students generate 106 percent of $171. Transportation Sparsity and Transition Revenues that vary by district supplement base transportation funding. Low-income family transportation reimbursements go to families in open enrollment options including charter schools. In general, parents of students attending charter schools outside their district of residence are responsible for bringing their children to the district border.

State Start-Up Assistance: During the first two years of operation, charter schools are eligible for aid for start-up costs and additional operating costs of $500 per pupil, with a minimum of $50,000.

Capital Outlay and Facilities Assistance: In 1998-99, charter schools received building lease aid equal to the lesser of either 80 percent of approved leasing costs, or state average capital funding. The state estimate for average capital funding was $465 per pupil. In 1999-2000, lease and increases to 90 percent of approved costs up to $1,500 per pupil.

Timing of Payments: A charter school preparing for its first year of operation receives 10 percent of its funds on July 15 to help deal with cash flow problems. The next 80 percent of its funds are distributed in 22 equal bimonthly installments. The final 10 percent is distributed in October of the subsequent year. After the first year of operation, charter schools receive 90 percent of their funds in 23 equal bimonthly installments starting on July 15, and the final 10 percent is distributed in October of the subsequent school year.

Uniform Financial Reporting: Charter schools participate in the Integrated District Education Aids System (IDEAS). This is the computerized system used for school district financial reporting.

Auditing Practice: Charter schools are subject to the same financial audits, audit procedures and audit requirements as a school district. The Department of Children, Families and Learning; state auditor; or legislative auditor may conduct financial, program or compliance audits.

Responsibility for Debt: Charter schools are governed under the Minnesota law for nonprofit corporations or cooperatives. The charter school's nonprofit corporation is responsible for debt.

Ownership of Assets: State funds cannot be used to buy facilities. A charter can buy facilities with funds from non-state sources. Assets belong to the non-profit corporation.

Teacher Retirement: Charter school employees take part in the appropriate public retirement system.

Private Contributions: Charter schools can accept private contributions, but only for start-up purposes of capital facilities and must report them to the state.

Minnesota	Cost Factor	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	Weight	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations							
Grades 1-6	1.06	100	106.0	50	53.0	0	0.0
Grades 7-12	1.30	0	0.0	50	65.0	100	130.0
Total weighted FTE		100	106.0	100	118.0	100	130.0
1. Base funding per FTE[a]		$ 3,935	$ 3,712	$ 4,380	$ 3,712	$ 4,826	$ 3,712
2. Limited-English proficiency[b]		$ -	(0 FTE)	$ 105	(3 FTE)	$ 109	(6 FTE)
3. Special education[b]		$ -	(0 FTE)	$ 345	(11FTE)	$ 690	(22 FTE)
4. Compensatory education[c]		$ -	(0 FTE)	$ 133	(26 FTE)	$ 536	(52 FTE)
5. Basic skills aid		$ 23		$ 23		$ 23	
6. Transportation[d]		$ 238		$ 265		$ 292	
7. Federal funding							
Title I		$ -		$ 102		$ 204	
Bilingual and immigrant		$ -		$ 2		$ 4	
Special education		$ -		$ 47		$ 96	
Other federal programs		$ 53		$ 53		$ 53	
Total revenue		$ 4,248		$ 5,455		$ 6,833	
Facilities lease aid		$ 465		$ 465		$ 465	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school enrolls only students who are not at risk and have no special needs. Middle cost K-12 charter school has the same student population characteristics as the average Minnesota district. At-risk upper grade charter school has twice the concentration of special education and at-risk students as the Minnesota average.

[a] Base funding pays for about 40 percent of special education and LEP costs. Pension adjustment of $47 per weighted pupil has been subtracted from basic weighting allowance of $3,759.
[b] State LEP, special education and compensatory aid calculations are described in the footnotes in the accompanying text.
[c] Estimated at $513 per compensatory education pupil in middle cost school and $1,031 per pupil at upper grade school.
[d] Transportation sparsity and transition revenue are estimated to be $53.46 per pupil. This calculation is based on data for the Skills for Tomorrow Charter School supplied by the Minnesota Department of Children, Families and Learning. Transportation funding does not include the value of services provided to low income families.

New Jersey

Base Funding: Charter schools receive per-pupil funding based on revenue that would have been generated by charter school students in their districts of residence. The state calculates base funding adjusted for grade level differences based on a weighting formula. Revenue allotted to special education, transportation of district students (5.4 percent of spending), and transportation provided to private school students (1.4 percent of spending) is included in the base amount. Charter schools get 90 percent of this amount. The state commissioner of education can, however, increase the percentage. The commissioner has exercised this power in a handful of cases, e.g., for a charter school that offered full-day kindergarten.

Grade Level Funding: Per-pupil base funding is multiplied by a weighting formula that counts elementary school students at 1.00, grades 6 to 8 as 1.12, and high school students at 1.20.

Funding Based on School District Characteristics: Despite an equalization aid formula that has been under judicial review for decades, New Jersey is a state with spending inequities based on property wealth and tax effort. High-spending, wealthy school districts generate more funding for charter schools than impoverished school districts.

Special Education Revenue: School districts are responsible for turning state funds over to the charter school for special education students residing in the district and attending that charter school. The state funding system has two categories: Tier I ($150 per pupil) and Tier II ($3,024 per pupil). State aid is generally insufficient to pay for all special education costs.

Limited-English Proficiency: School districts send funds to the charter school to cover categorical aid assigned to bilingual education students (about $1,100 per bilingual student) residing in the district and attending that charter school.

Low-Income or Compensatory Education: School districts send funds to the charter school for compensatory education for eligible students residing in the district who attend that charter school. Charter schools in districts with high concentrations of at-risk students receive Demonstrably Effective Program aid for every student in the school. Schools in districts without a high concentration of at-risk students get Instructional Supplement aid available only for qualifying students.

Other State Categorical Aid: A charter pupil's district of residence is responsible for transferring to the charter school aid attributable to that student for special education, bilingual education, Instructional Supplement aid and Distance Learning Network aid. Other programs are included in the basic allotment.

Transportation: Students attending a charter school in their district of residence receive transportation services from the district on the same basis as other students in the district. Regulations require that students attending a charter school outside of their residential district boundary receive services from their district of residence in value up to a statutorily determined amount. If the amount required to transport them exceeds this cap, parents can agree to provide the extra funding, or the district can forward the cap amount to the parent in the form of transportation aid, and parents can provide services themselves.

State Start-Up Assistance: None.

Capital Outlay and Facilities Financing: No program.

Uniform Financial Reporting: Required.

Auditing Practice: The annual report must contain a comprehensive annual financial report including a balance sheet, an operational statement of revenues and expenditures, and a cash flow analysis.

Responsibility for Debt: Responsibility is not specifically addressed in law.

Ownership and Disposition of Assets: If a charter is revoked or becomes insolvent, the assets remaining after satisfaction of creditors will be distributed by the state commissioner of education among districts sending students to the charter school. Charter schools must include this provision in their bylaws.

Unexpended Funds: Charter schools keep unexpended funds. However, school districts can request that the charter school's allotment be reexamined in the event of excessive surpluses.

Timing of Payments: Charter school aid is split between the district average local tax levy and the district average state aid attached to each student. The local portion is paid to the district(s) of residence in 12 monthly installments beginning July 15. Thus, two payments

arrive before school starts. The resident district also pays the average state aid portion in 20 installments on the second and 16th of each month from September through June.

Teacher Retirement: All certified teachers must participate in the retirement program. All charter school teachers must be certified.

New Jersey	Cost Factor	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	Weight	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations							
Grades 1-5	1.00	100	100.0	34	34.0	0	0.0
Grades 6-8	1.12	0	0.0	33	37.0	50	56.0
Grades 9-12	1.20	0	0.0	33	39.6	50	60.0
Total weighted FTE			100.0		110.6		116.0
Base funding[a]		$ 7,457	$ 7,457	$ 8,244	$ 7,457	$ 9,820	$ 8,466
90 percent funding		x .90		x .90		x .90	
1. Base funding @ 90%		$ 6,711		$ 7,420		$ 8,838	
2. Special education							
Tier I[b]		$ -	(0 FTE)	$ 8	(5 FTE)	$ 15	(10 FTE)
Tier II[c]		$ -	(0 FTE)	$ 121	(4 FTE)	$ 242	(8 FTE)
3. Bilingual education[d]		$ -	(0 FTE)	$ 44	(4 FTE)	$ 88	(8 FTE)
4. At-risk[e]		$ -		$ -		$ 436	
5. Distance learning		$ 41		$ 41		$ 41	
6. Transportation[f]		$ 362		$ 401		$ 477	
7. Federal funding							
Title I		$ -		$ 123		$ 246	
Bilingual and immigrant		$ -		$ 4		$ 8	
Special education		$ -		$ 63		$ 126	
Other federal programs		$ 40		$ 40		$ 40	
Total revenue		$ 7,154		$ 8,264		$10,558	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school has no at-risk or special needs students. Middle cost K-12 charter school has the same student population as the average New Jersey district. At-risk upper grade charter school has twice the concentration of special needs students as the New Jersey average. The basic and middle cost schools use base funding for Nutley, an average New Jersey school district. The at risk school uses base funding for Newark.

[a] Includes a majority of special education and transportation costs.
[b] $154 per eligible pupil.
[c] $3,024 per eligible pupil.
[d] $1,103 per eligible pupil.
[e] $436 per student in eligible schools.
[f] In-kind value of district-provided transportation estimated at state average of 5.4 percent.

New Mexico

Base Funding: More than 90 percent of education funding comes from the state equalization aid program. While the base funding amount was $2,322 in 1998-99, an extensive system of weights increased average funding to about $4,400. This formula adjusts for size, grade level, special education and other student characteristics, enrollment growth, and staff training and experience (T&E). The T&E factor is a multiplier applied after the basic weighting calculation. In 1998-99, charter schools were authorized and funded by school districts. The state requires that its basic funding formula amount be given to the charter school on a per-pupil basis. Districts can then add additional funds.

Grade Level Weights: At the elementary level, grade level weights range from 1.20 in first grade to 1.05 in grades 4 to 6. Middle and high school students are weighted at 1.25.

School and District Size Factors: New Mexico has a complicated system of size adjustments that should provide more funding to charter schools in small school districts. In the average district, these adjustments account for about 12 percent of school district revenue. The size adjustment recognizes only diseconomies of small scale and not the high costs of urban education, so Albuquerque gets no extra funding.

Training and Experience Factor: An adjustment for the higher costs faced by school districts with a better trained and more experienced staff averages about 9 percent of revenue.

Special Education Revenue: Nearly one in five students qualifies for special education services. Weights based on the intensity of services drive special education funding. A separate component of funding, related services, adds 14 percent to base funding in the average school district. Overall, special education funding averages well over $1,000 per student. The "add-on" weighting for Type A and B students is 0.7. The weighting for Type C students is 1.0, and the weighting for Type D students is 2.0.

Gifted and Talented: Gifted and talented children receive funding as class B and C special education students.

Limited-English Proficiency: The additional weighting in the formula is 0.5, and about 5 percent of students qualify.

Low-Income or Compensatory Education: The formula has an at-risk index that generates about 8 percent of revenues in the average school district. The index for Albuquerque adds 16 percent to funding. Since the funding is not directed at specific schools or students, charter schools should benefit from this source of funding regardless of the exact number of at-risk students enrolled.

Categorical Funding: Charter schools are entitled to their fair share of categorical funding. The main categorical program is Instructional Materials, amounting to $46 per pupil in 1998-99.

Transportation: Transportation arrangements are negotiated. In Albuquerque, the school district provides transportation to charter schools on the same basis as any other school.

State Start-Up Assistance: None.

Capital Outlay and Facilities Financing: Facilities issues are negotiated between the district and charter school. In Albuquerque, charter schools have some access to locally raised capital funding for maintenance and repairs.

Timing of Payments: Charter schools receive funds on the same basis as other schools in the district.

Uniform Financial Reporting: The reporting requirements are the same as for any other public school, and charter finance is subsumed in the district's reporting.

Auditing Practice: The audit requirements are the same as for any other public school; charter schools are audited as part of their host school district.

Responsibility for Debt: Charter schools cannot acquire debt.

Ownership of Assets: All assets belong to the school district in the event of closure.

Unexpended Funds: Funds revert to the school district at the end of the fiscal year.

Teacher Retirement: Charter school employees are public employees who participate in the teacher retirement system.

New Mexico	Cost Factor	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	Weight	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations							
Grade 1	1.20	20	24.0	10	12.0	0	0.0
Grades 2-3	1.18	40	47.2	20	23.6	0	0.0
Grades 4-6	1.05	40	41.8	20	20.9	0	0.0
Grades 7-12	1.25	0	0.0	50	62.5	100	125.0
Special education A/B	0.70	0	0.0	11	7.7	11	7.7
Special education C	1.00	0	0.0	4	4.0	8	8.0
Special education D	2.00	0	0.0	4	8.0	8	16.0
Sp. educ. related services	a	na	0.0	na	14.0	na	28.0
Limited-English proficient	0.50	0	0.0	5	2.5	10	5.0
Subtotal			113.0		155.2		189.7
Training & experience factor	a	na	x 1.093	na	x 1.093	na	x 1.097
Subtotal			123.5		169.6		208.1
At-risk index	a	na	0.0	na	8.0	na	16.0
School & district size factors	a	na	12.0	na	12.0	na	0.0
Total weighted FTE			135.5		189.6		224.1
1. Base funding	b	$ 3,147	$ 2,322	$ 4,403	$ 2,322	$ 5,204	$ 2,322
2. Transportation	c	$ 270		$ 270		$ 270	
3. Instructional materials		$ 46		$ 46		$ 46	
4. Federal funding							
Title 1		$ -		$ 172		$ 344	
Special education		$ -		$ 54		$ 108	
Other federal programs		$ 46		$ 46		$ 46	
Bilingual and immigrant		$ -		$ 20		$ 40	
Total revenue		$ 3,509		$ 5,011		$ 6,058	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school has no pupils generating program cost weightings. Middle cost K-12 charter school has the same student population as the average New Mexico school district. At-risk upper grade charter school has twice the concentration of students at each special education level as the New Mexico average and is located in Albuquerque.

[a] Based on indexes, not pupil counts. Basic and middle cost schools use state average indexes. At-risk charter school uses indexes for Albuquerque.

[b] Weighted FTE per pupil funding of $2,322 applies to all school districts. All variation in FTE spending depends on pupil weightings and indexes for training and experience, at-risk students and size factors.

[c] Represents state aid per enrolled pupil, which covers all transportation costs in most districts.

North Carolina

Base Funding: Charter schools receive an amount equal to the state per-pupil allocation of operating funds to the school district in which the student was previously enrolled minus special education funds. School district operating funds include financial support for vocational education, gifted education, transportation and at-risk programs. Except for special education, charter schools get the school district average whether or not they enroll students or provide programs generating the funds. This funding scheme works to the disadvantage of charter schools with high-cost students. In addition to state allotments for a variety of purposes, charter schools receive "local" funds that average about $1,000 and range from $500 to $1,800.

Grade Level Funding Adjustments: Although school districts generate funding based on grade level, charter school funding does not distinguish between grades. For school districts, the weighting occurs in the formula allocating classroom teachers. Funding is based on teacher to pupil ratios of 1:23 for kindergarten, 1:26 for grades 1-9, and 1:28 in grades 10-12. Classroom teacher assistants are allocated to K-3 grades only. Charter high schools or middle schools do not get grade level weights and may be underfunded compared to regular high schools and elementary charter schools.

Funding Based on School District Characteristics: Funding is adjusted for geographic isolation. The formula is based on the property-weighted sales potential, agricultural use value, existing utilities and county personal property.

Special Education: In 1998-99, school districts obtained $2,346 per special needs student, with funding capped at 12.5 percent of enrollment. Thus, when the percentage of students who are handicapped exceeds 12.5 percent, the funding per pupil served falls below $2,346. One school district obtained only $1,763 per handicapped pupil served. Charter schools receive the average special education revenue per child actually served from the school district the disabled student previously attended. Funding could range from $1,763 to $2,346 per special needs student. Charter schools obtain less special education funding when disabled students come from school districts with a high proportion of special needs

students. Although the funding cap eliminates the incentive for school districts to identify more children as handicapped in order to obtain extra funding, charter school funding is not capped. Additionally, funding is the same both for low- and for high-cost special needs students. As a consequence, a financial incentive exists for charter schools to enroll students with low-cost disabilities. State funds for children with disabilities are allotted based on the number of students who were included in the April 1 head count. If a child was not included in a school district head count, the charter school will not receive funds for that child. Each subsequent year, charter schools submit their own head count on April 1.

Other State Categorical Funding: Categorical programs in North Carolina include gifted and talented (about $31 per member), vocational education (ranging from $184 to $204 per enrolled student), staff development, transportation and at-risk funding. Categorical aid is incorporated into the average per-pupil operating fund calculation. Thus, charter schools are funded at the same level as an average district school regardless of the charters' programs or student characteristics.

At-Risk Students: Funding for at-risk students amounts to about $95 per pupil enrolled.

Bilingual: The state does not provide additional funds for bilingual education.

Transportation: School districts receive state transportation funding based on factors such as number of pupils, fuel costs and number of buses. Charter schools receive school district average transportation funding, since it is a component of operating funds, and can spend the transportation money for any legitimate purpose. For the school districts profiled in the following table, the transportation component of state aid ranged from $144 to $174 per enrolled pupil. Additional funds from local revenue supplement the state aid. Charter schools are required to provide a transportation plan for their students. The plan could consist of car pools or other alternative methods of transportation.

Capital Outlay and Facilities Financing: Charter schools have no access to the facilities financing or debt service funds of school districts. North Carolina includes a small amount of capital outlay spending in the average per-pupil operating funds used to derive charter school funding. North Carolina expanded the mandate of the Educational Facilities Finance Agency to include any "nonprofit institution within the State of North Carolina authorized by law and engaged or to be engaged in the providing of kindergarten, elementary, or secondary education, or any combination thereof." Including charter schools in the act may open the door to tax-exempt financing for charter school facilities. To date, the authority has not been willing to actually issue any bonds for charter schools.

State Start-Up Assistance: None.

Timing of Payments: Charter schools begin receiving state funds after the general assembly passes a budget. Funds are received as early as July 1 of each year. Charter school allocations are made one week after the initial allotments are distributed to school districts.

Uniform Financial Reporting: Charter schools must comply with reporting requirements from the state's Uniform Education Reporting System.

Independent Financial Audit: Required.

Ownership of and Disposition of Assets: Charter schools are not permitted to use state funds to purchase land or buildings but may use local funds (which average about $1,000 per student) and private sources. Upon dissolution or non-renewal of the charter school, all assets of the charter school become assets of the local school district in which the charter school was located.

Teacher Retirement: The charter school board decides whether to participate in the teacher retirement system; in 1998-99, 16 out of 57 charter schools participated in the teacher retirement system.

North Carolina	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
Components of state allotment[a]						
Classroom teachers		$ 1,853		$ 1,853		$ 1,796
Central office administration		$ 97		$ 97		$ 34
Non-instructional support		$ 192		$ 192		$ 192
School building administration		$ 211		$ 211		$ 166
Instructional support		$ 210		$ 210		$ 232
Vocational education		$ 204		$ 204		$ 184
Teacher assistants		$ 248		$ 248		$ 259
Staff development		$ 5		$ 5		$ 3
Low-wealth supplement		$ 4		$ 4		$ -
Gifted program		$ 31		$ 31		$ 31
Transportation		$ 144		$ 144		$ 174
Classroom materials		$ 41		$ 41		$ 41
Regional technical assistance		$ 7		$ 7		$ 1
At-risk funding		$ 95		$ 95		$ 93
Textbooks		$ 47		$ 47		$ 47
School technology		$ 16		$ 16		$ 16
Other state funding		$ 82		$ 82		$ 83
Local revenue[b]		$ 1,000		$ 1,000		$ 1,700
1. Base funding per FTE		$ 4,487		$ 4,487		$ 5,052
2. Special education[c]		$ -		$ 282		$ 563
3. Federal funding						
Title I		$ -		$ 106		$ 212
Bilingual and immigrant		$ -		$ -		$ -
Special education		$ -		$ 47		$ 94
Other federal programs		$ 51		$ 51		$ 51
Total revenue		$ 4,538		$ 4,973		$ 5,972

ASSUMPTIONS: Basic elementary charter school is funded though a school district with state average spending and no special needs students. Middle cost K-12 charter school is funded through a school district with state average spending and pupil characteristics. Urban at-risk upper grade charter school is funded through an urban school district and has twice the state average concentration of special needs students.

[a] The average state appropriated funds per pupil is $3,457 for 1998-99, and ranges between $3,000 and $5,500 depending on the size and wealth of the district.
[b] Local funds vary from $400 to $1,800, which averages about $1,000 per child.
[c] The average special education revenue is $2,346. Charter schools receive the average revenue per special education student from sending school districts regardless of student disability. Middle cost K-12 school is assumed to enroll 12 special education students, and the at-risk school is assumed to enroll 24 special education students.

Pennsylvania

Base Funding: Charter school revenue is based on the expenditure of the districts in which its students reside. Charter schools receive the amount the district would spend on each student minus the average per-student expenditure for special education programs, non-public school programs, adult education programs, community/junior college programs, and transportation. Also excluded are expenditures for facilities acquisition, construction and improvement debt service and payments to charter schools. Base payments to charter schools apparently include non-special education payments to other charter schools (since these are recorded in the instructional program lines), as well as expenditures on non-public school programs.[18] The school district performs this calculation, which the state then audits.

Grade Level Funding: None.

Funding Based on School District Characteristics: Despite an equalization aid formula, Pennsylvania is a state with substantial spending inequities based on property wealth and tax effort. High-spending, wealthy school districts generate more funding for charter schools than poor school districts.[19]

[18] At least one state document reviewed for this study indicates that district funds used for payment to private schools and charter schools are withheld from the funding calculation, but the state's own worksheets do not reflect this. In fact the private school funding line of the budget is specifically included in the calculation of charter school revenue.

[19] For calculations in the following table, the hypothetical basic elementary and middle cost charter schools are located in William Penn school district, an average-spending Pennsylvania district, where charter schools receive $5,939 per pupil. Approximately 80 percent of school districts allocate to charter schools between $5,310 per pupil (Penncrest school district) and $7,682 (Gateway school district). These figures exclude special education and other expenditures listed in the paragraph on base funding.

Special Education: For each special education student, charter schools receive the average special education spending per pupil in the sending school district in addition to the base payment. The average special education expenditure is calculated by dividing budgeted special education costs by a flat 16% of ADM. This average incorporates spending for all special needs students regardless of the charter school student's specific disability. As with school districts, charter schools can draw on additional state funds if a particular disability requires an ultra high-cost accommodation.

Limited-English Proficiency: No state funding for charter schools or school districts.

Low-Income or Compensatory Education: In the basic formula, school districts receive extra money per child qualified for AFDC (federally funded Aid for Families with Dependent Children). Because this funding is part of school district expenditures, every charter school student brings a share of this funding with him or her regardless of the student's AFDC status or the AFDC status of the charter school the child attends. Charter schools serving a predominantly low-income population may be underfunded.

Other State Categorical Funds: Because categorical programs are not excluded from the base district spending calculations as part of their base allotment, charter schools receive a share of all the categorical funds received in the district. Charter schools receive funding even if they do not provide qualifying programs.

Transportation: Transportation is provided for students in charter schools located within the district boundary in the same manner that transportation is provided to other schools in the districts. Additionally, school districts provide transportation services up to 10 miles beyond the district border to residents attending an out-of-district charter school. This matches school district obligations to transport resident children to private schools.

Start-Up Assistance: A one-time payment from federal and state funds of approximately $800 per student is allocated to new charter schools. In addition, the state sends $800 per additional student to established charter schools that have increased their enrollment. The goal is to limit the incentive for schools to pack in students in the first year to maximize start-up funding, thereby allowing them to grow more naturally.

Timing of Payments: The district pays in 12 equal monthly payments. For start-up funds, 70 percent of the payments are made upon completion of forms; and the remainder upon receipt of the Oct.1 enrollment report.

Capital Outlay and Facilities Financing: None.

Uniform Financial Reporting: Charter schools provide an annual financial report and complete a budget form. School districts face the same reporting requirements.

Auditing Practice: Charter schools must have an annual audit completed by a licensed or certified public accountant in conformance with generally accepted accounting standards. The Pennsylvania auditor general may also conduct audits. The charter application must

contain provisions made for auditing the school under section 437 of the Pennsylvania code.

Responsibility for Debt: Charter schools are responsible for their own debt.

Ownership and Disposition of Assets: Charter schools own their assets. If a charter dissolves, the assets are first used to satisfy creditors. Any remaining assets revert back to the school district.

Teacher Retirement: All charter employees must be enrolled in the state retirement system unless the sponsoring organization has an alternative retirement program. Participation in the state system is very high with 28 of 31 charter schools participating in 1998-99.

Pennsylvania	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Base funding[a]		$ 5,939		$ 5,939		$ 5,488
2. Special education[b]	0	$ -	12	$ 966	24	$ 1,076
3. Transportation[c]		$ 232		$ 232	.	$ 232
4. Federal funding						
Title I				$ 175		$ 350
Special education				$ 46		$ 92
Other federal programs		$ 50		$ 51		$ 51
Total revenue		$ 6,221		$ 7409		$ 7,289

ASSUMPTIONS: Basic elementary charter school has no special needs students. Middle cost K-12 charter school has the same student population as the average Pennsylvania school district. At-risk upper grade charter school has twice the concentration of low income and special education students as the Pennsylvania average and is located in Philadelphia.

[a] Revenue based on average operating expenditures after subtracting special education costs. Basic and middle cost school expenditures use estimates for William Penn school district. At-risk school is based on Philadelphia's spending. About 80 percent of school districts spend between $5,310 (Penncrest) and $7,682 (Gateway).
[b] Average special education costs in middle cost school are $1,743, and $4,485 at the upper grade school.
[c] Estimate of the value of district-provided transportation per member, not user, is based on the state average.

Rhode Island

Base Funding: Charter schools receive the average per-pupil cost from the student's district of residence. Funding based on expenditures includes financial support for special education (including infant, toddler and preschool programs), private school transportation, community service, adult education and student activities including athletics. Charter schools pay back to the sending district 5 percent of charter school funding to acknowledge that when a student moves to a charter school, the sending district is not able to reduce costs by 100 percent. The state calculates the average state aid per pupil, weighted for poverty and tax effort, and pays the funds to the charter school. The district pays the average local revenue per pupil from each student in a district enrolled in a charter school. If the local school district is more than 30 days late in making local share payments to a charter school, the state deducts the amount from state aid and directly pays the charter school.

Grade Level Funding Adjustments: None exist for school districts or charter schools.

Funding Based on School District Characteristics: No adjustments for sparsity, school size or enrollment growth.

Special Education: All special education spending (averaging about $1,100 per pupil or about 15 percent to 20 percent of total spending) is included in per-pupil charter school funding. The law mandates that charter schools reflect the diversity of students in the school district and as such, reflect the district's average special education population. In a typical school district in Rhode Island, approximately 20 percent of special education spending is devoted to the homebound, intensive disabilities, non-public day school, preschool and residential special education students. Charter schools receive this portion of special education spending even though it is highly unlikely that charter schools will or should ever serve these types of students.

Categorical Funding: As a component of average cost per pupil, categorical funding is distributed to charter schools based on prior year per-pupil average categorical program expenditure. Categorical programs support literacy, student equity, early childhood, technology, professional development, language assistance, instructional equity and targeted aid programs. Charter schools receive average categorical funding whether or not their student population is participating in the funded programs.

Transportation: Charter schools receive the school district average expenditure for public, non-public and special education transportation no matter whether the charter schools have a transportation need that is greater or less than the average. Charter schools can negotiate with the district to provide transportation, or charter schools devise their own plan.

Capital Outlay and Facilities Funding: A little less than $100 per student in capital outlay funding is in a school district's general operating fund. This money flows to charter schools. Additionally, a facilities funding program reimburses local districts and charter schools for debt service related to capital projects. Considered on a case by case basis, charter schools may be eligible for a minimum 30 percent reimbursement of costs associated with support for facilities.

State Start-Up Assistance: The state will provide start-up loans—repayable over five years—if no federal funds are available.

Timing of Payments: Some funding is available before school starts. Rhode Island charter schools get payments from both the state and local school districts. State payments are distributed quarterly beginning July 1. School district payments are provided quarterly beginning Aug.15.

Uniform Financial Reporting: The charter school budget is usually included in the school district budget. Starting in 1999-2000, charter schools are required to provide individual uniform financial reports.

Auditing Practices: Charter schools are required to have an annual audit.

Ownership of Property and Disposition of Assets: Charter schools are eligible to own property. Details are set in the charter.

Teacher Retirement: Charter schools are required to participate in the state teacher retirement system.

Rhode Island	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
Components of operating costs						
General fund[a]		$ 5,311		$ 5,311		$ 5,056
Disadvantaged[b]	0	$ 103	33	$ 103	64	$ 525
Special education[c]	0	$ 890	18	$ 890	36	$ 917
Special education infant, preschool, & private school tuition		$ 195		$ 195		$ 197
Transportation[d]		$ 408		$ 408		$ 365
Private school transportation		$ 36		$ 36		$ 18
Research and analysis[e]		$ 15		$ 15		$ 86
Community service[f]		$ 21		$ 21		$ 5
Student activities and athletics		$ 45		$ 45		$ 27
Capital outlay[g]		$ 82		$ 82		$ 42
Total operating costs		$ 7,106		$ 7,106		$ 7,238
95 percent funding		x .95		x .95		x .95
1. Base funding @ 95%		$ 6,751		$ 6,751		$ 6,876
2. Federal funding						
Other federal programs		$ 84		$ 84		$ 84
Special education		$ -		$ 62		$ 126
Bilingual and immigrant		$ -		$ 10		$ 20
Title I		$ -		$ 152		$ 304
Total revenue		$ 6,835		$ 7,059		$ 7,410

ASSUMPTIONS: Basic elementary charter school has no at-risk or special needs students. Middle cost K-12 charter school reflects the state average student population. At-risk upper grade charter school has twice the state average concentration of special needs students. The figures above are actual 1997-98 average operating funds used to determine charter school funding for the1998-99 school year. For this example, Providence is the urban school district hosting the at-risk charter school, and Cranston represents an average school district for the other two hypothetical charter schools.

[a] General fund comprises instruction, instructional improvement, gifted, attendance, guidance programs, school management, staff and fiscal services, and administrative support.
[b] Disadvantaged expenditures includes bilingual and compensatory education.
[c] Special education expenditures include intensive education and homebound.
[d] Transportation expenditures also include special education transportation.
[e] Research and analysis costs include information, data processing and statistical services.
[f] Community service includes non-public school textbooks, student and adult continuing education.
[g] Capital outlay has been extracted from many of the categories to create a separate expenditure.

South Carolina

Base Funding: Charter schools receive funding in a manner similar to school districts. Authorized by local school boards, charter schools obtain funding based on the school district's audited total general fund expenditures from the previous year updated for inflation. The expenditure calculation includes capital outlay and maintenance but excludes bonded indebtedness and debt service. Students in grades 1 to 3, high school, special education or compensatory education get weights to reflect higher educational costs. Base funding for charter schools is expressed in *weighted* pupil units of the school district. In the average school district, expenditures per weighted student are about one-third lower than the unweighted per-pupil expenditures (adding weights inflates the actual number of pupils). A charter school multiplies the school district's weighted per-pupil expenditures by the charter's own weighted student count to ascertain revenue. If a charter school's student population matches the school district's, per-pupil funding is identical to the school district. Charter schools with high-cost students get more funding.

Grade Level Funding: Compared to grades 4 to 8, students in grades 1 to 3 or in high school generate about 25 percent more revenue for both school districts and charter schools.

Special Education: Pupil weightings for specific disabilities increase the number of weighted pupil units. Students with learning disabilities, for example, generate 75 percent more funding in grades 4 to 8. Due to grade level weights, the extra funding is less in grades 1-3 and high school. A student may only be assigned to one weighting category; if a student is receiving services from two different classifications, the student is classified in the higher of the two weightings.[20]

Limited-English Proficiency: South Carolina provides no funding for bilingual education.

[20] Figures in the following table reflect this convention. A student with learning disabilities gets a weight of 1.74, but the additional funding is only 74 percent.

Categorical Programs: Charter schools receive categorical funding for eligible students enrolled. Funding is available for many programs including academic assistance, gifted and talented, and school improvement/innovation. The charter school's share of funding is negotiated between the school district and the charter school.

Transportation: The state directly provides transportation for students in South Carolina. School districts pay for approximately 33 percent of total transportation costs. Charter schools receive the district's share of transportation expenditures as part of their per-pupil funding, but not the state share. Charter schools have three transportation options: (1) The school district can permit the use of state school buses at the rate of 80 cents per mile plus all driver salary costs. The charter school is responsible for total costs. (2) The charter school can purchase and operate school buses. (3) The charter school can develop a transportation plan and require parents to provide transportation. The charter school's transportation plan is subject to school board approval.

Capital Outlay and Facilities Funding: Charter schools are not eligible for capital financing or debt service funding. However, base funding includes money for capital outlay and maintenance normally included in general operating funds.

State Start-Up Assistance: None available.

Timing of Payments: All state and local funding is distributed monthly beginning in July.

Uniform Financial Reporting: A charter school may maintain its own financial records or negotiate these services with the authorizing district. The records must be accounted for in accordance with the state department of education's Financial Accounting Handbook and Funding Manual. All revenue should be accounted for in the sponsoring district's financial statements. Detailed expenditure data are kept in the charter school's financial records.

Auditing Practice: Charter schools are required to have an annual independent audit.

Responsibility for Debt: Charter schools may incur debt. The charter school authorizer, usually the school district, is not liable for debts of a charter school and is immune from civil and criminal liability with respect to all activities related to a charter school.

Ownership and Disposition of Assets: Charter schools may acquire buildings or property. Upon dissolution of a charter school, its assets may not be used to benefit any private person. Assets obtained by restricted agreements with a donor through awards, grants or gifts will be returned. All other assets become property of the charter school authorizer.

Technical Assistance: School districts must provide technical assistance at no expense to groups preparing or revising a charter application. School districts distribute local, state and federal funds to charter schools. Other services centrally provided by the school districts are subject to negotiation between the charter school and the school district.

Teacher Retirement: Conversion charter schools are considered public entities and must participate in the state teacher retirement system. Start-up charter schools are not required to participate in the teacher retirement system but may elect to do so in their charter.

South Carolina

	Cost Factor	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	Weight	FTE	WFTE	FTE	WFTE	FTE	WFTE
Weighted FTE calculations							
Kindergarten	1.30	0	0.0	5	6.5	0	0.0
Grades 1-3	1.24	50	62.0	25	31.0	0	0.0
Grades 4-8	1.00	50	50.0	35	35.0	0	0.0
Grades 9-12	1.25	0	0.0	25	31.3	80	100.0
Learning disabilities and educable	1.74	0	0.0	4	7.0	8	13.9
EMH, trainable, and orthopedic	2.04	0	0.0	3	6.1	6	12.2
Speech	1.90	0	0.0	3	5.7	6	11.4
Hearing, vision, autism	2.57	0	0.0	0	0.0	0	0.0
Total FTE or WFTE		100	112.0	100	122.5	100	137.6
1. Host district general fund[a]		$4,743	$ 4,235[b]	$ 5,189	$ 4,235	$ 4,746	$ 3,450
2. Categorical aid							
Academic assistance (K-12 average)		$ -	(0 FTE)	$ 181	(40 FTE)	$ 362	(80 FTE)
Continuous improvement/innovation		$ 5		$ 5		$ 5	
Increase high school diploma		$ -		$ 28		$ 28	
School innovation funds		$ 33		$ 33		$ 33	
Gifted and talented		-		$ 45		$ 45	
Principal/ teacher specialist		$ 7		$ 7		$ 7	
3. Transportation[c]		$ 62		$ 62		$ 62	
4. Federal funding							
Title I		$ -		$ 140		$ 280	
Special education		$ -		$ 53		$ 106	
Bilingual and immigrant		$ -		$ -		$ -	
Other federal programs		$ 59		$ 59		$ 59	
Total revenue		$4,909		$ 5,802		$ 5,733	

ASSUMPTIONS: Financial figures represent 1997-98 school year. Basic elementary charter school enrolls only elementary students who are not at risk and have no special needs. Middle cost K-12 charter school has the same student population as the South Carolina average. At-risk upper grade charter school has twice the concentration of at-risk and special needs students as an average South Carolina school and is located in an urban area.

[a] Charter school funding is based on prior year's host district general fund expenditure updated for inflation.
[b] The lowest expenditure per weighted pupil in South Carolina is $3,424, about $800 below the state average of about $4,235.
[c] The district's share of transportation expenditures, averaging $62 per member is included in the host district general fund expenditure. The state provides no support for charter school transportation.

Texas

Texas provides for "open enrollment" and "campus" charter schools. Authorized by school districts, campus charter schools obtain funding through the normal budget allocation process of the school district. Open enrollment charter schools resemble the autonomous charter schools in many other states and account for more than 90 percent of Texas charter schools in 1999-2000. This section describes funding for open enrollment charter schools only.

Base Funding: Revenue for charter schools is based on the foundation allowance generated in the school districts in which students reside.[21] The foundation allowance, starting at $2,396 in 1997-98, incorporates a number of funding variables unique to each school district. The formula also has weights for special education, limited-English proficiency and at-risk factors (see table) based on student characteristics of charter schools.[22] Although a charter school receives all of its funding from the state, the state recovers an equivalent amount from the sending school districts because the student is no longer counted as a student in the district.

Pupil Count: Unlike most states, Texas charter schools base funding on *average daily attendance* (ADA). Charter schools with low attendance rates receive less funding. The alternative method, *average daily membership* (ADM) was used in every state with charter schools in 1997-98 except California. Low-income and at-risk students usually have the highest absence rates. ADA funding discourages the establishment of charter schools serving these high-cost children, and probably leads to funding problems for charter schools that choose to enroll these students.

[21] In the following table, it is assumed that all students come from the same school district, but charter schools often enroll students from several districts.

[22] Texas supplies an online tool for calculating charter school funding in specific school districts based on the educational and demographic characteristics of student enrollment. The Web site is <www.tea.state.tx.us/school.finance/funding/charter.html>.

District Size Adjustments: The small district (fewer than 1,600 students) adjustment factor depends on enrollment, grade taught, and whether school district area exceeds 300 square miles. A mid-size district (between 1,600 and 5,000 students) adjustment factor is based on enrollment alone. Funds generated by district size adjustments are passed on to charter schools.

Funding Based on School District Characteristics: The base funding formula for school districts accounts for geographic variations in resources costs using a Cost of Education Index (CEI). The CEI is incorporated into the foundation allowance applying to charter schools. Despite an equalization aid formula that has gradually reduced spending inequalities in recent years, Texas still has substantial spending inequities based on property wealth and tax effort. Charter school funding reflects the remaining inequalities. In Texas, 80 percent of districts have a foundation allowance between $3,900 and $5,400.

Special Education: A pupil weighting system provides more funding for a variety of special needs including speech, resource room, and self-contained settings (see the following table). For example, mainstreamed special education students are weighted as an additional 1.1 student (totaling 2.1 students).

Gifted and Talented: Schools receive an additional allotment of 0.12 (12 percent extra) for gifted and talented students, but not more than 5 percent of students can be funded as gifted.

Limited-English Proficiency: LEP students secure 10 percent extra funding through the weighting system.

Low-Income or Compensatory Education: Compensatory education students receive 20 percent extra funding through the weighting system. Eligibility is based on enrollment in the free and reduced-price lunch program.

Career and Technology Education. Students served in career and technology programs obtain 67 percent more funding through the Texas financing system. These programs are concentrated in high schools and the many Texas charter high schools with alternative programs should benefit. In 1997-98, the 19 charter schools in Texas averaged 23.4 percent of enrollment in career and technology programs compared to 5 percent statewide.

Categorical Aid: Charter schools can apply for all categorical programs with the exception of funds for facilities assistance. A "technology allotment" of $30 per pupil is the only program routinely available to all school districts including charter schools.

Transportation: No Texas public school district is required to provide transportation, so charter schools are also exempt. Funding for eligible students is available if transportation is provided. The state also provides additional funding for special education transportation. Wealthy districts get less state funding because transportation is funded on an equalized basis.

State Start-Up Assistance: None provided.

Capital Outlay and Facilities Financing: State funding for facilities assistance is not available to charter schools. Recently, the Texas legislature specifically allowed charter schools to issue tax-exempt securities. North Hills Prep became the first charter school in Texas to secure tax-exempt financing. Charter schools directly issue the securities with the help of investment banking firms as in Michigan (see Michigan section of Appendix), rather than through a conduit bonding authority as in Colorado (see Colorado section of this Appendix).

Timing of Payments: Funding is delivered in the first month that students are in school. Payment is monthly, although an extra payment is made in September for a total of 13. The attendance counts are adjusted every six weeks.

Uniform Financial Reporting: Charter schools have to maintain a financial accounting system that meets the Public Education Information Management System (PEIMS) data standards. These standards have been adapted for charter schools.

Auditing Practice: An independent audit is required and must include procedures for reviewing the accuracy of the fiscal information provided by charter schools' PEIMS.

Responsibility for Debt: The Texas Education Agency treats charter schools like school districts, so charter holders are responsible for debt.

Ownership and Disposition of Assets: If a charter closes, equipment purchased with state or federal funds reverts to the state for distribution.

Teacher Retirement: If the charter school itself is the agent of employment, it must participate in the state retirement system. If the school uses a management agency, then it is exempt from the state retirement system. The management agency functions like an employment agency and may choose to offer its own benefits package. In 1998-99, 82 of 87 charter schools participated in the state retirement system.

Texas	Cost Factor Weight	Basic Elementary Charter School FTE	Basic Elementary Charter School WFTE	Middle Cost K-12 Charter School FTE	Middle Cost K-12 Charter School WFTE	Urban At-Risk Upper Grade FTE	Urban At-Risk Upper Grade WFTE
Weighted ADA calculations							
Basic K-12	1.00	100	100.0	100	100.0	100	100.0
Limited-English proficiency	0.10	0	0.0	12	1.2	24	2.4
Special education weight 1[a]	0.16	0	0.0	4	0.6	8	1.3
Special education weight 2	0.95	0	0.0	4	3.8	8	7.6
Special education weight 3	1.20	0	0.0	1	1.2	2	2.4
Mainstream allotment	1.10	0	0.0	3	3.3	6	6.6
Compensatory education	0.20	0	0.0	48	9.6	85	17.0
Career and technology	0.67	0	0.0	5	3.4	10	6.7
Gifted	0.12	0	0.0	8	1.0	0	0.0
Total weighted FTE			100.0		124.1		144.0
Attendance rate[b]			95%		95%		80%
Total weighted ADA			95.0		117.9		115.2
1. Foundation allowance[c]		$ 4,119	$ 4,336	$ 5,111	$ 4,336	$ 4,607	$ 3,999
2. Transportation[d]		$ -		$ -		$ -	
3. Categorical funding[e]		$ 30		$ 30		$ 30	
4. Federal funding							
Title I		$ -		$ 155		$ 310	
Bilingual and immigrant		$ -		$ 6		$ 12	
Special education		$ -		$ 45		$ 90	
Other federal programs		$ 42		$ 42		$ 42	
Total revenue		$ 4,191		$ 5,389		$ 5,091	

ASSUMPTIONS: Each school has 100 students. Basic elementary charter school has no pupils generating program cost weightings. Middle cost K-12 charter school has the same student population as the average Texas district. At-risk upper grade charter school has twice the concentration of special needs students and the fiscal characteristics of Houston.

[a] Special education weighting in table combines several categories that have the same weight.
[b] Funding in Texas is based on weighted average daily attendance. Attendance is assumed to be 95 percent at the basic and middle cost schools and 80 percent at the at-risk upper grade school.
[c] Basic and middle cost school are in a typical district like Pottsboro ($4,336). In Texas, 80 percent of districts have a foundation allowance between $3,922 (Hale) and $5,389 (Westhoff).
[d] Transportation costs averaging about $214 per pupil (4 percent of middle cost charter school) are included in the foundation allowance.
[e] Includes only the technology allotment.

Wisconsin

Wisconsin has two charter school laws. The older law applies to the entire state. Only school districts are allowed to authorize charter schools, which are funded in about the same way as other district schools. Applying only to Milwaukee, the newest law allows the city, universities or technical colleges to authorize charter schools, and guarantees funding based on a specific definition of average expenditures called "shared costs." (Milwaukee is treated separately after describing the state charter school funding system).

School-District Sponsored Charter Schools

Base Funding: Charter schools sponsored by local school boards are funded the same way as other district schools. In 1997-98, most of the 18 schools in operation were public school conversions. The budgets for these charter schools are a part of school district budgets, and districts usually provide in-kind services such as central administration, transportation and food service. In combination with local property taxes, school districts receive state aid based on an equalization formula that depends on the number of pupils in their schools (including charter schools), tax effort and the wealth of the district. Districts distribute money to charter schools; the amounts vary from district to district.

Grade Level Funding: None.

Special Education: Special education funding follows students according to normal district budgetary procedures. Charter schools providing special education services negotiate for their share of special education funding or receive services in kind from the district. The state reimburses districts for about 40 percent of prior year costs for educating and transporting pupils enrolled in special education. The local special education costs that are not reimbursed through state aid are financed by general operating funds (financed in part by state aid from the general aid formula).

Limited-English Proficiency: Charter schools are eligible to receive bilingual education funding if they provide services to LEP students. The state reimburses school districts for 63 percent of costs (subject to sufficient state appropriations). Charter schools negotiate for the funding or receive it in kind from the district. Funding for 1997-98 averages approximately $10 per enrolled pupil (not pupils served).

Compensatory Education: Charter schools are eligible to receive compensatory education grants for grades K-5. Grants are awarded on a competitive basis to schools based on high numbers of dropouts and low-income students. The funding for 1997-98 averaged $8 per member (not students served).

At-Risk Students: Charter schools qualify for funds equal to approximately 10 percent of shared costs if they educate children meeting one of several definitions for at-risk children. In 1997-98, funding for at-risk students was approximately $4 per member (not students served).

Transportation: State law requires districts to provide transportation services to charter schools. The state pays a flat amount per transported pupil based on the distance traveled ranging from $12 (hazardous, under two miles) to $85 (over 18 miles). On average, state aid pays for about 15 percent of transportation, or $20 per member. The other 85 percent of transportation costs are financed from general operating funds.

Capital Outlay and Facilities Funding: Facilities are arranged through the school district. Most charter schools are conversion schools.

State Start-Up Assistance: No state start-up funding is available.

Timing of Payments: Charter schools payments are made on the same schedule as other schools in the district.

Uniform Financial Reporting: Blended with school district.

Auditing Practice: Independent financial audits are blended with school district audits unless otherwise specified in the charter. The Joint Legislative Audit Committee may direct the Legislative Audit Bureau to perform a financial and performance evaluation of the charter school.[23]

Teacher Retirement: Charter schools that are instrumentalities of a school district are required to participate. Charter schools that are independent of a school district are prohibited from participation. The general view is that independent charter schools do not employ public employees, and federal pension guidelines prohibit inclusion of private employees. All but one school outside of Milwaukee are instrumentalities of a school district.

[23] The estimates of per-pupil expenditures provided in the Legislative Audit Bureau Report (1998) are not an accurate representation of what it costs to run a charter school. The estimates did not include indirect costs incurred by charter schools or school districts, and in some cases only accounted for a portion of the year's expenditures.

Wisconsin	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Shared costs[a]		$ 6,300		$ 6,300		$ 6,053
2. Special education aid	0	$ -	13	$ 320[b]	26	$ 740
3. State transportation aid		$ 20		$ 20[b]		$ 24
4. State categorical aid						
At-risk	0	$ -	26	$ 4[b]	52	$ 46
Low income (pre K - 5)	0	$ -	26	$ 8[b]	0	$ -
Limited-English proficient	0	$ -	2	$ 10[b]	10	$ 44
School library aid		$ 16		$ 17[b]		$ 16
5. Federal funding						
Title I		$ -		$ 147		$ 375
Special education		$ -		$ 51		$ 102
Other federal programs		$ 63		$ 64		$ 64
Total revenue		$ 6,399		$ 6,941		$ 7,464

ASSUMPTIONS: Financial figures represent 1997-98 school year. Basic elementary charter school enrolls only students who are not at risk and have no special needs. Middle cost K-12 charter school has the same student population statistics as the Wisconsin average. At-risk upper grade charter school is located in Milwaukee.

[a] In the average Wisconsin school district, approximately $435 of shared cost is devoted to special education, and $133 is devoted to transportation (per pupil enrolled, not for each student receiving services). In the upper grade at-risk school, approximately $1,110 of shared cost is devoted to special education (doubled from the $555 Milwaukee average to reflect an at-risk school), and $176 is devoted to transportation.
[b] Categorical aids are state averages per pupil enrolled, not for each student receiving services.

Milwaukee Charter Schools

Base Funding: Charter schools authorized by the city of Milwaukee, University of Wisconsin-Milwaukee, or Milwaukee Area Technical College are paid an amount equal to Milwaukee Public Schools' "shared costs," a component of the general state aid formula. In 1997-98 Milwaukee's shared cost was calculated at $6,053. The calculation starts with total expenditures, which averaged about $7,636. All debt services and facility costs are added. However, most school facilities are financed by the city of Milwaukee, and the capital costs included in charter school funding totaled only $91 per pupil. Revenues excluded from the calculation include federal funds, restricted state categorical funds, gifts and donations, together totaling $1,674. Shared costs include about 60 percent of actual special education and bilingual education costs, and approximately 85 percent of actual transportation costs.

Special Education: Charter schools receive state and federal funding if they provide services. The state reimburses districts for about 40 percent of prior year costs for educating and transporting pupils enrolled in special education. Shared costs include about 60 percent of actual special education costs. In Milwaukee, a dispute arose over whether charter schools are eligible for special education dollars in the shared cost calculation if charter schools do

not actually enroll an equivalent special education population. Until this dispute is resolved, the special education portion (approximately $555 per member) is being held back from charter schools by the State Department of Public Instruction.

Limited-English Proficiency: Charter schools are eligible to receive bilingual education funding if they provide services to LEP students. Funding for bilingual education in Milwaukee was approximately $22 per member (not pupils served).

Compensatory Education: Charter schools are eligible to receive compensatory education aid for students in grades K-5. Grants are awarded on a competitive basis to schools based on high numbers of dropouts and low-income students. Funding for this program in Milwaukee was approximately $43 per member (not pupils served).

At-Risk Students: Charter schools qualify for funds if they educate children at risk of not completing high school. In 1997-98, funding for at-risk students was approximately $23 per member.

Transportation: Charter schools are not required to provide transportation services to students. The state provides about 15 percent of transportation funding in Milwaukee, and about 85 percent of transportation costs are paid out of shared costs. In effect, charter schools get funding that Milwaukee devotes to transportation.

Other State Categorical Aids: Other than the categorical aids already mentioned, the only program of significant dollar value that could apply generally to charter schools is school library aid (approximately $16 per pupil).

Capital Outlay and Facilities Financing: School district capital outlay and debt service costs are included in the shared cost-per-member calculation (about $90 per student). Most facilities however, are owned and financed by the city of Milwaukee.

State Start-Up Assistance: No state start-up funding available.

Timing of Payments: Charter schools are paid quarterly in September, December, February and June.

Uniform Financial Reporting: Not required.

Audit Requirements: No independent financial audit currently is required.

Responsibility for Debt: Charter schools can incur debt and use general school aid revenue to acquire buildings or to pay debt.

Ownership and Disposition of Assets: Property purchased by a charter school remains the property of the charter school. No specific rules exist for disposing of property for dissolved charter schools.

Teacher Retirement: Charter schools that are instrumentalities of a school district are required to participate. Charter schools that are independent of a school district are prohibited from involvement. It is expected that many Milwaukee charter schools will be run by private contractors and will not be allowed to participate in the state teacher retirement system.

Milwaukee	Basic Elementary Charter School		Middle Cost K-12 Charter School		Urban At-Risk Upper Grade	
	FTE	$/Member	FTE	$/Member	FTE	$/Member
Total FTE enrollment	100		100		100	
1. Shared costs[a]		$ 6,053		$ 6,053		$ 6,053
2. Special education aid	0	$ -	13	$ 370[b]	26	$ 740
3. State transportation aid		$ -		$ 24[b]		$ 24
4. State categorical aid						
At-risk		$ -		$ 23[b]		$ 46
Low income (Pre K - 5)	0	$ -	78	$ 43[b]	0	$ -
Limited-English proficiency	0	$ -	5	$ 22[b]	10	$ 44
School library aid		$ 16		$ 16[b]		$ 16
5. Federal funding						
Title I		$ -		$ 300		$ 375
Special education		$ -		$ 51		$ 102
Other federal programs		$ 63		$ 63		$ 63
Total revenue		$ 6,132		$ 6,965		$ 7,463

ASSUMPTIONS: Financial figures represent 1997-98 school year. Basic elementary charter school enrolls only elementary students who are not at risk and have no special needs. Middle cost K-12 charter school has the same student population characteristics as the average Milwaukee school. At-risk upper grade charter school has twice the concentration of special education and at-risk students as the Milwaukee average.

[a] Approximately $555 of shared cost is devoted to special education, and $176 is devoted to transportation per pupil enrolled, not for each student receiving services.
[b] Categorical aids are 1997-98 Milwaukee averages per pupil enrolled, not for each student receiving services.

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