In these times of reforming public education, considerable debate is being given to alternative schooling options. Many policymakers view school choice as a means of increasing parental influence of educational services and of reducing the control of government, professional administrators, and educators. These alternative schooling options have far-reaching impact beyond just the basis of satisfaction of participants. The impact of these school options must be based on what happens to the total public-school system, including how they change public-school enrollment patterns and what impact this may have on the fiscal needs of the public schools. Many state legislatures have enacted legislation that enables parents' choices of schooling for their children without consideration of the impact that these alternatives may have for the existing school-finance structure. These actions have occurred most notably in the passage and revision of legislation dealing with public-school finance, charter schools, home schools, choice enrollment, and vouchers. This paper examines some implications that state finance policy may have on the efforts to reform the traditional public-school system and to give greater freedom to alternative schooling options. (Author)
“The Impact of Alternative Schooling Options on School Finance”

W. Keith Christy
wkchristy@ualr.edu
The University of Arkansas at Little Rock
Little Rock, Arkansas

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The Impact of Alternative Schooling Options on School Finance

Abstract

In these times of reforming public education, considerable debate is being given to alternative schooling options. Many policymakers view school choice as a means of increasing parental influence of educational services and of reducing the control of government, professional administrators, and educators.

These alternative schooling options have far-reaching impact beyond just the basis of satisfaction of participants. The impact of these school options must be based upon what happens to the total public school system including how they change public school enrollment patterns and what impact this may have upon the fiscal needs of the public schools.

Many state legislatures have enacted legislation that enables parents’ choices of schooling for their children without consideration of the impact that these alternatives may have for the existing school finance structure. These actions have occurred most notably in the passage and revision of legislation dealing with public school finance, charter schools, home schools, choice enrollment, and vouchers. This paper will examine some implications that state finance policy may have upon the efforts to reform the traditional public school system and to give greater freedom to alternative schooling options.
Elementary and secondary school education is in the midst of a significant transformation that involves such issues as; where students will receive an education, what accountability mechanisms are in place for available options, and how will these expanding alternatives be funded within the limits of currently available resources.

To address this issue, the public and their policymakers have given considerable debate to the place of alternative schooling options being used as a means of improving the public education system (Swanson & King, 1997). They write that family choice of schooling, like no other, clearly brings into conflict the values of liberty, equity and fraternity. Alternative schooling options explored for this paper include charter schools, home schools, public and private vouchers, open enrollment policies, tuition tax credits, and for-profit education businesses.

Many state legislatures have enacted legislation that enables parents' choices of schooling for their children without consideration of the impact that these alternatives may have for the existing school finance structure. These actions have occurred most notably in the passage and revision of legislation dealing with public school finance, charter schools, home schools, open enrollment, vouchers, and tax credits (Candoli, Hack, & Ray, 1998; Burrup, Brimley, & Garfield, 1999; McGuire, 1999).

These alternative schooling options have far-reaching impact beyond just the basis of satisfaction of participants. Koppich (1997) writes that the impact schooling options must be based upon what happens to the total public school system. She maintains that an issue of great concern is how these alternatives will change public school enrollment patterns and what impact this may have upon the fiscal needs of the public schools.

As a matter of public interest, alternative schooling options have been the focus of polling for the 1997 and 1999 Phi Delta Kappa/Gallup Poll of the Public's Attitudes Toward the Public Schools (Rose & Gallup, 1999). For response in these two years, a question was asked whether the focus of public education should be on reforming the existing system or finding alternatives to the public school system. The results from 1997 and 1999 were quite similar with the national
totals for both years showing 71% of the respondents favored reforming the existing system while 27% in 1999 and 23% in 1997 favoring finding alternatives.

Charter Schools

Rees & Youssef (1999) describe a charter school as “A public school that agrees to meet certain performance standards in exchange for exemptions from public school regulations other than those governing health, safety, and civil rights” (p.vii). McGuire (1999) writes in a study conducted by the United States Department of Education that “charter schools are public schools set apart from others by virtue of a charter, or contract with a state or local agency, that provides the charter school with public funds for a specified time” (p.1). The “charter” states the terms under which the school can be held accountable for improving student performance and achieving goals set out in the charter. This charter frees the school developers from a number of state regulations that apply to other public schools.

The number of students enrolled in charter schools has risen dramatically since the first charter schools opened in Minnesota in 1991. Table I shows student enrollment in charter schools as reported by the Department of Education’s annual reports (McGuire, 2000).

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Student Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>5,000</td>
</tr>
<tr>
<td>1993-94</td>
<td>14,000</td>
</tr>
<tr>
<td>1994-95</td>
<td>37,000</td>
</tr>
<tr>
<td>1995-96</td>
<td>63,500</td>
</tr>
<tr>
<td>1996-97</td>
<td>110,000</td>
</tr>
<tr>
<td>1997-98</td>
<td>252,009</td>
</tr>
</tbody>
</table>
Table II demonstrates the growth in number of charter school sites nationally (McGuire, 1999). As of August 28, 1999, there were 1,799 charter schools in operation and the President’s goal was to have 3,000 by the end of 2000 (Fox, 1999).

<table>
<thead>
<tr>
<th>Year</th>
<th>Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>2</td>
</tr>
<tr>
<td>1993</td>
<td>36</td>
</tr>
<tr>
<td>1994</td>
<td>100</td>
</tr>
<tr>
<td>1995</td>
<td>254</td>
</tr>
<tr>
<td>1996</td>
<td>432</td>
</tr>
<tr>
<td>1997</td>
<td>721</td>
</tr>
<tr>
<td>1998</td>
<td>1082</td>
</tr>
<tr>
<td>1999</td>
<td>1799</td>
</tr>
</tbody>
</table>

State legislatures are continuing to enact charter school legislation. The Center for Education Reform (2000) reports that there are twenty-two states that have strong to medium strength charter school laws and another twelve states with weak charter school legislation and two states that passed initial legislation in 1999. Strength of charter school laws was measured in the specificity of developing charters and the accountability system used for program evaluation.

Growth of the charter school movement seems to have been fostered as parents with students in charter schools reported dissatisfaction with their experience in other public schools. In focus group discussions (McGuire, 1998), parents and students consistently voiced dissatisfaction with their previous public schools, expressing concerns about low academic standards, a dehumanizing culture, student safety, and unresponsiveness to serious parent involvement.
Legislation in most states allows for some form of private group to apply for charter school status. It is under these conditions that private schools may convert formerly state unfunded student population to public school funding. Schnaiberg (1999) reports that many for-profit schools have come under the auspices of charter schools. An estimated 10 percent of the nation’s charter schools are managed by for-profit businesses (Walsh, 1999).

**Home Schools**

A common home school definition is given by the Arkansas Education Code § 6-15-501 (1998) which defines a home school to be “a school primarily conducted by parents or legal guardians for their own children.” This is an alternative form of education in which children learn under the general supervision of their parent or guardian. The teaching content for home school students is substantially controlled by the choice of the parent/guardian, within the bounds of state laws.

Kelly (1999) reports that educating children at home has become a popular trend throughout the United States with *Education Week* giving estimates that between 1 and 2 million children are educated in home schools annually. Obtaining accurate home school counts are impossible in that some states do not keep records of the number of home school students. An estimate by Lines (1999) for the U.S. Department of Education Office of Educational Research and Improvement shows that growth in home school students grew from 87,807 in 1990-91 to 252,921 in 1995-96. These data reflect some reporting mechanism from 37 of 50 states. Should these figures be representative of growth, home school enrollment has increased during that period at 24% per year.

The legislative trend in most states had been to place fewer restrictions for parents/guardians to home school their children. The most common state requirement is for the parent to notify the school district of residence with basic information about the student with no approval or disapproval to be given. In most states there is no significant mechanism for monitoring home schools other than through mandated testing. The testing requirement may allow a school district to
monitor student progress if the student scores below a minimum percentile on a nationally standardized test.

Privately Funded Voucher Scholarships

A school voucher is considered to be a financial warrant for each school-age child that would be redeemable at the school of the student's or parent's choice (Guthrie, Garms & Pierce, 1988; Terman & Behrman, 1997). A form of voucher program that is growing throughout the country is that of privately financed vouchers for students to attend private schools of choice. These vouchers may pay part or all of a student's tuition for religious or secular schools. The criterion for qualification for many of these scholarships is that of financial need. The contributors to these plans place no limitations on the receiving schools (Swanson & King, 1997).

It is estimated that in the 1998-99 school year that nationally there were sixty-five private-sector scholarship programs that served 57,000 children (Center for Education Reform). One of the largest of these voucher funds that started with the 1998-99 school year is the Children's Scholarship Fund with a $140 million fund that supports approximately 35,000 students nationwide (Children's scholarship fund, 1998).

Publicly Funded Voucher

Another growing trend of vouchers is to allow the student to choose public or private school with a tax-funded voucher. Currently these vouchers are available to selected students in two large cities and one state (Center for Education Reform). Each of these sites is being faced with legal challenges on grounds of separation of church and state.

Open Enrollment Policies

Open enrollment policies at the state and/or local level allow a student to attend a school not in the district of the student's residence. Odden & Picus (1992) report that several states with similar policies could create greater disparity of per pupil expenditures and school finance litigation with interdistrict open enrollment programs popular with state legislators. They argue that this policy changes the basic school finance argument that the local base of funding supports its students.
Reported by the Center for Education Reform (2000), there are nine states that have legislation permitting public school enrollment throughout the state. There are another twenty-one states that have school choice as policies within some or all school districts. There are no national and very few state data available to know or estimate the number of students attending schools outside their district of residence.

**Tuition Tax Credits and Deductions**

The tuition tax credit is another state legislative policy that assists parents financially in sending a student to private school. This tax credit reduces the amount of state income tax owed up to a maximum allowed for credit to schools (Swanson & King, 1997). Its advantage is that the tax credit entails less government regulation of nonpublic schooling (Guthrie, Garms, and Pierce, 1988). An example of the tax credit is offered by the state of Arizona in which a contributor may give a gift of up to $500 to the Arizona School Choice Trust and take this contribution as a tax credit on the state tax form. This action has been litigated and upheld at the state supreme court level with review declined by the United States Supreme Court (Arizona Education Association, 2000).

**For-Profit Education Businesses**

Business involvement in education for the purpose of making a profit on delivery of instruction began in the early 1990s when Education Alternatives, Inc. contracted to manage public school in Miami Beach, FL, Baltimore, MD, and Hartford, CT. These efforts were short-lived, reported mostly to conflicts with teacher unions and other critics (Walsh, 1999).

Proponents of the for-profit education business maintain that the marketplace of education is not only respectable, but it will also serve as a means of improving educational offerings nationally by rewarding providers that perform well and weeding out those that don't (Walsh, 1999). For-profit education business has become an investment opportunity for the taxpayer as Edison Schools, Inc., raised $122 million in its initial public offering of stock on November 11, 1999 (Walsh, 1999).
Another opportunity on the horizon of for-profit education is that of providing high school courses and diplomas through on-line services (Schnaiberg, 1999; Walsh, 1999). According to Howard M. Block, a managing director of Banc of America Securities, "It is bordering on explosive growth" (Walsh, 1999, p. 5).

Trends of School Age Population and Public School Enrollment

Most states base school district revenue on the number of students in membership at certain times during the school year. Therefore, student enrollment is a vital factor in maintaining fiscal capacity of the school or school district.

Important fiscal issues to be addressed concern not only the impact of alternative schooling options on traditional schools, but what about the numbers of children that will be entering school over the next few years.

Data from the United States Census Bureau (1999) provides an estimated forecast of the student age population for the United States. An examination of those data in Tables III and IV show that the school age population has peaked and will likely decline in the future.

Table III shows that the estimated percentage of 5-17 year-olds as compared to the total population increased yearly through 1994. That trend reversed in 1995 indicating that the school age population had begun a decreasing trend.

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Population of 5-17 Year-Olds</th>
<th>Percent Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>45,319,000</td>
<td>.0031</td>
</tr>
<tr>
<td>1991</td>
<td>45,916,000</td>
<td>.0131</td>
</tr>
<tr>
<td>1992</td>
<td>46,638,000</td>
<td>.0157</td>
</tr>
<tr>
<td>1993</td>
<td>47,363,000</td>
<td>.0155</td>
</tr>
<tr>
<td>1994</td>
<td>48,196,000</td>
<td>.0175</td>
</tr>
<tr>
<td>1995</td>
<td>49,014,000</td>
<td>.0169</td>
</tr>
<tr>
<td>1996</td>
<td>49,807,000</td>
<td>.0161</td>
</tr>
<tr>
<td>1997</td>
<td>50,491,000</td>
<td>.0137</td>
</tr>
</tbody>
</table>
The data in Table IV (United States Census Bureau, 1999) show the estimated number of under 5 year-olds was increasing yearly until 1994. The estimated population of this group has declined in number beginning in 1995 to an estimated population in 1999 similar to that of 1990.

Table IV

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Population Under 5 Years of Age</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>18,850,000</td>
<td>.0046</td>
</tr>
<tr>
<td>1991</td>
<td>19,186,000</td>
<td>.0176</td>
</tr>
<tr>
<td>1992</td>
<td>19,488,000</td>
<td>.0155</td>
</tr>
<tr>
<td>1993</td>
<td>19,670,000</td>
<td>.0093</td>
</tr>
<tr>
<td>1994</td>
<td>19,697,000</td>
<td>.0013</td>
</tr>
<tr>
<td>1995</td>
<td>19,529,000</td>
<td>(.0008)</td>
</tr>
<tr>
<td>1996</td>
<td>19,289,000</td>
<td>(.0124)</td>
</tr>
<tr>
<td>1997</td>
<td>19,097,000</td>
<td>(.0100)</td>
</tr>
<tr>
<td>1998</td>
<td>18,966,000</td>
<td>(.0069)</td>
</tr>
<tr>
<td>1999</td>
<td>18,918,000</td>
<td>(.0025)</td>
</tr>
</tbody>
</table>

Fiscal Impact

The increasing utilization of alternative schooling options will have a fiscal impact on traditional public schools. Current school funding rests upon the premise that revenue is received for the number of students being served. The anticipated result is that fewer students in traditional schools will equate to decreased funding in those schools unless legislatures change the current fiscal policy of having the dollar follow the child out of traditional public schools.
Finance legislation in most states requires that a certain percentage of the per-pupil revenue must be given to the local charter school for operating expenses. The argument for making this transfer of money is based on the premise that the money should follow the student. In reality, the concept of marginal cost (Bernstein, 1999) states that it costs less to add one or two pupils to a class. However, when one or two pupils leave that class there is no loss of expense other than maybe consumable supplies. Bernstein (1999) uses the following example:

This means that if 10 students in each grade were to transfer to a charter school from a 1,000-student public elementary school, the public school would lose approximately $500,000. No teacher, custodian, or secretary salaries can be eliminated as a result of the reduction in the number of students. However, the public school would have $500,000 less available to educate its remaining students. (p.26)

Phil Fox, Colorado Association of School Executives associate executive, related similar experiences in Colorado. Fox (Rofes,1999) claims it is unfair to take money away from school districts that lose students to alternative schooling options because, “The basic infrastructure must be maintained to serve the balance of students. Just because 30 [students] leave doesn’t necessarily mean that the cost of the building is any less or the cost of the utilities is any less” (p. 15).

Shifts in population that lead to declining enrollment at individual school sites mean reduced funding for those school districts. Bernstein (1999) writes that the most direct and immediate impact of charter schools upon other public schools of the school district is financing. No matter what the mechanism for financing charter schools, he writes “public schools wind up with fewer dollars to improve the education of their students” (p. 25). These shifts often create revenue losses that may justify state assistance (Swanson & King, 1997). As an impact upon the school district, board members responded to UCLA researchers that school district directors in California seemed to understand the ramifications of charter school funding and that financing these schools was the issue with the most immediate political ramifications in the districts, (Wells, 1998).
The rapid growth of alternative schooling options will have a financial impact upon the traditional public school system. It is evident that the growth of these educational options will change enrollment patterns in the traditional public school system with a significant fiscal impact to follow. The immediate concern is the drain upon operating funds from the public schools (Koppich, 1997).

The following example is provided to demonstrate the long-term effect that loss of students will have on an individual school's fiscal resources.

Table VI

Example of school funding loss with student exit to alternative schooling options

<table>
<thead>
<tr>
<th></th>
<th>1999-2000 School Year</th>
<th></th>
<th>2000-2001 School Year</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NUMBER</td>
<td>COST</td>
<td>NUMBER</td>
<td>COST</td>
</tr>
<tr>
<td>Students</td>
<td>400</td>
<td>380</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classroom Teachers</td>
<td>19</td>
<td>$760,000</td>
<td>18</td>
<td>$707,200</td>
</tr>
<tr>
<td>Student-Teacher Ratio</td>
<td>21.05</td>
<td></td>
<td>23.75 - 1</td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>1</td>
<td>$68,750</td>
<td>1</td>
<td>$71,500</td>
</tr>
<tr>
<td>Secretary</td>
<td>1</td>
<td>$18,750</td>
<td>1</td>
<td>$19,500</td>
</tr>
<tr>
<td>Custodians</td>
<td>2</td>
<td>$37,500</td>
<td>2</td>
<td>$39,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>$24,000</td>
<td></td>
<td>$24,720</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$909,000</td>
<td></td>
<td>$861,920</td>
<td></td>
</tr>
<tr>
<td>Base Level Funding</td>
<td>$4,300</td>
<td></td>
<td>$4,400</td>
<td></td>
</tr>
<tr>
<td>Loss of Funding</td>
<td>2</td>
<td></td>
<td>$88,000</td>
<td></td>
</tr>
</tbody>
</table>

This example shows that the loss of twenty students from one 400-student elementary school has the fiscal impact of losing $88,000 and increasing the pupil-teacher ratio by 2.7 students per class.

**Fiscal Constraints on Alternative Schooling Options**

Fiscal constraints do not only impact traditional public schools, but it is reported that the most significant obstacle for implementing charter schools was reported to be the lack of resources (McGuire, 1999). In the report of charter schools by the Education Commission of the Bierlein, (1996) found that the major fiscal issues facing charter schools in 1996 were: lack of
start-up funds; limited (or no) access to local operational and categorical funds; and no capital funds.

Conclusion

Two significant factors have been identified in this paper as having potential fiscal impact on traditional public schools. Those are: (1) exponentially growing numbers of students are availing themselves of alternative schooling options; and (2) there will be fewer school-age children in the future from which schools will draw enrollment.

In his weekly radio address to the nation on August 28, 1999, President Clinton spoke about the $100 million in grants for charter schools and remarked, “This is the kind of education we want for all our children.” (Fox, p. 1). By statements such as this and by the documented recent actions of state legislatures, policymakers will continue to provide incentives for alternative schooling options. The enrollment data show that these alternatives have continued to draw larger numbers of students to their offerings.

There are some basic issues to be addressed by the traditional public school establishment and by the state and federal policymakers. These issues seem to be; (1) adjustments that traditional public schools must do to maintain and draw enrollment to their schools; and (2) policymakers must recognize that policy development and equitable funding are necessary for all schools to demonstrate improvement of student achievement.
References


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