

**Meeting the Challenge:
Managing the fiscal impact of charter schools
in Pennsylvania**

**Prepared for the
Greater Philadelphia Urban Affairs Coalition**

**by the
Pennsylvania Economy League – Eastern Division**

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Table of Contents

<u>Table of Contents</u>	i
<u>Executive Summary</u>	ii
<u>Introduction</u>	1
<u>Charter School Funding in Pennsylvania</u>	5
<u>Legislation in Other States</u>	8
<u>Charter Schools and the School District of Philadelphia</u>	12
<u>Summary of Findings, Conclusions & Recommendations</u>	19
<u>Appendix A – Detailed Explanation of Charter School Funding Formulae</u>	27
<u>Appendix B - Charter School Per Pupil Allotment</u>	30
<u>Appendix C: Expenditures, Savings and Revenues Related to Charter Schools: School District of Philadelphia – FY 2001</u>	32
<u>Appendix D - State Charter School Financing Systems</u>	33
<u>Appendix E – GPUAC - ECY Committee Members</u>	44
<u>Appendix F – About GPUAC & ECY</u>	45
<u>Appendix G – About PEL</u>	46
<u>Interview List</u>	47
<u>Bibliography</u>	50

Executive Summary

In July 1997, Pennsylvania became a part of a growing educational movement when the General Assembly passed Act 22, establishing charter schools as part of Pennsylvania's public school system.

Pennsylvania is one of 38 states employing charter schools as part of an overall education reform initiative. In urban and rural areas, charter schools have gained significant support from community leaders, teachers and administrators, and politicians representing both major political parties. There are now 2,060 charter schools across the nation, serving about a half-million children.

In four short years, 65 charter schools have been established in Pennsylvania, with 34 charter schools concentrated in Philadelphia (operating in 2000-2001 school year). With this rapid growth, however, comes concern about how to pay for the evolving system of charter schools. The purpose of this study is to address this fiscal issue - to focus on the legislated system that is now in place to pay for charter schools, and to make recommendations to the School District of Philadelphia (SDP), its charter schools, and the Commonwealth to strengthen the long-term fiscal health of both charter schools and their host districts. This report does not, by design, examine the educational benefits to students that attend charter schools.

Overall, the SDP serves 14,100 of the state's 21,000 charter school students. This includes 275 SDP students attending a charter school located near Philadelphia, in Bensalem, Bucks County. To put this into perspective, if Philadelphia charter schools separated from the SDP, they would form the sixth largest school district in Pennsylvania, roughly the size of the Bethlehem Area School District.

Charter school enrollments in Philadelphia are on the rise. The School District of Philadelphia estimates that at least six new charter schools will be in operation in the city by the fall of 2001, each with a projected enrollment of 300 to 450 new students. Plus, existing charter school enrollments are expected to show moderate increases. The success and survival of Philadelphia's charter schools, and the SDP's ability to adapt to the new educational environment, are being closely watched in the city, in the state, and across the nation.

Some of the most hotly debated issues surrounding the creation of charter schools relate to the way they are financed, and the ensuing implications to their host school districts. A number of difficult questions have been asked:

- Do charter schools cost their host districts money, and how much?
- Does the funding formula for charter schools make sense, and is it being properly applied?
- Have charter schools been successful in accessing federal and other funds; if not, why not?
- Does Pennsylvania's approach differ from that of other states?

These and other issues were brought to the fore in Philadelphia at a public forum on Philadelphia charter schools, held in May 2000. The forum, a related report, mounting dialogue and countless news stories all underscore the confusion and disparate points of view relative to charter school financing. To help clarify these issues, the Greater Philadelphia Urban Affairs Coalition's Education, Children, and Youth Committee (GPUAC ECY), in conjunction with the City of Philadelphia and the School District of Philadelphia, asked the Pennsylvania Economy League (PEL) to prepare an analysis of the problem, with recommendations for change.

Pennsylvania's Charter School Funding System

Pennsylvania's Charter School Law bases its funding system for charter schools on a few basic principles. The most prominent among these is that the money follows the child – that the district transfers money to the charter school for every student entering a charter school. When a child leaves a district school for a charter school, the district transfers an amount equal to the district's total spending per student to the charter school. This per student method of funding charter schools differs from the methodology used by the Commonwealth for aiding local school districts. Rather than a per student formula, the state provides assistance using a flat grant system that incorporates incremental increases supplemented with increases for particular purposes. The wealth of the district is often a factor in calculating these annual increments.

The formula requires adjustments for spending for certain services and activities that the districts continue to provide, such as transportation and spending for services not provided by the charter school, such as vocational and adult education. The law exempts debt service and federal funds from the per student calculation.

Several factors complicate the funding mechanism. For example, school districts must use a separate formula for special education students. In addition, the Commonwealth provided transitional funding grants in the first year of implementation and continues to provide grants to help offset the expenditure of non-public students entering into the public charter school system. Neither the host school districts nor the state provide funding for charter school capital expenditures.

As this formula has been applied in practice, it has raised a number of questions. The Pennsylvania School Boards Association, the SDP, and many other host districts have said that the implementation of charter schools has a significant impact on their budgets. Some have likened charter schools to an unfunded mandate, where the host district is forced to comply with rules set at the state level, but not given the financial resources to comply with the regulation.

The law, as it is written, does not enable charter school students in Pennsylvania to take with them a *full* per-pupil allotment. While some fiscal accommodations have been made

to partially offset short-term transition costs, this funding addresses the added burden of duplication and short-term inefficiencies as a cost of starting charter schools.

From a fiscal perspective, the challenge for Pennsylvania's school districts is how to adapt to this new paradigm. Districts must plan for and anticipate the movement of parents and students to charter schools, and look to make up for short-term gaps between revenue and expenditures by increasing local budgets, increasing revenue from other sources, and increasing operational efficiencies.

Charter School Funding Systems in Other States

Pennsylvania is not unique when it comes to funding charter schools. In fact, Pennsylvania's method for financing charter schools is similar to the system adopted in a number of other states, i.e. use of some form of spending per student as a basis for financing charter schools. Each state incorporates variations, such as using the state average or the district average per student expenditure. States also differ in how they fund non-basic education functions, such as special education and pupil transportation. The methodology in place for all public schools influences these formulas. Most states, including Pennsylvania, provide no capital funding for charter schools; however, there are exceptions such as Arizona, where charter schools receive comparable capital funding to district schools.

The funding issues raised by both the SDP and the state's charter school operators are shared by stakeholders across the nation. However, PEL was unable to find any comprehensive analyses that review the fiscal results of charter school legislation and identify where they diverge from the intent of the law. Nor are there any obvious examples of cataclysmic failure in the funding formulas, such as bankrupt charter schools or districts unable to offer mission-critical educational services because of the financial impact of charters.

The experiences in other states are mixed. Some districts have simply reacted to the creation of charter schools; others have taken a proactive stance and created charter schools to meet their own financial needs. For example, a number of crowded school districts in various states have encouraged charter schools to develop as a means to relieve overcrowding.

At least one school district, the Chicago Public School District, has embraced charter schools and committed to supporting them financially and otherwise. Charters are viewed not as a burden, but as an opportunity to improve the overall educational quality of the district. The district has established a Charter School Office to support, monitor, and evaluate the city's charter schools. The result is a good working relationship between the district and charter schools that encourages sharing of academic, administrative and financial resources to the benefit, according to the district, of all Chicago schools and students.

One significant factor that distinguishes Pennsylvania from other states reviewed by PEL is the state's overall funding of public education. States with a large number of charter schools are, in most cases, the same states that assume a greater portion of the total expenditure for basic education than does Pennsylvania. It follows that charter schools in these other states are able to receive a greater per-pupil allotment than is granted in Pennsylvania. Thus, the issue of impact on local school districts is much less, for instance, when the state provides 80% of school funding than when it provides 40%.

Charter School Funding in the School District of Philadelphia

The SDP has, by far, the highest concentration of both charter schools and charter school students in the state. The financial impact of these new schools weighs heavily on the SDP.

The charter school fiscal issues facing the SDP are numerous and complex. However, several stand out. First, it is clear that charter schools are having a significant impact on the SDP budget. PEL estimates that the SDP's net expenditures for charter schools (total funds transferred to charter schools, and funds allocated to pay SDP administrative costs, offset by some state funds) at \$80.4 million in fiscal year 2000-2001, in the context of a \$1.4 billion General Fund budget. This spending is related largely to payments made to charter schools made by the District on behalf of 14,100 students. **It is critically important to understand that this \$80.4 million does not represent the "bottom line" cost of charter schools to the District or the taxpayers of Philadelphia.** It does not include any savings the District has realized because it doesn't have to educate approximately 10,000 students that transferred from traditional public schools to charter schools, nor does it take into account the fact that the state provides about half the District's funding in the first place.

Most of the students entering charter schools transferred from traditional public schools. However, the SDP estimates that about 30 percent of the new students entering charter schools come from private or parochial schools. These students do represent a new expenditure to the district. The Commonwealth offsets a portion of the expenditures for these new students through transition payments in the first year. These non-public students create new expenditures to the District and the Philadelphia taxpayers whose taxes support the District's operation.

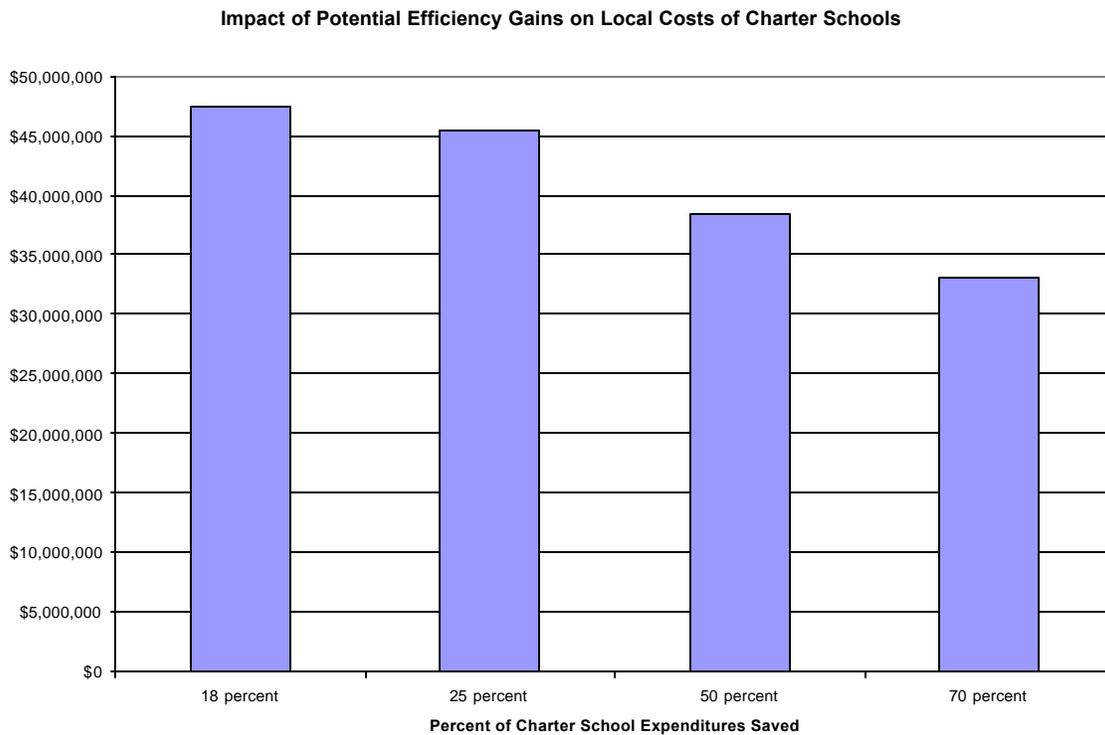
What is the bottom line, then, for the SDP or, more importantly, for the taxpayers of Philadelphia? These are the tough questions, the answers to which depend a great deal on two critical issues:

1. the district's ability to reduce its costs in proportion to the loss of students; and
2. the source of the district's revenues.

First, consider the question of the SDP's ability to lower, or recover, its costs when students leave the district for charter schools. The facts suggest that the SDP has not responded to the reduced enrollment in district schools by reducing costs proportionately.

The District estimates that lower costs attributed to fewer students in district schools total only \$10.1 million, a recovery of about 18% of the funds transferred to charter schools.

If the district is receiving about half of its revenue from the state for charter school enrollments, then it is accurate to report savings as \$5 million to local taxpayers and \$5 million from state sources for these lower enrollments. Clearly, any additional ability to take advantage of lower enrollments, and therefore lower costs, would result in significant savings to the SDP. For example, recovering half of the costs would save the district approximately \$14 million in local tax dollars, significantly lowering the net cost of charter schools to the SDP. The chart below shows the potential local costs of charter schools if the SDP achieved greater efficiency gains.



PEL has no independent way of estimating whether \$5 million in local savings is a lot or a little, or whether or not more savings could be achieved. There is no benchmark against which to compare, and very little detailed cost accounting within the SDP that could help make sense of this issue. It is true that the district’s costs are “lumpy,” that they rise and fall in steps. (The easiest way to visualize this is to think of a school closing scenario. Pretend that the school policy is to close schools when they’ve declined to 49% capacity. If enrollment declines from 100% to 50%, the cost of running that school declines a little – fewer teachers, books and supplies – but when it hits 49%, and the school closes, the cost of running the school goes to 0.) Certainly, this “lumpy” quality adds to the challenge of reducing costs when enrollments decline.

The SDP relies on this logic to support their claim that, in the short term, they have been unable to significantly lower their costs when students leave for charter schools because students are not leaving particular schools in enough concentrations to allow them to close schools. Since charter school students come from across the district, SDP officials assert, they cannot easily reduce the number of teachers, close buildings, or reduce fixed costs. It isn't clear, however, that managing these costs has been a high priority for the SDP. There is little evidence that the district took steps from the beginning to incorporate the potential impact of charter schools into their long-term fiscal, academic, facility and workforce planning, and operations. That attitude seems to be changing. If, as the SDP projects, more students continue to leave district schools for charter schools, it should become easier for the SDP to reduce costs, resulting in lower net costs to the district.

Second, consider not just the question of the *District's* bottom line, but the bottom line to the taxpayers of Philadelphia. If charter schools are created by the state, and create some short-term inefficiencies, then who is paying those inefficiencies? Given that Pennsylvania contributes about half of the SDP's budget, the answer seems to be that the burden is split between Pennsylvania's taxpayers and Philadelphia's taxpayers (who are, of course, Pennsylvania taxpayers as well.)

At the end of all this cumbersome logic, **PEL's best estimate is that the net cost to the taxpayers of Philadelphia of educating 14,100 students in charter schools in 2000-2001 is \$47.4 million.** That works out to \$3,362 per student enrolled in charter schools. Once again, though, it is important to underscore that this is based on the SDP's estimate that it can only recover in efficiency gains about 18% of the per student dollars transferred to charter schools. PEL has no way of verifying or evaluating that number. If the district does a better job of managing its costs and making admittedly tough decisions, and if the number of charter school students leaving district schools for charters continues to increase, that 18% will also increase. When it does, the bottom line costs will decrease as well. For instance, if the SDP were now able to recapture in maximum efficiency gains 70% of the dollars transferred to charters, the net cost would be \$33.0 million, or \$2,340 per student.

Beyond the issue of fiscal impact, there are a host of other financial issues associated with charter schools. Charter school operators in Philadelphia experience difficulties in applying for federal funding, providing special education services, financing for planning, start-up and capital needs, and providing other school services. A more cooperative relationship between the SDP and charter school operators could help overcome or alleviate some of these problems.

Conclusions and Recommendations

The purpose of this study is to go beyond the fiscal impact of charter schools on the SDP and suggest ways in which the fiscal relationship between the Commonwealth, the district and charter school operators could be improved.

Not surprisingly, PEL's fiscal analysis points directly to the need for a long-term plan. Such a plan must integrate charter schools as a viable supplement to the public school system and suggest adjustments to the state-local financing system for charter schools. The key ingredient to the success of such a plan is a positive working relationship between the SDP and Philadelphia's charter schools. Both the district and charter schools stand to benefit through greater cooperation and interaction.

The plan includes focused goals and strategies:

Goal #1: Provide strong incentives for public school districts to plan for the integration of charter schools into the districts' educational and physical program and infrastructure.

Strategy:

The Commonwealth should establish a new charter school development fund.

Goal #2: Increase the ability of the SDP to integrate charter schools into the basic fabric of the school district.

Strategy:

The School District of Philadelphia should establish an Office of Charter Schools.

Goal #3: Improve the transition process for students moving from non-public and public schools to charter schools.

Strategy #1:

The School District of Philadelphia should seek to actively expedite the charter school application process by working closer with charter schools on their applications to resolve questions and problems well before legislated deadlines. Similarly, charter schools should begin work on applications as early as possible to facilitate an expedited process by the SDP.

Strategy #2:

The Office of Charter Schools should monitor the movement of students enrolling and leaving charter schools.

Strategy #3:

The Commonwealth of Pennsylvania should strengthen the capacity of the State Department of Education to better assist charter schools more effectively and consistently.

Goal #4: Improve the management of resources allocated to charter schools by the SDP through increased cooperation.

Strategy #1:

The proposed Office of Charter Schools could serve as the lead coordinator for the following activities:

- The School District of Philadelphia and charter schools should identify and facilitate opportunities for charter schools and district schools to share the same building space.
- The SDP and charter schools should share academic and non-academic services.

Strategy #2:

Use the expertise of the SDP to assist in the application for federal funds upon agreement with individual charters.

Introduction

Background

In July 1997, Pennsylvania became the 27th state to provide for the establishment of charter schools as an addition to its public school system. Charter schools are independent public schools that are free from many or all of the regulations applicable to traditional public schools, but must meet the terms of a charter granted by a public entity. The passage of Pennsylvania's Charter School Law (Act 22) allows individuals and non-profit organizations to establish independent public schools operating under a charter granted by the local Board of Education. This flexibility meets the legislative objectives of providing educational choice for parents, guardians, and children, while holding schools accountable for student learning. In the four years since the law was passed, 65 charter schools serving almost 21,000 students have been established in Pennsylvania.

Pennsylvania's Charter School Law cites five goals in establishing charter schools¹:

- Improving Public Learning.
- Increasing learning opportunities for all pupils.
- Encourage the use of different and innovative teaching methods.
- Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.
- Provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system.

By enacting charter school legislation, the Commonwealth joined a fast-growing movement in school reform that had begun as an experiment ten years earlier when Minnesota passed the first charter school law in 1991. According to the Center for Education Reform, over 2,000 charter schools are in operation in 33 states and the District of Columbia, serving more than 500,000 students². Although charter schools educate a small percentage of the country's public school student population, these schools are becoming increasingly popular with parents and community leaders because they provide a variety of educational opportunities for children.

Philadelphia accounts for the majority of Pennsylvania's charter schools and charter school students. The city is home to 34 charter schools, which educate 66% of the state's 14,100 charter school students. Philadelphia's charter school movement is quickly growing. In February 2001, three new schools were approved to open in fall of 2001.

¹ Pennsylvania State Senate, Act 22 of 1997 (Senate Bill No. 123), section 1702-A.

² The Center for Education Reform website (<http://www.edreform.com/pubs/chglance.htm>)

Three additional schools were approved in May 2001 after an application resubmission process.

The School District of Philadelphia's (SDP) reaction to charter schools has been mixed. The SDP states that it welcomes charter schools as a viable educational alternative for parents and students. However, because charter schools are funded with money provided by the school district approving them, the SDP also notes that funding charter schools has been a challenge given the school district's overall fiscal problems. School district officials argue that administering charter schools is an additional burden to a school system struggling to meet its financial and educational obligations.

The SDP identified charter schools as one of the five areas that were major contributors to the School District of Philadelphia's growing expenses over the last six years. According to the SDP, the school system will run a \$235 million deficit for fiscal year 2002, of which \$109.4 million is attributed to charter schools in the district. The total shortfall is projected to grow to \$785 million by 2004, and the SDP estimates that \$153.5 million of this total is due to charter schools. As student enrollment in charter schools continues to increase, the SDP believes that the charter school funding issue will become an even larger fiscal concern.³

Origins of the Study

The idea for this study originated from a May 2000 report conducted by Drexel University/FOUNDATIONS Technical Assistance Center for Charter Schools in partnership with the Greater Philadelphia Urban Affairs Coalition. The report, "A Report on Philadelphia Charter Schools: Facing Challenges, Forging Solutions," identified several obstacles to the continued growth of charter schools in Pennsylvania. One of the greatest obstacles was conflict between the district and charter schools over the funding of these schools. A series of meetings to address the findings and recommendations of the study were held during the summer and fall of 2000.

The Greater Philadelphia Urban Affairs Coalition's Education, Children, and Youth Committee in conjunction with the City of Philadelphia and the School District of Philadelphia asked the Pennsylvania Economy League (PEL) to objectively examine the theory and practice of funding charter schools in Pennsylvania from the perspective of both charter schools and the school district. Emphasis was placed on the financial impact of charter schools in the City of Philadelphia.

This report comes at an opportune time given the discussion in the state legislature of amending the current Charter School Law and the Mayor Street's interest in including charter schools in the city's revitalization strategy.

³ School District of Philadelphia, Draft Financial Plan: Fiscal Year 2002 – Fiscal Year 2004, March 1, 2001, page 167.

Study Objectives

The purpose of this study is to go beyond the fiscal impact of charter schools on the SDP and offer ways in which the fiscal relationship between the Commonwealth, the district and charter school operators could be improved.

Since Pennsylvania's General Assembly passed the Charter School Law in 1997, legislators, the SDP, charter school operators, and the media have debated the law's funding formula and related financial issues.

PEL has examined the theory and practice of funding charter schools in Pennsylvania, particularly in Philadelphia, from the perspectives of both charter schools and school districts. In conducting this analysis, PEL assumes that charter schools and state legislation authorizing their existence are permanent additions to the Pennsylvania school system. This study addresses the fiscal realities of Pennsylvania's Charter School Law and makes recommendations to the SDP, its charter schools, and the Commonwealth to strengthen the long-term fiscal health of both charter schools and their host districts⁴. To present information that is useful to all interested parties, PEL's analysis will answer the following questions:

- How does Pennsylvania's charter school funding system work? This includes a layout of the charter school per-pupil allotment formula and an interpretation of the legislative intent.
- How does Pennsylvania's charter school funding system compare to charter school finance systems in other states?
- How has the School District of Philadelphia applied the funding formulas to date?
- What charter school issues are of common concern to the School District of Philadelphia and the Commonwealth?
- What should be done to provide long-term resolution of funding challenges?

Charter school financing can best be understood by identifying the flow of funds between the Commonwealth, the SDP and charter schools as students move from one school to another. A consistent understanding of how the funding follows the student should lead to a more cooperative relationship between stakeholders.

⁴This study uses the terms "traditional public school" and "district school" interchangeably. Additionally, the School District of Philadelphia (otherwise known as the SDP, the district, or school district) refers to both the physical boundary of the Philadelphia school system as well as the employees and staffs that implement school policies.

Acknowledgements

PEL Associate Ernest A. Wright, Jr. conducted this analysis under the direction of Deputy Director Steve Wray and Executive Director David Thornburgh. Research Analyst Jessica Haines and Director of Research Scott Bair provided additional research out of PEL's State Office in Harrisburg.

PEL would also like to thank the following for their time and assistance to this report:

- Gail Hawkins-Bush, Alliance for Progress Charter School
- Wayne Harris, School District of Philadelphia
- Keisha Hegamin, Greater Philadelphia Urban Affairs Coalition
- Gail Meister, FOUNDATIONS Technical Assistance Center for Charter Schools
- Robin Robinowitz, Greater Philadelphia Urban Affairs Coalition
- Sara Vernon Serman, The Reinvestment Fund

Special thanks also goes to:

- The Mayor's Office of Education, City of Philadelphia, and the Board of Education for their cooperation and desire to address the complex issue of charter school financing
- The William Penn Foundation for funding this study and its dissemination
- The Education, Children and Youth Committee of the Greater Philadelphia Urban Affairs Coalition for providing the leadership that resulted in this study.

Charter School Funding in Pennsylvania

It is important to understand Pennsylvania's charter school funding system and objectives prior to analyzing the fiscal impact of charter schools on districts. This understanding allows charter school operators and school district officials to discuss charter school financing issues using the same base.

Pennsylvania's Charter School Funding System

Base Funding

Pennsylvania's Charter School Law centers its charter school funding formula on the principle that money spent on a public school student should follow the student to a charter school. The law defines this amount through a formula that determines a per pupil allotment transferred by the school district to the charter school for each charter school student residing in that district. This per student method of funding charter schools differs from the methodology used by the Commonwealth for aiding local school districts. Rather than a per student formula, the state provides assistance using a flat grant system that incorporates incremental increases supplemented with increases for particular purposes. The wealth of the district is often a factor in calculating these annual increments.

More specifically, the base calculation for this per-pupil allotment is determined by dividing the school district's total budgeted expenditures for the prior year by its average daily membership (ADM). However, prior to dividing by the ADM, the law requires the school district to deduct the following expenses from its total expenditures:

- District expenses for non-public school programs, adult education, pupil transportation, and community/junior college programs. The law removes these expenditures because charter schools do not provide these services to their students;
- Capital expenses such as facilities acquisition, construction and improvement services, and debt services. The law requires charter schools to fulfill their capital spending requirements from non-public funds. However, for the first time, the Governor's proposed budget for Fiscal Year 2001-2002 includes a \$2 million appropriation to help charter schools secure facilities; and
- Federal funding (as separate educational entities, federal law requires charter schools to apply for qualifying federal funds on their own).

This method assumes that the charter school will enroll a student population similar to the district's population – because the charter school is drawing the majority of its students from the same population as traditional public schools – and therefore the instructional expense to educate the students will be similar. The charter school has access to a similar amount of education funding available to educate traditional public school students, but less than the total funding of a traditional public school.

Transitional Funding

Charter schools also attract students who reside within the school district but attended non-public schools in the previous year. For these students, the school district must transfer the above-calculated per-pupil allotment to the charter school for those students residing in the school district. Since these students were not in the public school system prior to enrolling in the charter school, this payment is a new expenditure for the school district.

The legislation recognizes this additional expenditure and does provide state funding to mitigate the impact on school district budgets. The per-pupil allotment is calculated as the district's basic education subsidy for the current year divided by the average daily membership for the previous year. However, this money is available only for the first year the student attends the charter school, and total payments are limited to the annual appropriation for this purpose (the appropriation for fiscal year 2000 was \$1 million). If the total amount needed to provide funding for all students shifting from non-public schools to charters exceeds the available funding, the amount paid for each student is distributed in proportion to the number of qualifying students in each school district (i.e. reduced pro rata).

While Act 22 makes base funding available to charter students, it presents certain financial challenges for school districts. While not plainly stated, Pennsylvania's Charter School Law appears to recognize that traditional public school districts will experience an increase in their expenditure levels as a result of charter schools. This is due not only to the payments made for students entering charter schools from non-public schools, but also to the reduction of student enrollments in public schools without compensating for reductions in professional staff and facilities.

To alleviate this burden the Charter School Law includes a temporary state funding provision. The funding was offered in 1997 in the form of a line-item appropriation of \$7.5 million. State funded grants were available by application to school districts that approved one or more charter schools for one year following the charter school opening. However, these grants expired on June 30, 1999 without subsequent reauthorizations.

Special Education Funding

Charter school legislation excludes special education expenditures from the base funding calculation, but it provides a separate formula that calculates funding for special education students. For each special education student, the charter school is to receive the per pupil allotment for non-special education students plus an additional amount determined by dividing total school district special education expenditures by 16 percent of the prior year's Average Daily Membership. The school district pays this per student amount to the charter schools for each special education student enrolled in charter schools in equal monthly installments. This calculation system essentially mirrors the system for determining payments for special education by the Commonwealth to the public school district.

Other Funding Issues

The charter legislation addresses three additional issues directly and indirectly related to funding of charter schools. First, the law directs the state to provide grants to charter schools upon application for planning and start-up activities. It does not, however, specify how much funding should be appropriated for this purpose or the size of individual grants. In addition, the federal government provides planning and start-up funding supplemented by the state, and has been as high as \$825 per projected charter school student.

Another financial issue addressed in the Charter School Law is facility financing. Once a charter school is underway, it must secure facilities in which to operate. The legislation does not provide funding specifically for facilities and, in fact, it forbids the construction of charter school facilities with public funding. The legislation does not address the intent behind this prohibition, but its suggest that they did not want to encourage charter schools with an uncertain future to take on long-term debt. This leaves charter schools with the burden of securing private or federal funds for their school building.

Finally, the legislation does not transfer transportation funding from the school district to the charter school. It does, however, require that school districts transport charter school students on the same terms and conditions as they transport traditional public school students. This requirement includes delivering charter school students to schools outside the district within ten miles of its border with state reimbursement of a portion of the expenditure. In addition, legislative language was revised after the law was passed with the specific purpose of requiring the SDP to transport charter school students, which it now does.

Legislation in Other States

The following two sections review funding trends in charter school legislation among the states, particularly as they compare to Pennsylvania.

Legislative Comparison

A review of how other states fund key charter school budget items reveals that Pennsylvania's legislation is similar to other state funding provisions. While there are certainly variations among states on how charters are supported, no concept or practice in our law is unique - with the possible exception of transitional funding Pennsylvania once provided to school districts.

Common key budget item provisions include:

Planning and Start-Up Funding – The federal government makes funding available for charter school planning and start-up activities. In most cases, the state applies for this money and distributes it to the charter schools. Some states, like Pennsylvania, supplement that money with state-funded grants or revolving loan funds. Grants take a variety of forms. Pennsylvania provides funding on a per pupil basis, while other states issue block grants and still others determine the grant amount on an individual basis.

General Operations Funding – Pennsylvania is similar to other states in providing charter schools with operational funding on a per pupil basis. The funding is transferred to the charter schools from the budget of the public school district in which that student resides. Some states have designed their funding formulas to provide charters with 100 percent of the funding available to traditional public schools; other formulas provide less. Pennsylvania is not alone in funding charters at lower levels than other public schools.

Special Education Funding – Most states, including Pennsylvania, provide funding for special education separate from operational funding. The most prominent variation in state practices is whether special education funding is formula-driven, as in Pennsylvania where it is based on average school district spending, or based on the actual number of special education students and the cost to serve them.

Facilities Funding – Most states, like Pennsylvania, provide charter schools with little or no assistance in securing and funding facilities. This lack of support is the chief financial complaint of charter school operators across the country. A few states are beginning to respond to these concerns with assistance in the form of grants, revolving loan funds, or low-cost capital.

Transitional Funding – Transitional funding is the term used in Pennsylvania's charter school legislation to describe temporary fiscal aid provided by the state to school districts to defray the financial impact of charter schools. The term and the concept seem to be unique to the Commonwealth. More common among other states is the practice of allowing school districts, which have authorized charter schools, to charge an administrative fee.

Transportation Funding – In terms of transportation, state charter school laws generally focus on who will provide it – the charter school or the public school district – and who will pay the bill. Most states provide charter schools with transportation funding comparable to school districts or, as in Pennsylvania, require the school district to provide the service in some or all cases. Four states provide transportation funding to charter schools, but allow the money to be used for other purposes.

Charter School Legislation in Practice

The funding issues raised by both the SDP and Pennsylvania's charter school operators are common to every state with charter schools operating within its borders. States that have operated charter schools longer than Pennsylvania may be able to offer solutions and best practices that can be applied with good results in the Commonwealth. The appendix includes a detailed review of the charter school funding systems in the four states with the most mature and/or most extensive charter school systems in terms of numbers of schools and students enrolled. They are Arizona, California, Michigan and Minnesota. A review of charter school operations in the City of Chicago, a unique example of a large urban school district working closely with and supporting charter schools to ensure their success, follows the state summaries.

Some of the “best practices” provided by these charter school systems are contained in legislation and regulation; others are merely recommendations that have yet to be acted upon. Still other good practices are not contained in legislation or regulation, but have been developed by school districts and charters schools together to improve the functioning and results of public education as a whole.

It is worth noting that the funding issues described above are somewhat subjective, identified and defined by the various individuals and institutions involved in or impacted by charter schools. PEL found no comprehensive analyses that review the fiscal results of charter school legislation and identify where they diverge from the intent of the law. Nor are there any obvious examples of failure in the funding formulas, such as bankrupt charter schools or school districts unable to offer mission-critical educational services because of the financial impact of charters. Regardless, certainly many of the solutions reviewed here may offer the means to develop a more effective charter school system.

As in Pennsylvania, most state funding issues derive from the perception that charter schools or school districts or both are under-funded. One response has been to simply expand the pool of money available for education. Examples include direct state aid to charter schools for start up costs and capital facilities. A less common response is state reimbursement to school districts that lose funding to charter schools, as in Massachusetts. There, the state covers a diminishing percentage of school district expenditures for charter schools over a three-year period.

In some cases, the state may not provide additional funding, but may shift the financial responsibility from those perceived less able to handle it. For example, a number of states provide charter schools with “insurance” of sorts against students with very

expensive special education needs. Massachusetts exempts charter schools from paying high cost private and residential placements for special needs students. In Colorado, charter schools pay the school district the average expenditure of district special education and in return receive district service regardless of the level of special needs.

Some of the more innovative state solutions to charter school funding issues do not cost the state any money at all. For example, a number of states have addressed the capital needs of charter schools by allowing taxable and tax-free bond issues for that purpose. Other states recognize that school districts may incur administrative expenses by authorizing a charter school, and allow the district to charge the charter an administrative fee calculated as a percentage of the charter revenue or expenditures.

Still another group of solutions place responsibility for many charter school needs squarely in the lap of the school district. Examples include Pennsylvania, which in some cases requires school districts to transport charter students to school. In Minnesota, school districts are required to cover special education expenditures for charter school students not covered by state funding. A number of states require authorizing school districts to provide a charter school with facilities. Not surprisingly, this creates new issues for school districts if the expenses of serving those students increase when they shift from the public school to the charter school.

In many states these issues go unaddressed, probably by design, because the free market basis for charter schools encourages schools that are both academically and financially innovative. Some school districts and charter schools, left to their own devices, have developed effective and mutually beneficial solutions to financial problems. Examples include numerous school districts that lease what would otherwise be empty and unproductive space to charter schools for less than they might on the open market. A rural school district in Arizona provides administrative services for a smaller number of schools. As a result, they have unused service capacity and it has been a simple matter for the district to offer these services to the charters in the district on a contract basis.

The outcome of these innovative funding strategies is positive for both sides – the charters spend less on services than they would if they did the work in-house, and the school district has an opportunity to increase its income. A charter school in Minnesota has produced excellent academic results with special education students by providing physical therapy to improve their ability to concentrate. A number of school districts have requested additional information, training, and even service contracts with the charter. These districts are not motivated by an opportunity to save money, but by the likelihood that they will get better results from the charter school for the same money.

Some visionary school districts have taken the initiative to create charter schools to meet their own financial needs. A number of overcrowded school districts in various states have encouraged charter schools as a means to relieve congestion. The district typically offers the charter some assistance to buy or build a facility, but the overall financial impact to the district is less than providing for those students in the traditional public school. Another example is a small district in California that developed ten charter

schools and helped them to establish a cooperative to buy services. The district also joined the cooperative and with the additional funding raised by the charters, they were able to finance various administrative services that the school district would not have been able to afford by itself.

Lastly, one urban school system – the Chicago Public School District – has demonstrated leadership in embracing charter schools and supporting them financially. Charters in Chicago are viewed not as a burden, but as an opportunity to improve the overall educational quality of public education available to families in the city. The District has established a charter school office to support, monitor, and evaluate the city’s charter schools. This has resulted in a good working relationship between the district and charter schools that encourages sharing of academic, administrative and financial resources to the benefit, according to the District, of all Chicago schools and students.⁵

⁵ Interview with Greg Richmond, Director, Charter Schools Office, Chicago Public Schools, February 2001.

Charter Schools and the School District of Philadelphia

The city of Philadelphia funds 35 charter schools and 14,100 charter school students. With over half of Pennsylvania's charter schools and two-thirds of the state's charter school students, Philadelphia has witnessed the growth of charter schools as a popular educational alternative for parents, guardians and children. Charter school students now comprise 6.5 percent of all children educated in publicly-funded schools in Philadelphia. While the SDP acknowledges charter schools as an important education initiative, there has been a financial impact on the school system. This section will look at the financial impact of charter schools on the Philadelphia school system by examining the effect of existing charter school students as well as the effect of traditional public school students and non-public school students transferring to charter schools.

Charter School Per Student Expenditures in the School District of Philadelphia

During the 2000-2001 school year, the SDP's per pupil expenditure to charter schools for each charter school student was \$5,558, roughly \$2,300 less than the expenditure for a traditional district school student. The \$2,300 excluded from charter school expenditure calculations comprises federal entitlements charter schools are allowed to apply for directly, as well as other programs (e.g. special education, transportation) that the SDP provides separately⁶.

Funding to cover per pupil expenditures is taken from the SDP's General Fund, the \$1.4 billion account that receives local, state, and federal funds to support day-to day activities in the school system. The SDP derives its revenue to be allocated to charter schools from two sources within the General Fund: state revenue – which consists of the Basic Education Subsidy and other operating revenues – and local revenue, both tax and non-tax. The Commonwealth annually appropriates funds to subsidize school operations throughout Pennsylvania. In addition, the District receives funding from the state to pay for programs contracted with the Intermediate Unit (IU), which is coterminous with the District⁷. Charter school funding cannot be tied to a particular source within the General Fund; however, this school year, fifty-one percent of the school district's net revenues came from the state⁸. This means that for every charter student about half of the per-pupil allotment is reimbursed by the state.

The fiscal impact of charter schools on Philadelphia

The school district asserts that charter schools are exacerbating the financial burden on an already distressed urban school system. According to the SDP the school system is projected to run a \$235 million deficit in fiscal year 2002, of which \$109.4 million is

⁶ A chart revealing what is included and excluded from the per pupil allotment is located in the appendix.

⁷ Pennsylvania Economy League, *Governance, Performance and Children Achieving in The SDP*, November 1995, page 12.

⁸ Because the charter school per pupil allotment formula removes certain expenditures such as special education and transportation services, it was necessary to exclude them when calculating the revenue portion received from the state.

attributed to charter schools. By fiscal year 2004 the SDP projects it will run a \$785 million deficit, of which \$153.5 million will be attributable to charter schools. Estimates of the extent to which charter schools contribute to the District’s fiscal problems vary from source to source.

With the availability of SDP enrollment and financial information, PEL tried to assess charter schools effect on the SDP’s current financial situation. To derive the net direct expenditures for charter schools by the District, PEL that 70 percent of charter school students are from traditional public school students while the remaining 30 percent are non-public school students. The non-public student percentage includes students from kindergarten to high school.

Based on information received from the SDP, the following is PEL’s best estimate of charter school expenditures for the 2000-2001 school year⁹.

Expenditures		
Students enrolled in charter schools in 2000-2001	\$54.9 million	
Non-public school transfers	23.5 million	
Charter school transportation	3.9 million	
Charter school administrative	.7 million	
Total Expenditures		\$83.0 million
(Less) Subsidies and Reimbursements		
Additional state subsidies	(\$.8 million)	
Transportation reimbursement	(1.0 million)	
Transition subsidies	(.8 million)	
Total		(\$2.6 million)
Net Expenditures		\$80.4 million
Reductions and Savings		
State Share of Charter School Expenditures		(28.0 million)
Costs Saved or Avoided (SDP estimate)		(5.0 million)
Total Reductions and Savings		\$33.0 million
Local Share of Charter School Expenditures		\$47.4 million

⁹ PEL’s calculation of charter schools expenditures on the SDP differs from the school district’s calculations. A chart from the SDP has been provided in the appendix to explain how the school district calculates its expenditures.

The following is a brief description of the origin of these estimates:

Expenditures

Students enrolled in charter schools in 2000-01 that transferred from District schools

Of the 14,100 students in charter schools in 2000-01, 70 percent, or 9,870, previously attended traditional public schools. These include Philadelphia resident students who travel out of the district to attend the Mosaica Charter School in Bensalem, Bucks County. This figure multiplied by the \$5,558 per student payment equals \$54.9 million.

Non-public school students

The SDP transfers \$5,558 to charter schools for every first year charter school student enrolled in a non-public school the prior year¹⁰. The SDP must allocate funds from its existing operating revenues to meet this obligation.

Approximately 30 percent of the 14,100 charter students came from non-public schools. It is estimated that the SDP payment for non public school students is \$23.5 million.

Transportation and administrative expenditures

The school district makes payments of \$3.9 million to charters for transportation services and absorbs \$700,000 for charter school administration.

Additional Subsidies/Reimbursements

Additional state subsidies for non-public students

The school district receives approximately \$800,000 in direct subsidy payments for prior year new public school students.

Transportation reimbursement

The District receives a partial reimbursement for its transportation expenditures from the Commonwealth of approximately \$1 million.

Transition revenue

The Commonwealth provides a statewide \$1 million transitional funding allocation for school districts impacted by non-public school students in their first year at a charter school. The SDP receives the lion's share of this allocation, approximately \$800,000 or

¹⁰ A non-public student can be a pupil who is not enrolled in kindergarten that was either: 1) enrolled in a public or private school outside of the School District of Philadelphia; 2) enrolled in a private or parochial school in Philadelphia; or 3) was home-schooled at a residence inside Philadelphia.

\$894 per student. By the second year, the Commonwealth counts non-public students transferring to charter schools as enrollees in the SDP.

State reimbursement for charter school expenditures

According to the school district’s budget, fifty-one percent of the SDP’s General Fund comes from state revenue. If we assume that fifty-one percent of the per pupil allotment (\$2,835) is funding from the state and multiply it by 9,870 students, then the state provides \$28.0 million for charter school students.

Costs Saved or Avoided (SDP Estimates)

The SDP estimated that it saved \$10.1 million as a result of lower enrollments due to the transfer to charter schools. If the district is receiving half of its revenue from the state for charter school enrollments, then it is accurate to report the savings as \$5 million in local revenue and \$5 million in state revenue for these lower student enrollments. The District has not provided all of the specifics of this estimate, but not having to hire a number of teachers is a large source of these savings. The District accrued these savings after four years of charter school operations.

While \$5 million in local revenue is a significant amount, it is small when compared to number of students departing District schools to attend charter schools. To put this into perspective, the district is saving less than \$507 per student in local dollars exiting the system. If the district recovered its entire expenditure, it would save \$2,835, the local portion of the per pupil allotment. While saving the entire expenditure is near impossible, especially over only a four-year period, savings greater than the District’s estimate of 18% can be expected over time. The following are examples of reduced expenditures using different percentage savings per student:

Percent of Savings Recovered	Local Dollars Saved (\$millions)
18	\$5.0
25	\$6.9
50	\$13.9
70	\$19.4

The above numbers are gross estimates and do not suggest that any one of them is the right number. However, they do illustrate the effect on the bottom line that achieving savings from lower enrollments can have on the fiscal health of the District. For example, recovering half of the expenditure would have lowered the net cost of charter schools to the District to \$38.5 million.

Achieving a net cost of zero is not possible because of the added expenditures by the District to charter schools on behalf of non-public school students. These represent a net new expenditure since they were not in the public system prior to enrolling in charter

schools. However, saving something significantly greater than 18% should be a reasonable goal, particularly if charter school enrollments continue to increase.

The net impact for prior and future years will vary depending on the number of students in each of the above categories.

Management and Planning for Charter Schools by the SDP

These calculations point to a major challenge for the SDP: to anticipate and plan for movements of students to charter schools, and to make those plans an ongoing part of fiscal planning. If and when students continue to leave District schools for charter schools, District officials will need to manage costs aggressively and creatively. Looking back over the District's first three years of experience with charter schools, there is little evidence that the SDP devoted significant management attention, staff time, or other resources to planning for the fiscal, educational, or other impacts of charter schools on the District. There was also little evidence that the concept of charter schools has been integrated into the school district's long-range educational and resource management plans. Prior to the Mayor John Street Administration's overhaul of the School Board and SDP management, key financial management positions such as Managing Director, Chief Financial Officer, and Director of Financial Planning and Analysis had been unfilled during the first three years of charter school operations.

In the past few years, the District has filled these positions and established an office devoted to certain charter school activities such as processing of charter school applications and renewals and monthly payment of funds to charter schools. Going forward, however, the challenge for the District will be to more fully embrace charter schools and to build its management and planning capacity to minimize fiscal impacts on Philadelphia's taxpayers. For instance, the District can improve the way it monitors the movement of students from district schools to charter schools to find savings and reorganize its teacher workforce. The district can also develop policies and procedures for delivering better transportation services, and monitor enrollment information to determine charter student eligibility.

Much of the school district's planning efforts are based on charter school enrollments at existing schools. School officials are reluctant to devise extensive planning measures for charter schools because of the uncertainty over the number of new charter schools to be approved by the Board of Education each year. The SDP also is hesitant to plan because of any possible legislative changes that might occur. However, without envisioning possible enrollment scenarios, it is impossible to determine how and at what point the school district can see significant savings from a decline in district school enrollment, particularly within the context of all other trends in the school district.

Charter School Operators and Public Funding of Charter Schools

Many charter school operators have misconceptions about the legislated funding formula and how it is intended to work. For example, a number of charter school operators believe the per-pupil allotment comes directly from the Commonwealth, and the School District of Philadelphia deducts a portion to cover administrative expenses. As noted above, the per pupil allotment formula is calculated by the school district based on its budgeted expenditures in compliance with state law. Based on PEL's analysis of the application of the formula by the SDP, charter schools are receiving the amount required by law. However, charter operators insist it is not enough to fulfill the educational, capital, and administrative needs of their schools.

While the funding formula is a major source of tension between charter schools and the District, there are additional issues that impact the financial health of charter schools:

- **Federal funding** – Federal law and regulation require charter schools to apply for federal categorical funding, including Title I grants, separate from the School District of Philadelphia. Several federal funding programs have extensive and complicated application and reporting procedures. Most charters have limited staff and expertise to devote to accessing these funds. Furthermore, small charters may not have enough qualifying students to make the effort worthwhile.
- **Special Education** – Special education can represent a significant expenditure to a charter school. Traditional public schools receive special education funding from the state based on a formula that assumes 16% of public school students require special education regardless of the actual number. Charter schools receive funding based on the actual count of special education students at a per student rate equal to amount provided to the school district by the state. Since state funding for special education is significantly below actual expenditures, both the school district and the charter schools must supplement state subsidies with operating funds.
- **Planning and Start-up** – Charter school operators are concerned that the amount of time a charter school has between the date of final approval for a charter school (early February) and the date the school will open (early September) is not enough. The Charter School Law requires an application for a charter school to be submitted to the local Board of Education by November 15 of the preceding year the charter school will open and provides the Board approximately three months to make a decision on the application. Within a six-month period a charter school operator must obtain a building, hire teachers, and purchase school supplies, which does not leave much time for planning school operations.
- **Capital funding** – Charter operators have great difficulty in borrowing money for capital needs because most are fairly new organizations with little or no credit history. Since charters are only granted for three to five years, a charter school's future existence, and thus ability to pay off a loan, is viewed uncertain by lenders. Furthermore, charter schools cannot access tax-free debt (bond issues) that pay for most school district infrastructure. The recent proposed appropriation in the FY

2001-2002 Pennsylvania state budget may help relieve some of the fiscal burden in securing charter facilities if enacted.

- **Overhead and other school services** – While many charter school operators would like to partner with the school district for school services to realize cost savings, some charter operators are reluctant to do so because of the perception that the SDP will not respond to their needs. Likewise, the school district would like to add charter school teachers and staff to its employment registers for group purchases; however, some vendors, such as health maintenance organizations, have strict eligibility requirements that prevent this action. Despite these challenges, increasing the opportunities to collaborate will benefit charter and district schools in cost savings and greater distribution of educational resources.

Summary of Findings, Conclusions & Recommendations

The following summarizes PEL's analysis of charter school fiscal structure and policy implementation in Pennsylvania, particularly in Philadelphia. Included is an overview of this study's major findings, recommended goals for improving the long-term fiscal health of school districts and charter schools, and proposed strategies for implementing the recommendations.

Summary of Findings

PEL's analysis of the financing relationships between the state, the District, and charter schools resulted in the following 10 key findings:

1. The funding formula in the state charter school legislation is not designed to make school districts "whole" after the transfer of funding to charter schools. School districts are left to make up the difference.
 - The legislated state formula requires school districts to provide charter schools with funding on par with the amount spent on the traditional public school student, i.e. the money follows the student. In calculating this per student allotment, the law requires the school district to exempt certain expenditures. The net payments to charter schools represent a new expense to the school district offset by lower enrollments in the district. School districts are responsible for reducing their spending levels or raising additional revenues to offset increased costs.
2. The School District of Philadelphia experiences an additional expenditure due to the influx of non-public school students into the charter school system.
 - While transition funding is available from the state to cover some costs for non-public students entering the publicly funded school system, it is inadequate to cover first-year student transfer expenditures. From the district's perspective, this is a new cost, not a transfer from the traditional public school to the charter school. No reduction in enrollment results. The expenditure is escalated because the state does not reimburse for the state share of these students.
3. There has been some concern that the SDP has not been administering the legislated funding formula properly. Based on PEL's initial analysis, the School District of Philadelphia applies the funding formula in accordance with the law.
4. PEL estimates that the net or "bottom line" cost of charter schools to the School District of Philadelphia is \$47.4 million, given that the Commonwealth contributes about half of the SDP's budget, and therefore, in effect, contributes half of the per pupil allotment for charter school students.

- PEL estimates the expenditure of charter schools in the 2000-2001 fiscal year to total \$80.4 million. This does not represent the “bottom line” cost of charter schools to the District or the taxpayers of Philadelphia because costs are offset by a reduced number of students in traditional public schools and the Commonwealth contributes half of the SDP’s per pupil allotment.

5. The School District of Philadelphia has not significantly reduced its expenditures as a result of shifting enrollments from traditional public schools to charter schools.

- Proponents of charter schools contend that funding charter schools will allow the school district to lower costs through reorganization of resources and other operating efficiencies over time. Some of these operating efficiencies have already taken place, but documented savings are far less than the added expenditures to the district at this time. In the opinion of the SDP, the entire recovery of these expenditures is not possible.

6. Opportunities for greater cooperation between the School District of Philadelphia and Philadelphia charter schools exist, but barriers remain.

- For example, the school district suggests that it would like to include charter schools in its group school supply purchases, but some vendors have strict eligibility requirements that will not allow charter school employees to be added to school district registers.

7. Pennsylvania’s legislated basic formula for charter school funding is similar to formulas enacted in other states, although some variations in specific provisions exist.

- Throughout the nation, states grant charter schools less than 100 percent of the funding available to traditional public schools. Pennsylvania is also in the mainstream for its treatment of funding for special education, capital facilities, transportation, and planning and start-up activities.

8. Pennsylvania’s charter schools are more dependent on locally raised revenue than other states. This is because other states finance a greater portion of educational costs than does Pennsylvania.

9. The Charter School Law was written with the intention of providing sufficient revenue to operate a charter school.

- Framers of the state’s charter school legislation believe that charter schools should be able to function with less funding because they are subject to fewer regulations and have access to private funding. Experience in other states with formulas similar to Pennsylvania’s confirms that charter schools can be financially viable within the current framework.

10. It appears that charter school operators are not accessing federal categorical funding to the extent possible.

- By law, charter schools must apply for their own federal funding. Although data is not available, the extensive and complicated application and reporting

procedures, and limited time or expertise within the charter schools, makes federal categorical funding difficult.

Conclusions and Recommendations

Pennsylvania's General Assembly, with strong guidance and support from Governor Ridge, created a system for the initiation and development of charter schools. The financing system now in place is similar to the financing systems already in place in most other states. The premise of these systems is that the dollars follow the student. In theory, what works for other states could work in Pennsylvania.

Unfortunately, due to the relative inexperience in charter school implementation by the SDP and the lack of long-term result measurements, it is not possible to predict success or failure at this time. Despite the concerns of both school districts and charter schools, Pennsylvania's Charter School Law and its required financing relationships continue to be the governing framework for charter school financing. However, adjustments could, and likely will be made.

Legislative framers clearly did not design a system that guarantees funding neutrality for school districts .

It is highly unlikely that charter schools will go away in the near future. Given this reality, it would be prudent for the school district to accept charter schools as a part of its overall education system and incorporate them into its educational strategy. Likewise, charter schools must understand their role in this system. Although they are independent schools and operate with fewer regulations than district schools, their operations still must meet the approval of the Board of Education. By working together in a cooperative manner, charter schools and the SDP can provide a more varied environment for educating students.

To respond to the existing situation, PEL offers up an approach that involves all three stakeholders - the state, school districts, and charter schools. PEL's recommendations take into consideration immediate funding issues and are, therefore, both short and long-term. Four overall goals are proposed.

- Goal #1: Provide strong incentives for public school districts and charter schools to plan for the integration of charter schools into the districts' educational and physical program and infrastructure.
- Goal #2: Increase the ability of the SDP to integrate charter schools into the basic fabric of the school district.
- Goal #3: Improve the transition process for students moving from non-public and public schools to charter schools.
- Goal #4: Improve the management of resources allocated to charter schools by the School District of Philadelphia through increased cooperation.

Recommendations

Keeping in mind the impact of charter schools on school districts in Pennsylvania, especially the SDP, the strategies proposed on the following pages are intended to improve the long-term fiscal health of all three stakeholders. Short-term remedies to assist school systems with charter school funding will not solve the overall fiscal problem, especially in the SDP.

Goal #1: Provide strong incentives for public school districts to plan for the integration of charter schools into the districts' educational and physical program and infrastructure.

Strategy:

The Commonwealth should establish a new charter school development fund.

How the funds would be used

The new funding would focus its resources on the transition problems of both school districts and charter schools. The amount of funding necessary would vary from year to year. The funds would be available to both public school districts and charter schools in the following manner

1. To assist school districts with the transitional costs caused by the loss of students to charter schools.

An element critical to minimizing the fiscal impact of charter schools on public school finances is the reduction of expenditures commensurate with lower enrollments. PEL recognizes that achieving these savings cannot occur on a one-for-one basis as students transfer to charter schools, but can only happen when certain critical masses are achieved. Therefore, PEL recommends that the Commonwealth share some of the burden during the transition period, but only with the understanding that those savings will occur over time as a result of a well thought-out plan for accommodating charter schools as part of the larger public school system.

With the exception of Massachusetts, most states do not provide such funding. However, states that have strong charter school systems already provide a significantly larger portion of total education funding, limiting the fiscal impact on local school districts. For instance, in 1998 Arizona shifted responsibility for education funding almost entirely to the state as a means to equalize funding between school districts. As a result charter schools are funded on approximately the same level as traditional public schools throughout the state.

Ideally, this fund should have been started concurrently with the original passage of Pennsylvania's Charter School Law. Since it would be established after many school districts have already approved charter schools, districts would apply based on their current situation. Those without charter schools could apply if and when they consider charter school applications.

School districts would receive additional funds for each student transferring to a charter school contingent upon the district's development and adoption of a transition plan that is approved by the Department of Education. The transition plan would include detailed strategies for integrating charter schools into the educational vision of the school district, as well as for accommodating the charter schools physically. Plan applicants would be encouraged to include strategies for cooperation with charter schools as well. The funding would be gradually phased out over a three-year period as the school district implements its plan to rationalize physical facilities and human resources to meet declining enrollments. Non-compliance with the plan would terminate funding.

2. To minimize the expenditure to school districts for non-public students transferring to public charter schools.

Public school districts would be fully reimbursed for non-public students entering charter schools during their first year. The funding should be commensurate with the state's share of the payment to charter schools.

3. To assist charter schools with capital expenditures.

Charter schools would benefit from setting aside a portion of the funds for capital expenditures. Priority for funding should be given to charter schools with agreements to purchase all or part of existing public schools.

Goal #2: Increase the ability of the SDP to integrate charter schools into the basic fabric of the School District.

Strategy:

The School District of Philadelphia should establish an Office of Charter Schools.

How the office would operate

The existing staff and administrative expense currently in use for charter school operations would be consolidated into the Office of Charter Schools. This would allow the Office to be the focal point for charter school operations. The new Office would be guided by the philosophy that charter schools can be an effective and positive supplement to the district's overall educational program, if managed properly. Also, the Office should promote a greater entrepreneurial spirit within the SDP when dealing with charter schools. The new Office, modeled on the Office of Charter Schools operating in the Chicago School District, would assume the following responsibilities:

1. Manage the relationships among the SDP, charter school operators and the state Department of Education.

The Office of Charter Schools would promote an overall cooperative atmosphere. The focus should be on preventing problems.

2. Monitor the academic effectiveness of charter schools and promote the transfer of innovative practices incubated in charter schools to the traditional public schools.
3. Serve as the staff focal point for the process of charter school approval.

The Office would make recommendations on new charter school applications to the school board. The Office should include location and grades of instruction as approval criteria for prospective charter school operators. Schools that intend to open in locations and at grade levels where the needs are greatest will be given priority. This action should be consistent with the SDP's overall facilities planning. Similarly, through its monitoring function, the Office could provide valuable input into the decertification of under-performing charter schools.

4. Facilitate the integration of charter schools into long-range plans for District facilities and staffing.

Charter school enrollments have an impact not only on the number of students in traditional public schools, but also on the school's location. For the school district to maximize savings by make appropriate adjustments to its staffing and building infrastructure.

5. Create an annual report on charter schools that presents key measurements of charter school activity, including enrollment figures, personnel, charter applications processed and approved, and other indicators.

This report will provide observers with an understanding of charter schools' capacity and resources. The report should also include estimates of the impact on school district operations for five years into the future.

Goal #3: Improve the transition process for students moving from non-public and public schools to charter schools.

Strategy #1:

The School District of Philadelphia should seek to actively expedite the charter school application process by working closer with charter schools on their applications to resolve questions and problems well before legislated deadlines. Similarly, charter schools should begin work on applications as early as possible to facilitate an expedited process by the SDP.

Strategy #2:

The Office of Charter Schools should monitor the movement of students enrolling and leaving charter schools.

It is especially important to identify enrollment activity, particularly among former district school students, to predict future trends and identify opportunities for reorganizing school district resources. This can be accomplished by:

- Providing a system of review for student enrollment disputes.
- Investing in GIS software to track student movement.

Strategy #3:

The Commonwealth of Pennsylvania should strengthen the capacity of the State Department of Education.

The Department should be able to better assist charter schools with startup and other problems such as applying for federal funding. The increased capacity should also devote resources to working with school districts on transition problems and act as a clearinghouse for information and charter school success stories in Pennsylvania and other state school districts. Administration of the above-suggested fund would be the primary responsibility of the Department as well.

Goal #4: Improve the management of resources allocated to charter schools by the school district through increased cooperation.

Strategy #1:

The proposed Office of Charter Schools could serve as the lead coordinator for the following activities:

1. The school district and charter schools should identify and facilitate opportunities for charter schools and district schools to share the same building space.

The opportunity for charter schools to utilize unused space in district facilities can prove to be a win-win situation for both parties. Finding a usable building will solve one of the biggest start-up concerns among charter operators, while the SDP can obtain extra revenue by leasing its space to charter schools. The SDP has given thought to this concept in their 2000 School District Improvement Plan focusing on low performing district schools.

2. The School District of Philadelphia and charter schools should share academic and non-academic services.

Examples of shared services could include:

- The sharing of teachers and other instructional aides
- Training sessions for district and charter school teachers on innovative classroom techniques and other professional development skills
- Charter schools contracting with the SDP for food, custodial services, and other related services
- Joint supply purchasing

This strategy requires school district officials to be comfortable with uncertainty and engage charter schools as active providers of educational services for Philadelphia's children. It also requires charter school operators to eliminate their perceptions of the school district as an adversary in their operations.

Strategy #2:

Use the expertise of the SDP to assist in the application for federal funds upon agreement with individual charters.

The district has expertise and experience in dealing with federal and state governments that charter schools do not have. Charter schools could utilize these resources at a cost

lower than would be paid to outside resources. The SDP should make a concerted effort to make these resources available to the charters on an at-cost basis.

Appendix A – Detailed Explanation of Charter School Funding Formulae

Charter school per pupil allotment formula

Under Act 22, resident and non-resident students attending a charter school are not charged tuition. Basic instruction and services for a non-special education student enrolled at a charter school are funded through a formula based on the average expenditures of the school district in which the charter school student resides.

To determine the expenditure for a charter school student, the resident school district takes its budgeted total expenditures from the previous year and subtracts a number of expenditure categories. These categories are either provided to the charter school separate from the base funding formula or are excluded from charter school funding. The adjusted total expenditure, called the “select expenditure,” is then divided by the district’s average daily membership (ADM) from the previous school year. The quotient, or per pupil allotment, is the amount of funding given to a charter school for each non-special education student.

The per pupil allotment is transferred from the school district operating budget revenues in monthly payments to the charter school for each student attending the charter from that district. A school district is required to send revenue to the charter school of a resident child regardless of whether that school is located within or outside the resident district boundaries – in keeping with the principle that funding follows the student. Because of annual changes in a school district’s operating expenditures and ADM, the per pupil allotment formula can be different from year to year.

Figure 1 illustrates the calculation of the per pupil allotment with data for the School District of Philadelphia for the 2000-2001 academic year.

**Figure 1: Calculation for Charter School Funding per Pupil
Based on School District of Philadelphia Education Expenditures: 2000-2001 School Year**

Budgeted Total Expenditures	\$1,691,207,639
LESS	
Regular Education (federal only)	\$80,483,318
Special Education	\$176,042,335
Vocational Education (federal only)	\$3,495,108
Other Instructional Programs (federal only)	\$7,111,467
Adult Education	\$1,858,041
Instructional Staff (federal only)	\$15,982,765
Administration (federal only)	\$17,300,022
Student Transportation	\$35,933,533
Debt Service & Other	\$157,588,521
EQUALS	
Select Expenditures	\$1,195,412,529
DIVIDED BY	
Average Daily Membership	\$215,084
EQUALS	
Charter School Per Pupil Allotment	\$5,558

Source: School District of Philadelphia

Because some services are excluded from the district expenditures calculation, a charter school, theoretically, is given less operational funding per student than the traditional public school. Estimates indicate that charter schools receive between 65% and 90% of public school funding, depending on the district. The legislation provides less revenue to charter schools by design, on the assumption that because they offer fewer services and are subject to fewer regulations, they will cost less to operate than traditional public schools.

A number of expenditure categories are excluded from the charter school funding calculation but provided to the charter school separately. These include special education and transportation, which are dealt with separately from the base funding formula. Additionally, federal funding was removed from the calculation in the wake of US Department of Education guidelines related to Title I funding. The guidelines require that states that consider a charter school to be a local education agency (LEA) treat charter schools like other LEAs in the state. In Pennsylvania, the state receives Title I funds and passes them on to eligible LEAs upon application¹¹. Because charter schools are legally defined as LEAs they must apply to the state for Title I categorical funding separate from host school districts.

¹¹ Title I funding for Philadelphia charter schools is bundled with Title I funding for the School District of Philadelphia. This funding is then passed through to each charter school.

The sources of charter school funding provided by the base funding formula are the same as those for traditional public schools -- locally raised revenue and state subsidies and grants. Funding levels for charter schools vary between school districts, as do the proportions provided by the state versus local sources. The state subsidy formula accounts for school district wealth and provides lower levels of state funding to wealthier school districts, which can collect more funds in property taxes and provide a greater portion of charter school funding than the state. Poorer districts, on the other hand, rely on less local revenue and larger state subsidies.

Special Education

For each special education student in a charter school, the resident district pays the charter school the per pupil allotment plus an amount determined by dividing the resident district’s total special education expenditures for their state funding for special education in public schools. This formula assumes that 16 percent of students in Pennsylvania’s schools will require special services and provides per student funding for those services. The source of the school district’s spending on special education and thus the charter school’s special education funding includes state funding, locally raised revenue, and some categories of federal funding that are passed through the state.

Figure 2 illustrates the calculation for the School District of Philadelphia, using data from the 2000-2001 School Year.

Figure 2: Calculation for Special Education Charter School Funding per Pupil Based on School District of Philadelphia Education Expenditures: 2000-2001 School Year

Budgeted Special Education Expenditures	\$174,940,800
DIVIDED BY	
Estimated Average Daily Membership (multiplied by 0.16)	\$34,413
EQUALS	
Quotient	\$5,084
PLUS	
Funding for Non-Special Education Students	\$5,558
EQUALS	
Funding for Non-Special Education Students	\$10,642

Source: School District of Philadelphia

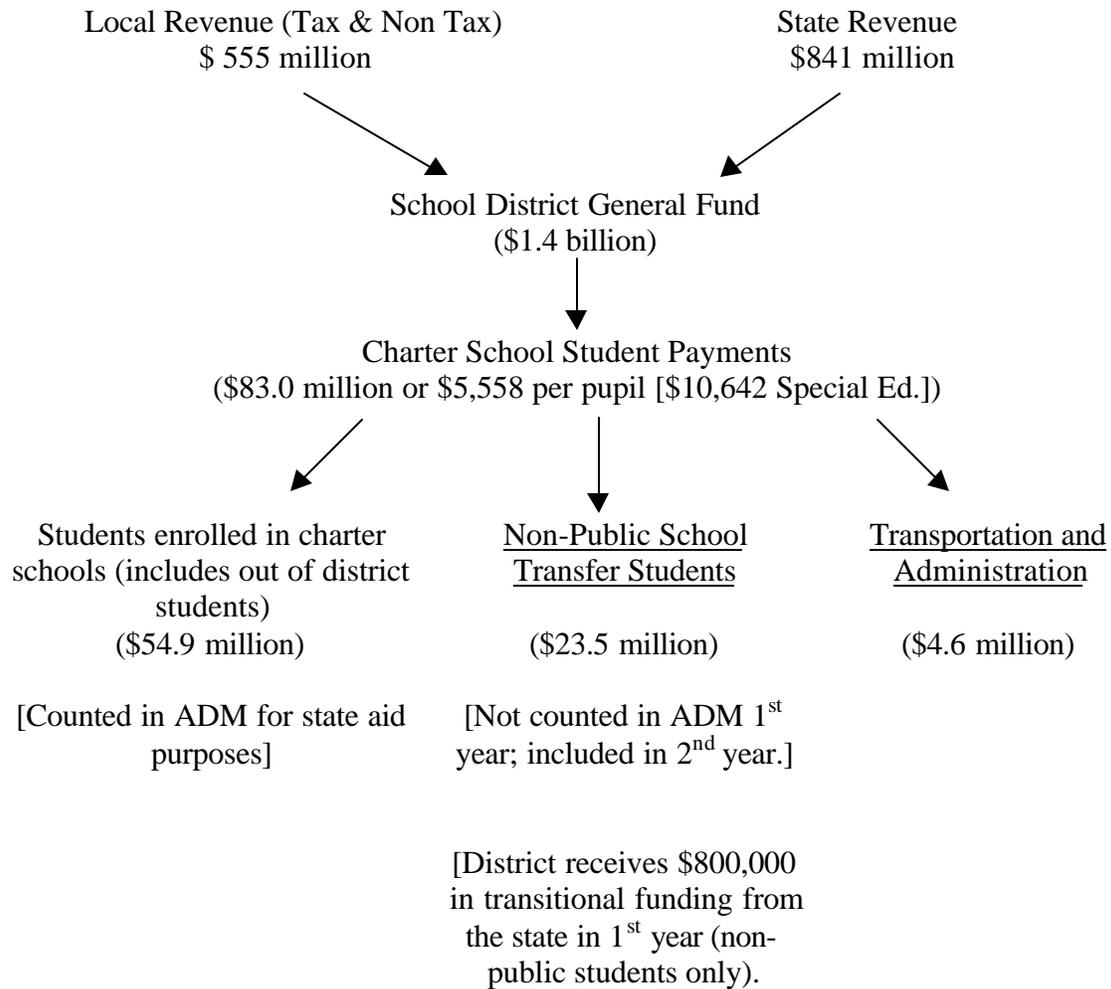
Appendix B - Charter School Per Pupil Allotment

Figure 3: Calculation of Regular Education Payment to Charter Schools by the School District of Philadelphia: Fiscal Year 2001

Category of Expenditure	District Per Pupil Expenditure	Per Pupil Expenditure to Charter Schools	Excluded Amount	Reason for Exclusion	Do Charters Receive Excluded Funding from Another Source
Regular Ed. (federal only)	\$3,491	\$3,117	\$374	Direction of PA Dept of Ed.	Yes – charters act as own LEAs to receive federal funding
Special Ed.	\$818	\$0	\$818	Act 22	Yes – Charter schools receive an additional \$5,084 for each special education student from the school district
Vocational Ed. (federal only)	\$255	\$239	\$16	Direction of PA Dept of Ed	Yes – charters act as own LEAs to receive federal funding
Other Instructional (federal = 85%) (Adult Ed = 15%)	\$128	\$86	\$42	85% excluded by direction of PA Dept. of Ed.	Yes – charters act as own LEAs to receive federal funding
Support Services (federal only)	\$1,248	\$1,031	\$217	Direction of PA Dept of Ed	Yes – charters act as own LEAs to receive federal funding
Plant Operations (federal only)	\$1,064	\$1,031	\$33	Direction of PA Dept of Ed	Yes – charters act as own LEAs to receive federal funding
Student Transportation	\$167	\$0	\$167	Act 22	Yes – The school district pays charter schools for transportation or contracts for transportation
Non-instructional (federal only)	\$261	\$54	\$207	Direction of PA Dept of Ed	Yes – charters act as own LEAs to receive federal funding
Debt Service	\$406	\$0	\$406	Act 22	Charter schools may apply for loans for facilities construction and renovations
Other Financing	\$24	\$0	\$24	Act 22	Charter schools may apply for loans for facilities construction and renovations
Total	\$7,862	\$5,558	\$2,304		

Source: School District of Philadelphia

Figure 4: Source of SDP Revenue and Flow of Payments for Charter School: Fiscal Year 2001



**Appendix C: Expenditures, Savings and Revenues
Related to Charter Schools
School District of Philadelphia: Fiscal Year 2001
As Estimated by the School District of Philadelphia**

	Public School Students	Non-Public School Students	Total
Charter-Related Expenditures			
SDP Payments to Charter Schools			
Regular Education	45,473,662	21,105,638	66,579,300
<u>Special Education</u>	<u>3,895,900</u>	<u>1,808,200</u>	<u>5,704,100</u>
Total	49,369,562	22,913,838	72,283,400
SDP Transportation Costs			
Buses, etc.	2,347,471	1,089,529	3,437,000
Tokens & Transfers	<u>341,500</u>	<u>158,500</u>	<u>500,000</u>
	2,688,971	1,248,029	3,937,000
SDP Administrative Costs	440,672	204,528	645,200
TOTAL SDP Expenditures	52,499,205	24,366,395	76,865,600
Charter-Related Savings			
Classroom Teachers (32:1)	9,905,592	-	9,905,592
Books & Instructional Aids	683,440	-	683,440
TOTAL SDP Savings	10,589,032	-	10,589,032
Additional State Revenues			
Charter School Funding	-	900,000	900,000
Additional Transportation Reimb.	688,464	319,536	1,008,000
Growth Supplement ¹	-	380,800	380,800
TOTAL Additional SDP Revenues	688,464	1,600,336	2,288,800
Net SDP Charter-Related Costs	41,221,709	22,766,059	63,987,768

Appendix D - State Charter School Financing Systems

Arizona

Background

Arizona passed its charter school law in 1994. Currently, 408 charter schools have been approved serving more than 94,000 students. Arizona has more charter schools than any other state in the nation and more charter students than any state except California. Arizona's charter law is widely considered to be the most favorable to charter operators in the nation.

Sponsorship

Arizona charter schools are sponsored either at the school district level by district governing boards, or at the state level by either the State Board for Charter Schools or the State Board of Education. In practice, the vast majority of charters are sponsored at the state level. Charters are granted for 15 years with reviews every five years regardless of the sponsoring agency. Funding formulas vary according to the type of charter sponsor. This analysis will focus on the funding formula applied to state-sponsored schools.

Planning and Start-Up

Only federal funds are available for charter school start-up activities, and charter schools must apply directly to the federal government for those funds. The Arizona Department of Education used to apply for and distribute federal money to new charter schools, but a recent court decision regarding the treatment of federal Indian Affairs schools converted into charter schools prohibited the state from applying for federal start-up funding (Arizona law is in conflict with federal law and the state refuses to change it). When Arizona initially passed charter school legislation, it included a state-funded "stimulus fund" to provide grants of up to \$100,000 for start-up activities. No appropriations have been made to the fund since fiscal 1999, however, and it will likely be removed from legislation in the near future.

Since there is no cap on the amount of federally provided grants, some charter schools that have applied directly to the federal government have secured grants of \$100,000 or more. This has caused some consternation among schools that received their charter when the state was still distributing federal start-up money. Grants were considerably smaller at the time, and a number of older charters have suggested they will disband and seek a new charter in order to access this money.

Operations

Arizona dramatically revised its education funding system in 1998, shifting responsibility almost entirely to the state, and phasing out dependence on property tax revenue as a means to equalize funding between school districts. As a result, charter schools are funded on approximately the same level and the same terms as traditional public schools throughout the state. The state provides a per student payment weighted according to

grade level to all public and charter schools. The result is that, theoretically, all students in the state receive the same level of funding, although in practice some school districts raise additional local revenue and spend more per student. Unlike state funding, locally raised revenue does not follow the pupil to the charter school. In 1999, Arizona's charter schools received 70 percent of their revenue from the state General Fund, 15.6 percent from federal sources, 13 percent from cash and in-kind contributions, and one percent from intermediate sources (i.e. gifts and donations).

Additionally, charter schools are funded on a current year basis using projected enrollments. Funding levels are adjusted at prescribed intervals during the fiscal year as more accurate head counts are provided. The purpose of current year funding for charters is to ensure sufficient funding for first year schools and those with enrollments that expand considerably from year to year. In contrast, school districts are funded based on enrollments from the previous year with adjustments made during the school year based on actual enrollments.

Arizona sets aside money to ensure that charter schools receive 100 percent of the federal categorical funds they are entitled to on a current year basis. Charter schools must apply to the state for their federal categorical funds. This set-aside system ensures that the money will be available when present year qualifying information on student income and counts become available. Charters have little difficulty in meeting the application and reporting requirements because the Arizona Department of Education provides assistance as soon as a charter is authorized.

While most charter schools are sponsored at the state level, legislation also provides school districts some incentive to authorize a charter school by allowing them to charge the charter school an administration fee of between four and nine percent of charter school expenditures.

Special Education

Similar to operations funding, charter schools, in theory, receive 100 percent of the funding for special education students that is available to school districts. In Arizona the additional funds available for special education are calculated based on the number of special education students. These students are categorized based on the type of services they require, and different funding levels apply to each category.

Capital and Facilities

Arizona provides capital funding to its charter schools based on an annual formula-based appropriation that equals roughly \$300 to \$400 per student. This funding is completely fungible. For mature charter schools that have had time to accumulate financial reserves, this revenue can contribute significantly to capital projects. For young charters, however, it is not sufficient to meet their immediate needs, and they tend to struggle to secure and fund facilities.

In addition to providing financial support, the state has taken other steps to assist charter schools in securing facilities. The legislature enabled charter schools to apply to

Industrial Development Authorities (IDAs) to issue tax-exempt bonds on their behalf. The IDAs have a clear preference for mature charters and have encouraged schools to band together to apply for bonds in order to both share the costs of issuance and to reduce the level of risk to the IDA. Arizona state government also prints an annual list of vacant buildings and portions of buildings owned by the state or school districts that may be suitable for charter school operations. Finally, Arizona's 15-year charters are longer than average and increase a charter school's ability to access capital because loans can be amortized over a longer period making them more affordable.

In addition to state assistance, charter school leaders have developed creative facility arrangements including leasing from local school districts and social service agencies, sharing space with a community college, and sharing space with a court.

Transportation

Arizona charter schools receive a flat transportation payment that is rolled into the base funding provided by the state. However, because transportation funding is included in the funding formula, charter schools can spend their transportation allotments as they wish. This system was created in part because the previous funding system, which provided reimbursement for route miles driven, allowed some entrepreneurial charters to earn more from transportation funding than from the state's base funding payment.

Arizona is unusual in that it does not require any public school to provide transportation. Most school districts do transport their entire primary and some of their secondary students, while charter schools are less likely to offer transportation.

California

Background

California passed its charter school legislation in 1992 and presently has 350 charter schools with an enrollment in the neighborhood of 130,000 students. While a significant number, California's charter school enrollment still represents only slightly more than two percent of primary and secondary school students in the state.

Sponsorship

A school district, county education board or the State Board of Education can authorize a charter school for a maximum of five years. California's law is generally considered to be quite favorable to charter schools, primarily for the broad exemption it provides from all state regulations applicable to traditional public schools. The "big waiver", as it is called, includes "all laws affecting school districts."

Planning and Start-Up

Start-up funding is available via a revolving loan fund, which contains more than \$5 million in combined state and federal support. Legislation in 1999 increased the maximum loan limit from \$50,000 to \$250,000, lengthened the amortization period from two to five years, and allowed charter schools to apply for the loans directly rather than through a sponsoring school district.

Operations

California charter school legislation was overhauled during the 1999-2000 legislative session to address problems with the funding system. The most significant change was the creation of a "charter school block grant" with funding provided by the state and the local school district. The grant provides charter schools with equivalent operational funding available to traditional public schools based on average levels of funding in the state. Money is apportioned on a per capita basis determined by the charter schools' average daily attendance. Local tax revenues provide, on average, between 30 to 45 percent of the overall block grant entitlement. The remainder comes from the state's general-purpose education funding program as well as a per student share of funds from most of the states categorical funding programs. Funding is apportioned directly to the charter schools by the state unless the school chooses to have the grant funneled through their sponsoring school district. The most striking element of the grant is the waiver of all regulations normally associated with state funding sources – a charter school can spend its block grant on any expense they deem fit.

In addition to the block grant, charters receive a per-pupil share of funds from the California lottery and are eligible to apply for several state and federal categorical funding sources not included in the block grant. The legislation does not address all local revenue sources of education funding. Many districts rely not only on the property tax but also on local sales taxes, mineral and timber taxes for education funding. In these cases, the charter school must negotiate with the district to determine what portion of those "additional" funding sources will be provided to the charter school.

California does not provide the school district with any transitional funding to mitigate the loss of revenue to a school district. The district may, however, charge the charter school supervisory expenses of up to one percent of the charter school's revenue or the actual cost of these services, whichever is less. This language has given rise to some disputes between districts and charters, as it is not always clear what the school district's costs actually are.

Special Education

Special education funding is not included in the charter school block grant, and charters essentially become part of the California system of special education in terms of funding. In California, special education is provided through groups of school districts that join into a Special Education Local Plan Area. These consortia receive state and federal special education funding to provide necessary special education services.

Transportation

Charter schools are not required to provide transportation. The block grant excludes a few categorical funding programs including transportation. Theoretically, a charter school can request the state portion of transportation funding provided to the school district for students formerly enrolled in the district, but the funding is generally not significant enough to warrant the effort or to fund a full-fledged transportation program. In practice, charter schools receive no funding or assistance in transporting their students to and from school.

Capital and Facilities

While the California charter school legislation does not provide funding for the capital needs of charter schools, there has been growing support for a ballot initiative that would, among other things, assist charter schools in developing facilities. This initiative passed recently as proposition 39 and requires school districts to provide charter schools with their "fair share" of facilities. While the language is not entirely clear and requirements will continue to be worked out in time, the California Department of Education believes that the ballot will result in all school districts in the state either sharing their facilities with charter schools or paying for charter facilities after a phase-in of three years.

Michigan

Background

Michigan authorized charter schools with state legislation in 1993. The number of charters and students at the beginning of the 2000 school year was 181 schools with 51,000 students, or three percent of the public school student population.

Sponsorship

Charter schools in Michigan are called public school academies and can be authorized by any public educational institution, including a public school board, community college board or a state public university. Michigan is unusual in the authorizing ability of its public universities. There is speculation that this action was a means to maximize the number of charter schools since the pro-charter Governor appoints public university boards. Charters are granted for up to ten years with mandatory review at least every seven years. However, in practice, most charters are granted for five years with a five-year renewal.

Planning and Start-Up

The state does not provide start-up funding, but charter schools have access to federally funded planning and start-up grants. In addition, charters can also borrow money at tax-exempt rates through the Michigan Municipal Bond Authority. This is the result of a 1997 IRS ruling that determined that Michigan charter schools are government units and are able to borrow at tax-exempt rates. This money is available only after a charter is approved and operating because they are borrowing against their school aid payments.

Operations

Michigan charter schools are considered school districts for purposes of state funding. Charter school funding is based on the state's education funding system, which equalizes funding levels between districts. The state determines the foundation funding per student on an annual basis – that is the minimum that must be spent per student. The state also dictates the millage that local government must levy on property to raise the foundation funding for each student. If a poorer school district is not able to raise the foundation amount locally, the state provides the remainder.

Charter schools receive funding on a per pupil basis equivalent to the foundation funding in the school district in which the charter student resides. This amount may vary between districts because very wealthy districts were allowed to maintain a higher foundation amount when the finance reforms were passed in 1994.

The state allocates revenue to the charter school authorizing body, which then forwards it to the charter. In many cases, this authorizer is a university, but the path of the money does not affect the financial impact on the school district. The state subtracts the amount of foundation money paid to the charter school from state money owed to the school

district in which a charter student resides. A financial analysis indicates that at least during one year, state aid accounted for 95 percent of charter school funding, compared to 69 percent for traditional public schools. These numbers suggest that many of Michigan's charter schools serve students from very poor school districts that rely heavily on state aid to reach the required funding per student.

Charters schools can apply for state and federal categorical funding on the same terms as school districts. The state provides assistance in accessing this funding, although it is limited by the small number of state staff members assigned to assist charter schools. Some charters also receive technical assistance from their authorizers in the form of newsletters, workshops for school directors, board member training, and assistance from third party consultants. In return for these services charter schools must pay a three percent administrative fee to authorizing agencies to cover some of the expense of reviewing applications, issuing charters, and providing oversight.

Special Education

By court mandate the state must pay 28% percent of the expenditure to educate a special education student and 70% of the expenditure to transport a special education student. This funding is not provided in addition to the foundation funding, so if the money the state sends to a school for a special education student covers 28% of the expenditure to educate that student, the state provides no additional revenue. If the foundation funding is less than 28% of the expenditure to educate that student, the state must make up the difference. Unlike some other states, this formula links state funding to the actual special education expenses a public school incurs as well as the number of special education students they enroll.

Transportation

Funding for transportation is rolled into the state foundation grant provided to school districts and charter schools, so that it has become fungible. Michigan does not require traditional public schools or charter schools to provide transportation. Most school districts do bus their students, however, often banding together to realize economies of scale. Charters are more likely to rely on parents to deliver their children to school. There are very few instances of school districts and charters working together to provide transportation.

Capital

The state does not provide charter schools with any assistance in raising capital funding, although as noted above, charters can access tax exempt loans through the state bonding authority which has allowed some schools to finance building construction or renovation by pledging future state aid. Less fortunate school operators have resorted to financing facilities with personal assets. A number of authorizers, particularly the universities have been able to help charter schools secure a loan for the purchase of a building by providing the lender with an intercept agreement.

Minnesota

Background

Minnesota was the first state to authorize charter schools in 1991. By the fall of 2000, 64 charter schools were serving roughly 10,000 students.

Sponsorship

Charters in Minnesota may be sponsored by local school boards, public and private colleges, eligible charitable organizations, and the State Board of Education, upon appeal. Charters are granted for three-year intervals and charters are generally treated like an independent school district.

Planning and Start-Up

Minnesota is one of few states that make start-up funding available to charter schools. Start-up funding is the greater of \$50,000 per school or \$500 times the number of pupils and is available for the first two years of charter school operations. In addition to state funding, charters may apply to the state for federal planning and start-up grants.

Operations

Minnesota's education financing system is designed to provide equalized funding to all school districts through state aid. Charter schools are treated as school districts so that every public school in the state theoretically spends the same amount per pupil. To encourage equal funding, the state dictates the rate at which local taxing bodies must tax property in order to raise education revenue. If they are not able to raise a minimum per pupil amount, the state makes up the difference.

Education funding is calculated as a base per pupil amount plus ten or 15 categories of funding that vary by district characteristics. School districts receive this funding from both local and state sources, while charter schools receive general education funding directly from the state. Regardless of the source, charter school funding does impact the school district budget; the state simply deducts charter school funding from state aid due to the school districts in which charter school students reside.

Though the equalization formula is intended to provide similar funding for all students throughout the state, there are exceptions. For example, those districts that were raising more than the state-determined minimum when the equalization formula was enacted were allowed to maintain a higher base funding level. Thus, per student spending will be higher in both the traditional public and charter schools in these districts. In addition, school districts are allowed to raise education revenue above the state minimum at the local level. This money does not convey to charter schools, leaving some charters with less basic funding per student than the district in which they are located.

In addition to base funding, charter schools are also eligible for most state categorical funding, as well as federal categorical funding. Although charter schools must apply for

this funding, the extensive application and reporting requirements have presented an obstacle for charter operators to access these funds. Unlike other states, Minnesota does not provide any state aid to offset the impact of charter schools on school district budgets.

Special Education

Charter schools receive an allotment on a per pupil basis that is calculated based on the actual expenditure of services and on the concentration of special education students in a school. Additionally, a charter school can bill any special education expenses unreimbursed by the state to the disabled student's district of residence. This special education provision has encouraged school districts and charter schools to communicate and collaborate to control expenditures, while protecting charter schools from the prospect of special education-driven bankruptcy.

Transportation

Charter schools have the option to provide transportation for their students or to require the school district to transport their students. If the charter elects to transport its own students, it is eligible for additional general revenue funding in the amount of approximately \$200 per student. If the district provides transportation, it must do so on the same terms and conditions as it transports its own students. In this case, neither the charter school nor the school district receives additional funding.

Capital and Facilities

Minnesota is one of a handful of states that provide funding for facilities. State-funded building lease aid is available upon application to be used to lease space for instructional purposes. This funding covers 90 percent of approved expenditures or \$1,500 per student. The law prohibits the use of this or any public money for the purchase of a charter school building. Charters regularly circumvent that exclusion by setting up non-profit organizations that issue bonds for a building. The charter school leases the building and then uses the lease aid to pay the bill.

In addition to this direct aid, bond issues are also allowed for charter schools. Because the bonds must be backed by the charter school's limited operating revenue, interest rates are higher for charter schools than they are for other public schools with taxing authority.

Chicago, Illinois

Background

Chicago is home to 13 of the state's 19 charter schools. The Chicago School District has made an unusually strong commitment to providing these schools with the resources and support they need to succeed. Illinois adopted a charter school law in 1996 that allows for a total of 45 charter schools to be established around the state – 15 in the city of Chicago, 15 in the Chicago suburbs, and another 15 in the southern portion of the state. Considering the fact that more than 50 percent of Pennsylvania's charter schools are in the urban SDP, Chicago's example may offer some worthwhile lessons.

Chicago's support for charter schools started in 1995 when Mayor Richard Daley took over the public school system and appointed a new school board. The board determined that charter schools made a valuable contribution to improving public education for the children of Chicago and committed to supporting them financially and otherwise. A Charter Schools Office was established within the school district to support, monitor, and evaluate the city's charter schools. The office serves as a resource for parents, school officials, the media, policy makers, and the charter schools themselves.

Sponsorship

Local school boards are the primary granting agents and charters are authorized for three to five years at a time.

Planning and Start-Up

In addition to funding provided by the federal government, the state charter school law authorizes a revolving loan fund. In practice, that fund has been used for grants of \$250 per charter school student to fund start-up activities. Because this fund was not capitalized for a number of years after it was approved, the Chicago Public Schools established their own \$2 million revolving loan fund for charter schools.

Operations

State law dictates that charter schools receive between 75 and 125 percent of the per-capita tuition of the district in which the charter is located. Per-capita tuition represents the cost of education for a regular student in that district averaged across all grade levels. The actual percentage is negotiated with the sponsoring district and specified in the charter. The money is paid by the school district in four equal quarterly payments, structured to ensure that charter schools have half their allotted based funding by October 1. Illinois law is unusual in that charter school funding does not follow the pupil out of his or her resident district. If a child attends a charter school located in and approved by another district, the student's parents must pay the tuition.

In Chicago, charter schools are funded at roughly the same per capita level as other public schools, and that funding is provided on a current year basis according to the number of enrolled students rather than a calculation based on student attendance.

Charter schools also are entitled to their proportionate amount of federal and state categorical funding available for eligible students passed through the school district. Chicago Public Schools provide assistance to ensure the charters receive their portion.

Transitional Funding

Illinois is one of a handful of states that provides school districts with significant transitional funding to offset the cost of approving a charter. State-funded impact aid reimburses a school district for 90 percent of the funding it sends to a charter school in the first year of operation, 65 percent in the second year, and 35 percent in the third year.

Special Education

State legislation dictates that, like base level funding, the level of special education funding is negotiated between the charter school and the sponsoring school district. In the Chicago Public Schools, these negotiations are driven by the recognition that the school district has responsibility for educating special education students no matter what school they attend within the district. As a result, the district generally retains all special education services and centrally funds and provides personnel and resources to charter schools as needed. If a charter chooses to hire its own personnel, the school district foots the bill.

Transportation

In theory, state law does not require school districts to transport the majority of students. In reality, the Chicago Public Schools do not provide extensive transportation services to traditional public schools and almost none to charter schools.

Facilities

The Illinois charter school law authorizes a \$500,000 revolving loan fund described under planning and start-up funding that may also be applied to charter school facilities needs. In addition, the Chicago Public Schools established their own revolving loan fund that provides money for start-up activities and facilities. In practice, this money covers the expenditure of maintaining and rehabilitating facilities, but not the purchase or construction of a building.

The Chicago Public Schools district does assist charter schools to locate facilities where possible and often suggests that they seek space in existing public schools. However, the school district will not require a traditional public school to accommodate a charter school.

Miscellaneous

Chicago's school district provides food service to charter schools that request it at no charge. The school district also provides a variety of other less costly services including health care and immunization services and special education monitoring to ensure compliance with the law.

Appendix E – Greater Philadelphia Urban Affairs Coalition – Education, Children & Youth Committee

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Executive Director, Korean Community
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Appendix F – About Greater Philadelphia Urban Affairs Coalition and its Education, Children, and Youth Committee (GPUAC & ECY)

The Greater Philadelphia Urban Affairs Coalition (GPUAC) partners with all segments of our community to ensure that every person has the opportunity for educational and economic success, and a secure and healthy life.

GPUAC's mission - to bring together business and community leaders to solve urban problems - is carried out in three ways:

1. As an intermediary, we build the capacity of grassroots organizations to serve their own communities. This is accomplished through the provision of financial management services, loans and grants, technical assistance to a range of public and private organizations, and leadership development.
2. Through the operation of effective programs, we impact communities in greatest need throughout the Metropolitan Philadelphia region. GPUAC manages more than 30 programs and services, in the areas of workforce development, health services, neighborhood and community services, economic and business development, and education services.
3. As an agent for change, we build partnerships and launch initiatives that bring about reform. This work is carried out through Public Policy Committees on homelessness, workforce development, community and economic development, and education/children/youth.

GPUAC's Education, Children and Youth Committee (ECY) brings together a diverse group of stakeholders to improve the quality of education in the City of Philadelphia. In ECY's view, charter schools offer unique opportunities for parents, educators, and community members to become involved in the education of our children. ECY further believes there is a need for objective discussion and greater understanding of the opportunities charter schools represent, the barriers they confront, and what can be done to help them—and our children—succeed.

Appendix G – About PEL

The Pennsylvania Economy League is an independent nonprofit public policy research and development organization. PEL's mission is to promote better government for a more competitive region by providing information and support to the civic leadership of Southeastern Pennsylvania.

PEL is supported by individual and corporate members in the region -- leaders in their industries and in their communities -- who understand how sound public policies and effective government support the region's economic competitiveness. Under the leadership of its Board of Directors and David Thornburgh, Executive Director, and with additional project funding from foundations, civic organizations, and local governments, PEL:

- analyzes and communicates the effect of public policies on the region's economy and its constituents;
- promotes innovative programs or policies that have proved successful in other regions of the country or the world;
- works directly with government officials in the region to research, design, and implement effective programs;
- creates opportunities to inform and involve taxpayers in the process of policy development and implementation.

Interview List

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