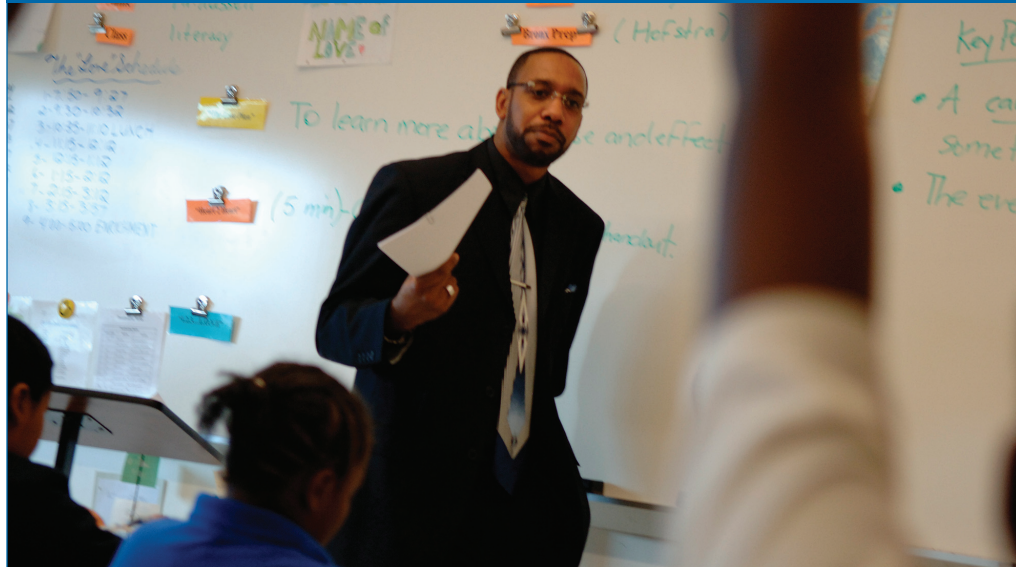


# Issue Brief

## The Bottom Line: Six Myths About the Financial Impact of Public Charter Schools

By **Matthew Arkin** and **Bryan C. Hassel**,

*Public Impact*



National Alliance for Public Charter Schools  
1101 14th Street, NW Suite 801 Washington, DC 20005  
tel: 202.289.2700 fax: 202.289.4009  
[www.publiccharters.org](http://www.publiccharters.org)

“About 4,000 students are projected to enroll this fall in non-district charters at a cost of \$40 million.”

*Indianapolis Star,*  
March 18, 2004

“Buffalo Public School officials claim their budget woes are prompted in considerable measure by the state’s funding system for charter schools.”

*The Buffalo News,*  
November 14, 2003

“Albany Schools Superintendent Eva Joseph said the district loses \$10,176 per child, but can only cut \$2,003 of that through cost saving

measures. ‘Fixed costs don’t change when a small number of students leave the district.’”

*Albany Times Union,*  
March 21, 2007

School districts across the country are having financial problems, and charter schools are increasingly getting blamed. Charters are accused of taking money from “the public schools,” although they are public schools themselves. Charters are even taking the blame for rising taxes.

These assertions certainly paint a clear picture of some district

administrators’ feelings about charter schools – but they don’t tell the full story.

In fact, high-quality public charter schools have positive financial impacts for communities that more than offset the obvious and immediate revenue losses to districts. Accurately measuring the financial impact of charters requires looking at not only the revenue shifts for the school district but also these benefits to the broader community.

No one can fault district officials for scrutinizing the effect of charter schools on district funding, but they should do so with solid information and reasoned analysis. All too often, debates center on estimates that are too simplistic and unquestioned to inform real policymaking. For instance, a fall 2006 article in the *Dayton Daily News* titled “Charters raided schools’ rolls, coffers”<sup>1</sup> ascribes Dayton Public Schools’ financial woes to charter schools. Digging into the numbers cited in the article, one can see that less than a third of the \$23 million deficit forecast for 2007-08 is attributable to charters.

Such misinformed debates about charter financial impact stand in the way of promising efforts to open high-quality public charter schools around the country. Some charter authorizers are hesitating to approve needed charters because districts think it will break the bank. And some state legislators are enacting (or not enacting) charter legislation based on one-sided arguments about the financial impacts of charters.

This issue brief seeks to help correct the direction of these debates. It debunks several myths about the financial impact of charters and recommends steps district, community, and state leaders can take to get the balance sheet right for public charter schools.

## SIX MYTHS ABOUT THE FINANCIAL IMPACT OF CHARTERS

No one would dispute that the arrival of a charter school can create short-term financial pain for school districts. Money does (or should)

follow children from districts into charter schools. Since no organization likes to see its revenue decline, it is understandable that district leaders express concern about the fiscal effects of charter schools.

These legitimate concerns, however, too often balloon into powerful myths that make it difficult for communities to have candid, rational discussions of the issues presented by charter schools. This section addresses six myths that emerge frequently in these debates.

### **Myth #1: Charter Schools Rob Money from the Public Schools.**

When charter critics assail the fiscal impact of charter schools, they often invoke the idea that charter schools are draining money from “the public schools.” As most readers of this brief probably know, however, charter schools are public schools, duly authorized under state law. Since charter schools are public schools, the money that they receive is not being “drained” from public education at all. Instead, it is moving from one provider of public education – a district – to another – a charter school.

Moreover, charter schools frequently bring new resources into public education. Through the Charter Schools Program, the U.S. Department of Education provides grants to charter schools for their planning, development, and initial implementation – funding that would not come to a community’s public schools without charter schools.<sup>2</sup> In addition, charter schools are often successful with private fundraising, bringing even more dollars into public education. In Illinois, for example, for every \$10 in public funding charter schools

## Fact

▶ Since charter schools are public schools, the money that they receive is not being “drained” from public education at all.

received, they brought in another \$1.78 in private funding in 2002-03 – over \$11 million in total.<sup>3</sup>

So instead of robbing funds from public schools, the presence of charter schools actually increases the total spent on public education for a community’s children.

### **Myth #2: Every Dollar a Charter School Receives is a Dollar’s Worth of Fiscal Pain for the School District.**

Even if overall public education funding in a community increases due to charter schools, districts typically receive less revenue than they would have if there were no charter schools. In practice, however, charter critics and district officials vastly overstate the resulting fiscal pain. Here are several reasons why the fiscal impact is often much lower than advertised:

- **State funding formulas may provide transitional assistance to districts.**

Several states have enacted legislation to provide districts with short-term financial aid when new charters open. In Illinois, for example, the state provides Transition Impact Aid to districts covering 90 percent of charter funding during the first year of its initial charter term, 65 percent in

the second year, and 35 percent in the third year (although funding levels for this aid varies from year to year).<sup>4</sup> In Washington D.C., the district receives per-pupil funding for the prior year's enrollment numbers – effectively providing transition aid equaling 100 percent of charter funding for the first year that a charter is open.<sup>5</sup> In New York, the state will provide transition aid to districts equal to 80 percent of the charter payments for students who move to charters beginning in the 2007-08 school year, phased down to 60, 40, and 0 percent in the subsequent three years.

- **Districts often end up with more money per pupil as a result of charters.** Because charter schools typically receive less than full funding,<sup>6</sup> districts are actually left with more money per pupil when a student moves to a charter. Suppose a school district with 5,000 students has per-pupil funding of \$10,000 (for a total of \$50 million in district funds), and no charter schools. Two charter schools open in the district, serving a total of 500 students. The charter schools receive \$9,000 per pupil for total funding of \$4.5 million – money that the district would otherwise receive. The district now serves 4,500 students, with total funding of \$45.5 million – less than before. But *per-pupil* funding now totals \$10,111 – an extra \$111 to spend on each remaining student, thanks to the new charters. As it turns out, we don't need hypothetical illustrations to see this effect. A March 2006 analysis by the New York Charter Schools

Association, for example, found that district per-pupil spending had increased by 37 percent in Albany and 25 percent in Buffalo since charter schools had come into existence.<sup>7</sup>

- **Charters that enroll high-cost kids can be a fiscal boon for districts.** The funding a charter school receives is rarely, if ever, perfectly adjusted for the characteristics of the students who attend. As a result, the district may be left with disproportionately high or low levels of funding. If a charter enrolls high-cost students, the district is better off financially. If a charter enrolls easier-to-educate students, the district is worse off. Nationally, charter schools enroll higher proportions of minority students, low-income students, and students limited in their English proficiency and lower proportions of students eligible for special education.<sup>8</sup> The characteristics of students at any given charter school and district, of course, will vary. Any discussion of a particular charter school's fiscal

impact, therefore, needs to consider the students the charter school is likely to enroll.

### **Myth #3: Districts Cannot Reduce Expenses.**

Most public and commercial enterprises that lose customers respond with belt-tightening. While some school districts that lose students to charters trim expenses, many claim that they cannot – either because “charters take too few students to reduce district expenses,” “charters take students from too many different schools or classrooms to reduce expenses at any one school,” or “our fixed costs are high.” No doubt, there is some truth to these arguments. But in their extreme version, they rest on three fallacies:

- **Predictability.** Districts often claim that they cannot act quickly enough to reduce expenses in response to charters. This argument is reasonable for the first year or so of a charter's existence, which is precisely why some states offer temporary transition aid to districts after a

---

**Because charter schools typically receive less than full funding, districts are actually left with more money per pupil when a student moves to a charter.**

---



charter opens. Beginning in years two and three, however, this argument ceases to be compelling. District enrollments often fluctuate for a variety of reasons – such as changing home prices, new housing developments, plant closings, and routine student mobility – often with little warning. Districts are forced to adapt their budgets to respond to these external factors, and reduce expenses in a reasonably timely manner to adjust to the new realities of their enrollment numbers.

In addition, a new charter school doesn't appear out of nowhere. Given the time it takes to authorize a charter and the growing practice of providing a "planning year" before opening, a charter school's impact on enrollment is far more predictable than that caused by other factors. In fact, student migration to charters is often dwarfed by other district enrollment losses. One recent study of Detroit Public Schools showed that of the 9,500 students lost in one year, only 3,500 (less than 37 percent) left for a charter school.<sup>9</sup> With strong financial leadership at the district level, reducing expenses – be it by consolidating classrooms

or reducing overhead at the central office – over a relatively short timeframe should not be an unsolvable problem.

- **Scale.** Districts often claim that charters do not enroll enough students to allow them to reduce expenses at a significant scale. In certain cases, there may be some merit to this argument at the individual school level – charters with fewer than 100 or so students may have little impact on a district's expenses (or their revenue, for that matter). In communities where charter schools enroll hundreds or thousands of students each year, however, the scale exists to consolidate classrooms or schools for districts with shrinking enrollments or delay adding teachers, buildings, or schools for districts with growing enrollments. If districts cannot make these kinds of changes, it is likely due to their own cumbersome policies and rules rather than to charter schools.

**Myth #4: Charter Schools Cause Teachers to be Fired.** Another frequent lament about charters is that they are costing teachers their jobs. There are two basic problems with this assertion. First, charters hire teachers to educate the students in their schools, often producing a net gain in teaching opportunities in the community.

Second, the number of available teaching positions in traditional schools in a district due to normal turnover is almost always higher than the number of teaching positions that can (and should) be consolidated by the district due to a charter. A 2004

study of teacher turnover found the national annual turnover rate to be over 15 percent.<sup>10</sup> Unless charter schools provide the opportunity for a district to consolidate more than 15 percent of its teaching force, reduction in the teaching force due to charters provides districts an opportunity to reduce their hiring needs through attrition – not to fire teachers. With estimates of the average cost to hire and train a new teacher over \$8,000, reducing the hiring needs of a district can have a strong positive impact.<sup>11</sup>

**Myth #5: Without Charters, Districts Would Be Much More Stable.** With or without charters, the days when almost all students attend schools in the same district from kindergarten through the 12th grade are coming to a close. The 2000 U.S. Census found that 15-20 percent of all school-aged children moved in the previous year, and a 1994 U.S. General Accounting Office study found that one out of six students had attended three or more schools by the end of the 3rd grade.<sup>12</sup> In the Detroit Public Schools example mentioned above, over 6,000 students (60 percent of total losses) left the district for other reasons – and took their state funding with them.<sup>13</sup> Such high student mobility rates swamp any impact of charter-driven mobility.

## Fact

▶ With or without charters, the days when almost all students attend schools in the same district from kindergarten through the 12th grade are coming to a close.

### Charter schools can have an immediate, positive financial impact on communities.

**Myth #6: The Whole Story of Charter Impact is Found in the District's Budget.** Debates about charter schools' fiscal impact almost always center on their effect on the budget of local school districts. While this is one part of the picture, it makes sense to back up a step and ask: what is the long-term fiscal impact of charter schools on a *community as a whole*? From the perspective of mayors, citizens, and others with a community-wide view, this question is the most important one.

To begin with, charter schools can have an immediate, positive financial impact on communities. A 2003 article in the *Journal of Housing and Community Development*<sup>14</sup> found that charter schools are renovating and rehabilitating empty and dilapidated properties to serve as quality school facilities. These changes will generate new tax revenues and – as some researchers are now investigating – could also boost real estate values.

The impact of charters on the landscape in Washington, D.C. is one impressive example. The partnership between Friendship Public Charter Schools and Edison Schools, Inc. recently closed a \$44.9 million bond deal to upgrade the campuses of its four charter schools in poor district neighborhoods.<sup>15</sup> Additionally, the federally funded

CityBuild initiative has provided \$12 million to create or expand facilities in distressed D.C. neighborhoods. And in 2004 Sallie Mae awarded \$28 million to D.C. charters for use on their facilities.<sup>16</sup> These investments in otherwise downtrodden areas have begun to change the landscape of D.C., as similar investments are doing in other neighborhoods across the country.

Charter schools can also have a long-term positive effect on a community's finances – if they successfully educate students. As the sidebar indicates, there are many examples of high-performing charter schools as well as cities where charter schools as a group are performing strongly. Of course, not all charter schools are successful. But if a district or other authorizer is considering issuing a charter, it should only do so if it thinks the school will be academically successful. Otherwise, it should deny the charter. The question of fiscal impact should not even arise. It's only in cases when districts or other authorizers believe that a charter school is likely to succeed academically that we should even be discussing the school's fiscal impact.

When charter schools are successful, many fiscal benefits can accrue to a community, including:

There are numerous success stories at individual charter schools across the country. When *New York Times Magazine* Editor Paul Tough profiled schools that are beating the odds with low-income children, he focused entirely on charter schools, “the schools that have taken on this mission most aggressively.”<sup>24</sup>

More broadly, a recent issue brief prepared by the National Alliance for Public Charter Schools examined the data on the performance of charters in five large cities (Chicago, D.C., Indianapolis, Buffalo, and New York City), and came across a number of consistent findings:<sup>25</sup>

- Charters on average are outperforming district schools in each of the five cities;
- Individual charter schools rank among the top-performing schools in the city, and achieve results rivaling the highest-performing schools in the surrounding suburbs.
- Charters are achieving these results with their target populations of low-income and minority students.

Of course, these results do not guarantee that any particular charter school will be successful. They simply show that high charter performance is common across several big cities. Before even considering a prospective school's financial impact, authorizers should be convinced that the proposed school will join the ranks of academically successful charter schools.

# Fact

▶ Many charters with great potential are either never allowed to open or forced to close due to restricted funding streams and the difficulty of obtaining quality facilities.

- **Decrease in number of high school dropouts (and increase in number of high school graduates).**

From a community perspective, if a high-performing charter school has a lower dropout rate than the school district, then there will be fewer dropouts in the community as a whole. But what is the value of each of these additional high school graduates to the community? A 2004 study by the College Board estimated that the average high school graduate earns \$9,200 more annually and pays \$2,200 more annually in income taxes than the average high school dropout.<sup>17</sup> Another study found that the lifetime value of additional earnings of a high school graduate (compared to a dropout) is \$260,000, and the value of additional taxes paid is \$60,000.<sup>18</sup> Each additional high school graduate also saves the community significant money on spending for social services. The annual savings to a community for each graduate can range from \$1,600 to \$3,300 depending upon the graduate's characteristics.<sup>19</sup> While there are no national data on charter graduation rates, evidence from Chicago has shown that charter

schools can better district graduation rates across the board.<sup>20</sup>

- **Increase in college attendees and graduates.**

With 100 percent of charter graduates in Boston this past spring attending college, charters are showing that they can increase the number of college students and graduates in a community.<sup>21</sup> Such increases benefit communities – significantly from an income and tax perspective and moderately from a social service perspective. The same College Board study cited above estimated that the average college graduate earns \$19,100 more annually and pays \$5,300 more annually in income taxes than the average high school graduate.<sup>22</sup> Annual social service savings can range from \$800 to \$2,700 when compared to high school graduates.<sup>23</sup> If a charter school can turn one student from a dropout into a college graduate, the annual financial benefit to the community is enormous, ranging from \$38,000 to \$41,600 *per graduate per year*. Taken over an entire career, these benefits can exceed one million dollars per college graduate.

Together, all of these points add up to a large positive financial impact on a community if a high-quality charter school opens. Over the long-haul, the amount of these benefits is likely to swamp any negative fiscal impact on a school district. From a community-wide perspective, then, an academically successful charter school is a net financial win by a long shot.

## RECOMMENDATIONS

This discussion of charter school financial impact suggests several recommendations to district, community, and state leaders for getting the balance sheet right for public charter schools.

### *Look at Charters as Investments.*

A high-performing charter school is a good financial and academic investment for a community. While high-performing district schools are also sound investments, charters can provide “more bang for the buck.” In some cases, charters are providing better performance than district schools for less money.<sup>26</sup> Imagine the even higher levels of performance possible from charters if they received the same amount of funding as district schools. By using an investment and productivity lens to analyze decisions about charters, policy makers can better understand the results of their spending in the short and long term.

### *Update the District Budgeting Process.*

The short-term focus of district budgets often contributes to the misconceptions about the financial impact of charters. By using a holistic, multi-year budgeting and planning process, districts can better understand the financial impact of charters and better prepare to take advantage of opportunities for change that charters provide. Increased transparency in the budgeting process will allow community members to better calculate and

understand the financial impact of charters, and will also help give decision-makers the information they need to make better informed choices about public education.

### **Get Civic Leaders Involved.**

Decisions about charter schools have a large impact on the future of a community, not just on the school district as an organization. Mayors and other civic leaders need to put the community's overall well-being at the center of the debate over new charter schools, and take a long term view towards the role that charter schools can play in the health of their community. Civic leaders should take an active role in all decisions that affect the future of their community – and charter schools are a prime example.

### **Give Charters the Resources**

**They Need.** The benefits discussed in this brief can only be realized if charters are given the resources they need to achieve high performance. These resources include the full portion of funding that should follow students as they move between schools and access to facilities. Many charters with great potential are either never allowed to open or forced to close due to restricted funding streams and the difficulty of obtaining quality facilities.<sup>27</sup> A recent report from the Fordham Institute, "Fund the Child," outlines a weighted student funding model that allows all schools, including charter schools, to get what they need in an equitable manner – and is generating bipartisan support from around the country.<sup>28</sup>

## **CONCLUSION**

Some charter advocates argue that the fiscal impact of charter schools on school districts is not a worthy topic of debate. The money, they argue, doesn't belong to the district. It has been made available by the taxpayers for the education of children, and it should therefore follow those children to the public schools they choose to attend.

Whatever the merits of that perspective, the reality is that communities do debate the fiscal impact of charter schools, and they are likely to do so in perpetuity. In that context, it's vital that our debates about financial effects of charter schools be grounded in objective facts rather than myths. It's also essential that we take a community-wide view, looking at the overall fiscal impact of a charter school on a community, not just the school district organization. With a fact-based, community-wide perspective, we can keep our eyes on the most important question: will our community and its children be better off as a result of charter schools?

---

## **Will our community and its children be better off as a result of charter schools?**

---



## End Notes

- 1 Scott Elliott, "Charters raided schools' rolls, coffers," *Dayton Daily News*, October 4, 2006.
- 2 See <http://www.ed.gov/programs/charter/index.html> for details.
- 3 Calculations based on Sheree Speakman, Bryan Hassel, and Chester E. Finn, Jr., "Charter School Funding: Inequity's Next Frontier" Washington, DC: Thomas B. Fordham Institute, 2005, p. 61.
- 4 Speakman, Hassel, and Finn, op. cit.
- 5 Speakman, Hassel, and Finn, op. cit.
- 6 Speakman, Hassel, and Finn, op. cit.
- 7 Bill Phillips, "Analysis of Long-term Spending in Upstate Districts that Host Charter Schools." New York Charter Schools Association memo, March 15, 2006. Available online: <http://www.nycsa.org/Memos/HostDistrictNonCharterSpending.pdf>
- 8 National Center for Education Statistics, *Characteristics of Schools, Districts, Teachers, Principals, and School Libraries in the United States: 2003-04 and Staffing Survey*, Washington, DC: National Center for Education Statistics, April 2006.
- 9 Michigan Association of Public School Academies, "A View of Charter Public Schools in Detroit." Available online: <http://www.charterschools.org/pdf/05DetroitCSfacts.pdf>.
- 10 Richard Ingersoll, "Why Do High-Poverty Schools Have Difficulty Staffing Their Classrooms with Qualified Teachers?" Washington, DC: Center for American Progress and Institute for America's Future, 2004.
- 11 Conservative cost estimate of teacher turnover for a new teacher, taken from "The Cost of Teacher Turnover" prepared for the Texas State Board for Educator Certification (SBEC) as part of the Texas Beginning Educator Support System (TxBESS) Initiative by Texas Center for Educational Research, November 2000.
- 12 Education Week Research Center: Student Mobility, Available online: <http://www.edweek.org/rc/issues/student-mobility/?print=1>.
- 13 Michigan Association of Public School Academies, op. cit.
- 14 Robin Halsband, "Charter Schools Benefit Community Economic Development," *Journal of Housing and Community Development*, pp. 33-38, Nov-Dec 2003.
- 15 Edison Schools website: <http://www.edisonschools.com/news/news.cfm?ID=166>.
- 16 Sewell Chan, "D.C. Charters Get Seed Money," *Washington Post*, September 8, 2004, Page B01.
- 17 S. Baum and K. Payea, "Education pays 2004: The benefits of higher education for individuals and society," Washington, DC: The College Board, 2004; S. Baum and K. Payea, "Education Pays Update," Washington, DC: The College Board, 2005.
- 18 C.E. Rouse, "The Labor Market Consequences of an Inadequate Education," Princeton University and NBER, September 2005.
- 19 Baum and Payea (2004), op. cit.
- 20 Todd Ziebarth, "The Renaissance of Urban Education: Charter Schools in America's Cities," Washington, DC: National Alliance for Public Charter Schools, May 2006.
- 21 Massachusetts Charter Public School Association, "The Charter Advocate," Issue 4, Volume 1, Fall 2006.
- 22 Baum and Payea (2004), op. cit. and Baum and Payea (2005), op. cit.
- 23 Baum and Payea (2004), op. cit.
- 24 Paul Tough, "What It Takes to Make a Student," *New York Times Magazine*, November 26, 2006.
- 25 Ziebarth, op. cit.
- 26 Ron Zimmer and Richard Buddin, "Making sense of charter schools: evidence from California," Santa Monica, CA: RAND, 2006.
- 27 Center for Education Reform, "Charter School Closures: The Opportunity For Accountability," Washington, DC: Center for Education Reform, October 2002.
- 28 See the 100% Solution website for details: <http://www.100percentsolution.org/fundthechild/index.cfm>.

