

## Chapter Five

# Charter School Finance

The previous chapter examined the persons, organizations, and processes that led to the development and start-up of charter schools. We suggested that founding a charter school requires a great deal of fiscal, human, and political resources. This chapter focuses on fiscal resources. It also moves our discussion from charter start-up to operations. Fiscal resources are, indeed, a crucial input in the educational process.<sup>1</sup> In this chapter we address three general questions:

- What are the sources of charter schools' operating revenues?
- How do charter schools spend their money? How do these expenditure patterns compare with those of other public schools?
- Are charter schools fiscally healthy?

Charter schools differ from traditional public schools in that they are also more directly accountable to the market. Funding for charter schools is largely based on the number of students they enroll. Consequently, charter schools that fail to attract and retain students will go out of business.

There has been considerable debate about the amount of funding that charter schools receive. Proponents claim that they do not receive enough, especially given that these schools are often new start-ups. Critics claim that charter schools receive too much. In this chapter we will examine revenues and spending patterns of charter and noncharter public schools. As we have argued in an earlier book (Miron & Nelson, 2002), an appropriate analysis of charter school finance must go beyond simple claims about whether charter schools receive more or less than noncharter public schools. Instead, the real question centers on whether charter schools receive more or less than noncharter public schools that offer comparable services to similar students.

Because financial data require more time for auditing, we could not always acquire the most up-to-date financial data, particularly when it dealt with revenues. For this reason, our analysis of revenues is based on data for the 1999-00 school year reported in the School Evaluation Services section of the Standard

---

<sup>1</sup> There is considerable academic debate over the effectiveness of increasing spending on school "production." However, even those who contend that increased expenditures are not a *sufficient* condition of student achievement often agree that it is a *necessary* condition. Moreover, recent studies have begun to find that variations in student achievement are, indeed, associated with variations in expenditures (see Grissmer et al., 2000; Weglinsky, 1997). For a more general discussion, see Hanushek (1997).

and Poors Web site.<sup>2</sup> We obtained longitudinal data for expenditures covering 1997-98 to 2000-01 from the Pennsylvania Department of Education. Another important limitation to keep in mind is that many of the charter schools are still early in the start-up phase while the districts with which we compare the charter schools are well-established organizations.

### 5.1 Revenue Sources

Just as local districts that grant the charters are the primary overseers of charter schools, they are also the primary funding source for most charter schools. With the exception of specific federal and state grants and funds raised locally, the vast majority of funds charter schools receive are funneled through school districts that send student to the charter schools. This distinguishes Pennsylvania from a number of other states such as Michigan or Connecticut, in which most charter school funds come directly from the state.

An important part of the charter school and school choice concept is that public revenues follow students, whether they choose to attend district schools or charter schools. In theory, then, students are able to choose whether or not to attend a charter school based solely on educational criteria, without significant concern for finance. As the law is written, however, charter school students in Pennsylvania take with them less than their full per-pupil allotment. For most students, a charter school receives from the students' home district the total budgeted per-pupil amount *minus* expenditures on the following:

- |  |  |
|--|--|
| <input type="checkbox"/> nonpublic programs                    | <input type="checkbox"/> special education                     |
| <input type="checkbox"/> adult education programs              | <input type="checkbox"/> facilities acquisition                |
| <input type="checkbox"/> community and junior college programs | <input type="checkbox"/> construction and improvement services |
| <input type="checkbox"/> transportation                        | <input type="checkbox"/> debt service and fund transfers       |

For each special education student, a charter school receives from the student's home district the same amount *plus* the district per-pupil allotment for special education (this is further explained in section 5.2). For both special education and non-special education, funding levels are based on the previous year's enrollment. Local districts are required to make payments to charter schools in 12 equal monthly installments. Charter schools may appeal to the Secretary of Education if the district fails to make timely payments. The Secretary may then withhold the amount of the missing payment from state payments to the district.

In terms of total operating revenues, charter schools received \$7,794 per pupil in the 1999-00 school year. This is \$461 less than the per-pupil rate for the districts in which the charter schools lie (i.e., host districts). Because districts have other obligations and because they pay for such services as transportation for charter school students, this difference is not large.

---

<sup>2</sup> The link to this Web site is <[www.ses.standardandpoors.com](http://www.ses.standardandpoors.com)>.

Table 5:1 Mean Per Pupil Operating Revenue by Source

	<i>All Charter Schools</i>		<i>All Host Districts</i>	
	<i>1999-00</i>	<i>% of Total Revenues</i>	<i>1999-00</i>	<i>% of Total Revenues</i>
Local	\$6,046	77.6%	\$4,285	51.9%
Intermediate	\$229	2.9%	\$49	0.6%
State	\$513	6.6%	\$3,308	40.1%
Federal	\$658	8.4%	\$292*	3.5%
Private	\$304	3.9%	\$11	0.1%
Other Operating Revenue	\$44	0.6%	\$310	3.8%
Total Operating Revenue (\$ Per Student)	\$ 7,794	100%	\$ 8,255	100%

*Source:* The data were obtained from the Standard and Poors' Web site.

\* It is important to note that the figure for federal funds for host districts is an average across all districts that granted charters in 1999-00. This figure would be higher if we weighted it based on the number of schools each district has chartered since Philadelphia receives more federal funds than other districts and has granted most of the charters.

Note: Three charter schools were dropped from the analysis since their revenues included resources devoted to residential programs or stipends paid to students. These schools include Ridgeview Academy Charter School, with \$15,355 in revenues in 1999-00; Youth Build Philadelphia Charter School with \$18,493; and Crispus Attucks Youthbuild Charter School, \$29,490.

As noted earlier, most of the charter school revenues come from local districts. Sending districts pay for each of their students that enrolls in a charter school. In a sense, the original source of much of this funding is largely from the state, since the local districts receive 40 percent of their own revenues from the state.

After transfers from sending school districts, the next largest source of revenue for charter schools is federal funds. The mean charter school in Pennsylvania received approximately 8.4 percent of its revenues from federal sources, while local host districts received only 3.5 percent of their revenues from federal sources. The most common federal sources are Title I monies and grants from the Public Charter School Program, which are intended for planning and start-up purposes. The state is expected to receive \$8.5 million from federal sources during the 2002 fiscal year for planning, start-up, and dissemination grants to charter schools.<sup>3</sup> During its first three years of operation, a charter school typically receives federal start-up funds equivalent to more than \$800 per pupil. After its first three years of start-up funds, charter schools can apply for dissemination grants also originating from the federal Public Charter School Program.

Specific state grants account for 6.6 percent of the total charter school revenues, compared with 40 percent of the district revenues. Other sources of

<sup>3</sup> [http://www.ed.gov/PressReleases/10-2002/100702charter\\_school\\_grants.html](http://www.ed.gov/PressReleases/10-2002/100702charter_school_grants.html)

revenues include money from Intermediate Units or sources (2.9 percent of total revenues), private groups (3.9 percent) and other operating revenue (0.6 percent). While the difference in total revenues was only \$461 per pupil, had the charter schools not compensated with private sources, the difference in revenues would have been \$750 per pupil.

## 5.2 Special Education Funding

Funding of special education programs is a challenge for traditional public schools, as well as for charter schools. Additional resources often are needed for alternative curricular materials and adaptive technologies, as well as physical accommodations. Pennsylvania has been successful in securing relatively large amounts of start-up funds for charter schools and in having these resources sent to the schools in a timely fashion. Even so, many charter schools must deal with the lack of sufficient start-up and operational funds when faced with implementing expensive special education and related services. Although Pennsylvania charter schools are considered independent school districts or LEAs, they receive their special education funding from the child's district of residence, not directly from the state. The funds received are determined using a formula that may not always provide charter schools with sufficient reimbursement for the cost of special education services.

Specifically, the funding that charter schools receive for students who qualify for special education equals the amount provided to the students' district of residence for nonspecial education students plus an amount determined by dividing the district of residence total special education reported costs for the previous school year by 16 percent of the district of residence average daily membership for the previous year (PDE, 1999). For both special education and non-special education, funding levels are based on the previous year's enrollment.

Per-pupil funding amounts refer to a full 180 days or 900/990 hours school year and would be prorated for students who enrolled or were identified for services for less than a full year. Because the amount of money for each student with a disability is the same, schools that enroll only students with mild disabilities are likely to receive more resources than needed, while schools that enroll students with moderate or severe disabilities are likely to be underfunded.

CAOs at charter schools reported a mixed picture in terms of the amount of additional funds they received from local districts for the students receiving special education services. Some schools reported that they received sufficient funds for the additional services they provided, while others claimed that the funds were not sufficient. A few CAOs noted that the districts may be profiting from the students enrolled in special education at the charter school because the district was not passing on all resources they received for students with disabilities. While this may be true in a few cases, because a higher proportion of students with disabilities enrolled in charter schools have mild and more easily remediated disabilities (see chapter 10), it is likely that this formula for funding is more generous for charter schools than for the local districts.

### 5.3 Expenditure Patterns

Under Act 22, each charter school is considered a separate local education agency (LEA). As such, they are separate nonprofit entities with the authority to determine their own budgets and expenditure priorities. Given this relative fiscal autonomy, it is important to examine charter schools' spending patterns and whether they differ from those of other public schools. In short, what are Pennsylvania charter schools doing with their fiscal autonomy? Before focusing on spending priorities, however, we will examine the total amount charter schools spend.

Table 5:2 shows that the median charter school spent \$7,536 per pupil during the 1999-00 school year. While 1 cyber school reported spending only \$3,100 per pupil, most schools spent between \$5,000 and \$10,000 per pupil. Two schools spent between \$13,000 and \$16,000 per pupil, and the 2 Youth Build charter schools, which pay stipends to students that work on construction projects, reported spending more than \$28,000 per pupil. During the 2000-01 school year, the median charter school spent \$7,881 per pupil. Three schools spent less than \$5,000 per pupil, and 6 spent between \$12,500 and \$33,000 per pupil. As in the previous year, the bulk of the schools reported spending between \$5,000 and \$10,000 per pupil.

In order to interpret these numbers, however, we need a comparison group. The best readily available comparison is each charter school's host district. Since host districts exist in the same market for labor and other school services as their charter schools, we need not make adjustments for differences in cost of living. Table 5:2 shows that as a group, the median charter schools spent less per pupil than the median host districts. During the 2000-01 school year, the difference was \$437 per pupil. During the previous year the difference was \$344. We chose to use median expenditures rather than means because of the high proportion of extreme outliers among the charter schools. Using the mean, which is more sensitive to these outliers, we found that the mean for charter schools was actually slightly more (i.e., \$20 per pupil) than the mean for host districts. Generally, the differences in expenditures between charter schools and host districts is not large.

Table 5:2 Charter School Per-Pupil Expenditures Compared With Host Districts

<i>Schools</i>	<i>Median 1999-00</i>	<i>Median 2000-01</i>	<i>Mean Expenditures for 2000-01</i>	<i>Standard Deviation of the Mean for 2000-01</i>
Charter Schools	\$7,536	\$7,881	\$8,700	\$4,815
Host Districts	\$7,880	\$8,318	\$8,680	\$1,331
Charter School minus Host District	-344*	-437*	+20	

*Source:* School Profiles data provided by PDE.

The estimates in Table 5:2, however, do not allow us to assess whether charter schools and host districts have comparable student bodies and, therefore, comparable demands on their resources. For instance, some charter schools might

have a higher concentration of special needs students than their host districts. One must also bear in mind that charter schools must absorb any number of start-up costs (not the least of which is facilities) that their host districts do not. Hence, to say that they spend approximately the same amount per pupil as their host districts might imply that they use their resources more efficiently than host districts. Efficiency, however, involves the relationship between fiscal (and other) input and various student outcomes. In the next year, we intend to explore this issue further.

Beyond the total amount of expenditures per pupil, the most important characteristic of a school's overall expenditure patterns is the proportion of its funds spent on instruction versus other functions. In order to estimate the percentage of charter school expenditures devoted to instruction, we examined data on school expenditures included in the school profiles for the 2000-01 school year, which is the most recent data currently available. Results of this analysis are presented in Table 5:3.<sup>4</sup> We found tremendous variation among charter schools. Some charter schools, for instance, reported spending less than 40 percent of their total expenditures on instructional items, while others indicated that they spent more than 90 percent on such items. One school reported spending 100 percent of its total expenditures on instructional items.<sup>5</sup>

Table 5:3 Percentage of Total Expenditures Devoted to Instruction, 2000-01

<i>Group</i>	<i>Mean</i>	<i>Median</i>	<i>Minimum</i>	<i>Maximum</i>
Charter Schools	54.1%	53.6%	24.2%	94.6%
Host Districts	59.7%	59.7%	35.7%	68.7%
All Pennsylvania Public Schools	57.2%	57.8%	24.2%	94.6%

*Source:* School Profiles data provided by PDE.

Note: One charter school reported 100 percent expenditures on instruction. Because this is highly unlikely, we did not include this as the maximum for this group. We did, however, include this figure when calculating the mean and median.

Taken as a group, the average charter school spent 54 percent of its total 2000-01 expenditures on instructional items. The mean value for all Pennsylvania public schools, by comparison, was 57 percent, while the mean value for all host

<sup>4</sup> Throughout the report, we use expenditure category definitions as set out by PDE. "Instructional" expenditures include the following subcategories: regular elementary and secondary programs, special elementary and secondary programs, vocational education programs, other elementary and secondary instructional programs, adult education programs, and community and junior college education programs. Essentially, instructional expenditures include salaries and instructional materials.

<sup>5</sup> Such variations raise questions about how consistently accounting categories are applied from one charter school to the next. Some charter schools appear to have limited human resources for budgeting and other administrative functions. Unfortunately, we have no way to independently verify the data that schools report.

districts was almost 60 percent. Taken as a group charter schools spent fewer of their resources on instructional items than other noncharter public schools<sup>6</sup> (this is discussed further in the following pages).

Table 5:4 provides a detailed breakout of operating expenditures for the 1999-00 school year.<sup>7</sup> Because of difficulties in working with and aggregating data from the Annual Financial Reports, we relied on data reported on the Standard and Poors' school evaluation services Web site. Unfortunately, the most recent year of expenditure data they have is for the 1999-00 school year. We aggregated the results for all charter schools. Three charter schools that were deemed to be outliers were left out of the analysis since they were spending more than two or three times the amount the other schools spent due to their special populations of students. For a comparison group, we aggregated the results for the host districts.

Table 5:4 Per-Pupil Operating Expenditures for Charter Schools and Host Districts by Function, 1999-00

	<i>Charter Schools</i>		<i>Host Districts</i>	
	<i>Total for 1999-00</i>	<i>Percent of Expenditures</i>	<i>Total for 1999-00</i>	<i>Percent of Expenditures</i>
Instruction	\$4,180	54.7%	\$4,819	63.5%
Instructional Support	\$472	6.2%	\$540	7.1%
Administration	\$1,656	21.7%	\$659	8.7%
Operations & Maintenance	\$1,103	14.4%	\$717	9.5%
Transportation	\$71	0.9%	\$406	5.4%
Food Services	\$103	1.3%	\$289	3.8%
Student Activities	\$21	0.3%	\$116	1.5%
Other	\$41	0.5%	\$39	0.5%
Total Operating Expenditures	\$7,647	100%	\$7,585	100%

Source: The data were obtained from the Standard and Poors' Web site.

Based on this data source and this particular year of data, the charter schools were actually spending \$63 per pupil more than host districts on operating costs. Just as we found with the 2000-01 data earlier in this section, the charter schools were spending less on instruction and instructional support than host districts. At the same time, the charter schools were devoting substantially more of their resources to administration, operations, and maintenance. The charter schools higher expenditures on administration is due—in part—to economies of scale. The

<sup>6</sup> Even though charter schools, on average, are spending less on instructional items than other noncharter public schools, our analysis of the Annual Financial Reports for 1998-99 indicated that 26 percent of the schools operational at that time reported spending a higher proportion of their total expenditures on instruction than their respective host districts.

<sup>7</sup> Total Operating Expenditures does not include debt service and capital outlay funds. If we include these, the host districts spend \$1,100 more than charter schools. The host districts, on average, were spending \$730 per pupil on debt expenditures and just under \$600 per pupil on capital expenditures compared with \$82 and \$69, respectively, for the average charter school.

higher proportion of spending on operations and maintenance is likely due to the fact that many of the charter schools are still in the start-up phase and are compelled to devote more resources for equipment and facilities.

Another item of interest is that host districts are spending \$406 per pupil for transportation, compared with \$71 per pupil for the charter schools. Host districts, according to the law, must provide transportation for charter school students within their district. In most cases, the host district simply provides the requested transportation. In some cases, the charter schools have requested and received from the host district the money that the state pays out for transportation. In at least two Philadelphia schools we were informed by charter school administrators that the schools receive more from the district for transportation than they actually spend on providing the transportation themselves. This was possible because the charter schools were, reportedly, not providing the extensive transportation services that would have been provided by the district.

Because the traditional public schools are more likely to have extracurricular activities as well as athletic programs in the high schools, it was not surprising to find that they were spending more on student activities (\$116 per pupil) than were the charter schools (\$21 per pupil).

Table 5:5 breaks out the per-pupil expenditures by object. While host districts devoted 72 percent of their expenditures for compensation (i.e., salaries and benefits) for employees, the charter schools devoted only 52 percent of their total expenditures on salaries and benefits. This large difference may be partially explained by the higher proportion of charter school expenditures used for purchased services. Purchased services for charter schools operated by for-profit education management organizations (EMOs) are likely to include salary and benefits for some employees working at the school. Another partial explanation for the difference in expenditures on compensation is likely to be due to the large differences in salaries paid to charter school teachers compared with teachers in the host districts. On average the host districts paid \$16,600 more to classroom teachers than did the charter schools (more details on teachers' salaries are found in chapter 8).

Table 5:5 Per Pupil Expenditures by Object, 1999-00

	<i>Charter Schools</i>		<i>Host Districts</i>	
	<i>Total for 1999-00</i>	<i>Percent of Expenditures</i>	<i>Total for 1999-00</i>	<i>Percent of Expenditures</i>
Compensation	\$3,999	52.3%	\$5,495	72.4%
Purchased Services	\$2,445	32.0%	\$1,479	19.5%
Supplies and Materials	\$1,135	14.8%	\$558	7.4%
Other	\$69	0.9%	\$53	0.7%
<b>Total Operating Expenditures</b>	<b>\$7,648</b>	<b>100%</b>	<b>\$7,585</b>	<b>100%</b>

*Source:* The data were obtained from the Standard and Poors' Web site.

Another perspective on comparing expenditures between charter schools and their host districts would be to examine expenditures by academic program. Table 5:6 breaks out the total expenditures devoted to instruction (note that this is not total expenditures, but only expenditures devoted to instruction) according to a complete range of academic programs. The most noteworthy differences were in spending on special education and career and technical education, where the host districts spent substantially more than charter schools.

Table 5:6 Per-Pupil Expenditures on Instruction, by Academic Program, 1999-00

	<i>Charter Schools</i>		<i>Host Districts</i>	
	<i>Total for 1999-00</i>	<i>Percent of Expenditures</i>	<i>Total for 1999-00</i>	<i>Percent of Expenditures</i>
Basic K-12 Education	\$4,034	96.5%	\$3,664	76.0%
Summer School	\$3	0.1%	\$5	0.1%
Special Education	\$143	3.4%	\$857	17.8%
Early Intervention	0	0.0%	\$12	0.2%
Career & Technical Ed.	0	0.0%	\$258	5.4%
Alternative Education	0	0.0%	\$23	0.5%
Other	0	0.0%	0	0.0%
<b>Total Expenditures devoted to Instruction</b>	<b>\$4,180</b>	<b>100%</b>	<b>\$4,819</b>	<b>100%</b>

*Source:* The data were obtained from the Standard and Poors' Web site.

The findings outlined in the preceding pages, raise two interrelated questions. First, why do charter schools as a group devote a smaller share of their total expenditures to instructional items? Second, why is there such wide variation *among* charter schools? We begin with the first question.

One partial answer to the first question is that, as start-up organizations, charter schools must bear many one-time and fixed costs (e.g., renting and/or renovating facilities) that established districts have either covered in the past or have spread out over time by means of capital budgets. Further the charter school law does not permit charter schools to take on long-term debt (see 24 P.S. §17-1714-A(a)(6)). Therefore the cost of renovating facilities must be paid from current revenues. The fact that charter schools spend less on instructional items is not necessarily an indication of inefficiency or waste. Rather, it is partially related to the relatively high and fixed start-up costs associated with founding a new school. While the available data did not allow us to fully explore this issue, we did find that host districts were spending more on debt expenditures <sup>8</sup> (\$730 per pupil compared with only \$82 for the average charter school in 1999-00) and more on

<sup>8</sup> Debt expenditures refer to principal and interest payments on borrowed funds or other obligations. This also includes all debt-related expenditures including the debt service fund and debt expenditures in the operating funds.

capital expenditures<sup>9</sup> (\$597 per pupil compared with \$69 per pupil for charter schools). On the other hand, charter schools were spending more on operations and maintenance<sup>10</sup> than host districts (\$1,103 per pupil compared with \$717 per pupil for host districts). This latter finding provides some evidence that instructional expenditures are “crowded out” in charter schools to a certain degree by the need to cover start-up and other related expenses. Another possible explanation is that charter schools typically pay their teachers less than other similar schools (see Chapter 8). This, in turn, would reduce the demand on their instructional budgets. We emphasize, however, that this is only a preliminary answer to the question and that it deserves further attention.

### 5.4 Fiscal Viability

For charter schools to operate successfully in the long run, they must be fiscally viable. While it is beyond the scope of this report to provide a full fiscal audit of Pennsylvania charter schools, we examined a number of indicators related to fiscal viability. First, in our 2000 report, we examined charter schools’ capacity to develop and execute budgets by looking at variances between budgeted and actual revenues and expenditures. This was based on an analysis of annual financial reports for the 1998-99 school year. Second, we examined indicators of financial margins and reserves for charter schools and their host districts using the data organized by Standard and Poors.<sup>11</sup>

In order to provide a composite picture of schools’ capacity to budget, we calculated the variance between budgeted and actual revenues and between budgeted and actual expenditures in 1998-99 based on the annual financial reports. High variances can cast doubt on a school’s ability to effectively plan and execute educational and organizational strategies. In operational terms, a revenue variance is the amount of funds actually received minus the amount the school budgeted for. The same holds true for expenditures. In order to facilitate comparisons among high- and low-budget schools, we converted these variances into percentages of the total revenues (expenditures) budgeted for. Thus, for instance, a revenue variance of 20 percent means that the school received revenues

---

<sup>9</sup> Capital expenditures refer to the fund in which expenditures are recorded. Capital project expenditures may include expenditures for land, buildings, improvements to land and buildings, and equipment. Capital outlays, which may be recorded in the general fund, include classroom furniture, computers, audiovisual equipment, and fixtures. While Act 22 prohibits charter schools from using public funds to construct new facilities, they may use other funds to do so [24 P.S. §17-1722-A(c)].

<sup>10</sup> Operations and maintenance expenditures refer to spending on activities concerned with keeping the school system's physical plant open, comfortable, and safe for use and its grounds, buildings, and equipment in an effective working condition and state of repair. Utility expenditures, such as electricity, heating, telephone, water, wastewater, and trash disposal are also included. Capital outlay and debt service are not included.

<sup>11</sup> We used the same subset of charter schools as for the analysis of revenues and expenditures earlier in this chapter. This excluded three schools with revenues and spending patterns that were unique from the others because of the residential nature of one of the schools and the spending on student stipends at the other two schools.

that were 20 percent higher than those budgeted for, whereas a revenue variance of -20 percent means that the school received revenues that were 20 percent less than those budgeted for. Naturally, it is better for schools to have positive variances in revenue and negative variances in expenditures.

On the revenue side, the median school received 1.7 percent more than it budgeted for. Thus, taken as a group, the first group of Pennsylvania charter schools budgeted conservatively and received more than expected. On the expenditure side, Pennsylvania charter schools in 1998-99 appear to have been similarly conservative. Indeed, the median charter school spent 11.3 percent less than it budgeted for. As with many of the other fiscal variables discussed in this chapter, there was great variation among charter schools. In sum, the first group of Pennsylvania charter schools appeared to be doing a remarkably good job of budgeting, both on the revenue and expenditure sides of the fiscal equation. Readers should bear in mind, however, that these data are now quite dated and represent only one year of expenditures.

The ability to accurately anticipate revenues and expenditures in the budgeting process should enable charter schools to avoid running deficits. Given that the 30 charter schools operating in 1998-99 appeared to do a good job of budgeting, we expected that few, if any, would run deficits. Examination of charter schools' 1998-99 annual financial reports (AFRs) revealed that the median balance for all charter schools was \$84,380, or 11.4 percent of total expenditures. However, there was significant variation among schools. Seven of the 30 schools (23 percent) we examined showed negative end-of-year balances, the largest of which was more than \$400,000, or 10.7 percent of that school's total expenditures. On the positive side, some schools showed positive balances of up to 58 percent of their total expenditures for the year. Thus, while most charter schools appeared to be fiscally healthy in the 1998-99 school year, a few schools were struggling.

*General fund margin.* In terms of the general fund margin, which reflects the relationship between revenues and expenditures and determines if a school or district's operations are balanced, we found that the charter schools had only \$17 per pupil in 1999-00 while host districts had a general fund balance of \$258 per pupil. Table 5:7 contains a number of indicators related to financial margins and reserves as well as the financial position of charter schools and host districts.

*Financial position.* The financial position provides one of the best measures of a school's or districts' financial viability. The financial position is measured by its fund balance, which is defined as its assets minus its liabilities and reservations or its revenues minus expenditures after transfers. The fund balance is an important indicator of a school's ability to provide services during lean times or when faced with decreasing revenues.

*General fund balance and current position.* On average, the charter schools had an unreserved general fund balance of \$208,451 in 1999-00. The average current position<sup>12</sup> of charter schools was \$212,316. This is equivalent to \$962 per pupil, which is higher than for host districts (i.e., \$797 per pupil).

---

<sup>12</sup> Current position refers to a measure that is used to assess the liquidity of a district. It is calculated by subtracting general fund liabilities and deferred revenue from general fund assets.

Table 5:7 Summary of Indicators Related to Financial Viability: Financial Margins, Financial Reserves, and Financial Position for 1999-00

	<i>Charter Schools</i>	<i>Host Districts</i>
<i>Financial Margin Indicators</i>		
Operating Margin (\$ per pupil)	\$148	\$669
General Fund Margin (\$ per pupil)	\$17	\$258
<i>Financial Reserve Indicators</i>		
Unreserved Operating Fund Balance (\$ per pupil)	\$912	\$807
Unreserved Operating Fund Balance/Operating Expenditures (%)	16.1%	10.7%
Unreserved General Fund Balance (\$ per pupil)	\$911	\$700
Unreserved General Fund Balance/General Fund Expenditures (%)	16.1%	9.1%
<i>Financial Position Indicators</i>		
Current Position (\$ per pupil)	\$962	\$797
Current Position/General Fund Expenditures (%)	16.7%	10.4%

*Source:* The data were aggregated from school-level reports obtained from the Standard and Poors' School Evaluation Services Web site.

These indicators suggest that charter schools operating in 1999-00, on the whole, have positively balanced budgets and have demonstrated that they are financially viable. Relative to their host districts, the average charter school has been more successful in establishing positive operating and general fund balances and maintaining a larger and more positive current position.

## 5.5 Summary and Conclusions

Like other school choice policies, Act 22 mandates that funding follows students. Thus, schools have a financial incentive to work to satisfy students and their parents. Under the terms of the Act, this funding is funneled through local districts that send students to charter schools. The size of the district subsidy is based on the sending districts' per-pupil expenditure for its own students and differs for special education and non-special-education students.

The first section of the chapter examined sources of charter schools' revenue using data aggregated from school reports on the Standard and Poors' School Evaluation Services Web site. We estimate that the mean charter school received approximately 77 percent of its total revenues from districts during the 1999-00 school year (this is, of course, largely state money that is channeled through the districts to the charter schools). There is, however, a large amount of variation among charter schools. Next to district transfers, the largest revenue source for charter schools is the federal government, mostly through Title I monies and special charter school grants. While there is considerable school-by-school

variation, the mean charter school received 8.4 percent of its total revenues from the federal government. The remainder of charter school revenues came from the state, Intermediate Units, or private sources.

An important policy issue follows from the fact that the typical charter school relies on non-district sources for approximately one-quarter of its total revenue. From one point of view, such reliance on nondistrict sources is good inasmuch as it tends to favor schools that bring a great deal of organizational, fiscal, and social capital to the table. In this view, these schools are more likely to realize some of the major goals of privatization—to leverage community resources so that governments can do less with more and to build a sense of collective responsibility for schools and students. From another perspective, charter schools' reliance on non-district sources is worrisome, since it raises questions about the sustainability and scalability of the reform. There are, after all, a limited number of organizations willing and able to sponsor charter schools. Foundations and other charitable organizations, moreover, are often more sanguine about providing start-up monies than about covering long-term operating expenses. This dependency on external funds might be especially troubling, from this point of view, if charter schools must use them for operating costs as well as one-time start-up expenses. Thus, what at first blush appears to be a strength of many Pennsylvania charter schools might turn out to place limits on the range of charter-related choices available to students. Ultimately, resolution of this debate depends on how efficiently charter schools are spending their revenues.

The third section of the chapter examined charter schools' expenditure patterns. We estimate that charter schools spent approximately the same amount per pupil as their host districts during 2000-01. Of that total amount, we found that charter schools typically spend a smaller percentage on instructional items than their host districts and a large percentage on administration and operations and maintenance. The reasons for these differences in expenditure patterns might lie more in the exigencies of starting new schools (e.g., acquiring and maintaining physical facilities) than in any inherent inefficiency in charter schools. However, these are questions that can be answered only with the passage of more time.

The final section of the chapter examined charter schools' fiscal viability. First, from data for the first 30 charter schools we found indications that they appeared to be relatively conservative in budgeting, taking in more than expected on the revenue side and spending less than expected on the expenditure side of the ledger. Second, we examined charter schools' margins, financial reserves, and financial position for 1999-00 and compared these with the host districts of charter schools. We found that the charter schools' average per-pupil unreserved general fund balance was higher than that of the charter host districts. Relative to their host districts, the average charter school has been more successful in establishing positive operating and general fund balances and maintaining a larger and more positive current position. These indicators suggest that charter schools operating in 1999-00 demonstrated that they were financially viable.