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Charter Schools and Fiscal Impact

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Research consistently finds that charter schools have a negative financial impact on traditional public school districts, particularly when they co-exist in large or growing numbers.

How and why do charters hurt public schools financially? This brief describes some of the most common causes and types of fiscal impact and offers suggestions for how local or state officials might address this concern. A listing of charter fiscal impact studies is included at the end.

Key Reasons for Negative Fiscal Impact

Many proponents of charter schools believed that publicly-funded but privately run "chartered" schools would help strengthen public education by exploring and sharing new strategies to better serve students, particularly the most vulnerable.

But the promise of charters as laboratories of innovation was never met on a significant scale. Instead, some charter advocates and operators quickly positioned the schools as competitors, not only refusing to *collaborate* with public schools—but in fact, often actively seeking to *undermine* them. One way this happens is through charter funding policies, set by the state.

Per Pupil Funding Follows the Child

Schools and districts are funded on a per-pupil basis through complicated formulas created by state lawmakers. The more students a district or school has, the more funding they are generally allocated (although few states fully fund their schools, even according to their own formulas).

When students leave their public school for a charter school, most—or all—of that funding "follows" them to their new school. State law determines how much funding is diverted, and the extent to which it impacts the district budget. In most states, districts lose a proportional per pupil allocation for each child that transfers to a charter. It sounds fair. But it doesn't work out that way. Here's why:

Unintended Consequence?

For some charter advocates, the financial strain that results from operating parallel systems of publicly funded schools is not collateral damage. It is part of a broader strategy to undermine the institution of public education. A blog piece written for the conservative group Excel*in*Ed (though later removed from their website), offered a candid explanation:

> ***"Charters are competitors. They steal customers, deplete revenues and increase costs. When charters siphon off kids, they not only take the money that comes with them, they often cause nearby schools to operate under capacity. This increases inefficiencies and per-student costs because all that empty space still must be maintained. As charters continue to expand, they will force districts to make more and more tough choices on personnel, closing schools and redrawing attendance boundaries, both political poisons. We are seeing this play out in spectacular fashion in some older urban areas..."***
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> —Mike Thomas, Excel*in*ED, 2013

Charters Create More Seats than Needed

Charter schools create a parallel system of schools without regard to current district enrollment or demographic projections. In most states, applicants are not required to demonstrate the *need* for additional school "seats" in order to obtain a license to open a charter school. This means that in some districts—particularly ones that may already be under-enrolled — charter schools exacerbate declining enrollment and create an over-supply of available seats, forcing both charters and district schools to compete for students and pay for empty seats.

Parallel Systems Create Redundancies

Spreading the same number of children among more school buildings creates redundancies: More principals. More administrators. More bus routes and drivers needed to deliver children to far-flung classrooms. Economies of scale are lost for things like supplies, library books, equipment and other items.

Stranded Costs

When charter schools draw students from across a district, they reduce enrollment in nearby public schools. But the loss of a few students does not proportionately reduce expenses at the school they left behind. The buildings must still be heated and lit. Teachers, paraprofessionals, lunchroom workers and custodians must still be paid. These are called "stranded costs" — expenses that don't go down just because a few kids leave. Local districts end up paying higher costs per pupil, because the exodus of students is not equaled by reduced costs.

Districts Must Deliver Services for Students They Are No Longer Funded to Serve

In many states, traditional public school districts are required to provide services — including transportation, special education evaluation, and health services — to *all* students, including those in charter schools. The costs of providing these services grow when they must be delivered across a larger number of buildings, to students that are no longer counted as enrolled in the district.

Students with the Greatest Needs are Left Behind

Students with disabilities, English Language Learners and very low-income students require additional supports or services. Charter schools consistently under-enroll these students, leaving higher concentrations of students with additional needs in public schools.[1] This drives up costs in public schools, while per pupil funding is reduced.

Waste, Fraud, and Abuse

Charter schools are less regulated and often poorly monitored, leaving room for waste, fraud, and the abuse. Each year there are well-documented cases of charter fraud costing millions of taxpayer dollars.[2]

. . .

These are the major — but not the only — factors that contribute to financial strain on traditional public school districts as the charter sector grows.

Most students in the United States attend public schools within the structure of a traditional school district. That system of universal, free public education benefits all of us, whether we have children of school age or not. It is imperative that parallel and less accountable structures such as charter schools be "good neighbors" and similarly committed to ensuring that one system does not harm the other.

Some states have taken steps to address the financial stress that is caused by the growth of charter schools. In Tennessee and California, for example, charter authorizers are allowed to consider the financial impact of new charter schools before licensing them for operation. In California, applicants must outline their plans to ensure that the demographics of their schools roughly match those of the surrounding district. And school districts in financial distress are permitted to deny most applications for new charter schools. In Rhode Island, the state acknowledged the problem of stranded costs and adjusted the formula for charter funding to reduce the fiscal strain on "sending" districts.[3]

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[1] Government Accountability Office (2012, June 7). "Charter Schools: Additional Federal Attention Needed to Help Protect Access for Students with Disabilities." https://www.gao.gov/products/gao-12-543

[2] The Network for Public Education tracks "charter scandals" at https://networkforpubliceducation.org/charter-scandals/ The Center for Popular Democracy has published several reports on charter fraud, waste and abuse. Find these at https://www.populardemocracy.org/news/publications?keys=charter+fraud&field_issues_tid=All&browsebydate=0&field_campaigns_nid=All

[3] National Alliance of Public Charter Schools. (2021, April). "'Fiscal Impact' as a Factor in Charter Growth in Rhode Island." https://www.publiccharters.org/sites/default/files/documents/2021-04/napcs_ri-fiscal-impact_rd4.pdf

Charter Schools and Fiscal Impact Research Listing

CALIFORNIA

In the Public Interest. 2018. Breaking Point: The cost of Charter Schools for Public School Districts. Key findings: Public school students in three California school districts—Oakland, San Diego and East Side Union—are losing millions in school funding due to charter schools.

MGT of America. 2016. Review: Fiscal Impact of Charter Schools on LAUSD. This study looked at the additional cost to the Los Angeles Unified School District for their oversight of charter schools, and found that oversight fees collected from charter schools does not cover additional costs incurred by the district.

MICHIGAN

Arsen, David, et. al. 2015. "Which Districts Get Into Financial Trouble and Why: Michigan's Story." Arsen and his colleagues at the Education Policy Center at Michigan State University looked at Michigan's policy of taking over school districts deemed to be in financial distress, and analyzed the root causes of that distress. They found that the fiscal failings of the mostly Black and Brown school districts targeted for takeover were largely the result of statewide funding policies and the proliferation of charter schools, rather than on poor fiscal accountability at the local level.

NEW YORK

Bifulco, Robert and Randall Reback. 2014. "Fiscal Impacts of Charter Schools: Lessons from New York." Education Finance and Policy. This study found that charter schools can create negative fiscal impacts on school districts, particularly those with rapid growth in charter schools and declining or stagnant enrollment bases. Authors looked at the Albany City School District and the Buffalo Public Schools, they estimated the loss at $976-$1070/student in Albany and $633-$744/student in Buffalo.

NORTH CAROLINA

Ladd, Helen F. and John D. Singleton. 2019. "The Fiscal Externalities of Charter Schools: Evidence from North Carolina," National Center for Analysis of Longitudinal Data in Education Research. This study looks at fiscal impact in non-urban, as well as urban districts. They found a net fiscal impact over $700 per public school student — close to a $25 million total burden in Durham — in their urban model. In the non-urban districts, they found net fiscal impacts in the range of $200 –$500 per pupil, despite the lower charter enrollment share.

PENNSYLVANIA

David Lapp, Joshua Lin, Erik Dolson and Della Moran, Research for Action, September 2017. The Fiscal Impact of Charter School Expansion: Calculations in Six Pennsylvania School Districts," Research for Actions. RFA's study finds that as charter enrollment expands, the fiscal impact is consistently negative in both the short- and long-term, indicating that as students depart for charter schools, school districts experience significant long-term fiscal impacts.

In 2015 the School Reform Commission contracted with Afton Partners to update an earlier analysis (Boston Consulting Group, 2012) of stranded costs in the School District of Philadelphia. The new analysis found that while the SDP had significantly reduced central office/administrative spending, the district continued to have stranded costs of $6,898 per student due to migration of students to charter schools.

TENNESSEE

Black, Derek. 2022. "Local Budget Stress: Charter Schools & Fixed Costs Stranded in Public Schools." Public School Partners found that in Tennessee, school districts transfer funds to charter schools for each student that a charter school enrolls. The specific per-pupil transfer amount varies by district but is equal to the total state and local per-pupil expenditures in the district in which the charter is located." "…by the 2022-23 school year… the district's annual transfers to charters exceeded $231 million."

MGT America. 2015. "Charter School Financial Impact Model." A 2015 study of charter growth in Nashville, commissioned by the Nashville school board, found the district was able to recover, through reductions in staff and materials, only 27% of the costs that were lost to charter outflows. The disproportionality of the reduction causes fewer services to be available for remaining students.

MULTIPLE CITIES

In a 2013 ratings update, Moody's described the "liberal approval processes for new charters" which places "few limits on charter growth" as a factor that can have a negative credit effect on school district debt, citing the role of charter enrollment increases in harming district fiscal health. https://www.moodys.com/research/Moodys-Charter-schools-pose-greatest-credit-challenge-to-school-districts--PR_284505.

Moody's has also recognized charter school growth as a driver of credit risk in urban districts, specifically identifying Philadelphia, Los Angeles, Bethlehem (PA), Phoenix, Detroit, Cleveland, Toledo, and York (PA). https://www.moodys.com/research/Moodys-Charter-schools-pose-greatest-credit-challenge-to-school-districts--PR_284505

https://www.moodys.com/research/Moodys-Financially-stressed-Pennsylvania-school-districts-creating-recovery-plans-to--PR_316816

http://www.bondbuyer.com/news/regionalnews/moodys-charter-school-expansion-credit-negative-for-lausd-1067623-1.html