DOCUMENT RESUME

ED 467 658 EA 031 773

AUTHOR	Herdman, Paul; Millot, Marc Dean
TITLE	Are Charter Schools Getting More Money into the Classroom? A Micro-Financial Analysis of First Year Charter Schools in Massachusetts.
INSTITUTION	Washington Univ., Seattle. Center on Reinventing Public Education.
SPONS AGENCY	George Gund Foundation, Cleveland, OH.
PUB DATE	2000-10-00
NOTE	81p.; For related document on charter schools in Massachusetts, see ED 467 033.
AVAILABLE FROM	Center on Reinventing Public Education, Daniel J. Evans Schools of Public Affairs, University of Washington, Box 353060, Seattle, WA 98195-3060. Tel: 206-685-2214; Fax: 206-221-7402. For full text: http://www.crpe.org/Publications/downloads/CSF_report.pdf.
PUB TYPE	Reports - Research (143)
EDRS PRICE	EDRS Price MF01/PC04 Plus Postage.
DESCRIPTORS	*Charter Schools; Educational Administration; *Educational Finance; Educational Policy; Elementary Secondary Education; Financial Needs; *Financial Policy; Nontraditional Education; *School Accounting
IDENTIFIERS	*Massachusetts

ABSTRACT

This report examines the first-year finances of Massachusetts' first 15 charter schools. Analysis of the financial statements of these schools offers insights into how their boards of trustees allocated funds as they tried to meet academic goals and survive as new organizations. Revenue and expenditure patterns were compared with national district norms. The report builds on a prior study that examined the capacity of the different types of charter applicants and the factors that limited their ability to operate an independent public school. The present report looks at the same 15 schools but focuses on the financial issues associated with the challenges of finding appropriate sources of technical assistance, facilities, and startup financing. The data reveal that most schools relied heavily on state funding (89 percent on average). Few of the schools received government grants, and about one-third of them were able to raise sizable private contributions. The findings suggest that charter-school founders should pattern their budgets after independent schools rather than traditional public schools. Like private schools, charter schools are enrollment-driven and so should avoid becoming overreliant on unpredictable per-pupil expenditures. When compared with national norms, the charter schools' expenditure patterns were on par with national district averages. (Contains 36 references.) (RJM)

Center on Reinventing Public Education

Are Charter Schools Getting More Money into the Classroom?

A Micro-Financial Analysis of First Year Charter Schools in Massachusetts

PREPARED FOR THE GUND FOUNDATION

Paul Herdman and Marc Dean Millot

October 2000

Daniel J. Evans School of Public Affairs
University of Washington - Box 353060
Seattle, Washington 98195-3060
206.685.2214; Fax 206 .221.7402
email: crpe@u.washington.edu
http://www.crpe.org

Preface

This report examines the first-year finances of Massachusetts charter schools. By exploring the financial statements of the Commonwealth's first fifteen charter schools, we gained insights into how the boards of trustees of these schools managed the tension between meeting their academic goals and simply surviving as new organizations. We examined the revenue and expenditure patterns of these schools and compared their spending to national district norms. Finally, based on our findings, this paper offers recommendations to charter school leaders, policy makers, and foundations.

This study builds on "Supplying a System of Charter Schools: Observations on Early Implementation of the Massachusetts Statute" (Millot and Lake, 1997). That study examined the capacity of the different types of applicants and the factors that limited their ability to operate an independent public school. Some of the obstacles identified by Millot and Lake (1997) were that these schools faced difficulty in finding appropriate sources of technical assistance, facilities, and start-up financing. This report looks more closely at these same fifteen schools in that same year, fiscal year 1996, but it focuses on the financial issues associated with these challenges.

This work was funded by the Gund Foundation and was conducted by the University of Washington's Center on Reinventing Public Education.

Contents

Figures

Tables

Biographies

Paul Herdman is a doctoral candidate at Harvard University Graduate School of Education and a research associate with the Center on Reinventing Public Education at the University of Washington. From 1994-97 he worked for the Commonwealth of Massachusetts' Charter School Office.

Marc Dean Millot is currently the Director of Design Team Operations of the New American Schools and is an attorney. Formerly, he was a senior researcher with the RAND Corporation and has published widely on the topic of charter schools.

Executive Summary

This report examines the first-year finances of Massachusetts' first fifteen charter schools. By exploring fiscal year 1996 financial statements and speaking with the charter school leaders, we gained insights into three questions:

- Where did the charter schools garner their funds?
- How did these charter schools spend their revenue?
- How do these spending patterns compare to district norms?

Revenues

In response to the revenue question, we found that the largest funding source for these schools was the state's Basic Payment and transportation allocations (89%), followed by private contributions (7%), and government grants (4%).

This average portfolio pointed to several interesting trends. First, these schools appeared to very (perhaps overly) reliant on the Basic Payment. This was potentially problematic because state funding fluctuates based on changes in charter school enrollment and district spending. Second, government grants were underutilized. This appeared to be due to a lack of development staff at the school level and a sense that many government grants required too much paper work for too little funding. A third revenue trend was that one-third of the schools were reliant on private funds to meet their expenses. This reliance provided these schools with a more balanced portfolio (and thus protected them from fluctuations in state funding), but it also raises questions about how dependent these schools should be on soft money.

Expenses

How did these charter schools spend their money in 1995/96? Instruction costs made up the largest percentage (50%), followed by operations (25%), administration (19%), student support (4%), and teacher support (3%). In addition, "start-up costs" were buried in every expense category and likely persisted well beyond the schools' first years of operation.

This average spending pattern raised several issues and concerns. First, these schools were going to great lengths to dedicate as many resources to their "classrooms" as possible, but their operations and administrative costs often compromised those efforts. Second, since Massachusetts charter schools did not receive facilities funding at this time, it was not surprising that operations costs were high. Further, the debt burden associated with buying or renovating a building -- a number that does not show up in our expense categories -- was so high for many schools that it cast a shadow on all of the school's subsequent spending decisions. Third, the administrative demands of running these independent public schools were also more complex, and thus more expensive, than many anticipated. And finally, in this exceedingly tight time, student and teacher support services appeared to be the lowest priorities and thus, the least funded expense categories.

Surplus (Deficit)

After examining the Surplus (Deficit) of these schools, or Total Revenues less Total Expenses, we found that, all but three of Massachusetts charter schools had a surplus in FY96. Most surpluses were under $100,000, but six exceeded that amount, and the largest was nearly $400,000. Since charter school regulation allows these schools to carry over surpluses, these funds were crucial to many schools in paying off debt, in serving as a buffer for lean times, and as a nest egg for the future purchase of a facility.

Comparative Spending

Are charter schools getting more funding into the classroom than district schools? When we compared the spending patterns of these first-year charter schools to national district averages, we found that they spent about the same on classroom expenses as an average district school. In making this observation we are cognizant of two very important caveats. First, that this spending differential could change over time, i.e., as these charter schools become more established, they may be able to dedicate more funds to instruction. And second, that this question of "how much?" is far less important than the question of "how?" That is, when more valid student performance data become available, the next question to explore should be "Are charter schools producing higher student performance than district schools for the same public dollar?"

Acknowledgements

We would like to thank first and foremost the charter schools leaders and business managers who generously gave of their time and insights.

We would also like to extend a special thanks to the members of the Massachusetts Department of Education: Jose Afonso, Lee Ferrante, Scott Hamilton, Edward Kirby, Ron Honesty and Roger Hatch. Their willingness to provide us with access to information as well as their graciousness in tracking down data was most appreciated.

A number of people also guided the development of this report by providing helpful reviews of earlier drafts. They are: Linda Brown of the Pioneer Institute; Robin Lake and Paul T. Hill of the Center on Reinventing Public Education; Katherine Merseth and James Honan of the Harvard Graduate School of Education. Thank you for your thoughtful comments.

The views expressed in this study are those of its authors and are not necessarily shared by the Gund Foundation, the Center on Reinventing Public Education, or the University of Washington.

INTRODUCTION

Many believe that one of the major problems in American education is that we spend too much on central office administration and not enough on the classroom. In theory, charter schools offer an answer to this problem. These schools are financed directly from the state, completely bypassing the district-level bureaucracies, and thus, in theory, should have more money to spend on the classroom. To find out if this was true, we asked *how do charter schools spend their money relative to traditional district schools?* In the analyses that follow we will argue that the charter schools in our sample, first year schools in Massachusetts, surprisingly spent about the same on instruction as district schools nationally. While this finding begs an even more critical question -- Are charter schools producing better results on those same public dollars? -- this paper provides an important foundation from which to build.

Before delving into the core of this study, we will provide some context for our findings. First, we will define charter schools broadly and Massachusetts charter schools specifically. Second, we will briefly describe how US charter schools are part of the international trend to decentralize public education. Third, we will provide an overview of the theories underpinning the push towards site-based budgeting (i.e. control of school budgets at the site-level).

Charter Schools Defined

The definition of a charter school varies by state. A "charter" is an agreement between an authorizing agent (usually a state education agency) and a public entity (e.g. a group of parents and teachers) which delineates what a school will deliver. However, the process of

receiving a charter, the length of charters, the number and type of authorizing agents, the degree of autonomy schools are given, and legal status of charter schools varies by state.

Despite this variation, all charter schools are built on several common tenets. The theory behind charter schools is that they will provide higher levels of student achievement because a) they are less constrained by district-level bureaucracy and thus more responsive to the needs of their students, b) they are schools of choice, so parents and teachers support the mission, and c) they are accountable, because their continuation is dependent upon their ability to produce results[1].

In 1990, there were no charter schools. A decade later, 37 states and the District of Columbia have passed charter school legislation. Further, the charter school initiative is likely to continue growing. The federal government has increased the incentive for states to pass such legislation by providing a total of $227 million in charter school support funds in FY99 and FY00.

Massachusetts Charter Schools

The Massachusetts charter school law was part of the state's Education Reform Act of 1993 and the Commonwealth's first charters were awarded in 1994. In this state, charter schools are public schools that operate independently of any school committee under a five-year charter granted by the Board of Education. Parents, teachers or non-profit organizations can start them, and they are free to design their school around a particular educational mission or approach as well as develop a board to oversee the school. Once established, the boards of these schools are public, legal, entities that have the power to control their budgets and have the responsibility of managing the school's performance.

In exchange for this freedom, these schools are subject to both market and governmental accountability. Charter schools are subject to the market in that they need to attract students in order to keep their doors open (an average student in Massachusetts

represents about $6,000 in revenue). And they are accountable to the government in that the state has the power to revoke a school's charter if it is not meeting its mutually agreed upon performance goals.

By the fall of 2000 there will be forty-three charter schools operating in Massachusetts. During 1998/99, the Charter School enrollment in Massachusetts was 9,930 students, or about 1 percent of the state's total enrollment. In addition, while the Commonwealth currently limits the number of available charters to 50[2], and has state and municipal enrollment caps[3], there is legislation pending to increase the number of charter schools to 150 (see www.doe.mass.edu for the Massachusetts Charter School Law).

Charter Schools Are Part of A Global Trend to Decentralize

Decentralization is much larger than the charter school initiative; it is a global trend. Since the 1970s, countries around the world[4] have adopted education reform strategies built on providing local schools with more control in exchange for more concentrated central accountability. The way it is meant to work in theory is that local schools are free to develop the means of education, but will be held accountable for their performance relative to central standards.

Decentralization efforts can be found in some forty-three countries around the globe, but they have not been uniformly successful. The failures have often come in non-industrialized countries or when site-based management was used in isolation. For example in Nicaragua, "local autonomy" equated to saddling poor residents with decrepit buildings and asking them to pay fees in order to educate their children[5] and in Mexico it meant holding teacher salaries constant while dramatically increasing their responsibilities[6]. In essence, in countries with limited local capacity, decentralization appears to have been a way for governments to side-step their responsibilities rather than improve performance. Further,

Odden and Busch (1998) argue that providing site-based budgeting independent of a comprehensive school reform plan appears to be equally unsuccessful[7].

However, under the right conditions, decentralization does appear to hold some promise. Victoria, Australia, England and New Zealand have all created promising decentralized systems[8]. Odden and Busch (1998) point out that site-based budgeting is most successful in a system of clear academic standards, a school culture that is mission-driven and a political environment that is adequately supported and stable[9]. In the British Commonwealth these systems have developed under such conditions. Thus, given the similar conditions across much of the US, it appears that this strategy might be successfully imported.

Within the US, charter schools are unique from most other public schools in that they have virtually complete control of their budgets. This distinction is important because charter schools are part of a growing national trend to provide schools with more local control. In the 1970s and 1980s site-based management emerged as a model for giving school communities more authority in the US[10]. Now, in the 1990s, charter schools are seen as the most aggressive form of decentralization in this country[11].

The literature is virtually silent on charter school micro-finance. While there have been studies of how state-level charter school finance policies work [12] and there have been studies of how districts have spent their funds[13], there has not been any published micro-financial analyses of how charter schools have spent their funds[14]. Therefore, this report hopes to inform the national debate regarding how much local control public schools need in order to be effective.

The Arguments for Site-Based Budgeting

Why move to as system of devolved fiscal control? There are two prominent arguments: the financial and the efficiency arguments.

Financial Argument

The financial argument assumes that site-based budgeting will reduce bureaucracy and thus increase the funds dedicated to instruction. More funds dedicated to instruction, the logic goes, will lead to improved student outcomes. This argument assumes that central bureaucracies are bloated and wasting tax dollars. Mandell et al. (1995) point out that the US spends nearly $270 billion a year on public elementary and secondary education. From the financial perspective, the issue is not the amount of money being spent on education, but *where* the dollars are being spent. More specifically, it is unclear how much money is getting into the "classroom". Bruce Cooper of Fordham University asserts, "We keep pumping more and more money into the system, but we don't know where it goes when it gets into the system. It's like swinging an ax in the dark."[15] This paper will attempt to clarify how charter schools in Massachusetts spent their funds and compare those spending patterns with national district norms.

Efficiency Argument

The second argument for site-based budgeting, the "efficiency argument", assumes that bringing the decision-making process to the school-level rather than the state or district level, will improve the efficacy of public dollars spent. Hanushek (1997) argues that, even if a school were able to dedicate more funds to its classrooms, student outcomes would not improve if teacher practices did not improve[16]. Thus the efficiency argument is not about more money, but about using money more wisely. That is, even if charter schools spend their funds in the same proportion as districts, they will be more "efficient" if they can produce better outcomes with the same public dollar. Odden and Busch (1998) suggest that

this is of critical importance in the US at this point in history because only 20-25 percent of US students are achieving at proficient levels[17] and yet the amount of money being spent on education is dropping. For the first nine decades of this century the education-dedicated funds increased by 25-75 percent per decade, but in the 1990's that trend appears to be leveling off[18]. Therefore, if we want to improve our global standing, American schools need to do more with less.

Since charter schools are this country's most aggressive version of school decentralization, it is worth examining how they are exercising their authority in that they might serve as models for large-scale site-based budgeting.

This paper will attempt to examine the financial argument. That is, it will summarize how charter school funds were spent in 1996 relative to national district norms. Since, there is currently insufficient comparable test data on both district and charter schools, I will not attempt to examine whether charter schools are using their funds more efficiently. The research questions that guided this study are the following:

- **How did these charter schools garner their funds in 1995/96?**
- **How did these charter schools spend their money in 1995/96?**
- **How do these spending patterns compare to district norms?**

In order to answer these questions, this paper is divided into five sections. Section 1 summarizes the revenues of Massachusetts charter schools in their first year of operation. Section 2 provides an overview of these same schools' expenditures. Section 3, provides a comparison of this spending pattern relative to national norms. Section 4 examines the implications of these findings. And section 5 offers recommendations to policymakers,

practitioners and funders based on our findings.

METHODS

Sample

This study focuses on the finances of the first fifteen Massachusetts charter schools opening in the fall of 1995. While the Massachusetts charter school initiative has grown to include forty-three schools, we chose to focus on the first fifteen because they have the longest history in the initiative, and they were the only schools that had filed financial data when we began this study in the spring of 1997.

In examining these results, it is important to remember that these schools were both laden with far more responsibilities than a traditional public school and trying to start a school from scratch. In addition to making all of the personnel and curricular decisions that a decentralized school would need to make, these charter schools also had to find and finance their own facilities as well as handle the reporting requirements of both a school and a district. Further, these schools were new, in their first year of operation, which likely added to the challenge. Therefore, this paper examines the financial decisions of a group of extremely autonomous schools in perhaps the most stressful phase of their development.

The schools themselves differed greatly, (see Table 1). They ranged in enrollment from thirty-nine to six hundred and forty students and they were spread across the state, with the majority located in urban areas (9 of 15). Their educational approaches varied considerably -- from the progressive (e.g., Coalition of Essential Schools and Reggio-Emilia models) to the more traditional approaches (e.g., "Success For All" and E.D. Hirsch's "Common Core").

The management capacity of these schools varied as well. Private management companies managed two schools. Community-based or "sister organizations" collaborated

with eight schools. And grassroots founders (primarily teachers and parents) managed five schools without any external support. In sum, "charter schools" are diverse, and the findings that follow vary greatly depending on the unique circumstances of each school.

Budget Analysis

In order to summarize the revenues and expenditures of the Massachusetts charter schools in fiscal year 1996 (FY96; July 1, 1995–June 30, 1996), we developed a budget template (see Attachment A1). We organized the charter school expenses based on the micro-financial model developed by Bruce Cooper (1993), see Attachment A2. Once we had the numbers in a common format, we asked charter school leaders and business managers to verify our categorizations and to tell us the story behind the numbers (see protocol, Attachment B)[19].

Table 1. Sample.

This table summarizes the location, grades served and enrollment of the fifteen charter schools in this study. In addition, distinguishing characteristics and management structures are provided: G = Grassroots, S = Small Business and B = Big Business. (N = 15)

Charter School	Location	Grades 1995-96	Enrollment 1995-96	Projected Enrollment 1998-99	A Distinguishing Characteristic [Management]
A	urban	K-5	249	500	Family-learning Center [S]
B	suburban	K-4	150	324	Character Education [G]
C	urban	K-5	640	1211	Technology / Success-For-all [B]
D	suburban	6-8	129	163	Project-based Learning [G]
E	urban	9-10	65	185	Civic education [G]
F	urban	K-4	110	218	Modern Red Schoolhouse [S]
G	suburban	7-8	122	320	Coalition of Essential Schools [S]
H	rural	K-4	39	109	Reggio-Emilia [G]
I	urban	K-3	173	360	Two-way bilingual [S]
J	urban	9-12	100	115	At-Risk / Middle college [S]
K	suburban	5-7	137	198	Coalition of Essential Schools [G]
L	urban	K-2	51	144	Individualized Education [S]
M	urban	K-7	448	850	Sabis: Teacher-centered (B)
N	suburban	K-2 / 6-12	150	380	E.D. Hirsch / Project-based [S]
O	urban	9-12	60	-----*	At-risk / School-to-work [S]
Total			2,623	5,077	
Average			175	338	

Source: Massachusetts Department of Education

*This school returned its charter in 1998.

SECTION 1: Where Did the Money Come From?

Charter schools, like any public school, are eligible for funding from an array of public and private sources. This section summarizes the revenue sources of these charter schools in fiscal year 1996.

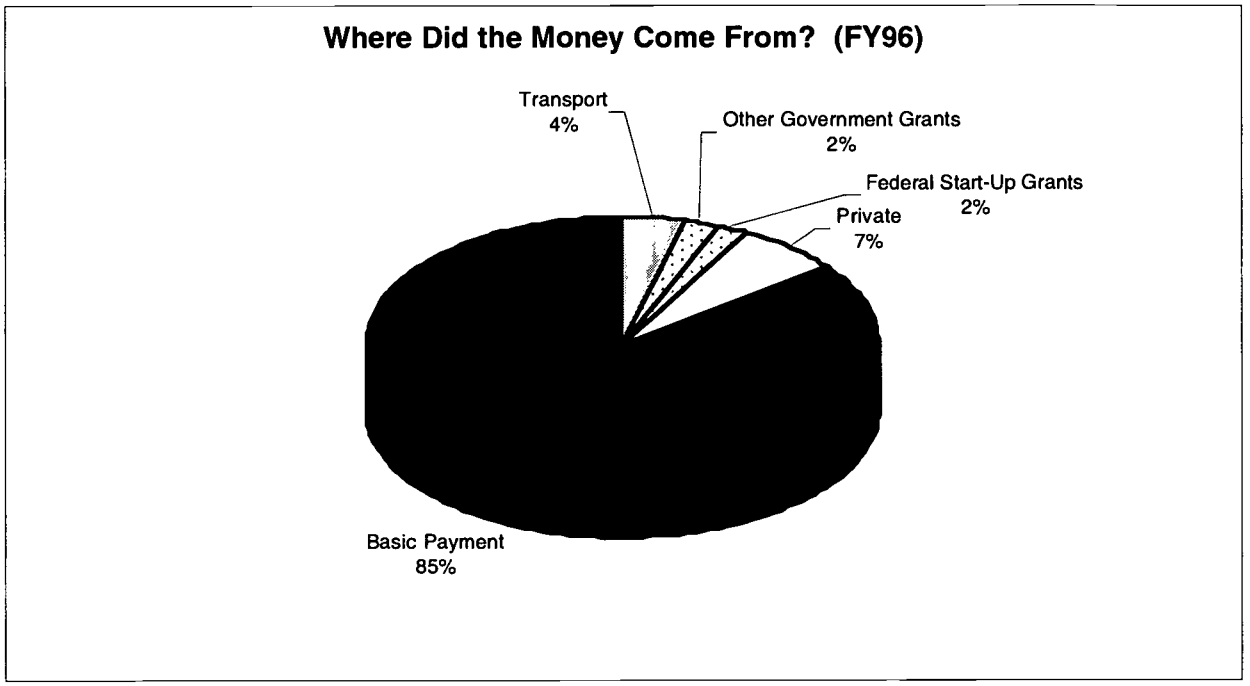
Odden and Busch (1998) point out that there are two major issues in deciding how to finance charter schools. First is the issue of whether charter schools will receive funding directly from the state or directly from the district in which they are located. Second, policymakers need to determine whether charter schools will be financed at the state's "foundation" level[20] or whether they should be paid at the actual expenditure of the local district.

Massachusetts charter schools are designated as their own local education agencies (LEA's) and have a direct reporting relationship to the Massachusetts Board of Education. The board of trustees of each school was paid an Average Cost per Student (ACS) which represented the sending district's (the district the child came from) total education expenses divided by that district's total enrollment. Not surprisingly, charter school supporters claim the ACS is not enough money because it does not include facilities funds, and charter opponents claim it is too high.[21]

During the school year, each charter school received four quarterly payments from the state (what we've labeled "Basic Payments") and raised whatever additional private or public funds it could. Therefore, while the Basic Payment was often used in part to pay down start-up debt, it did not become available until the school became operational[22]. Figure 1 (below) illustrates that the largest revenue source for these schools was the state's Basic Payment plus transportation (89%), followed by private (7%), and government grants (4%). Each of these revenue sources will be discussed in turn.

Figure 1. Revenue Summary.

This chart summarizes the revenue sources of the charter schools in this study. (N=15)



Basic Payments Were Important, but Not Completely Reliable

The Basic Payment is the Average Cost per Student multiplied by a charter school's enrollment. This Basic Payment accounts for the vast majority of a charter school's revenue, 85 percent on average. In addition, charter schools received an average transportation allotment per student if they opted to provide their own transportation (4% on average). Thus, the state's allotment accounts for 89% of an average charter school's revenues.

Table 2, below, demonstrates that most charter schools relied heavily on the Basic Payment. Therefore, the Massachusetts charter schools we examined were "enrollment-driven." That is, unlike a district school that has a ready source of students, these charter schools needed to recruit and retain students to remain viable.

A danger charter schools faced in relying heavily on the Basic Payment was that it was

not a completely predictable revenue source. At the beginning of each academic year, the MDOE provided each school with a "projected" Basic Payment allotment. However, in FY96, nine of the fifteen charter schools saw a net loss in their projected vs. their actual Basic Payment, see Table 3. Two variables accounted for these fluctuations: (1) changes in enrollment (e.g., School A saw an enrollment drop of 19% over the course of the year due to poor management) and (2) the Average Cost per Student (AC/S) (e.g., School E which had a steady enrollment, also experienced a Basic Payment shortfall because its home district's Average Cost per Student went down due to increased enrollment in the city). If either or both of these variables changed over the course of a year, which was common, it had an impact on a school's total revenue.

In addition, because Basic Payments did not begin until the school became operational, it did not address the school's start-up costs. In order to hire staff and prepare facilities for September, charter founders needed to find alternative funding sources or accrue substantial debt the prior year. In sum, the Basic Payment was by far the largest revenue source for these schools, yet it was not completely reliable and did not address start-up costs.

Table 2. Revenue: Basic Payment and Transportation

Charter School	Basic Payment	Transport	Total	Total/Student	% of Total Revenue
A	1,256,863	39,558	1,296,421	5,920	96%
B	630,719	-	630,719	4,233	80%
C	4,231,317	354,101	4,585,418	7,432	89%
D	830,159	-	830,159	6,486	96%
E	445,835	37,310	483,145	7,433	59%
F	627,045	52,437	679,482	6,177	91%
G	638,928	34,003	672,931	5,655	82%
H	200,727	13,797	214,524	5,501	86%
I	1,018,367	84,139	1,102,506	6,159	93%
J	533,783	23,471	557,254	5,573	100%
K	769,482	9,119	778,601	5,725	87%
L	349,123	-	349,123	6,846	93%
M	2,568,443	-	2,568,443	5,746	95%
N	767,964	40,331	808,295	5,389	92%
O	354,459	29,663	384,122	7,387	86%
Total	15,223,214	717,929	15,941,143	91,660	
Average (Total/15)	1,014,881	47,862	1,062,743	6,111	

Table 3: Fluctuations in Basic Payment.

This table summarizes the difference between the projected and actual Basic Payments in FY96. Note that 9 of the 15 schools received less than was projected. These differences were attributable to unexpected changes in the charter school's enrollment or in the district's Average Cost per Student (AC/S) allocation.

Charter School	Projected Total	Actual Total	Difference	% Change	Attributable to Δ in:
A	1,609,810	1,309,260	-300,550	(19%)	enrollment
B	644,541	604,571	-39,970	(6%)	AC/S
C	4,790,520	4,585,418	-205,102	(4%)	AC/S
D	847,092	841,772	-5,320	(1%)	enrollment
E	494,260	483,145	-11,115	(2%)	AC/S
F	595,760	679,482	83,722	14%	AC/S
G	690,905	687,252	-3,653	(1%)	enrollment
H	225,342	214,803	-10,539	(5%)	enrollment
I	972,829	1,103,799	130,970	13%	AC/S
J	537,739	557,591	19,852	4%	AC/S
K	746,045	778,602	32,557	4%	AC/S
L	357,408	349,123	-8,285	(2%)	ACS
M	2,452,950	2,568,443	115,493	5%	AC/S
N	760,228	808,298	48,070	6%	enrollment
O	456,240	399,622	-56,618	(12%)	ACS & enrollment

Government Grants Were Under-Utilized

At the end of fiscal year 1996, all fifteen charter schools received federal charter school start-up funds. The awards ranged from $15,500 to $34,500 (see Table 4 below). The MDOE encouraged the schools to use at least a portion of these funds to refine their charters via "accountability plans," but the funds were generally unrestricted. These funds appeared to be especially helpful to smaller schools. For example, while these funds, on average, represented 2% of a charter schools budget, they represented10% of School H that had only thirty-nine students in 1996.

Table 4. Revenue: Government Grants

Charter School	Federal Start-up	Other Gov't Grants	Total	Total/Student	% of Total Revenue
A	30,838	-	30,838	141	2%
B	30,904	-	30,904	207	4%
C	34,429	149,586	184,015	298	4%
D	25,934	-	25,934	203	3%
E	16,500	15,892	32,392	498	4%
F	21,250	18,577	39,827	362	5%
G	30,940	31,804	62,744	527	8%
H	23,967	-	23,967	615	10%
I	26,318	18,700	45,018	251	4%
J	-	-	-	-	0%
K	27,472	24,824	52,296	385	6%
L	20,806	-	20,806	408	6%
M	33,050	76,433	109,483	245	4%
N	29,150	12,180	41,330	276	5%
O	15,500	-	15,500	298	3%
Total	367,058	347,996	715,054	4,714	
Average (Total/15)	24,471	23,200	47,670	314	

Other government grants, state and federal combined, made up only 2 percent of charter school revenues. In most cases, Massachusetts charter schools took advantage of few

of the more than 160 state and federal pass-through or direct grants available in the state. Two grants that the schools did take advantage of were the state's Health Protection grant and federal Title I funds.[23] Health Protection grants were generally $12,000 and Title I funds could be much greater. In fact, 85 percent of the federal funding received by charter schools, other than start-up funds, came from Title I. Urban schools were the primary beneficiaries of this entitlement program, and for large urban schools, Title I funding could amount to more than $100,000 (see Table 4).

Why didn't charter schools apply for more government grants? Many school leaders said, "Too little money for too much paperwork." Many of the grants were fairly small: other than Title I and the Health Protection funds, most grants were less than $2,000[1]. Another reason charter school leaders did not apply for government grants was because they had "too many strings" attached. Government grants were often earmarked for specific purposes and were fairly restrictive in their use, an impediment given the wide array of expenses in the start-up year. Finally, some charter school leaders suggested that their schools were ineligible for certain grants due to their small enrollments or their students' socioeconomic status[2].

Private Contributions Varied Dramatically

The amount of private funds raised by Massachusetts charter schools varied dramatically. While the average charter school raised about 7% of their revenues from both foundation and donation sources (see Table 5 below), eleven schools raised less than 10 percent of their revenue from private sources, and four schools raised 10 percent or more.

[1] School I applied for 27 government grants. Aside from Title I and Health Protection, the remaining grants were less than $2,000 and 17 of those were less than $300.
[2] Two schools that were two small to meet the enrollment criteria of a particular Special Education grant, applied jointly. However, they appeared to be exceptions to the rule.

The reasons for these differences in private funding were apparently based on the capacity, track record and access of the individual school. First, having experienced development personnel on staff (or through a school's sister organization) appeared to be helpful. Schools with access to personnel who knew how to navigate government bureaucracies and the foundation world were at a distinct advantage. Second, some schools (e.g. school E) were able to attract funds because they ran pilot projects in the year before they opened their doors. This provided potential funders with proof of the founding group's competence and the school with a chance to "get the bugs out" of their program. Third, some schools in more affluent suburbs, while unattractive to most foundations, did have access to considerable private donations (e.g. School G was able to generate $80,000 in private revenues).

Table 5. Revenue: Private Contributions

Charter School	Private Contributions	Total/Student	% of Total Revenue
A	21,227	97	2%
B	131,626	883	17%
C	386,399	626	7%
D	8,649	68	1%
E	307,285	4,727	37%
F	30,779	280	4%
G	86,907	730	11%
H	9,971	256	4%
I	39,972	223	3%
J	-	-	0%
K	63,821	469	7%
L	4,820	95	1%
M	18,228	41	1%
N	31,690	211	4%
O	46,000	885	10%
Total	1,187,374	9,591	
Average (Total/15)	79,158	639	

In-Kind Donations Were Unmeasured, but Invaluable

A resource that doesn't often appear on audits is the incalculable benefit of in-kind donations and volunteer time. Many schools utilized their volunteers to draw-up contracts, build classroom equipment, run school libraries, and fix computers. The primary sources of volunteer services and in-kind donations were boards of trustee members and parents. It is difficult to quantify these resources, but these fifteen schools benefited immensely from them.

Revenue Summary

All revenue sources come at a cost. If a school *does not* apply for a certain grant, it loses out on potential revenue. However, if a school *does* apply for a particular grant, there are administrative costs associated with researching, applying for, and monitoring those funds.

These funding constraints were evident in how charter school revenues were distributed. The state's Basic Payment was the largest available source of funds and it was virtually automatic (i.e., noncompetitive). Therefore, it's not surprising that Massachusetts charter schools relied on it so heavily in year one (89 percent with transportation). Federal start-up funds were applied for and received by all of the schools in our study, again, because these grants were noncompetitive and relatively unrestricted. Private funds were less restricted and came in larger amounts than most government grants, but they required a significant amount of administrative work to find, and they were often only short-term. Thus, the amount of private funds raised varied with the development capacity of each school. Finally, government grants (other than the federal start-up grants), while relatively easy to apply for and often sources of perennial funding, were the least desirable revenue source (only 8 of the 15 schools applied for them) because they represented small pots of

money with too many strings attached.

Let's now examine how these revenues were expended by the Massachusetts charter schools in FY96.

SECTION 2: Where Did the Money Go?

All organizations face difficult decisions concerning money. However, in the first year of operation these decisions are more profound. The charter school leaders in this study faced daily decisions that forced them to balance between their school's mission and its survival. In a very real sense, the expenditures that follow reflect the priorities of these fledgling school leaders. This study attempted to examine the specific expenditures associated with six categories: 1) start-up costs, 2) instruction, 3) administration, 4) teacher support, 5) operations, and 6) student support.

Figure 2. Expenses Summary.

This chart summarizes the charter school expenses (N=15).

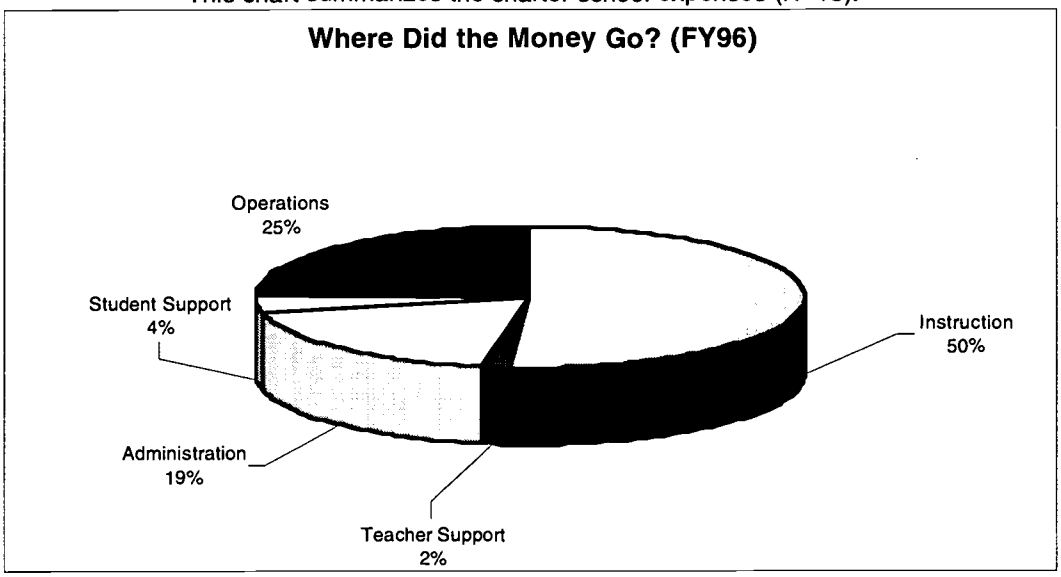


Figure 2 provides an overview of average Massachusetts charter school spending patterns in fiscal year 1996. Instruction costs made up the largest average percentage of expenditures (50%)[3], followed by operations (25%), administration (19%), student support

[3] Instructional Expenses go up to 60% if facilities costs are taken out. See Comparative Spending, section 3, for

(4%) and teacher support (2%). Because we compare these expenditure patterns to district norms in Section 3, we used Bruce Cooper's district-level budget template to organize our data (see Methods). However, we will begin by examining a category, which is not in Cooper's budget template, "start-up costs."

Start-up Costs Were Hard to Measure, But Ongoing

While all fifteen of the charter schools had start-up costs, or expenses associated with opening their schools, these costs were difficult to quantify. Contrary to popular belief, start-up costs are not short-term and are not easily isolated. That is, these expenses don't dissipate after year one and they are often difficult to distinguish from the school's operational costs.[24] For example, certain expenses that appear to be one-time, such as computers, books, desks, or facilities, are in fact, perennial expenses that need to be repeated and augmented annually until the school reaches its enrollment capacity. One charter school business manager described it this way:

> *I made it through the first two years of major building renovations and purchasing of computers and desks. Now our little guys [elementary school students] are in pretty good shape, but next year we're expanding into a middle school and we need bigger classroom spaces, bigger desks, more complex computers, and a science lab with microscopes. Our start-up costs aren't going away anytime soon.*[25]

Start-up costs were often difficult to distinguish from operational costs. In each of our categories -- instruction, administration, operations and teacher and student support -- there are associated start-up costs. While some start-up costs can be separated out, like construction costs that deal with one-time cash outlays for renovations or construction, most costs were buried in larger line items.

Finally, start-up costs were driven by the founders facility decision. If a founding

---

more.

group opted to lease a vacant school, its start-up costs would be minimal (see Table 11). However, if a founding group opted to build or buy a facility, their start-up costs would likely be several million dollars, (e.g., school C, Table 11).

Instruction Costs Were Dominated by Teacher Salaries and Special Education Services

Instruction costs encompassed those expenses most closely related to the classroom: teacher and teacher aide salaries and benefits, program expenses, school supplies, books, materials, and field trips tied to curriculum. Across schools, the funds dedicated to instruction varied substantially. While the average instruction cost was 50 percent, this percentage ranged from 40 percent to 87 percent of a school's expenditures (see Table 6).

Table 6. Expenditures: Instruction

Charter School	Instruction	Instruction/Student	% of Total Expenses
A	674,827	3,081	52%
B	537,481	3,607	73%
C	2,417,021	3,917	47%
D	367,102	2,868	51%
E	279,272	4,296	45%
F	410,609	3,733	56%
G	445,173	3,741	57%
H	124,597	3,195	60%
I	657,026	3,671	49%
J	250,083	2,501	48%
K	452,675	3,328	48%
L	158,735	3,112	40%
M	1,119,605	2,505	48%
N	508,710	3,391	59%
O	354,932	6,826	87%
Total	8,757,848	53,773	
Average (Total/15)	583,857	3,585	

The largest expenses in this category were teacher salaries and Special Education services. Teacher salaries are the largest proportion of any school budget.

The teacher pool in Massachusetts charter schools are generally young (about five years of experience on average)[26], and highly motivated. Charter school leaders uniformly stated that they were able to draw from strong lists of applicants. MDOE data[27] indicated that the average charter school had 24 applicants per available position and that 77% of those hired were certified.[28] Teacher:student ratios were generally low (13:1), but since the teachers were often relatively inexperienced, school leaders were able to pay teachers a wage that was comparable to a district and still maintain relatively low overall instructional costs.

Special education services were more expensive and complex than many charter school leaders envisioned. Nationally, Massachusetts has the highest average of students designated as having special needs (17%). Being public schools, these fifteen charter schools received about the same percentage of special needs students as their sending districts[29]. Charter schools are required to accept and educate any student they receive through their lottery (short of those students requiring residential placement). Some charter school leaders simply underestimated the number of special needs students they would receive, as well as the cost and paperwork involved in educating them[30].

Administration Costs Were High

Administration costs included the salaries of the lead teacher or principal and clerical staff, as well as the costs associated with communications, marketing, legal, trustees, professional fees, payroll, and administrative supplies. In 1996, administration costs averaged 19 percent of all the charter school expenses and ranged from 3 percent to 38 percent (Table 7).

Table 7. Expenditures: Administration

Charter School	Adminstration	Total/Student	% of Total Revenue
A	105,493	482	8%
B	97,034	651	13%
C	840,901	1,363	16%
D	110,686	865	15%
E	172,713	2,657	28%
F	113,091	1,028	15%
G	185,647	1,560	24%
H	33,732	865	16%
I	35,514	198	3%
J	144,000	1,440	28%
K	108,873	801	11%
L	143,780	2,819	37%
M	886,645	1,984	38%
N	168,180	1,121	19%
O	50,000	962	12%
Total	3,196,289	18,795	
Average (Total/15)	213,086	1,253	

Administrative costs appear to be high for two reasons. One, the administrative demands of being an independent public school are substantial. For example, since each charter school is its own Local Education Agency, each school needs to respond to the administrative demands of a school and a district. In addition, they need to market their schools and provide adequate information to their boards of trustees. Thus these numbers might reflect the fact that the administrative burden and the associated staff have indeed. The second reason administrative costs appear to be high is because the economies of scale are poor. That is, many of these schools were small (171 students on average), and they all required at least a director and an administrative support person. Therefore, despite being minimal, these administrative costs, in relation to small overall budgets, gave the impression of top-heavy organizations.

Teacher Support Was Sufficient, But Low

Teacher support was defined as costs, other than teacher salaries, to develop a high-quality teaching staff, including recruitment, conferences, and workshops. This professional development accounted for about 2 percent of an average school's total expenses. Our analyses indicated that individual school's commitment to teacher support varied (Table 8), but that on average, these charter schools well exceeded the state recommended allotment for professional development (Table 9).

Retaining staff from year-to-year is crucial to building organizational capacity. Given the relative inexperience of many charter school teachers and the complexity of developing

Table 8. Expenditures: Teacher Support

Charter School	Teacher Support	Total/Student	% of Total Revenue
A	22,119	101	2%
B	25,000	168	3%
C	184,677	299	4%
D	2,221	17	0%
E	1,215	19	0%
F	4,331	39	1%
G	31,930	268	4%
H	2,167	56	1%
I	-	-	0%
J	10,000	100	2%
K	12,652	93	1%
L	630	12	0%
M	2,783	6	0%
N	10,395	69	1%
O	3,900	75	1%
Total	314,020	1,323	
Average (Total/15)	20,935	88	

new curricula and school norms, we expect to see higher teacher support costs in the future.

Table 9. Actual v. Recommended Spending on Professional Development.

The Massachusetts Department of Education required that districts spend a minimum of $25 per student on professional development in 1996. This table compares FY96 charter school spending on professional development against this threshold. It shows that while one-third of the schools spent below the state recommended amount on professional development , on average, these schools spent more than three times the state's recommendation.

Charter School	Enrollment 1995-96	Recommended PD Allocation ($)	Actual PD Allocation ($)	Actual / Recommended
A	249	6,225	22,119	360%
B	150	3,750	25,000	666%
C	640	16,000	184,677	1154%
D	129	3,225	2,221	69%
E	65	1,625	1,215	75%
F	110	2,750	4,331	157%
G	122	3,050	31,930	1046%
H	39	975	2,167	222%
I	173	4,325	0	0%
J	100	2,500	10,000	400%
K	137	3,425	12,652	369%
L	51	1,275	630	49%
M	448	11,200	2,783	25%
N	150	3,750	10,395	277%
O	60	1,500	3,900	260%
Total	2,623	65575	314020	
Average	175			**341**

Source: Massachusetts Department of Education

Operations Costs Were High

Operations costs encompassed a broad and complex array of expenses, such as transportation, equipment/technology, and the fees associated with renovating, maintaining, and financing a facility. In total, these operational expenses were 25 percent of an average charter school's total spending (Table 10). The line items subsumed in the "Operations" line item are the following (Table 10).

- Transportation - Transportation was not a big expense for most charter schools (1 percent on average). Charter school law states that the decision of whether the district or the charter school should provide transportation is at the discretion of the charter school. Four schools relied on the district for transportation, and the other eleven schools received an average transportation allotment. In all cases in which the charter school provided its own transportation, the school was able to provide transportation for less than the state allotment[31].
- Equipment and Technology - This line item encompassed the lease or purchase of equipment and furnishings, as well as the consultation on, and maintenance of, the same. Massachusetts charter schools spent, on average, 3 percent of their total expenditures on technology and equipment. A school's interest and ability in purchasing technology varied considerably[32]. In year one, some schools had no computers, while others invested a great deal in technology (one school even provided each student with a laptop). The majority of the schools fell somewhere in between, most relied on a limited amount of donated hardware and software.
- Facilities - These costs included out-of-pocket construction, debt service, maintenance and depreciation. Since state law precludes charter schools from access to state facilities funds, it is no surprise that facilities were (and continue to be) a problem for charter schools. Numerous studies have noted that finding and financing facilities is one of the greatest limiting factors to the expansion of the charter school movement[33]. Out-of-pocket construction costs, or those renovation and construction expenses paid for directly out of

revenues, were relatively low, about 4% (see Table 11 below). However, this percentage is misleading because it does not include the costs incurred through debt (see Table 12 below, for Projected Costs). In fact, the funds requested and borrowed exceeded the observed costs many times over. [Attachment C provides more detailed information on how these schools renovated and financed their facilities.]

- Debt Service - This line item accounted for 5 percent of an average charter school's expenditures. However, a school's debt was related to its facility costs. Therefore, the seven schools that were able to find suitable leased facilities did not have any debt (see Table 12 below). However, school C was paying 13% of its expenses in debt service ($672,413, or more than twice the annual revenues of some schools).
- Maintenance - This line item encompassed the costs associated with leasing a facility, utilities (less communications), insurance, maintenance, and custodial services. Two schools owned facilities, but the remaining thirteen schools leased. On average, maintenance costs accounted for 9 percent of total expenses (Table 10), and lease costs were the most costly element of the maintenance line item.
- Depreciation - The allowances made for a loss in value of property, accounted for 1 percent of an average charter school's expenses. There was some confusion as to whether these schools could include depreciation in their expenses. Only seven of the schools included it in their financial statements[34].

Schools that partnered with educational management companies or sister organizations were at a distinct advantage in addressing operational costs. While small grassroots founders were extending their own personal lines of credit to pay for chairs and blackboards, schools partnered with educational management companies had fully stocked computer labs. Regardless of how a school was managed, its facility decision usually dominated all its other spending decisions.

Table 10. Expenditures: Operations

Charter School	Trans.	Equip. and Tech.	OPP Const.	Debt Service	Maint. & Oper.	Depreciation	Total	Total/ Student	% of Total Expend.
A	-	68,751	28,178	3,688	192,322	64,684	357,623	1,633	27%
B	-	-	-	-	79,000	-	79,000	530	11%
C	234,000	205,116	-	672,413	410,231	9,692	1,531,452	2,482	30%
D	8,649	12,366	76,874	17,832	107,183	13,313	236,217	1,845	33%
E	9,389	37,487	8,339	-	56,688	-	111,903	1,722	18%
F	21,415	131,442	-	30,918	84,722	43,814	312,311	2,839	42%
G	14,791	21,110	-	1,906	37,366	24,909	100,082	841	13%
H	-	-	-	-	35,419	7,494	42,913	1,100	21%
I	38,632	72,267	310,148	13,545	75,887	-	510,479	2,852	38%
J	-	2,500	-	-	67,000	-	69,500	695	13%
K	-	67,353	121,825	-	114,851	-	304,029	2,236	32%
L	-	6,318	-	-	69,060	-	75,378	1,478	19%
M	-	40,632	-	45,332	190,464	29,339	305,767	684	13%
N	10,615	10,104	58,258	17,437	83,591	-	180,005	1,200	21%
O	500	-	100	-	-	-	600	12	0%
Total	337,991	675,446	603,722	803,071	1,603,784	193,245	4,217,259	22,149	
Average (Total/15)	22,533	45,030	40,248	53,538	106,919	12,883	281,151	1,477	22%

Table 11. Reported Construction Costs

This table summarizes Out-of-Pocket Construction Costs (OOP) by School (FY96). The shaded schools did not require extensive out-of-pocket costs because they were in facilities that were virtually "turn-key," e.g., a former parochial school. The costs of construction costs are ranked from 1 to 4.

Charter School	Out-of-Pocket Construction	% FY96 Budget	Facility Requirements
A	28,178	2	1. Minimal - Parochial School
B	0	0	1. Minimal - Parochial School
C	0	0	4. Extensive - Commercial
D	76,874	11	3. Major - Commercial
E	8,339	1	2. Moderate - Commercial
F	0	0	1. Minimal - Pre-existing School
G	0	0	2. Moderate - Military Facility
H	0	0	3. Major - Commercial
I	310,148	23	3. Major - Industrial
J	0	0	1. Minimal - College campus
K	121,825	13	3. Major - Elk's Hall
L	0	0	1. Minimal - Parochial School
M	0	0	1. Minimal-Pre-existing School
N	58,258	7	4. Extensive- Multiple Commercial
O	100	0	1. Minimal-pre-existing youth center
Total	**603,722**		
Average	**40,248**		

Table 12. Projected Construction Costs.

This table summarizes the projected facilities costs by School (FY96).

Construction costs are added to debt, debt service and loan requests to provide a fuller description of the facilities costs.

Charter School	Out of Pocket Construction	Debt	Debt Service	Loan Request**	Projected Facilities Costs
A	28,178	93,430	3,688	----	125,296
B	0		0	----	0
C	0	12,000,00 0	672,413	----	12,672,413
D	76,874	244,933	17,832	----	339,639
E	8,339	0	0	80,000	88,339
F	0	52,793	30,918	230,000	313,711
G	0	0	1,906	1,800,000	1,801,906
H	0	1,680	0	60,000	61,680
I	310,148	0	13,545	----	323,693
J	0	0	0	----	0
K	121,825	0	0	50,000	171,825
L	0	0	0	---	0
M	0	0	45,332	---	45,332
N	58,258	125,941*	17,437	254,000	455,636
O	100	0	0	----	100
Total	**603,722**				**16,399,570**
Average	**40,248**				**1,093,305**

* End of year debt for N was $81,721.

** Data reported in Massachusetts Department of Education memo dated 1.24.96. These figures only represent requests and because the state was unable to provide low-interest loans to address these renovations requests, the schools may or may not have acted on their interests to improve their facilities.

Student Support Costs Were Generally Low

Student support, the last of our expense categories, encompassed costs related to uniforms, food service, nurses, after-school activities, athletics, libraries, and counseling services. Table 13 shows that in FY96, student support accounted for 4 percent of a charter school's overall spending. In short, given the other pressing expenses, student support appeared to be a low priority for most first-year charter schools.

Table 13. Expenditures: Student Support

Charter School	Student Support	Total/Student	% of Total Expenditures
A	149,292	682	11%
B	-	-	0%
C	153,837	249	3%
D	3,842	30	1%
E	57,190	880	9%
F	27,667	252	4%
G	17,724	149	2%
H	3,157	81	2%
I	126,146	705	9%
J	45,000	450	9%
K	72,208	531	8%
L	15,113	296	4%
M	5,810	13	0%
N	-	-	0%
O	-	-	0%
Total	676,986	4,317	
Average (Total/15)	45,132	288	

Summary of Expenses

In their first year of operation, Massachusetts charter schools attempted to balance their classroom needs with their weighty administrative and operations costs. Start-up costs were buried in every expense category and will likely persist well beyond the schools' first

years of operation. The most influential of these buried costs is the massive debt many of these schools incurred in obtaining or renovating facilities. Operations costs, while somewhat predictable, were so monumental that they cast a shadow on virtually all of the school's other functions. Instructional costs were dominated by teacher and special education costs, and the administrative demands of running an independent public school appeared to be more complex than many anticipated. As a result of these other pressing demands, teacher and student support services were generally deprioritized.

Finally, across schools, founders partnering with an educational management company or a sister organization generally had a greater capacity to respond to this range of expenditures than grassroots founders working independently.

Surplus (Deficit)

This line item represents total revenues minus total expenses. As table 14 summarizes, all but three of Massachusetts' charter schools had a surplus in FY96.

Most surpluses were under $100,000, but six schools had surpluses that exceeded $100,000, and the largest was nearly $400,000 (Table 14). Since charter school regulation allows these schools to carry over surpluses, these funds were crucial in a) paying off debt accrued in start up, b) serving as a buffer for lean times, and c) building a nest egg for the future expansion.

None of the educational management companies made a significant profit in year one. While one of the for-profit management companies did have a substantial surplus (school M, Table 14), when balanced against the resources the management company invested in the school, it is unlikely that they saw much, if any, net profit.

Table 14. Surplus (Deficit): Total Revenue minus Total Expenditures

Charter School	Total Revenue	Total Expenditure	Surplus (Deficit)	Surplus/Student	% of Total Expenditure
A	1,348,486	1,309,354	39,132	179	3%
B	793,249	738,515	54,734	367	7%
C	5,155,832	5,127,888	27,944	45	1%
D	864,742	720,048	144,694	1,130	17%
E	822,822	622,293	200,529	3,085	24%
F	750,088	736,567	13,521	123	2%
G	822,582	780,556	42,026	353	5%
H	248,462	206,566	41,896	1,074	17%
I	1,187,496	1,329,165	(141,669)	(791)	-12%
J	557,254	519,283	37,971	380	7%
K	894,718	950,437	(55,719)	(410)	-6%
L	374,749	393,636	(18,887)	(370)	-5%
M	2,696,154	2,320,640	375,514	840	14%
N	881,315	867,290	14,025	94	2%
O	445,622	409,432	36,190	696	8%
Total	17,843,571	17,031,670	811,901	6,795	
Average (Total/15)	1,189,571	1,135,445	54,127	453	

SECTION 3: Comparison of Charter School and District Spending

In this section, we return to the "financial argument" for site-based budgeting discussed above, and compare charter school spending to national district norms. To review, the financial argument assumes that a) if bureaucracy is reduced in an educational delivery system then the system will get more money into the classroom, and b) if an education system gets more funds into the classroom, then it will produce increased student outcomes. Therefore, we compared the expense patterns of the first year charter schools in our sample to district norms to see if charter schools, with their streamlined state-to-school finance structure, would be able to get more money into the classroom.

To begin, we need to understand how districts spend their funds. Bruce Cooper (as reported in Mandell et al. (1996)) and Allen Odden and Carolyn Busch (1998) concur that districts are able to get about 50-60% of their funds into the classroom (see Table 15 below). Cooper found that districts spend about 52% of their funds on instruction (instructional staff and materials, see attachment B for budget template) and Odden & Busch found district instructional costs to be about 61 percent. Further, Odden and Busch (1998) found that public education expense patterns have remained relatively constant over time -- they have not changed in 35 years -- and across different population densities -- urban and rural districts spend their funds in similar ways. Therefore, it is reasonable to assume that most district schools spend about 50 to 60 percent of their funds on the classroom.

Table 15. National Data on District Allocations.

This table summarizes the allocations of districts based on national data. Two studies found similar results: Bruce Cooper (as reported in Mandell, 1996) and Allen Odden and Carolyn Busch. The data from the latter study was put in the budget template (Attachment B) modified from Cooper's work for comparative purposes.

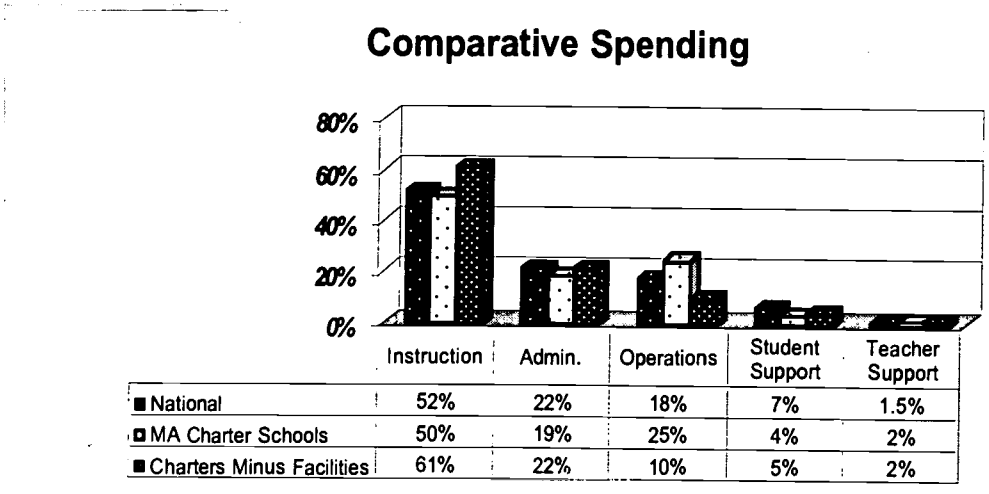
Expenditure	*Cooper Analysis*	*Odden and Busch Analysis*
Instruction	52%	61.2%
Administration [District + School]	21.5% [15 +6.5]	8.4% [2.6 + 5.8]
Operations	18%	18.7%
Student Support	7%	8.7%*
Teacher Support	1.5%	*

*Odden and Busch do not break out "teacher support," so this line item may be included in the 8.7% under what they label "instructional support."

For the sake of consistency, we will use Cooper's data in the comparisons that follow[4]. Figure 3 provides comparisons of our five expense categories (instruction, administration, operations, student support, and teacher support).

Figure 3. Comparative Spending.

This figure compares the relative spending of Massachusetts' first fifteen charter schools against national averages[35].



[4] Note that these comparisons are coarse. Cooper's data is based on national averages of several urban districts and is subject to aggregate bias. That is, the variation across districts may be masked when the numbers are averaged. Similarly, my interpretation of how individual schools categorized their funds required a certain

Instruction

Figure 3 shows that, on average, Massachusetts charter schools in their first year of operation spent about the same on instruction as Cooper's national average (50% vs. 52%). Proponents of charter schools may have assumed that charter schools would get more funds into the classroom since district-level bureaucracy was eliminated. However, there are at least two explanations for these findings. First, the large operations and administrative burdens these schools faced in getting started surely curtailed classroom spending. As we can see in Figure 3, if facilities costs are subtracted, these charter schools spent 61% on instruction. Second, even though these charter schools generally had low student:teacher ratios, they generally hired younger, less-expensive, teachers. Therefore, the overall classroom costs were not very high.

Administration

Charter schools spent 19 percent of their budgets on administration (figure 3). This was slightly less than the total administrative expenditures of Cooper's national average (15% (central office) + 6% (school administration) = 21%)[36]. However, it was more than 3 times the administrative spending of an average district school (6%).

Why were these administrative costs so high? As mentioned above, there were at least two reasons. First, charter schools were small on average. Since all charter schools had certain base-level administrative duties that required a minimum number of administrative staff (often only a director and an administrative assistant), these administrative costs in relation to small overall budgets give the appearance of top-heavy organizations. Second, the administrative responsibilities of a charter school leader are heavier than those of a

---

amount of subjective judgement.

traditional public school principal. Thus in some cases, schools may indeed had been spending more on administration to meet their heavier reporting requirements.

Operations

Figure 3 indicates that charter school operations costs were higher than the national average (25% versus 18%, respectively). Since charter schools did not receive public facilities support at this time, some may have expected charter school operations costs to be even higher. However, as discussed above, much of the actual facilities costs were paid for out of debt, and thus did not appear on the balance sheets. (As was noted above, the projected facilities costs were many times the construction costs presented in the budgets.)

Some might wonder why the district operational expenses appear to be so low. The reason is that districts often have a separate budget for facilities. For example, districts often have an "all-purpose" budget to address all of the expenses summarized in Figure 3, as well as a separate budget dedicated to the district's facilities purchases or major renovation costs. These facilities budgets are often supported by municipal bonds and state school building assistance funds, and since they are separate, not addressed in the analysis of Cooper or Odden and Busch.

Student Support

Figure 3 indicates that charter schools spent less on academic support than the national average (4% versus 7%). What explains this discrepancy? First, most charter schools simply didn't have support systems in place in year one. Many schools were renovating their buildings until the first day of school, and it was unrealistic to expect them to have completely stocked libraries and a full complement of after-school activities in year

one. Second, given the pressing nature of the other three expense categories (instruction, administration, and operations), student support was deprioritized in year one.

Teacher Support

While charter school expenditures dedicated to professional development varied considerably from school to school (see table 8), an average school spent slightly more on teacher support than the national district average (2% vs. 1.5%). However, given the general youthfulness of these teachers coupled with the multiple demands of starting a new school, it would seem important to strengthen support for charter school teachers in the years to come.

SECTION 4: Conclusions

In this paper, we explored how fifteen charter schools in Massachusetts garnered and spent their funds in their first year of operation. The revenue data revealed that 1) these schools relied on state funding for the vast majority of their funding (89% on average), 2) few schools accessed government grants, and 3) about a third of the schools were able to raise sizable private contributions. The overarching question this revenue pattern suggests is: What should the appropriate balance be for a typical charter school portfolio?

Charter school founders might be well advised to pattern their budgets after independent schools rather than traditional public schools. Like private schools, charter schools are enrollment-driven so they should avoid becoming over-reliant on unpredictable per pupil expenditures. Similarly, charter schools, like private schools, have heavier administrative and facilities costs than a school managed by a central district office and should budget accordingly. For example, since charter schools tend to attract young teachers excited about creating the school as well as teaching in it, charter school leaders need to dedicate adequate resources to support their teachers so that the organization can continue to build its capacity. And finally, because charters, like private schools, have to pay for their facilities out of their operational budgets, they need to strive to carryover a surplus each year -- the equivalent of an endowment -- so that they can continue to grow.

Does this quasi-independent school funding arrangement enable these public charter schools dedicate more resources to the classroom? Our data indicates that when the average charter school expenditure pattern was compared to national district averages, they spent on a par with national norms. Therefore, it appears that the removal of district level bureaucracy has not increased the amount of funds these schools spent on the classroom, at least not in

year one.

This finding is time and context specific. As these schools mature, their spending patterns may change. Further, charter school spending patterns will certainly vary by state and grade level. Odden and Busch (1998) point out that there is a great discrepancy across states and within states relative to education spending because public education is largely funded from local property taxes. Further, within districts, secondary schools are usually more expensive than primary schools because high schools require more sophisticated lab and student support services. However, in Massachusetts, there is a good chance that this average charter school spending pattern could remain stable over time.

Instructional costs will certainly increase as enrollments increase and the teachers gain seniority, but the other expenses will likely increase at similar rates. As we saw, the administrative demands are high in these charter schools. Since year one, many schools have added a business manager, a development officer, and even a president, to respond to this heavy administrative load. Operations costs will also continue to grow until schools reach their enrollment capacities and settle into their permanent homes (many schools that leased facilities for the first four years are now considering purchasing buildings). In addition, there is societal pressure to increase student and teacher support whenever possible. Brown (1993) points out that schools, both private and public, look remarkably similar because they are designed to prepare students for the same range of future options. In particular, in order to continue to attract students, charter schools will likely broaden their range of sports programs and special clubs in an effort to look like a "real school," as one charter school leader put it. Further, in order to reduce the risk of teacher burn out, especially among young, very driven teachers, schools will need to provide more professional development. In other words, in order to retain both students and teachers, schools' respective support costs are likely to increase. Therefore, it is quite possible that Massachusetts charter schools will continue to

spend about 50-60 percent of their revenues on instruction. Instructional costs will surely rise over time, but the other competing expenses of running a charter school will likely rise apace.

So what does this mean for U.S. policymakers interested in providing more fiscal autonomy to their schools? As Hanushek (1997) points out, the *amount* of money is far less important than *how it is used*. Therefore, our findings simply establish a platform from which to explore the more powerful policy question of efficiency. That is, if charter schools are spending about the same on instruction as traditional schools, can they show better student achievement gains on that same public dollar? If so, site-based budgeting could become an important component of district- and state-level reform efforts in the US.

Future Studies

Future micro-financial analyses could build on this work in at least three ways. First, they could be longitudinal in order to capture the schools' growth over time. Second, they could attempt to measure the finances of schools following a common budget template and perhaps compare the spending across the three sub-groups we identified (i.e., schools in partnership with grassroots, small business or big-business organizations). And third, they could attempt to measure the relative efficiency of charter schools once comparable performance data becomes available (Cooper (1993) offers some suggestions).

SECTION 5: Recommendations

By examining the first year finances of Massachusetts charter schools, we attempted to gain a better understanding of the financial barriers to building an adequate supply of charter school operators in this state. Based on our findings, we have developed recommendations to legislators, chartering agencies, graduate schools, foundations, technical assistance providers, and charter schools.

Recommendations to Legislators

There are several legal and logistical barriers that the state legislature could address if they were inclined to expand the supply of charter schools. The Massachusetts charter school initiative is legally hemmed-in by the current municipal and state caps. Further, the fiscal constraints of facilities and general start-up costs continue to impose natural limits on the growth of this initiative. Thus, legislators should consider:

- **Lifting the current state and municipal caps**. This is especially true in the cities where there is both a clear need and the greatest capacity for educational entrepreneurs[37].
- **Encouraging state-sponsored institutions of higher education to establish charter schools.** Colleges provide an optimal site for charter schools. They have both the administrative capacity and facilities to serve as a strong partner. To date, there is only one college-charter partnership in Massachusetts, a state with the highest number of colleges per capita in the nation.
- **Providing facilities funds and financing assistance**. As public schools, it only seems reasonable that these schools have access to state school building assistance

funds. In addition, the state should also consider developing a low-interest financing authority.[38]

- **Increasing the length of charters.** The legislature should consider increasing the length of charters from 5 to 7 years. As the law currently stands, schools have insufficient time to demonstrate progress (three and a half years) and too little time to amortize their start-up loans. With a seven-year charter cycle, schools would have a full five years to demonstrate success (as the law seems to intend) and if schools applied for early renewal, they could have nearly ten years in which to amortize their loans.

Recommendations to Charter School Authorizers

Charter school authorizers could reinforce and augment the work of the legislature. Since the Massachusetts Department of Education (MDOE) is the chartering agency in this state, it is in a unique situation to streamline reporting as well as strengthen the initiative statewide. Therefore, the MDOE should consider:

- **Ways to reduce the administrative burden and increase the utilization of government grants.** MDOE might consider convening a small task force of charter leaders and MDOE representatives to review what reporting could be waived, eliminated or changed. Further, this task force could review whether government grants were too restrictive for the amount of funds being awarded and explore how this situation could be improved. Whether the barriers are real or perceived, government grants designated for these public schools did not get to charter school students. In order to increase the utilization of these grants, MDOE should re-assess the mechanism of delivery, perhaps by simplifying the reporting process[39], reducing the restrictions on small grants or pooling several small grants

under one application and reporting mechanism.

- **Convening statewide charter school conferences.** If the quality and strength of this initiative is to grow, the supply of educational entrepreneurs needs to be fostered. Organizing conferences of best practices could have three benefits, they could: 1) serve as a forum for sharing innovations with the larger public, thus addressing the law's dissemination intent and reducing the rift between many charter and district schools; 2) encourage the charter school leaders to present what they have learned with their charter school peers, thereby raising the overall knowledge-base across schools; and 3) increase awareness and interest among potential charter school founders, thus expanding the supply of charter school founders.

Recommendations to Technical Assistance Providers

Technical assistance providers can serve the crucial functions of supporting existing schools and bolstering the growth of this initiative. Autonomy is a double-edged sword. Charter schools have the power to make decisions public schools have never been allowed to make, yet, this autonomy can also lead to isolation. The relative success of charter schools could become as mixed as any district in the country if there isn't a technical assistance mechanism and a means of sharing best practices. Those with the right combination of leadership and administrative support will thrive and those that don't will either fail or simply limp along – doing just well enough to avoid revocation. If this is the case, the initiative will have failed. The general public will dismiss the few successes to a magical mix of intangibles that can be attributed to any successful school, but reject the larger notion that this success was a result of giving schools greater autonomy in exchange for greater accountability. Therefore, Technical Support Organizations (The Charter School Resource Center at the Pioneer Institute in the case of Massachusetts) should consider[40]:

- **Linking technical assistance with the state's accountability system.** The MDOE collects a wealth of rich data on the individual and aggregate success of charter schools. All of this information is public and should be used to identify both areas of weakness and best practices. The Pioneer Institute has done this to an extent offering programs in board management and assessment. However, it might also consider providing, or brokering, intensive services to schools with the most need and providing a forum to share best practices. Meetings such as these could maximize the individual gains made across schools.

Recommendations to Foundations

Foundations play a crucial role in providing needed resources directly to charter schools and the organizations that support them. As the data shows, one third of the charter schools would not have met their expenses without private funds; and on average, private funds represented 7% of charter school revenues. These grants were helpful in addressing the daunting administrative and facilities expenses these schools faced as well as a host of other costs that will continue well beyond the start-up years. Therefore, foundations should consider:

- **Supporting charter schools directly**. If possible, grants should be flexible and extend beyond years one and two.
- **Supporting Technical Assistance Providers.** These organizations should be funded to help share best practices and provide technical assistance to existing charter schools as well as serving as a clearinghouse and support network for charter applicants.
- **Supporting organizations working to build the pool of educational entrepreneurs.** The job of running a charter school appears to be more complex

than managing a district school. In the last few years, organizations have been started to serve as incubators for the development of educational entrepreneurs. Given the growth of the charter school movement specifically, and decentralization more broadly, such organizations deserve support.

Recommendations to Graduate Schools

Building on the recommendation above, our data has revealed a critical shortage in the supply of educational leaders who can manage the responsibilities of an autonomous school. Therefore, graduate schools of education, business, and law should consider:

- **Broadening the training offered to future educational leaders.** Principals in charter schools and in more decentralized systems will need a wider array of educational policy, legal and financial skills to effectively lead this new brand of schools. Graduate schools of education might benefit by developing joint programs with business and law schools in order to be able to offer training packages that address the needs of these new educational entrepreneurs.

Recommendations to Charter School Leaders

The health of the charter school system depends on the quality and skill of its applicants and operators. Based on the pioneering efforts of the schools in this study, new charter schools should consider:

- **Establishing credibility quickly.** A lack of financial credibility hampered many of these schools in generating foundation dollars and securing financing. However, some schools were able to navigate this problem in two ways. One, they developed pilot projects prior to opening. These projects allowed some schools to demonstrate a track record which was helpful in private development. And two, they developed

partnerships with educational management companies, community based organizations or higher education institutions. These EMCs and "sister organizations" were very helpful in securing financing to charter schools.

- **Maintaining a balanced portfolio.** Do not become over-reliant on the Basic Payment, or soft money (short-lived grants). Be prepared for fluctuation in all revenue sources. Consider the costs and benefits of increasing development efforts (both private and public). Determine whether the administrative burden is as onerous as imagined when pursuing government grants and exercise your right to ask for waivers when appropriate.

- **Choosing your facility wisely.** Your choice of facility will influence all of the fiscal decisions that follow. A leased building is inexpensive, but inflexible. A purchased building is costly, but provides more flexibility. Think through the long and short-term benefits in relation to your available resources.

- **Acknowledging the added administrative responsibilities of running a charter school and planning accordingly**. The administrative burden is heavy for charter schools. Therefore, new schools should think carefully about whether they might need a business manager and/or a development person from the start. Further, thinking through your finance systems before you begin is far more efficient and practical than hiring an accountant to sort them out after the fact.

- **Learning from the pioneers.** The schools in this study broke the ground for the schools that followed. Some of the lessons they imparted relative to spending were: be aware that "start-up costs" continue well beyond the first year; be prepared to accept the same percentage of special needs student as your sending districts; budget generously for maintenance and operations; lease, rather than buy, technology; and strive to carryover a surplus each year.

Sources

Cooper, B. S. (March 1993). "School-Site Cost Allocations: Testing a Micro-Financial Model in 23 Districts in Ten States" (Second Revision). Center for Workplace Preparation and Quality Education, US Chamber of Commerce, Washington, DC.

Datnow, A. et al. (1994). "Charter Schools: Teacher Professionalism and Decentralization," paper at Annual Meeting of American Educational Research Association, New Orleans, LA.

Davies, B. and Hentschke, G. C. (1994). "School Autonomy: Myth or Reality – Developing an Analytical Taxonomy." Educational Management and Administration, 22(2).

Dolan, J. V., D.P. Murray and G.J. Walsh (1998). "Charter School Facility Financing: Constraints and Options." Pioneer Institute for Policy Research. Boston, MA. (Available online: www.pioneerinstitute.org]

Donahue Institute (January 2000). "Education Reform Review Commission's Report on the Charter School Initiatitive." Author, Boston, MA.

Elmore R. (1997). "The Origins and Problems of Education Reform in the United States." In Cummings, W.K. and McGinn, N.F. (Eds.) Handbook of Modern Education and Its Alternatives. New York: Garland.

Filho, J.C.D.S. (1993). The Recent Process of Decentralization and Democratic Management of Education in Brazil. International Review of Education, 39(5), 391-403.

Fuhrman, S. and S. M. Johnson (June 1994). "Lessons From Victoria." Phi Delta Kappan, 75(10) pp. 270-72,74.

Fullan, M. (1997). The Challenge of School Change – A Collection of Articles. IRI/Skylight Training and Publications, Arlington Heights, Illinois.

Gordon, L. (1995). "Controlling Education: Agency Theory and the Reformation of New Zealand's Schools." Educational Policy, 9(1), pp. 54-74.

Hall, M. (1988). Getting Funded: A Complete Guide to Proposal Writing. Third Edition, Continuing Education Publications, Portland State University. Portland Oregon.

Hannaway, J. (Ed.) (1993). Decentralization and School Improvement: Can I Fulfill the Promise?, Jossey-Bass Publishers, San Francisco, CA. [Richard F. Elmore, contributing author]

Hanushek, E. A. (Summer 1997). "Assessing the Effects of School Resources on Student Performance: An Update." Educational Evaluation and PolicyAnalysis. 19(2) pp. 141-164.

Herdman, P. and M.D. Millot (forthcoming). "Charter School Finance: Where Is the Money Coming From and Where Is it Going? A Micro-Financial Analysis of Massachusetts Charter Schools." Gund Foundation Report, Cleveland, Ohio.

Hill, P. T. and Bonan, J. (1991). "Decentralization and Accountability in Public Education," RAND, Santa Monica, CA.

King, E., and B. Ozler (1998). "What's Decentralization Got To Do With Learning? The Case of Nicaragua's School Autonomy Reform. Washington, DC: World Bank, Development Research Group, Paper No. 9.

KPMG, Peat Marwick (1998). "Review of Charter School Tuition Rate Formula." Massachusetts Department of Education, Malden MA.

Latham, A. S. (April, 1998). "Site-Based Management is it Working?" Educational Leadership, 55(7).

Lauglo, J. (1995). "Forms of Decentralization and Their Implications for Education." *Comparative Education* v.31, no.1.

Letts, C., Ryan, W., and Grossman, A. (1997). "Virtuous Capital: What Foundations Can Learn From Venture Capitalists. Harvard Business Review (97207).

London, N.A. (1994). "Community Engagement in the Implementation of Educational Policy in Trinidad and Tobago." Interchange, 25(4), pp. 335-348.

Mandell, M.J. and Melcher, R.A, Yang, D.J, McNamee, M ((April 17, 1995). "Will Schools Ever Get Better?" Business Iek, pp. 64 – 68.

Martin, C. J. (1998). "More for Less: The Mexican Cult of Educational Efficiency and its Consequences at the School Level." In Lene Buchert (ed.) Education Reform in the South in the 1990's. Paris: UNESCO Publishing. Pp. 165-1990.

Manno, B.V., C.E. Finn Jr., L.A. Bierlein, & G. Vanourek (July 1997). "Charter School Accountability: Problems and Prospects, Final Report, Part IV." Hudson Institute, Washington, DC.

McGinn, N.F. (1994). "The Impact of Supranational Organizations on Public Education." International Journal of Educational Development, 14(3), pp. 289-298.

McGinn, N.F. (1992). "Reforming Educational Governance: Centralization / Decentralization." In Emergent Issues in Education: Comparative Perspectives. Arnove, R.F., Altbach, P.G, Kelly, G.P. (Ed.s), State University of New York Press, Albany, NY.

Miles, K. H. (Winter 1995). "Freeing Resources for Improving Schools: A Case Study of Teacher Allocation in Boston Public Schools." Educational Evaluation and Policy Analysis. 17(4).

Millot, M.D. and Lake, R. (June 1997). "Supplying a System of Charter Schools: Observations on Early Implementation of the Massachusetts Statute." Prepared for the Gund Foundation. Institute for Public Policy and Management, University of Washington, Seattle, WA.

Morone, J. (1993). The Democratic Wish. Basic Books: New York.

National Center for Education Statistics. (1996c). "Trends in Academic Achievement, 1996." Washington, D.C.: US Department of Education.

Odden, A. R., Ed. (1992). Rethinking School Finance: An Agenda for the 1990s. Jossey-Bass, San Fancisco, California.

Odden, A. and C. Busch (1998). Financing Schools for High Performance. Jossey-Bass, San Francisco, CA.

Odden, A. R. (1997). "How to Create and Manage a Decentralized Education System." New American Schools, "How To" Papers. Arlington, Virginia, Vol. 2.

Ornstien, A.C. (1993). School Consolidation vs. Decentralization: Trends, Issues and Questions." Urban Review, 25 (2), pp. 167-174.

Purkey, S. C. and Smith, M.C. (1985). "The District Policy Implications of the Effective Schools Literature." Elementary Schools Journal, 85, pp. 353-389.

Rosenblum and Brigham (1998). "Study of Innovation in Massachusetts Charter Schools." Massachusetts Department of Education, Malden, MA.

Endnotes

[1] Datnow et al, 1994.

[2] There are two types of charter schools in Massachusetts. Commonwealth charter schools are the form of charter school described in the ERA of 1993. That is, they are independent public schools that report directly to the state. Horace-Mann Charter Schools were just enacted in 1997 and these schools are slightly different. They require union and district sign off in order to apply for approval and then once a charter is granted they report directly to the state.

[3] The enrollment cap is 2% of the state population, or approximately 18,000 of 900,000 students statewide. There are also district caps relative to the size of a district's budget.

[4] Decentralization efforts are occurring in Australia, Europe, Latin America, Africa, Asia and North America See Gordon (1995), London (1994), McGinn (1994), Filho (1993) and Odden & Busch (1998).

[5] King and Ozler, 1998.

[6] Martin, 1998.

[7] Fuhrman and Johnson, 1994.

[8] Odden and Busch, 1998, and Fuhrman and Johnson, 1994.

[9] Odden and Busch, 1998.

[10] Ornstien, 1993.

[11] Odden and Busch, 1998.

[12] Ibid.

[13] Cooper, 1993, and Busch and Odden, 1998.

[14] There is a USDOE study of charter school finance that is just getting underway and another preliminary study in Colorado, but to my knowledge, there is nothing published on this topic.

[15] Mandell and Melcher (1995).

[16] The literature supports this argument. A study by Purkey and Smith (1985) suggests that school autonomy is associated with improved school effectiveness. Fullan (1997) adds that education reform is most effective and sustained when implemented by people who feel a sense of ownership and responsibility to the reform.]

[17] National Center for Education Statistics, 1996c.

[18] Odden and Busch, 1998.

[19] Developing a common chart of accounts was a significant challenge. In 1999 the Massachusetts Inspector General released a report requiring that all charter schools report their finances in a common format.

[20] Foundation budgets are generally state plans that provide a minimum level of state education funding to school districts. School districts are usually required to contribute some local revenue as well. Guaranteed Tax Base (GTB) plans are similar to foundation budgets. The GTB education financing system guarantees a given property value per pupil for districts; all districts with value under the guarantee can operate as if they had the state guaranteed tax base. In short, both strategies are meant to equalize funding across districts.

[21] KPMG, an independent accounting firm was contracted by the state to examine the equity of the ACS and found that it indeed was a fair allocation with the exception that charter schools are at a disadvantage without facilities funding. However, Representative Patricia Jehlen filed a brief April 13, 1999, which claims that the ACS is unfairly high based on the state's foundation formula.

[22] Some schools noted that because they used part of their first quarterly payment to pay down debt, and because the payments are not spread out evenly, that they ran into cash flow problems between their first and second payments.

[23] Title I funds are meant to provide extra academic support for those students that meet the low income eligibility criteria.

[24] City on a Hill separated out its start-up costs. However, since these costs are not distinguished in the other budgets, City on a Hill's start-up costs were redistributed across the appropriate categories. In total, COH's start-up costs equated to 11% of their expenditures.

[25] Interview with charter school business manager, spring 1998.

[26] MDOE annual report on charter schools, 1996.

[27] Ibid.

[28] Some charter school leaders said that some of their best teachers were non-certified teachers that had come from other careers in the military or industry.

[29] MDOE Technical Advisory on Special Education (1996) indicates that the special education populations of charter schools were about the same as their district counterparts. However, a report by the Massachusetts Education Reform Review Commission (2000) found that special education students were significantly under-represented in charter schools.

[30] Boston Renaissance was cited for a lack of Special Education compliance in 1998 under Chapter 766.

[31] Transportation represented 4% of charter school revenues and just 1% of their expenses. More specifically, the average charter school transportation expenditure was $94 per student, while the average state allotment was more than three-and-a-half times that amount, $352.

[32] Computers for student-use are included in the "instructional" line item of Cooper's (1993) template and under the "operations" line item in our template. If student-computers were included in our instructional line item, that line item would increase by about 2 percent.

[33] Manno et al. (1997) and Dolan et al. (1998).

[34] The state auditor has included it in the recently developed uniform budget template for Massachusetts charter schools, see the State Auditor's Report, 1998

[35] Figure 2 represents national data from Bruce Cooper as displayed in Mandell et al (1995). In an earlier work (Cooper 1993) he found that teacher support was 1.5%, so we used this as an estimate of national teacher support costs. We used Cooper's 1995 data because it most closely matched the time frame of our study. It should also be noted that we did not use Cooper's copyrighted software package to categorize the expenditures of the charter schools in our study (see Attachment B2). Therefore, while we made every effort to mirror Cooper's categorizations, there may be some discrepancies in our comparisons.

[36] Charter school administrative costs were nearly double those of Odden and Busch (1998), see table 14.

[37] There is legislation pending at the time of this writing that would significantly increase the municipal and state caps in Massachusetts.

[38] There is currently a bill pending in the Massachusetts state legislature that would provide $2.8 million dollars to charter schools in facilities aid.

[39] MDOE has made efforts to streamline its process in the last few years and has created a unified grant proposal.

[40] Many of these efforts could also be facilitated by government agencies. In Massachusetts, MDOE has determined that providing technical assistance would conflict with their accountability function.

Attachment A: Budget Template and Process

Attachment A includes: 1) the budget template, and 2) notes on the process.

Attachment A1. Budget Template

We reviewed the financial audits and annual reports of the first fifteen Massachusetts charter schools and organized them in the template below.

REVENUES

Basic [State] Payment = Average Cost per Student (AC/S) multiplied by enrollment. These funds are unrestricted.

Transportation = Transportation allotment from the state (specific to each sending district) multiplied by enrollment from that district. [Note: If a charter school opted to have the district provide its transportation, it was ineligible for this allotment.]

Federal Start-up = Noncompetitive and unrestricted grants for the purpose of charter school start-up.

Other Government Grants = All other state and federal grants, restricted and unrestricted.

Private Grants/Donations = Private funds raised from private foundations and by the school or affiliated groups through fees for service and in-kind donations, generally unrestricted.

EXPENDITURES

Instruction

Instruction = direct expenses specifically to implement curriculum, including: salaries and benefits, program expenses, school supplies, books and materials, field trips tied to curriculum.

Administration

Administration = Salary of Lead Teacher or Principal, clerical, communications, marketing, trustees, professional fees, payroll, administrative supplies.

Professional Development = Costs, other than teacher time, to develop high quality teaching staff, including recruitment, conferences, workshops

Operations

Transportation = Student transport (if provided by school), cost of service, lease or purchase of vehicles.

Equipment /Technology = Lease / purchase of equipment and furnishings, maintenance of same, and technology consulting

Maintenance = Facilities lease, utilities (less communications), custodial, insurance, and supplies.

Out-of-Pocket Construction = Renovations, fire alarms, construction directly paid for out of revenues (vs. debt).

Debt Service = Payments on short and long term debt

Depreciation/Amortization = Charges against value of real property assets.

Academic Support

Academic Support = Uniforms, food services, nurses, after-school, athletics, counseling (may be tied directly to school mission, but not part of requirement to graduate).

SURPLUS [DEFICITS]

Surplus (Deficit) = Total Revenue minus Total Expenses.

Attachment A2: Budget Template Process

Developing a budget template for these fifteen charter schools involved a three-step process. First, we developed a template based on the categories that were most prevalent in the audits and annual reports we reviewed. Second, we arranged those categories to match Bruce Cooper's (Fordham University) national data on districts so that we could make comparisons. Finally, we verified our categorizations with the charter schools.

Matching the charter school data with this template was a slow process. Revenues were easier than expenditures to categorize. We began by inserting revenues into the template based on each school's financial data. However, when we went to verify our calculations with state records, we found that many of the schools' records did not match the state's numbers. To be consistent, we started over and used state data for all public revenues and the charter school records for private contributions.

Expenses were more difficult to categorize than revenues. The state recognized this problem and on October 30, 1998, the Department of the State Auditor issued a report recommending the establishment of standardized accounting and reporting methods for Massachusetts Charter Schools pursuant to Chapter 46 of the Acts of 1997 (No. 99-4080-9). However, in FY96, there was no uniform fiscal reporting requirement. Therefore, the complexity of budget construction differed from school to school -- some schools had three to four pages of detail, while some schools had one. Further, each school defined individual line items differently. For example, some schools categorized substitute teachers under "instruction" because they were teachers; while other schools categorized substitutes under "professional development" because they were hired to cover for a teacher attending a workshop. We attempted to be as consistent as possible in our interpretations of how expenses should be categorized. However, even if a common

template had existed, interpretations might have still varied[1]. Therefore, in an attempt to address this problem, we verified our completed templates with each of the charter schools for accuracy.

Missing Data

In one case, we had to extrapolate from the available data. School C had a line item of $3,662,015 for "instruction." However, the school's audit explained that this line item included the following management company responsibilities: "educational and instructional programs, personnel functions, maintenance and operations of the school facilities, extra and co-curricular activities, business administration, professional development, and the selection and acquisition of instructional materials, equipment and supplies." (FY96 audit, p.11) In short, this line item contained not only instructional costs, but expenses related to academic support, professional development, maintenance, equipment/technology and administration. As a result, school C's instruction expenses were much higher than the norm (78% vs. 54%) and their other expenses seemed disproportionately low. For example, school C had administrative costs of only 5% -- a quarter of the average – and equipment/technology costs of zero when their school design was technology-dependent. In an attempt to provide a more accurate reflection of that school's spending and to mitigate skewing the average, we adjusted school C's expenditures. (Note that we attempted to get more accurate information from the school directly, but were told that the current business manger was new, and did not have access to the data from 1996.)

[1] Note that a KPMG study (1998) found that even when districts were responding to a common format, (e.g. Schedule 19 end of year report), different interpretations of what constitutes a particular line item still existed.

We adjusted School C's figures by a technique known as "mean substitution". This technique involved bringing the line items mentioned in the school's audit (academic support, professional development, administration, equipment/technology, and maintenance) up to the averages of the remaining schools. More specifically, the School C's academic support costs were raised from 0% to 3%; administrative costs (included administration and professional development) were raised from 5% to 20%; equipment/technology costs were raised from 0% to 4%; and maintenance costs were raised from 5% to 8%. The difference between the adjusted figures and what was reported was subtracted from the original $3,662,015. Thus, after these other costs were extracted, the School C's instructional expenses went from 71% to 48%, a figure that was closer to the mean and comparable to the other school its size.

Attachment B: Protocol

The following questions were asked of the 15 charter school leaders (or business managers) as a way of verifying and expanding our analyses of each school's spending.

1) Data Verification

- Do you have any additions or changes to the template itself?
- Did we make any errors in categorizing your expenses and revenues?
- Is your school amortizing start-up costs and / or depreciating real property taxes? If so, why, since these terms are useful for tax purposes and charter schools pay no income taxes?

2) Changes in Revenues and Expenditures since Year-One

Revenues:

- What are your thoughts on government grants? Does your school apply for everything or is it more selective? If you have not applied for many federal or state grants, (aside from Title 1 and the federal start-up), what was your rationale?
- What has your school's experience been with private funders?

Expenditures:

- Which costs have gone up, down, or stayed the same, since year one? We're interested in expenses that have changed more than one would expect. For example, one would expect instructional costs to increase proportionally with enrollment, so, we're not as interested in that as we are in unexpected cost changes.
- In general, how is your school spending its foundation grants or federal start-up? Are these funds going toward start-up or operational costs, or both?
- How are you paying for your facility? Are you leasing or purchasing the site? Based on your experience thus far, what are the facility issues that future charter school leaders should keep in mind? How much is the school's rent per sq. ft. currently? If applicable, please describe how you arranged financing for start-up renovations?
- What are your biggest spending priorities currently (in year three)?

3) Macro Questions

- Is the school's enrollment manageable given your revenue and enrollment?
- If you could rely on the district to provide services well, (a) what do you think would make sense for the district to pay for if anything? (food, legal, special education, transport..) and (b) what expenditures, above all else at the school level?

Attachment C: Facilities Renovation and Financing

Construction costs varied depending on at least three factors. First, where the property was located -- in competitive markets, prices were higher. Second, whether the property was being leased or purchased affected the long- and short-term cost of a facility. And third, the extent of the renovations required: facilities that looked least like a school (e.g., a mall or restaurant) required the most work. Because these schools only had five–year charters, leased properties required fewer renovations. Landlords were reluctant to renovate and thus limit the function of their buildings in the event a school closed, and the charter school leaders didn't want to sink too much money into a property that they did not own.

Buildings that could serve as schools were hard to find. Eight schools found pre-existing schools or youth centers that required minimal renovations (see Table **9**). However, seven schools had to convert commercial space into serviceable classrooms at a moderate to great expense. There appeared to be four tiers of required renovations.

- Tier 1: Minimal (7 schools) - If the facility could serve as a school and did not require many renovations, than the costs were minimal ($0-$50,000, see Table **9**). For example, school J was on a college campus and school L was in a parochial school; both facilities provided the necessary floor plans and space to accommodate the new schools with very little modification.
- Tier 2: Moderate (2 schools) - Some schools leased non-school facilities and needed to do a moderate amount of work in order to meet local building codes and make the space serviceable as a school. These schools required $50,000-$100,000 in renovations. For example, school E spent about $90,000 to ready the former office space it was using in an urban YMCA building.

- Tier 3: Major (4 schools) – These schools required up to $500,000 in renovations and generally involved facilities that the charter school intended to purchase. For example, a feed company donated a building to school I, but the founders still had to spend $300,000 to get it school-ready.
- Tier 4: Gut Rehab and/or Option to Buy (2 schools) – These schools attempted to buy and completely renovate a non-school space, spending millions of dollars. School C, for example, is $12 million in debt after renovating a former state building in downtown Boston.

A school's facility choice has long-range implications. If a charter school board chooses to lease a facility that requires minimal construction costs, such as a parochial school, it will have minimal renovation costs, but it may have to deal with inadequate space and an unpredictable landlord. If a board opts to buy a facility, it will have control over the design of the space and a long-term investment, but it will also face steep initial costs and the challenge of finding financing.

In an ideal world, purchasing rather than leasing a facility makes more sense. The rationale is that rather than paying rent each month, the schools could be increasing their equity. However, financing these charter schools was difficult because: a) these schools had no credit history; b) they needed to amortize loans within the five-year term of their charters; and c) they had limited collateral (Millot & Lake, 1997). Despite these challenges, the schools found ways to finance their facilities.

Financing options varied depending on a school's management resources. *Grassroots schools*, those not in partnership with another for-profit or non-profit organization, generally pursued one of two options: either board members extended their personal credit and/or they raised private funds before the school opened. *Small -business schools*, those founded in partnership with a non-profit organization, small business, or a

higher education institution, generally relied on their sister organizations to arrange financing. These sister organizations generally had good credit ratings, relationships with local lenders, and experience in handling finances. For example, school F had a partnership with its sister organization, an organization that has a long history in the community. The sister organization lent the charter school F its needed start-up revenue, and the charter school then paid the loan back to its sister organization at prime plus 2 percent interest. *Big-business schools*, those that contracted with private management companies, had the luxury of having their management companies provide, or at least broker, the resources they needed to get their schools open. Both schools C and M went into debt to their management companies in FY96, but in the fall of 1995, when other charter schools were struggling to find matching chairs, these schools had fully stocked science labs and functional computer rooms.

U.S. Department of Education
Office of Educational Research and Improvement (OERI)
National Library of Education (NLE)
Educational Resources Information Center (ERIC)

NOTICE

Reproduction Basis

X	This document is covered by a signed "Reproduction Release (Blanket)" form (on file within the ERIC system), encompassing all or classes of documents from its source organization and, therefore, does not require a "Specific Document" Release form.
	This document is Federally-funded, or carries its own permission to reproduce, or is otherwise in the public domain and, therefore, may be reproduced by ERIC without a signed Reproduction Release form (either "Specific Document" or "Blanket").