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Charter Schools in Washington State: A Financial Drain or Gain?

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Charter Schools in Washington State: A Financial Drain or Gain?

The pending Referendum 55 (R-55), allowing for the emergence of charter schools in Washington State, raises questions about the overall fiscal impact of these new public schools at the state and local levels. Specifically, what potential benefits or losses might the State of Washington and local school districts expect if Referendum 55 passes?

Utilizing examples from the research and other states where charter schools exist, this paper discusses fiscal implications for the State and finds that:

1) Charter schools will lead to modest increases in state spending. The state Office of Financial Management (OFM) estimates a state cost of approximately $14 million over next five years, primarily due to an expected enrollment of formerly disenfranchised students into the public schools.[1]

- As a point of comparison, proposed Initiative 884 (to create an Education Trust Fund) is estimated to cost taxpayers $4.7 billion over the next five years.
- The estimated additional annual cost to the state as a result of R-55 in 2006 would represent .03 percent of total state spending on K-12 education in 2003,[2] or $1 of the total amount (approximately $5,000) the State spends per student annually.
- Charter schools would likely attract new federal resources to the state totaling an estimated $13.5 million over five years.

2) The impact on individual district budgets is likely to be small given the legislation's limit of 45 new charter schools in the state over the next six years.

3) The impact of students transferring to charter schools will likely have a small effect on district budgets compared to the normal enrollment shifts districts face presently as students transfer to new schools outside of their boundaries.

- As an example, in order for the impact of charter schools to meet or exceed that of regular shifts in enrollment (assuming the number of transfers in 2003-04 was typical), Seattle School District would have to approve about 19 charter schools next year, an impossibility given the legislated limit of five new charter schools per year.
- Transfers to charter schools are likely to grow gradually enough to allow school districts to plan for them just as they do now when students participate in open enrollment and inter-district transfer programs.

4) School districts are allowed to keep up to 3% of a charter school's state and local funds to compensate for any additional oversight responsibilities.

The three sections of this paper provide an overview of how charter schools in Washington would be funded, followed by discussions of the fiscal implications at the state and local level if the charter law passed by the Washington Legislature in 2004 is implemented as planned.

I. How Charter Schools Would Be Funded in Washington State

The charter school bill passed by the Washington Legislature in 2004 (now on hold pending the referendum) aims to broaden public school options for *all* students. Charter schools are public schools, and as such, serve public school students. When a student transfers between public schools (e.g., goes to a non-neighborhood school or to another district), state funds follow that student from one school to the next. The apparent intent of the charter law is to allow for that same transfer of money from one public school to another—for the money to follow the child to a charter school.

> "State funding for charter public schools would be provided in the same manner as other public schools. As students already enrolled in the public school system move to charter schools, student instructional and other costs would shift and associated state revenue would be reallocated."[3]

Public schools in Washington are funded via a combination of state, local, and federal funds. Approximately 85% of school districts' operating budgets are funded by state and federal sources. The remaining 15%-25% (depending on the district) of operating budgets are funded through local property tax levies.[4] Funding for capital construction and renovation is not included in general operating budgets. These funds are raised by school districts at the local level, typically through voter approved bond referendums and local tax increases.

Charter school applicants in Washington would be required to go to their local school district first to request to open a charter school. If the district denies the applicant's request, the applicant can apply to become a charter school sponsored by the Office of the Superintendent of Public Instruction (OSPI).[5] Table 1 lists sources of public K-12 funding for operations and capital outlay and indicates the types of funding charter schools would be eligible to receive under Referendum 55.

Table 1: Sources of Funding for Charter Schools

(An X indicates that the charter would be eligible for that type of funding)

Type of Funding	*OSPI sponsored charter school*	*District-sponsored charter school (approved after passage of local levy)*	*District-sponsored charter school (included in local levy)*
State General Funds	X	X	X
Local Levies			X
Facilities (capital outlay)		maybe (at discretion of district)	maybe (at discretion of district)
Federal Categorical Funds	X	X	X
Federal Charter School Grant Funds	X	X	X

All charter schools would be eligible for state general education funding on a per pupil basis and some federal categorical and charter-school specific dollars. However, charter schools sponsored by the OSPI would not receive local levy or capital outlay funds. District-sponsored charter

schools might be eligible to receive local funds if the levy was approved after the charter school opened. And, at the discretion of the district, charter schools could be included in capital construction requests and projects (however, the trend nationally has been to fund charter school facilities efforts only when mandated). Therefore, OSPI charter schools would receive less total government funding on a per pupil basis (about 85% of what their non-charter peers receive), while district-sponsored charter schools may receive the same or less than their non-charter counterparts, depending on when their charter is approved. And most likely, few of the charter schools would receive additional funds for facilities.

II. Fiscal Implications at the State Level

As a result of charter schools, the State of Washington may realize new costs in two areas: (1) new student enrollment and (2) charter school oversight & evaluation; however, it will also experience increased revenues from federal sources.

New Student Enrollment

Charter schools often attract students from private or home school settings for whom the public school system previously did not provide sufficient options. Therefore, as new charter schools in Washington open, the number of students entering (or re-entering) the public school system will likely grow, resulting in an increase in overall state education spending. Table 2 below displays the Office of Financial Management's cost estimates based on the total number of new students entering the public system to attend charter schools (versus those transferring from a public school to a public charter school), and related new state spending for the first five years of charter school growth and implementation in Washington State.

Based on these estimates, the State will see its spending on public education increase by approximately $12.7 million dollars (of a total $14 million in expected new state spending) over the first five years as a result of new students entering the public schools to attend charter schools. Therefore, the increase in funding is not for a new program to serve existing public school students like most school reform efforts (e.g., class size reduction). Instead, the increase in funding is for students who have returned to public education.

Table 2: OFM's Estimate of New Student Enrollment Impact on State Spending

Fiscal Year	*Amount*
2005	$0
2006	$1,298,000
2007	$2,310,000
2008	$3,752,000
2009	$5,438,000
Total	$12,798,000

When creating these figures, the state made the following assumptions:

- Twelve percent of students attending charter schools would come from private/home school settings and be new to the public school system. This number might be a bit high since the majority of charter schools in Washington will be serving low income and minority students, the majority of whom have been in the public system not in private or home school settings.
- As the number of charter schools increases in the state, the average size of a charter school decreases (e.g., 193 students on average in 2006 versus 183 students in 2009). These estimates are a bit lower than the national average of about 230 students per charter school.[6] In general, charter schools tend to be small schools and serve more students at the elementary level than at the middle and high school levels (although this is beginning to change as an increasing number of charter high schools are opening nationwide).
- Some charter schools would be pre-existing district-run schools that converted to charter status. The state anticipated three such conversions in 2006, four in 2007, six in 2008, and eight in 2009.
- Based on the state's estimates, the average state general funding per pupil would be $5,356 (2006), $5,431 (2007), $5,518 (2008), $5,645 (2009).

State Charter School Oversight & Evaluation

As discussed above, charter schools in Washington could be approved by either their local school district or in some cases OSPI. With this new responsibility come increased costs in staff time and other expenses for OSPI. The legislature recognized this cost increase and allocated $130,000 per year to support OSPI's charter school efforts. Furthermore, the legislature provided funding for research and evaluation of the charter schools so that it could monitor the schools' progress for the first three years ($65,000 in year one, $122,000 in year two, $123,000 in year three).[7]

Offsetting Revenues

Washington is likely to receive approximately $2.75 million in new funding per year from the U.S. Department of Education if the charter law is upheld.[8] Most of this money will support individual charter schools engaged in start-up activities. However, a portion of this funding may be used by the OSPI to cover costs associated with managing the federal charter school program at the state level (e.g., reviewing application for funding, allocating funding, monitoring use of funds). So, while the State expects to see an increase in spending obligations of just over $14 million (over five years), due to new students entering the system, it will also likely realize an increase in federal funding of approximately $2.7 million each year to support public education in charter schools, equaling $13.5 million over five years.

Summary of Total Expected State Fiscal Impact

Table 3: Total New State Expenditures (Source: OFM 2004)

	FY 2005	*FY 2006*	*FY 2007*	*FY 2008*	*FY 2009*	*5 Year Total*
State Spending for new enrollments	$0	$1,298,000	$2,310,000	$3,752,000	$5,438,000	$12,790,000
State agency oversight/ admin	$171,000	$169,000	$189,000	$198,000	$209,000	$936,000
Evaluation	$65,000	$122,000	$123,000	$0	$0	$310,000
						$14,038,000

III. District Level Fiscal Implications

Similar to the discussion regarding state costs, charter schools may impose costs on districts via changes in student enrollment and new oversight requirements.

Since the charter law is set up to allow districts to opt-out of sponsoring a charter school, some of the costs associated with district sponsorship of charter schools discussed here will be voluntary.

Planning & Budgeting for Enrollment Shifts

Planning for shifts in enrollment is a normal part of public school district management. Seattle School District enrollment has gone from nearly 100,000 students in 1962 to approximately 47,000 students today.[9] Charter school enrollment will be another enrollment factor for districts to consider in their short and long-term planning.

As such, districts in Washington will want to budget for enrollment changes attributed to charter schools just as they budget for shifts in student enrollment when students transfer to schools outside of the district or opt to attend a different school within the district. Table 4 displays the Office of Financial Management's estimates for state dollars that will likely move from school district budgets to charter school budgets due to students transferring into charter schools from existing public schools.

Table 4: OFM's Estimated Reallocation of Existing Funds Due to Charter School Transfers

Note: these figures are not new dollars but a reallocation of existing dollars (money following students from one public school to the next just as it works now when students transfer to other schools outside their home district).

	2006	*2007*	*2008*	*2009*
Reallocated Funds	$9,696,000	$16,845,000	$27,127,000	$39,094,000

A financial firm in Colorado recently examined enrollment shifts, and the subsequent impact of charter schools, in a large suburban district. Their conclusion:

> "The net fiscal impact on the school district from declining enrollment, due to charter schools or other factors, depends on its level of prudent fiscal planning and budgeting. There is not an absolute "cost" of charter schools, but rather a reallocation of districts' resources, the impact of which is dependent upon a variety of factors including prevailing demographic trends, prudent advance planning by the district and specific features of the relationship between the charter schools and the district."[10]

The State estimates that 7,680 students statewide will be enrolled in charter schools in the year 2009. Of those, 6,893 students will likely transfer to a charter school from a district run public school (the remainder will be new to the system from private or home school settings).

These rates of student movement are smaller than those districts now experience due to residential moves and transfers to private schools. Table 5 provides data on the number of students who transferred out of three Puget Sound school districts during the 2003-2004 school year.

Table 5: Number of Students that Transferred to Schools Outside of their Home District in Seattle, Highline, and Everett in 2003-2004

District	*# Student Transfers*
Seattle	3,787
Highline	2,650
Everett	234

These changes are offset at least in part by in-migration to the district, by students from other Washington districts or from outside the state. However, new students often move in to neighborhoods other than those left by students departing the district. That is in large part why Seattle, for example, has overcrowded schools in its south end and under-enrolled schools in the north.

Charter schools located in Seattle's north end would likely attract many of the students now leaving Seattle schools, thus reducing the net loss of students to charters from the Seattle school

district. Charter schools located in the south end would likely attract students from crowded schools, thus reducing future demand for new facilities.

No one can say for sure how charter schools will affect enrollment in existing Seattle public schools. It is clear, however, that student movement for other reasons will dwarf the numbers of transfers into charters.

Consider the following as an example of how charter schools in Seattle could have a positive effect on enrollment:

> Assume that the Seattle School Board sponsored 20 percent of the state's charter schools (approximately 9 schools), each serving 200 students for a total enrollment of 1,800 students in charter schools by 2009. If 300 existing Seattle Public School students enrolled in charter schools for each of the next 6 years and 10 percent of the students already leaving Seattle schools opted to remain in the district and enroll in charter schools (378 students based on the data provided in Table 5), Seattle would not suffer any loss in enrollment. Instead, it would experience a gain of 78 students.

In other ways, districts may realize financial benefits by chartering schools. Because districts are not required to provide facilities for charter schools, chartering can allow a district to reduce overcrowding in certain neighborhoods. In Florida and Minnesota, for example, charter schools have contributed significantly to the reduction of school crowding.[11] Chartering schools also can allow districts to tap into new sources of public and private dollars for school start-up (money that isn't available to start other types of public schools) such as federal charter school grants and private contributions from foundations (e.g., Gates Foundation, Walton Family Foundation).

In any event, Washington school districts should be able to examine their strategies for budgeting and reallocating for enrollment shifts, as they do now, so that if shifts occur later due to charter school growth, the districts can plan accordingly. An examination of charter funding in Pennsylvania by the Pennsylvania Economy League emphasizes the advantage of long-term planning in order to integrate charter schools into the School District of Philadelphia. Doing so,

they argue, can alleviate some of the negative financial impacts that surface when strategic planning is ignored or delayed.[12]

District Charter School Oversight

As is the case with the OSPI, the responsibility of sponsoring a charter school results in increased time and resources being spent within a school district. Where these costs are inadequately funded, districts are less likely to want to grant a charter to a school.[13] In recognition of these costs, the charter school law passed by the Washington legislature permits districts to keep up to 3% of the state revenue per charter school student to cover expenses associated with charter school oversight. This percentage of funding for oversight is comparable to what is allowable for sponsors in other states.[14]

Summary of Projected District Impact:

- Given the relatively small total number of new charter schools allowed statewide over the first six years (45), enrollment shifts within any one district that may be attributed to charter schools will be minimal compared to those most districts presently experience when students transfer to schools in other districts.
- Some districts may realize financial benefits due to charter schools. For example, high growth districts may use charters to alleviate school overcrowding.
- Districts that sponsor charter schools will need to dedicate staff time and resources to support the integration of these new public schools into the district. Up to 3% of each charter school student's state funding may be used to support activities related district oversight of charter schools.

About the Author

Amy Berk Anderson is a Seattle-based education consultant. As a policy analyst, school developer, and researcher, Amy has focused her work on efforts designed to improve public schools and has worked at all levels of the education system. Prior to becoming an independent consultant, Amy was Director of New Project Development for the Colorado League of Charter Schools, Vice-President of Augenblick & Myers, a Denver-based education consulting firm specializing in school finance, and a Management Associate with Designs for Learning, a Minnesota-based education firm (where she worked with some of the nation's first charter schools).

As a policy analyst, Amy has worked with various national groups, including the Education Commission of the States, the National Conference of State Legislatures, the Spencer Foundation, and the Annie E. Casey Foundation. She has been a researcher, program evaluator, and technical assistance provider for various entities, including public schools, state departments of education, school districts, and community organizations. Internationally, Amy evaluated the school improvement process for the United States Department of Defense Dependent Schools in Okinawa, Japan.

Amy received her Ph.D. in Educational Leadership and Innovation from the University of Colorado in 2003. Additionally, she holds an M.A. in Education from the University of Colorado and a B.A. in Political Science from the University of Wisconsin.

Endnotes

[1] Office of Financial Management. (2004). *Initiatives & Referendums: Potential financial impacts of Referendum 55*. Available online: www.ofm.wa.gov/initiatives/2004/55/

[2] Source for total state spending (2003): http://leap.leg.wa.gov/leap/budget/lbns/2004ps.pdf

[3] Office of Financial Management. (2004).

[4] League of Education Voters (2002). The state of Education Funding: Washington State 2002. Available online: www.educationvoters.org

[5] Note: public schools wishing to convert to charter status are not eligible to apply to OSPI. The OSPI may also convert traditional public schools to charter status if they fail to meet Adequate Yearly Progress (as defined under the federal No Child Left Behind legislation) for three consecutive years.

[6] Center for Education Reform. Charter school data available at www.edreform.org

[7] Research has shown the importance of providing adequate funding and support for charter school oversight and evaluation. When it is lacking, so is the quality of the sponsor, and subsequently the schools approved by that sponsor (Anderson & Myers, 2001; Palmer & Gau, 2003).

[8] Seattle Times, June 08, 2004 reported the US Department of Education was planning to award the state $2.75 in 2004 had the law not been placed on hold. These federal start-up fund levels have been relatively stable for the past five years.

[9] Kohn, Laura. (1996). *Priority Shift: The Fate of Mandatory Busing for School Desegregation in Seattle and the Nation*. Seattle, Washington. Center on Reinventing Public Education.

[10] Anderson, J.P. (2004). Preliminary Analysis of Staffing and Enrollment Trends for the Jefferson County R-1 School District. Denver: Patton, MacPhee & Associates.

[11] Center for Applied Research and Educational Improvement (CAREI). (1996, Fall). *Minnesota Charter Schools Evaluation*. Available online: education.umn.edu. Greene, J., & Winters, M. (2004, August 6). *Charters Ease Florida Public-School Crowding*. Available online: www.manhatten-institute.org.

[12] Pennsylvania Economy League-Eastern Division (2001, June). *Meeting the Challenge: Managing the fiscal impact of charter schools in Pennsylvania*. Available online: http://www.peleast.org/images/charter_schools.pdf.

[13] Hutton, T. (2003, Autumn). "*Public" Charter Schools: Local implications of state policy.* State Education Standard, 11-14.

[14] For example, a recent study by the Legislative Analyst's Office in California found that withholding 2% seemed adequate in most situations. The amount of money a district has at its disposal for such oversight will be determined largely by the number of charters and the enrollment size of such charters within its district. For example, a very large charter school with 1,000 students or several charter schools within one district will yield more money to cover district oversight than a situation where a district has one small charter school serving 75 students. Legislative Analyst's Office (LAO) (2004, January 20). *Assessing California's Charter Schools*. Available online: www.lao.ca.gov