

Charter Schools

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Charter Public School Operations, Funding, and Financial Accountability

Criticism: "The MTA [Massachusetts Teachers Association] believes that Commonwealth Charter Schools negatively impact the regular public education program."
 —Resolution of the MTA, February 18, 2003, www.massteacher.org.

How well do charter public schools operate?

Charter public schools are public schools that operate under a contract, or charter, from the state allowing them to manage their own operations and academic programming, control their budget, and make decisions on the hiring and firing of staff.

In traditional public schools, school leaders have little say in how money is spent, or in what programs work best for their school. Charter public school principals and executive directors accept the responsibility of meeting rigorous performance objectives in exchange for the freedom to make decisions about their schools that support the needs of their students.

Charter schools have been making good use of that freedom. In 2004, Harvard University economist Caroline Hoxby released the first nationally comprehensive study of charter school performance that compared the achievement of fourth grade students in charter public schools and their traditional public school counterparts.

1. The study covered 99 percent of the nation's charter school students and found that compared to students in the nearest public school, charter school students are four percent more likely to be proficient in reading and two percent more likely to be proficient in math.
2. In Massachusetts, Hoxby found that charter school students were eight percent more likely to be proficient in both reading and math than students in the nearest traditional public school with a similar racial composition.

They were seven percent more likely to be proficient in both reading and math compared to students in the nearest traditional public school.¹

How are charter public schools funded?

Charter schools in Massachusetts are taxpayer-funded, just like traditional schools. For each student enrolled, the charter school receives the same amount that the district spends per pupil. The funds are deducted from a district's local aid. When a school enrolls a student from another district with a different per pupil expenditure, then the school receives the lesser of the two amounts.² In addition to state tuition payments, charter public schools, like other public schools, may receive federal and state grant funds. Charter public schools may also receive funds and other donations from private contributors. Charters are not eligible for state School Building Assistance funds, but do receive a small per pupil stipend from the state based on what districts spend on their facilities. Charter public schools never charge an application fee or tuition.

How are charter public schools held accountable for their financial management?

All charter public schools in Massachusetts are required to achieve their established academic goals while maintaining fiscal solvency. As public schools, they answer to the Massachusetts Department of Education and must demonstrate that funds are spent responsibly to increase student achievement. Charter public schools must submit an annual report to the Department of Education³ that details the

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progress made toward the achievement of the goals set forth in the charter, and a yearly financial statement including specified revenues and expenditures. If the school has not fulfilled all of the conditions imposed by the Department of Education, then the charter can be terminated. The state is also required to commission an independent evaluation of the charter under the direction of the State Education Reform Review Commission, which also guarantees close examination of school finances.

In addition, the State Auditor's Office initiated a review of the financial recordkeeping practices of charter public schools in 1997. At that time, the State Auditor established standardized accounting and reporting methods for charter public schools.⁴ It developed a basic chart of accounts, pro forma budgets and financial reports, in addition to those required by Generally Accepted Accounting Principles (GAAP), that comprise the minimum accounts that are necessary to develop consistent and meaningful financial reports. According to the State Auditor's reports, "most of the charter public schools operating within the Commonwealth are operating from a fiscally sound position:"⁵

1. Thirty-two out of 39 charter public schools reported net income averaging 12 percent in 2002.
2. Thirty-eight out of 48 charter public schools reported net incomes averaging 10 percent in 2003.⁶
3. On average, charter public schools receive 82 percent of their operating revenue from state revenues, and 14 percent from contributions, grants, and fundraising sources.
4. On average, charter public schools spend 68 percent of operating expenses on classroom instruction, compared to the 61 percent spent by traditional public schools.

Charter public schools must operate more like small businesses than traditional public schools, because they must finance their own facilities. Since they are not able to build new schools and submit the bills to the state for payment, they must seek private financing from banks and other financial institutions, which require the schools to have reserve funds in the bank. Charters have been criticized for "running surpluses," but in reality they save cities and towns tens of millions of dollars by privately financing new public school facilities relieving overcrowding and deferring school building costs.

How does charter public school enrollment affect the funding for district schools?

Critics of charter public schools claim that charter public schools "hurt" traditional schools financially, because when a district loses students to charter public schools, they also lose state aid for those students. *On the contrary, under state law, district public schools are reimbursed for the money that is transferred to charter public schools: 100 percent the first year, 60 percent for the second year, and 40 percent for the third year. This gives district schools four years to adjust their budgets for the loss of students, four years more than they get when students leave for private schools or their families move out of town because of frustration with the district schools.*

Moreover, charter public schools are not allowed to grow at will: under current law, they cannot receive more than nine percent of any district's state funding, and according to the Massachusetts Department of Education as of fall 2005, 150 districts are approaching that cap.⁷

Notes

1. Caroline M. Hoxby, "A Straightforward Comparison of Charter Schools and Regular Public Schools in the United States," The National Bureau of Economic Research, September 2004: 1-23.
2. Massachusetts Department of Education Charter Public School Office, "Massachusetts Charter Public Schools Questions & Answers," <http://www.doe.mass.edu/charter/qanda.html>.
3. Section 89 of Chapter 71, Massachusetts General Laws.
4. *Ibid.*

5. *Ibid.*

6. The Commonwealth of Massachusetts, "Independent State Auditor's Review of Certain Aspects of Charter Public School Financial Results and Financial Reporting Fiscal Years 2002 and 2003," Auditor of the Commonwealth, June 15, 2004. <http://www.mass.gov/sao/charterschools-financesreport04.pdf>.

7. Massachusetts Department of Education, "2005-2006 Application for a Massachusetts Public Charter School," <http://www.doe.mass.edu/charter/app/?section=toc>