



# UNINTENDED CONSEQUENCES: AN ANALYSIS OF CHARTER SCHOOL FUNDING IN OREGON

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prepared for Northwest Center for Educational Options  
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Charter Schools are an important element of the educational landscape nationally and in Oregon. In Oregon, approximately 16,725 students attend 98 charter schools accounting for 2.95% of the state's total 566,607 students enrolled in K-12 schools. This percentage parallels the national average of 2.9%<sup>1</sup>. Charter schools provide choice to parents, present a testing ground for educational innovation that would not likely take place in more traditional schools, and attempt to serve hard to reach students and communities that would otherwise lack options in Oregon.

Like all public schools, charter schools rely on public funding to serve their students. In contrast to most other states<sup>2</sup>, Oregon's Charter Law does not provide full funding for charter students. Rather, Oregon's law stipulates that school districts pay charter schools *at least* 80% of the State School Fund's General Purpose Grant for K-8 students served by the charter school based on weighted average daily membership (ADMw<sup>3</sup>)<sup>4</sup>. This amount goes up to "at least 95%" for high school students<sup>5</sup>. Yet, many stakeholders describe uneven funding practices by districts and by funding source. The Northwest Center for Educational Options commissioned this study to identify the funding differential between charter schools and district schools in Oregon. **In other**

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<sup>1</sup> National Alliance for Public Charters, retrieved March 31, 2010, from <http://www.publiccharters.org>

<sup>2</sup> ECONorthwest, *Improving Quality and Strengthening Accountability in Oregon's Schools: A Broad Review of Promising Practices and Policy Options*, Pg. 10-32, 10-33, prepared for The Chalkboard Project, January 2005.

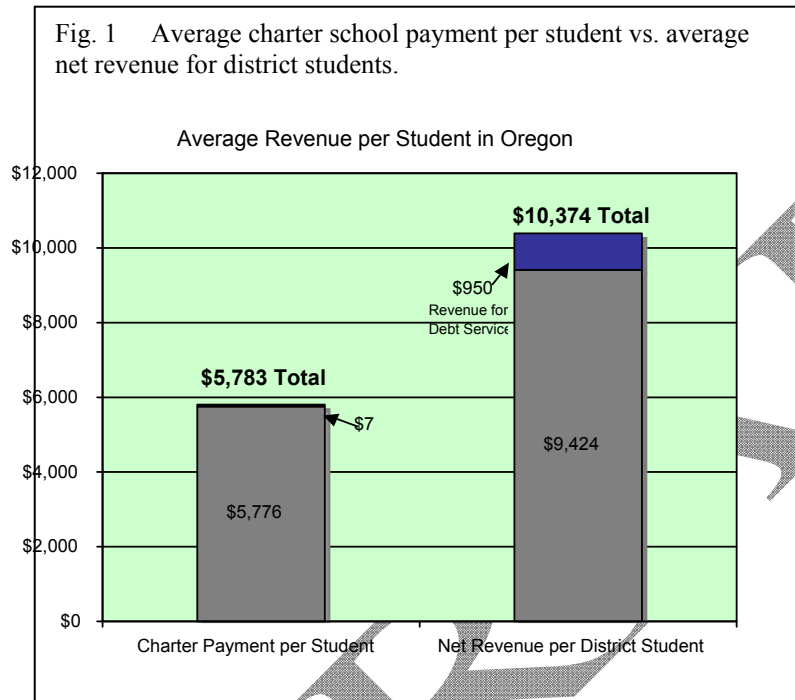
<sup>3</sup> "Average daily membership (ADM) is the average number of resident students during the school year. Weighted ADM or ADMw counts students in special enrollment categories as more than one student." Legislative Revenue Office, *Oregon Public Finance: Basic Facts, Research Report #1-09*, <http://www.leg.state.or.us/comm/lro/home.htm>

<sup>4</sup> The Oregon Department of Education calculates a "Charter School Rate" (CSR) for each district in the State School Fund Grant. Districts then pass through the appropriate percentage of the CSR for the ADMw served by the charter schools.

<sup>5</sup> The State Board of Education sponsors two charter schools. In Oregon, charters must first apply to their resident district for a charter license. If denied, they may then apply to the State Board of Education. State authorized schools receive an increased 90% of the Charter School Rate for elementary students in grades K-8, rather than the 80% required for schools authorized by the district. Nonetheless, public funding still flows through the resident district, which is required to pass on the corresponding 90/95% of the Charter School Rate to the charter school.

words, exactly how much do charter schools receive in public funds per student compared to their district counterparts?

To answer this question, the author looked at revenue per student based on October enrollment (fall enrollees) for the 2008/2009 fiscal year. In 2008/2009, there were 15,376 students enrolled in 88 charter schools<sup>6</sup> in Oregon. That same year, 197 Oregon school districts served 560,787 K-12 students with a combined total revenue<sup>7</sup> of \$5.74 billion. **Districts paid over \$86 million or 1.51% of this revenue to charter schools serving 2.73% of the state’s students.**



As shown in Figure 1, charter schools received \$5,776 in public funding per student from districts, compared to \$10,374 per district student<sup>8</sup>. If revenue for debt service on local bonds is excluded, the difference falls to \$5,783 compared to \$9,424 per student. **This means that, on average, charter schools receive only 55.7% of the revenue per student that districts receive to serve the students in traditional districts schools<sup>9</sup> (61.3% if you exclude revenue for debt service).**

Further analysis of the data indicates that charter students fare even worse when you exclude small, rural districts that operate

only one school converted to charter status. Statewide, 1,118 students attended schools in these “single-school-district-charters,” none of which served more than 300 students in 2008/2009. Figure 2 shows that single-school-district-charters received an average of \$13,120 per student, while charter schools within traditional districts received only \$5,182 on average. Although the single-school-district-charter revenue seems high, these districts still received less than the \$15,350 of similar size traditional districts. Even on an ADMw basis single-school-district-charters received \$7,675 per ADMw compared to \$8,464 in traditional districts of similar size<sup>10</sup>. **On the other hand, the charter schools in districts with more than one school received less**

<sup>6</sup> As of the October, 2008 enrollment count, commonly referred to “Fall Enrollees”

<sup>7</sup> Including revenue for debt service, excluding private donations. For more information, see Methodology.

<sup>8</sup> Revenue for charter schools does not include private donations or start up grants from public sources. These funds are not tracked in the state financial database and self-reported data was too incomplete to use at the time of this report. Private donations were also deducted from district revenue.

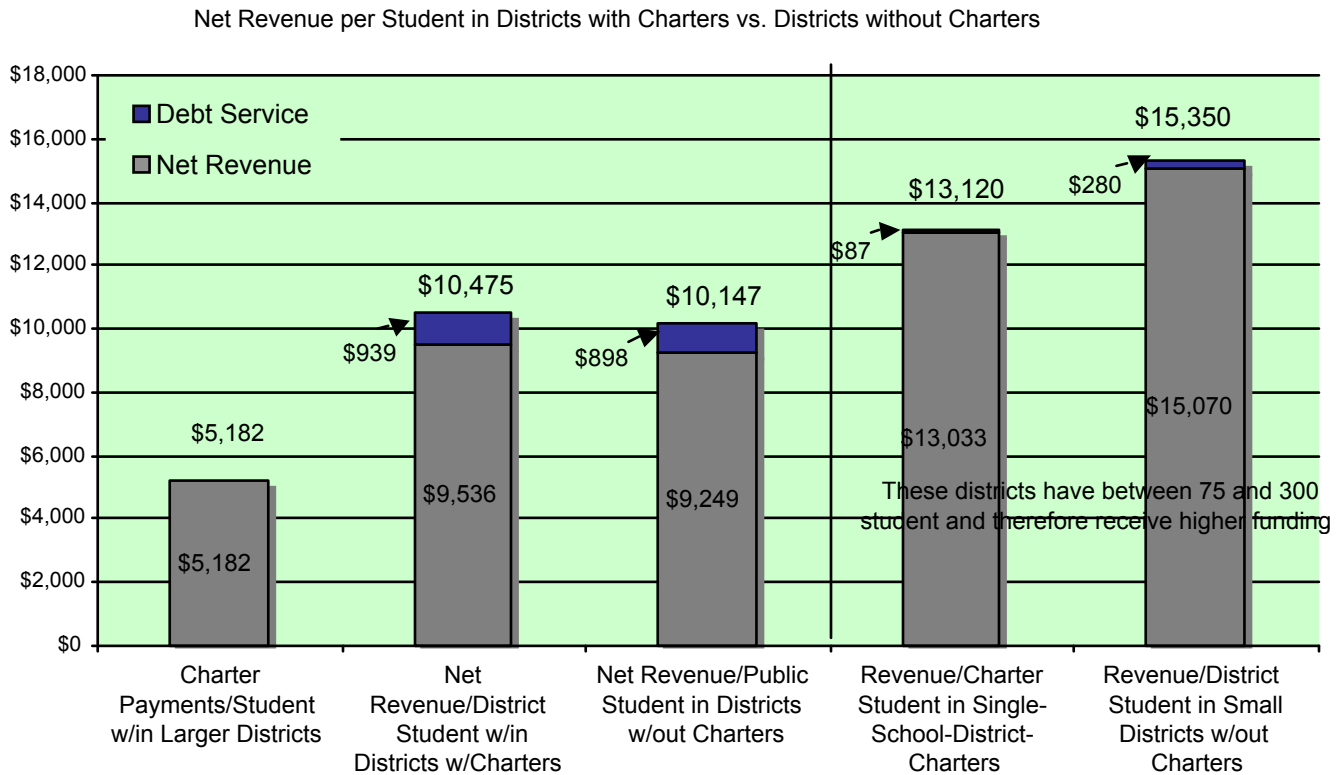
<sup>9</sup> In fact, district schools do not have “revenue.” They receive resources such as staff, training and materials from the district. The average revenue per district student reflects net revenue after charter payments.

<sup>10</sup> We compared traditional districts with 75-250 students to the single-school-district-charters. This size mirrors the size of the single-school-district-charters.



- than half (49%) of what their district counterparts received on a per student basis.

Fig. 2 Average revenue per student based on charter schools within districts versus single-school-district-charters compared to students in comparable district schools

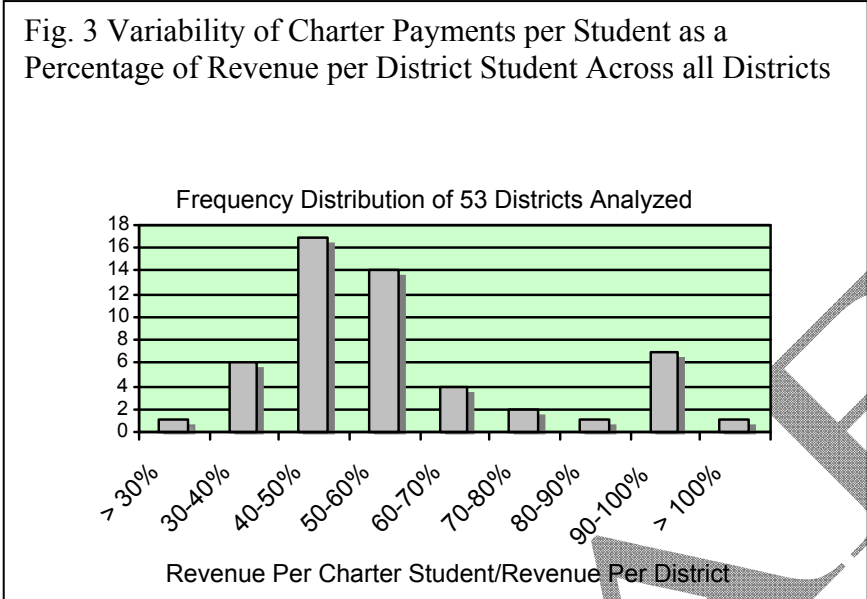


Students in traditional schools also benefit from having charter schools in their district. Districts receive an average \$10,475 per district student to spend in districts with charter schools. In districts without charter schools, districts receive \$10,147 per student. Up to \$52 of this difference can be explained by the 5-20% (the residual of the 80/95 law) school districts are intended to keep of the Charter School Funding Rate.

Not only does funding appear to be inadequate, it is highly variable as well. Figure 3 illustrates that most districts pay charters somewhere between 40% and 60% of the revenue received for district student. However, there are many districts that pass on significantly less or significantly more to the charter schools in their districts. The single-school-district-charters account for the second large grouping on the graph near 100%. Single-school-district-charters receive their funding directly from the Oregon Department of Revenue rather than having to go through a gatekeeper district as other charter schools do. In addition, districts are Local Education Agencies (LEA's) and therefore eligible for many state and federal sources that individual schools may not apply for directly. These two factors combined account for the increased funding to single-school-district-charters.

Anecdotally, the most important factor determining charter school funding may be the relationship the charter school administrator has with district administrators or local school boards. As one charter school administrator put it, “We have schools in 6 different districts, and each one treats us uniquely.” One district administrator illustrated the financial impact of a positive relationship when she said, “I love working with charter schools. They are smart,

Fig. 3 Variability of Charter Payments per Student as a Percentage of Revenue per District Student Across all Districts



progressive people who care.” The charter schools in her district received 80% of all revenue including the School Improvement Fund, School Day Restoration Fund, State Fiscal Stabilization Fund and even revenue from a local levy. Conversely, charters in districts where the relationship is weak or acrimonious experience lower funding and slow payment times. Although the state mandates distribution of funds to charter schools within ten days, many

charter schools indicate that districts withhold funds for up to three months, perpetuating cash flow problems for charter schools. Finally, there is little practical or legal recourse for charter schools locked in acrimonious relationships with their district.

Not all public funding for education flows through the State School Fund. In addition to the \$3.98 billion distributed through the State School Funding Formula in 2008/2009, districts received another \$1.76 billion of public funding from other sources. These sources included \$606 million in federal Title monies, \$115 million from the State Fiscal Stabilization Fund, \$502 million in debt service revenue, \$133.4 million from Oregon’s School Improvement Fund, \$50 million from the School Day Restoration Fund, 70% transportation reimbursement and some local property tax options. As illustrated in Figure 4, this amounts to an additional 30% in funding available to districts that is not typically available to or passed through to charter schools.

Many of these funding streams are based on headcount that includes charter school students. However, the law does not require districts to pass through the proportionate share to charters. Accordingly, districts have interpreted their obligations to charter schools and their students differently, resulting in uneven support of Oregon’s charter schools.

If districts choose not to pass through these funds, charters have little recourse to apply for them on their own or appeal the district’s decision. Charters are prohibited from applying for many federal grants because Oregon law does not allow charters Local Education Agency (LEA) designation. They are also prohibited from issuing bonds to fund facilities, an important

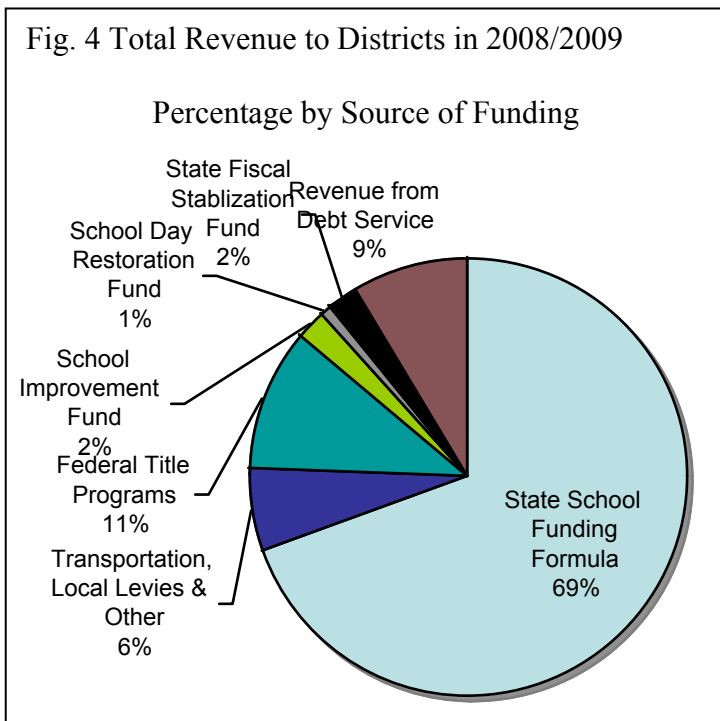
independent funding stream for most districts. **The unintended consequence of this patchwork of funding is a substantially lower and highly variable amount of public funding for charter students vs. traditional school students.**

There are several issues that complicate the charter school funding debate. First and foremost, schools in Oregon have had to fight harder for operating revenue while serving an increasingly more diverse and costly to serve population. Public education dollars follow the student. Any student opting to attend a charter school instead of their local school represents lost revenue to the district, not just lost students. As one Superintendent summed up the situation, “You are taking 50 of my students and you want me to pay you for them?”

Add to this the fact that half our districts face declining enrollment in their schools. Faced with relatively fixed operating costs on a school-by-school basis, declining enrollment means difficult staffing decisions and sometimes cuts. Understandably, some districts in this situation share only the revenue clearly required by law with charter schools, even if the district receives additional revenue partly based on headcount in their charter schools.

The final complicating factor for charter schools in Oregon may be the open enrollment issue. Unlike their traditional counterparts, charter schools are allowed to accept students from outside their school district without any special approval. While this provides choice for parents and students, it may make it more difficult for districts on the losing side of the equation. The resident district loses the student. The charter school receives the student and some portion of the revenue attributable to this student, but it is the sponsoring district that appears to benefit the most. The sponsoring district receives the 5-20% overhead portion of the State School Fund General Purpose Grant for this student and any additional funding outside the State School Fund that is based on district headcount, but isn't required to provide any services to the student. The resident district receives nothing unless the student is on an IEP, in which case, the resident district gets half of the overhead amount (10% or 2.5%) AND the responsibility to provide special education services to this student.

Regardless of one's position on charter schools, the funding disparity between chartered and non-chartered public schools seems contradictory to Oregon's commitment to equity in educational funding, particularly in the shadow of Oregon's school funding equalization efforts of the 1990's. Legislative and public intent is to provide public funding in approximately equal





proportions to serve students whose parents have chosen a charter school as the best option for their child. Oregon's current patchwork of funding, lack of legislative clarity around which funds must flow through to charters, and lack of recourse for charters mired in poor relationships with their district, makes Oregon's system inequitable to charter schools. Although some schools and districts clearly benefit from this inequity, the vast majority of students in charter schools receive less than their fair share of education dollars. Repairing this inequity is an important step in improving educational options for all Oregonians.

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## APPENDIX

### METHODOLOGY:

The Oregon Department of Education provided the data for this study from their financial database. From this data, we examined district revenue per student rather than "current expenditures," "total expenditures" or Oregon's unique "Formula Operating Revenues" because we were interested in how much public funding charter schools receive rather than how much they spend. The only other notable study of charter school funding was a multi-state analysis performed by a team of researchers engaged by the Thomas B. Fordham Institute. These researchers analyzed revenue per student in charters versus district schools in 16 other states. An updated study from the same team is due out in April 2010. Having Oregon's revenue data will allow for state-to-state comparisons.

Although education administrators in Oregon often exclude debt service revenue from resource discussions, this study included revenue received for debt service payments the district. Facilities funding is cited almost uniformly by charter school opponents as well as supporters as the one obvious disadvantage faced by charter schools. Districts have the ability to issue bonds to build classrooms while charter schools must pay lease costs for classroom space.

Revenue for Education Service Districts (ESD's) was not included in this study. Oregon has twenty Education Service Districts that receive 4.25% of the State School Fund above the district amounts included here.

This study does not include funding from start up grants or any other non-district provided revenue, such as private donations. The Oregon Department of Education does not track this information in its financial database. They do, however, collect financial audits from each charter school that includes this information. The author spot-checked the audits for the three districts with the lowest per student charter payments, but decided not to use the financial audit data because a) fully 1/3 of the 88 charter schools in operation in 2008/2009 had not submitted financial audits at the time of this study, leaving a far less robust segment of the charter school population for analysis, possibly skewed by size or other unintended classifications; b) the audits include revenue numbers, but are inconsistent in their classification and accounting of revenue; and c) the revenue numbers for the three schools we checked did not match the state data for undeterminable reasons.

Revenue data was divided by the number of actual students enrolled as of October, 2008. This



number is commonly referred to as “fall membership” or “fall enrollees.” We chose to analyze school funding based on “fall enrollees” rather than ADMw for several reasons. First, the state does not collect ADMw at the charter school level. Districts collect ADMw from local charters, include those students in their submissions to the Department of Education, and are then responsible for distributing the 80/95% portion of the Charter School Rate that is determined by the Oregon Department of Education.

Secondly, ADMw data can be somewhat misleading. Districts and/or ESD’s often but not always provide the additional services required by higher weighted students. For example, a student on an IEP attending a charter school across district lines would receive an ADMw of 2.0 students distributed as follows: 40% to the charter school, 55% to the resident district responsible for providing special education services and 5% to the district sponsoring the charter school where the student is enrolled. Furthermore, there is an 11% cap on the percentage of IEP students a district can receive ADMw credits for, and there is a “donut hole” for any amount expended on special education services above two times the general fund rate but below the “high cost disability” grant range of \$33,000 per year or more. These special circumstances and a variety of education funding nuances in Oregon make an overview that fairly accounts for these issues much more difficult to calculate. A detailed audit at the district level would help reveal these issues, but the cost of such an audit would be yet another regulatory burden on already overwhelmed district staff.

Finally, we chose to look at revenue per fall enrollee rather than revenue per ADMw because the general public including this author are concerned with students, not ADMw. While we recognize that some students are more costly to serve than others, we want to know how much we spend on actual children, not inflated and potentially inaccurate estimates of those children’s needs.

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#### **ABOUT THE AUTHOR:**

Vanessa Wilkins is a Principal at Seed Strategies, LLC and works with mission driven organizations on strategic planning, assessment and organizational development. She has worked with social sector organizations and education-related companies for over a decade and enjoys applying analytic tools to inform decisions about traditionally qualitative issues. Vanessa has a B.S. in Finance from Boston University (summa cum laude) and an MBA from Harvard Business School.

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