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SCHOOL FINANCE & ACCOUNTABILITY EXPERTS

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TEXAS CHARTER SCHOOL FINANCE REPORT
EXECUTIVE SUMMARY

In spring 2014, Raise Your Hand Texas (RYHT) engaged Moak, Casey & Associates (MCA) to analyze the financing, including current revenues and expenditures, of Texas open-enrollment charter schools, and compare funding information to that of Texas public school districts. The purpose of this study is to identify differences in funding between the charter schools and school districts. This report provides the results of that analysis as well as background information on enrollments, staffing and salaries, and funding for charter schools.

Highlights of this report include the following:

- Base funding for charter schools is calculated on an unweighted state average that effectively treats charters schools as if they were all small districts with less than 1,000 students.
- ISDs with more than 1,000 ADA generally are funded lower than their equally-sized charter school counterparts.
- ISDs with fewer than 1,000 students are generally funded higher than their charter school counterparts.
- If charters were funded like ISDs, the state revenue for larger charters would decrease by more than $113 million.
- If ISDs were funded like charters, total state support would increase by over $4.7 billion.
- ISDs depend on separate state and local revenue for the support of facilities, while charters utilize state operating revenue and other sources to support facilities.
- "WADA" (weighted students in average daily attendance) calculated for charters is not the equivalent of "WADA" calculated for ISDs, largely due to the significant role of the small school allotments and a cost index.
- Differences in financial reporting systems for charters and ISDs make comparisons of revenues and operating expenditures very difficult and subject to misinterpretation.

The Texas school finance system is based on a complex series of formula adjustments that begin with consideration of economy of scale (size) effects and a unique cost index developed in 1990 for each district. These factors then are applied to a tax rate level modified "basic allotment" to create the base funding level known as the "adjusted allotment" that is then modified for special programs and adjustments. On the other hand, all charter schools have the same "basic allotment" and "adjusted allotment" funding level based on state ISD average "basic allotment" and "adjusted allotment." The simple unweighted state average of each adjusted allotment is summed and divided by the count of districts to create a charter level adjusted allotment for all charter schools. After this stage, the allotment is supplemented by the same adjustments used for ISDs.

Effectively, the state has created a hybrid charter school funding system that operates in part on school district rules and in part on new rules established only for charter schools. The formula for

charter schools is substantially different in that amounts are based on **state average allotments, not an allotment based on the individual characteristics of the charter**. In particular, the basic allotment, the adjusted basic allotment, and the adjusted allotment amount are all set to state averages that were determined using a district-level analysis (all district amounts are summed and then divided by the number of districts). Additionally, Tier 2 funding uses uniform measures of tax rates derived from similar averaging of the observed tax rates in each ISD.

As a result of the formulas, **charters have a significant maintenance and operations funding advantage compared to most of the state's school population**, as shown in Figure ES-1.

Figure ES-1. Relationship of Key Elements for Traditional ISDs to Values for Charter Schools

State Averages	ISD Range (5% to 95% of ADA)	% of Traditional Public School ADA Below Charter Value
Adjusted Allotment	$4,832-$5,780	95.9%
DTR –Level 1 (tax rate)	$0.0385-$0.0646	59.9%
DTR – Level 2 (tax rate)	$0.0000-$0.1160	78.1%

Source: TEA FSP files with calculations by MCA

While the open-enrollment charter schools' basic allotment and adjusted basic allotment are skewed to the low end of ISD values, the adjusted allotment is skewed to the high end. The $5,926 value assigned to charters is higher than that of 562 ISDs (55%), and nearly 96 percent of ADA. The very substantial adjustments received by small school districts from the small district adjustment, particularly the adjustment given to those ISDs with more than 300 square miles, results in a distribution of ISD adjusted allotments that is significantly skewed to higher values.

In Figure ES-2, the blue figures are traditional school districts while the red dots or line represent charters. **Because the adjusted allotment is the value that actually distributes funding to charters and ISDs, the assignment of this high value is significant. Also significant is the determination of WADA, which is essentially a relationship between the sum of allotments and the basic allotment.**

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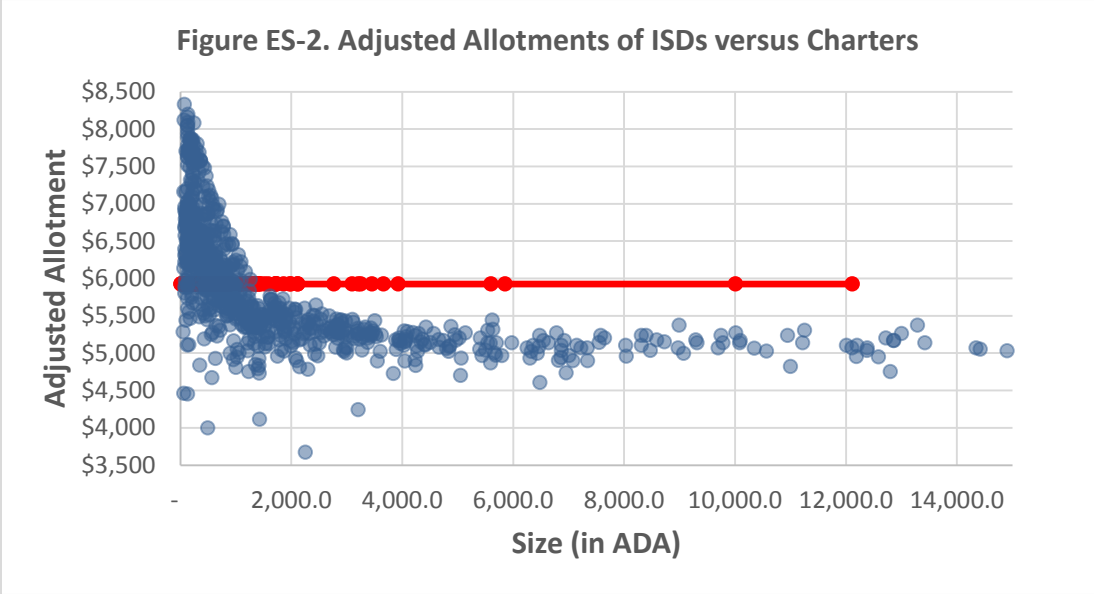

• = Charter Schools

• = Independent School Districts

Source: TEA FSP files with calculations by MCA

If open-enrollment charter schools were funded using the same formulas as the traditional public schools, with size adjustments made to the charters and cost index adjustments applied, charter schools would receive $72.5 million or 4.6 percent less than currently received. Under this scenario, smaller charters (less than 1,000 ADA) would gain revenue but larger charters (more than 1,000 students) would lose 11.1 percent of state revenues, as shown in Figure ES-3. Charters gaining would be those smaller than the state average, while the largest charter schools, especially those that have become large charter systems with multiple schools, would lose the funding advantage they currently hold over similar size traditional schools.

Figure ES-3. Impact of Assigning County Average CEI and Directly Applying Size Adjustments to Charters

Charter Size (ADA)	2014 Total RADA	Current Total General Fund	Alternative Total General Fund	Change in Revenue	% Change in Revenue
Less than 1,000	63,907	$563,334,251	$604,659,343	$41,325,092	7.3%
More than 1,000	121,672	$1,029,028,068	$915,211,734	($113,816,334)	-11.1%
Grand Total	185,579	$1,592,362,319	$1,519,871,077	($72,491,242)	-4.6%

Source: MCA Calculations of TEA basic data.

If ISDs were funded by the same formulas as used for the charters, state funding for traditional public school districts would increase by $4.7 billion, as shown in Figure ES-4. Larger districts would gain while smaller districts would lose funding.

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Figure ES-4. 2013-14 General Fund Revenue of ISDs Using Charter Basic Allotment, Adjusted Basic Allotment, and Adjusted Allotment

Enrollment	Current Total General Fund	Charter Formula Total General Fund	Change in General Fund	% Change in General Fund
Less than 1,000	$2,187,158,921	$2,032,256,825	($154,902,096)	-7.1%
More than 1,000	$33,649,744,550	$38,515,827,696	$4,866,083,146	14.5%
Grand Total	$35,836,903,471	$40,548,084,521	$4,711,181,050	13.1%

Source: MCA Calculations of TEA basic data.

Turning to the area of facilities financing, the differences between the charters and the traditional schools are significant.

Traditional ISDs have access to basic forms of support for the financing of capital costs. The primary method is through general obligation bond issues that are secured by the combination of a voter approved tax for facilities, often with additional assistance through Chapter 46 Texas Education Code equalized state support (IFA and EDA), and the guarantee of the bonds in most cases by the Permanent School Fund. The second source of financing is through the use of general revenue funds not used for operating expenses. In 2012-13, total capital outlays for traditional ISDs from these two methods were $5.8 billion ($5.0 billion from bond sales and $800 million from general revenue resources.

Charter school resources for facilities **include revenue bonds and direct outlays from general funds.** The state does not supply direct assistance for these bonds or capital outlays. In most cases, however, charter school capital expenditures are financed through the use of state funds described above. Most charter school facility support utilizes state funds originally allocated for operations. For many charter schools, facilities are supported through the lease or rental of all or part of the charter's facilities. In 2012-13 the charter schools spent $80.1 million or an average of $450 per enrolled student to rent or lease facilities. Traditional school districts rarely rent or lease facilities.

Annual financial reports do include information on the level of indebtedness of each charter. If only those schools reporting interest payments on bonded debt are considered, 41 charters were financing $923.4 million in debt in 2012-13 through the issuance of bonds. An additional $61.4 million was spent on interest payments on loans, leases, and other financing.

Comparing the facility provisions for charters and traditional schools is fraught with a variety of problems and missing data. The state has provided a basis for the financing of facilities in traditional school districts but not provided the same to the charter schools. However, only limited data suggest that charter school facilities are inadequate.

As in the area of operations, there is substantial complexity in measuring the gap between the charter schools and traditional schools. Over the past 18 years, charter schools adapted to the circumstances they faced. Larger class sizes, lower salaries, less experienced personnel, high dependence on leased facilities and other factors all have contributed to these adaptions and have permitted charters to prosper. The facilities gap issues should be examined in terms of an overall need for an overhaul of the Texas school finance system.

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Comparisons of revenue sometimes are centered on the gap in revenue per WADA. In the case of comparing charters to traditional ISDs, **revenue or expenditures per WADA are not proper comparisons.** Fundamental to this point is the definition of WADA under current law. Assessing the legitimacy of comparisons of maintenance and operations revenues for traditional independent school districts and open-enrollment charter schools requires not only a thorough understanding of the revenue system and what is included in the revenue amounts presented, but also a deeper understanding of how WADA is calculated and what it represents. Charter school WADA is an artificial construct based in large part on state averages, not on calculations made with district specific data regarding education costs and the size of the district.

Comparisons of revenues and expenditures between open-enrollment charter schools and traditional public schools are significantly complicated by differences in treatment under the Texas Education Agency (TEA) accounting systems prescribed for use in charter schools and for public schools. These accounting differences together with differences in charter school finances may easily lead to misinterpretation of charter school data by analysts. Differences between charter school financial reporting and traditional public school financial reporting include:

- The lack of reporting of capital outlays as an expense for charter schools.
- In the area of debt service, only interest on outstanding indebtedness is recorded as an expenditure for charter schools while traditional ISDs record both repayments of principal and interest.
- Depreciation on facilities and equipment is recorded as an operating expense for charter schools, but is not reported as an expense for traditional public schools.
- Contributions to the Teacher Retirement System (TRS) are generally not reported by charter schools under TEA rules.

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