

Charter School Funding: A Misguided Growing State Responsibility

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Education is the bedrock of an informed democracy and the bridge to lifelong learning. To ensure that every Texan reaches their full potential, it's important that all families have access to high-quality education—regardless of their ZIP code. However, efforts to expand educational options for Texas families in the form of charter schools have been misguided. As a result, the state is now running two parallel education system.

The state passed legislation allowing charter schools in 1995, and the first 20 charters were approved in 1996. Though initially intended as an opportunity to broaden teachers' freedom to experiment in curriculum, instruction, and school structure, charters have grown over the past 25 years as publicly-funded, privately-governed alternatives to traditional public schools.

Studies show, however, that charter schools do not significantly improve students' academic performance, earnings,¹ or create measurable competition among school options, as originally purported.² In 2017, nine percent of charters were designated as "Improvement Required" under the Texas accountability system, compared to only three percent of traditional public schools.³

Charter schools receive all of the same state and federal funds as a public school even though they are managed by privately-owned charter management organizations (CMOs) instead of elected school boards. Texas is one of just eight states nationally that funds charter school operations entirely with state aid.⁴ Like traditional school districts, charters can raise money privately and do not charge tuition.

Now as Texas leaders take a serious look at remodeling the public school finance system, it is important to evaluate how the state funds charter schools and their impact on funding for traditional public schools.

Basics of Charter Funding

The school finance formulas fund traditional public school operations through a combination of state and local revenue. Unlike traditional school districts, charter schools do not have the authority to levy taxes, so all operating revenue comes from the state. To calculate the base level of funding to charter schools, the state starts with the statewide average of what school districts receive after funding adjustments are made to the initial per-student funding level for all districts (or "basic allotment"). These adjustments account for unique district characteristics such as size and other uncontrollable cost differences. This per-student funding level, after adjustments, is called the "adjusted allotment."

One of the district level adjustments accounts for the added expense of operating a small school. Because Texas has a large number of small rural schools, the formulas end up funding every charter as though it were in a small district with an average daily attendance of 824 students. Only 16 percent of charter students are actually enrolled in schools that small, however, creating an unfair and unneeded advantage for charter schools over traditional public schools. In fact, 95 percent of students in traditional public schools attend a school with an adjusted allotment below the amount charter schools

receive.⁵ In other words, **charter school students get more public money per student than comparable public schools receive.**

Traditional school districts have the option of raising property tax rates to generate additional funding beyond the base level provided by the state. Since charter schools are unable to levy taxes, the state provides charters with funding based on the statewide average of those optional tax rates.

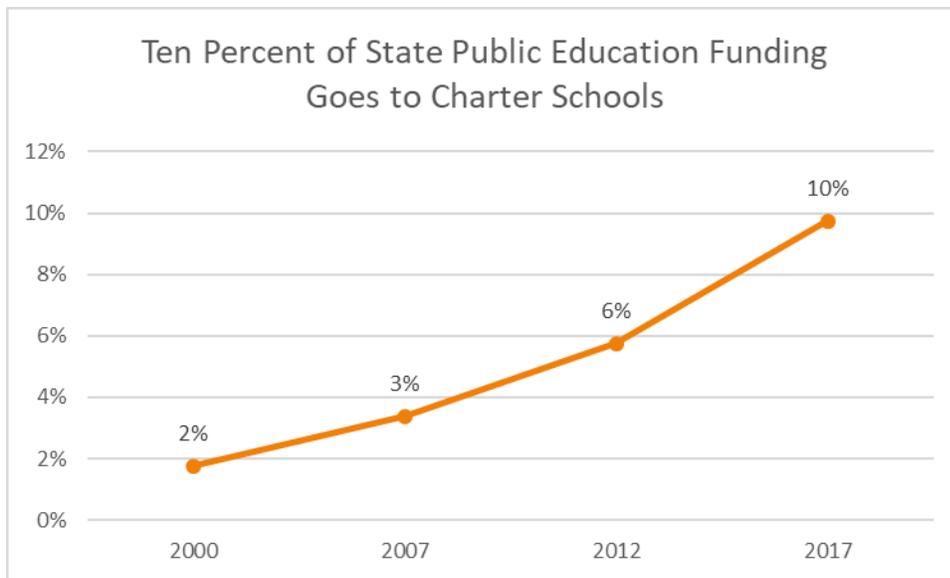
The vast majority of public schools' facility funding – which supports things like school buildings and sports facilities –comes from local bond financing approved by local voters. The state does offer two small tax rate equalization programs for school districts with extremely low property wealth.

Beginning in 2019, new laws open up \$60 million a year in charter facility funding for distribution on a per student basis of roughly \$202 per-charter student in average daily attendance.⁶ This new facility funding is based on enrollment, not facility need—meaning that a charter school with fully paid for facilities would receive the same amount per student as a charter school using portable classrooms or suffering from overcrowded classrooms. Ultimately, the Legislature added a new inefficiency into the formulas and moved the system further away from being cost or need-based.

Both charters and school districts receive federal funding, but it is outside the formulas controlled by the state Legislature.

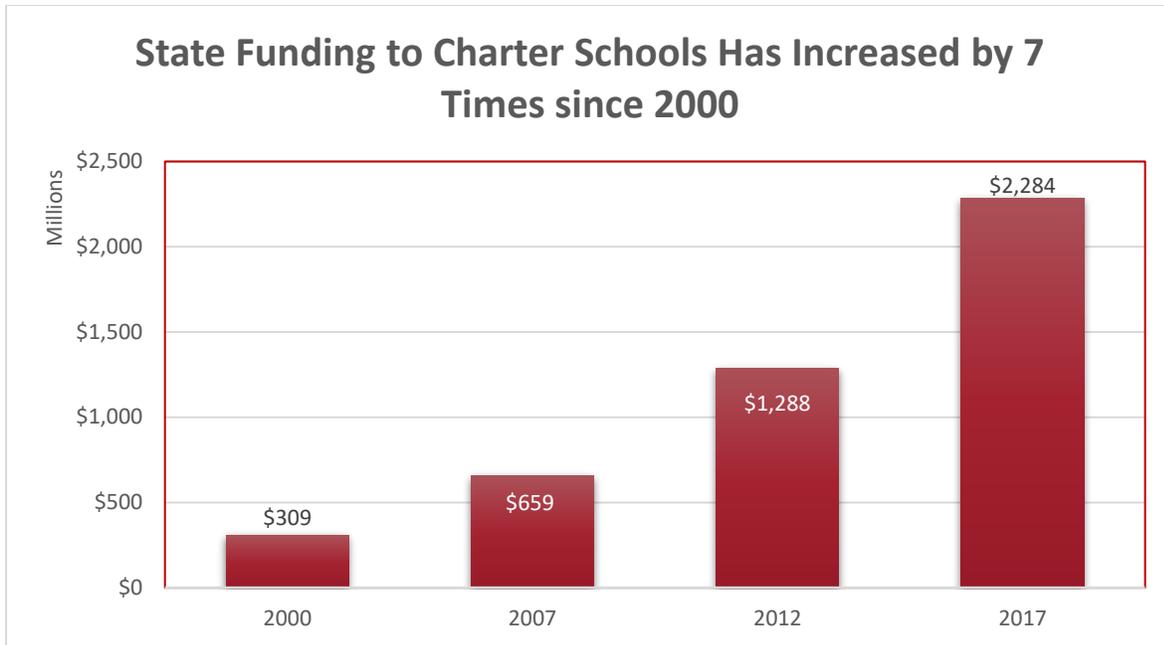
State Funding to Charter Schools

The proportion of state funds for charter schools out of the total state funds for public education has grown by **eight percent** since 2000.



Source: Texas Education Agency, Summarized Financial Data 2000-2017.

The amount of state funding to charters has increased by **640 percent** from \$300 million in 2000 (adjusted for inflation) to over \$2.2 billion in 2017. Meanwhile, the number of charter campuses has increased by **284 percent**, or from 176 campuses in 2000 to 676 campuses in 2017.⁷



Source: Texas Education Agency, Summarized Financial Data 2000-2017. Values adjusted for inflation using CPI to reflect 2017 dollars.

Over that same time, charter student enrollment has increased from 0.6 percent of public school students to **five percent**.⁸ Traditional public schools educate **95 percent** of Texas students, but the percent of state funding declines each year. Overall the state’s share of school funding is 38 percent in 2019, down from nearly 50 percent in 2008. However, if you remove charter schools from this calculation, the state’s share of support for traditional public schools falls to just 32 percent.⁹

Money matters in education, and that money should be spent well. Traditional public schools are and always will be the foundation of Texas education and the cornerstones of our communities. Operating two parallel education systems is costly, inefficient, and places additional responsibilities on the property tax system.

The Connection between Charter Schools and Recapture

Recapture, often called Robin Hood, is an [equity tool](#) within the school finance formulas that redirects excess revenue from property-wealthy district to property-poor districts and charter schools. Recapture status is determined based on the amount of property wealth per student available to the district for taxation.

When a student enrolls in a charter school, the wealth per student for the zoned district increases – because there are fewer public school students in the district. Urban areas, such as Houston and Dallas, have now entered recapture in part due to high charter enrollment.

In recent years the state’s charter obligation has just surpassed the amount of recapture collected. Charters received over \$2.2 billion in state revenue funds in 2017, and recapture payments to the state totaled over \$1.7 billion. The state anticipates collecting \$2.6 billion in recapture payments for 2019.¹⁰ While it’s impossible to track a single dollar as it travels through the school finance system, the fact that charter school operations are 100 percent state funded and that charter school and recapture growth

have trended together for the past decade, the connection is undeniable. As a result, **local taxpayers ultimately bear the financial obligation of funding charters, without oversight on governance or campus expansions.**

Conclusion

Charter funding has become a growing state responsibility. What started as a small-scale experiment has grown to dominate nearly 10 percent of the state's financial share of public education. This growing state financial commitment to charter schools puts added pressure on local taxpayers as fewer state dollars are available to support traditional public schools. Although charters are subject to the state accountability system, the lack of elected school boards means there is no local oversight over how charters are managed or the amount of debt they accrue.

The trend of increasing charter financial obligations merits a closer look from state leaders as public school finance conversations continue where financial accountability, efficiency, and academic outcomes are central issues of concern. The state has a responsibility to more substantially fund the public education system to offset the financial burden placed upon local taxpayers by charters and to account for all schools in the school finance system.

¹ Dobbie, W. S., & Fryer Jr, R. G. *Charter schools and labor market outcomes* (No. w22502). National Bureau of Economic Research; 2016

² Arsen, D., & Ni, Y. The effects of charter school competition on school district resource allocation; 2012 and *Educational Administration Quarterly*, 48(1), 3-38; Jabbar, H. "Every kid is money" market-like competition and school leader strategies in New Orleans. *Educational Evaluation and Policy Analysis*, 37(4), 638-659; 2015

³ Texas Education Agency. Texas Charter School System, House Public Education Committee; August 8, 2018

<https://tea.texas.gov/WorkArea/DownloadAsset.aspx?id=51539624567>

⁴ Education Commission of the States. (2018, January). Charter Schools: How is the funding for a charter school determined? Retrieved from <http://ecs.force.com/mbdata/mbquestNB2C?rep=CS1716>

⁵ Texas Education Agency. Texas Charter School System, House Public Education Committee; August 8, 2018

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⁶ Texas Education Agency. Texas Charter School System, House Public Education Committee; August 8, 2018

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⁷ Texas Education Agency. Charter School Evaluation 1999-2000; and Texas Education Agency Enrollment Reports 2016-17

⁸ Texas Education Agency. Enrollment Reports 2016-17

⁹ An analysis of Legislative Budget Board data by the office of Representative Donna Howard; August, 2018 https://drive.google.com/file/d/15-EofQzWKQj8o7vgoJ_qqTLROJHNIIMM5/view

¹⁰ Texas Education Agency, 1994-2019 Recapture Paid by District Report

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